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## Web Proof Information Pack of



# DONGWU CEMENT INTERNATIONAL LIMITED

## 東吳水泥國際有限公司

*(Incorporated in the Cayman Islands with limited liability)*

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## SUMMARY

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### OVERVIEW

We are a cement and clinker producer in Wujiang City, Suzhou Prefecture, which is situated in south Jiangsu Province. We are also the only cement producer in Suzhou Prefecture that employs NSP technology in our production process. NSP technology, which involves the pre-heating of raw materials before they are mixed and fed into the rotary kiln which in turn significantly enhances the efficiency of calcination and the forming of clinker for higher quality, has now become the most common technology in cement production technology in the PRC, contributing approximately 81% of the total clinker produced in 2010. Our principal products comprise ordinary Portland cement strength class 42.5 (“PO 42.5”) and composite Portland cement strength class 32.5 (“PC 32.5”), though we also sell clinker as a by-product, all of which are generally sold to customers in Jiangsu Province, Zhejiang Province and Shanghai Municipality, respectively. We have the exclusive right to occupy and use a wharf adjoining to our production facilities which enables us to transport raw materials and cement of 10,000 tonnes per day by waterway transportation and affords our customers and suppliers a convenient and relatively inexpensive transportation access to us. For the three years ended 31 December 2009, 2010 and 2011, the total cement production volume of Suzhou Prefecture accounted for approximately 0.7%, 0.7% and 0.6% of the total cement production volume of the PRC respectively. For the two years ended 31 December 2010 and 2011, the cement production volume of Dongwu Cement accounted for approximately 43.4% and 40.9% of the total cement production volume of Wujiang City respectively.

### OUR PRODUCTS

Our principal products are PO 42.5 and PC 32.5, which are sold in the form of bulk cement or under our registered trademark “”. Both PO 42.5 and PC 32.5 are used for general cement applications. PO 42.5 is used in the construction of residential and industrial buildings, as well as pre-cast works and structures that require short construction time such as bridges and roads. PC 32.5 is used in the construction of structures that do not require high strength such as low rise buildings, paving and mass concreting. Both our PO 42.5 and PC 32.5 products are of a substantially higher-grade quality than the PRC national standard.

We produce our principal product, cement, by (i) mixing limestone, silica, iron and aluminum which has been crushed and pounded to the size of small pebbles from rock sources; (ii) blending the raw mix in a blending chamber and small amounts of iron and aluminum will be added to act as flux during the firing process; (iii) storing the raw mix in a silo from where it is transported to the kiln pre-heater and then the kiln, where the raw mix will be heated gradually to 1,400 to 1,500 degrees Celsius, during which some of the secondary raw materials including clay, shale, sandstone, iron powder, will be added; (iv) clinker is formed by the end of the firing process, which is then cooled after leaving the kiln; and finally (v) grinding process of the clinker, during which additives, such as gypsum, flyash and slag will be added to control the speed at which the cement is set and to aid grinding.

## SUMMARY

The tables below set out the breakdown of our revenue, average selling price, sales volume and production volume of our products during the Track Record Period and, where applicable, for the four months ended 30 April 2012 which is based on our management accounts:

### Revenue of our products

|         | Year ended 31 December |              |                |              |                |              |
|---------|------------------------|--------------|----------------|--------------|----------------|--------------|
|         | 2009                   |              | 2010           |              | 2011           |              |
|         | <i>RMB'000</i>         | <i>%</i>     | <i>RMB'000</i> | <i>%</i>     | <i>RMB'000</i> | <i>%</i>     |
| PO 42.5 | 107,623                | 36.9         | 160,603        | 45.2         | 224,551        | 48.4         |
| PC 32.5 | 155,284                | 53.3         | 184,088        | 51.9         | 236,185        | 50.9         |
| Clinker | 28,715                 | 9.8          | 10,259         | 2.9          | 3,309          | 0.7          |
| Total   | <u>291,622</u>         | <u>100.0</u> | <u>354,950</u> | <u>100.0</u> | <u>464,045</u> | <u>100.0</u> |

### Average selling price of our products

|         | Year ended 31 December |                  |                  | Four months ended |
|---------|------------------------|------------------|------------------|-------------------|
|         | 2009                   | 2010             | 2011             | 30 April 2012     |
|         | <i>RMB/tonne</i>       | <i>RMB/tonne</i> | <i>RMB/tonne</i> | <i>RMB/tonne</i>  |
| PO 42.5 | 217.8                  | 279.4            | 358.7            | 314.6             |
| PC 32.5 | 193.4                  | 234.0            | 302.4            | 260.7             |
| Clinker | 185.4                  | 206.0            | 320.7            | 247.1             |

### Sales volume and production volume of our products

|         | Year ended 31 December   |              |                   |              |                   |              |
|---------|--------------------------|--------------|-------------------|--------------|-------------------|--------------|
|         | 2009                     |              | 2010              |              | 2011              |              |
|         | Production volume        | Sales volume | Production volume | Sales volume | Production volume | Sales volume |
|         | <i>(thousand tonnes)</i> |              |                   |              |                   |              |
| PO 42.5 | 494.8                    | 494.1        | 574.1             | 574.8        | 637.5             | 626.1        |
| PC 32.5 | 810.8                    | 803.0        | 790.3             | 786.6        | 790.6             | 781.1        |
| Clinker | 890.0                    | 154.9        | 859.3             | 49.8         | 888.4             | 10.3         |

During the Track Record Period, our sales volume of clinker was much lower than our production volume because the clinker we produce is mainly used for our own cement production. Clinker, as our by-product, is typically only sold on a stand-alone basis to relieve the pressure on our inventories in our warehouses when the market demand for cement is weak. In 2010 and 2011, the market demand for cement was relatively high and therefore only a small amount of clinker was sold.

## SUMMARY

Our overall gross profit margin for the three years ended 31 December 2009, 2010 and 2011 was 7.9%, 13.9% and 26.4%, respectively. The table below sets out the gross profit margin of our cement and clinker during the Track Record Period and the four months ended 30 April 2012 (which is based on our management account):

|         | Year ended 31 December |        |       | 4 months ended |
|---------|------------------------|--------|-------|----------------|
|         | 2009                   | 2010   | 2011  | 30 April 2012  |
| Cement  | 8.8%                   | 14.8%  | 26.3% | 10.4%          |
| Clinker | -0.5%                  | -15.4% | 17.4% | -7.5%          |

*Notes:*

1. The gradual increase in our gross profit margin during the Track Record Period was mainly due to the increase in the average selling price of PC 32.5 in 2010 and the increase in the average selling price of PO 42.5 in 2011. Such an increase generated an increase in our revenue at a rate exceeding the increase in our cost of sales during the same period. We have also experienced an increase in the demand for our cement products due to the implementation of the energy consumption saving and emission control policies in the PRC. Such policies resulted in changes in the market supply and demand of cement in our market which benefited the sales of our cement products in such market while phasing out laggard cement production capacity by the PRC government.
2. During the Track Record Period, the clinker we produced was mainly used for our own cement production purpose whilst only some of our clinker was sold as a by-product when the market demand for cement decreased and remained weak for a temporary period due to unfavourable weather conditions such as continuous low temperature and wet weather, etc. For cost-effective purposes, we generally operate our clinker production facilities continuously. In the event that not all of the clinker was used for our cement production as a result of the temporary weak market demand for cement, our inventory level of clinker would accumulate and might reach a high level. In order to relieve the pressure of temporarily excessive inventories in our warehouses, we would sell clinker as a stand-alone product at a relatively low price in light of the said circumstances. As only a small portion of the clinker we produced was sold as a stand-alone product, the gross profit margin for clinker varied with the short term fluctuation in its selling price. It also explains why negative gross profit margin for clinker was recorded for the years ended 31 December 2009 and 2010.
3. For the year ended 31 December 2011, the market price of clinker increased significantly due to the strong market demand for both cement products and clinker. Benefiting from the increasing market price, the average price for clinker we sold has reached RMB320.7 per tonne, even higher than the average price for PC 32.5 products during the same period. Therefore, we were able to sell clinker at a positive gross profit margin.

Please refer to the paragraph headed “Our products” under the section headed “Business” in this document for further details.

## SUMMARY

### PRODUCTION FACILITIES

Our production facilities are located at Lili Town, Wujiang City, Suzhou Prefecture, Jiangsu Province, the PRC with a site area of approximately 182,000 sq.m.. Located in the area known as Golden Triangle of Yangtze, our production facilities enjoy the benefit of the exclusive use of an adjoining wharf situated on the Taipu River (太浦河) since December 2003. The wharf enables us to transport raw materials and cement of 10,000 tonnes per day by waterway transportation and affords our customers and suppliers convenient and relatively inexpensive transportation access to us. Our exclusive right to occupy and use the river bank and the adjoining wharf is subject to annual renewal by the relevant PRC authority. According to the Taipu River Waterway Construction Works Occupation Agreement (太浦河河道工程佔用合同), the Construction Works Occupation Permit (河道工程佔用證) and the applicable PRC laws, our exclusive right to occupy the river bank is subject to the following conditions: (i) payment of an annual fee of RMB180,000; (ii) no modifications or damages of the levee construction, especially the retaining walls; (iii) compliance with the applicable PRC laws and regulations; and (iv) annual inspection by Wujiang Waterway Administrative Bureau or when it requests. Since 2004, we have passed every annual inspection and have been able to obtain the occupation permit upon each renewal. Our existing occupation permit is valid until 28 October 2012.

As at the Latest Practicable Date, we had one production line employing a dry rotary kiln that possesses a production capacity of 775,000 tonnes of clinker per annum and two grinding mills that possesses a production capacity of 1,636,800 tonnes of cement per annum in total. The two grinding mills are for the production of both PC 32.5 and PO 42.5 cement products based on the production plan and market demand for each product.

Set out below is a table indicating our utilization rate for our production facilities during the Track Record Period:

|                          | Year ended 31 December |       |       |
|--------------------------|------------------------|-------|-------|
|                          | 2009                   | 2010  | 2011  |
|                          | %                      | %     | %     |
| Cement utilization rate  | 79.8                   | 83.4  | 87.2  |
| Clinker utilization rate | 114.8                  | 110.9 | 114.6 |

The utilization rate of our clinker production exceeded 100% during the Track Record Period due to our clinker production facility having been operated for 24 hours per day and over 310 days per year. We operated the clinker production equipment above its designated capacity as a result of (a) our production team possessing extensive experience in supervising the production process, thus enhancing its efficiency; and (b) our efforts in improving and upgrading our clinker production equipment and technologies regularly.

Our production facilities are equipped with the Distributed Control System (DCS) which ensures high efficiency, energy saving and optimized control via automation, and a residual heat recovery system which enables us to reduce our reliance on external electricity sources and therefore our production costs and save the amount of on-grid electricity consumed. DCS technology and the residual heat recovery system are commonly applied by major cement producers in the PRC.

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In order to ensure compliance with the relevant PRC environmental laws, regulations and rules, our Group has installed a series of environmental friendly production facilities, such as electric dust precipitators etc., as well as implementing a series of internal policies and measures with a view to controlling our pollutant emission levels and ensuring the levels of such emissions comply with the national standard. For more details, please refer to the paragraph headed “Environmental Compliance and Pollution Controls” in the section headed “Business” in this document. As confirmed by our PRC Legal Advisors, our Group has complied with all the relevant laws, regulations and rules regarding the pollutant emissions throughout the Track Record Period and up to the Latest Practicable Date. In order to cope with the PRC government’s intention to implement more stringent atmospheric pollutant emission standards, in particular the NO<sub>x</sub> emission, against the cement industry, we may upgrade our production facilities, if necessary, and in such case, our production costs may be increased, which may have an adverse effect on our business, results of operations and financial condition. In case the PRC government promulgates more strict environmental laws, regulations, rules and/or policies in the future, such as policy against sulphur content in coal, we will take further actions, including but not limited to further upgrading our production facilities (if necessary). However, upgrading our production facilities may increase our production and operation costs which may cast a negative impact on our operation results and financial condition. Please refer to the paragraph headed “With the increasingly stringent PRC environmental regulatory framework, we may not be able to comply with relevant environmental regulations in the future on a cost-effective basis” in the section headed “Risk Factors” in this document for further details.

As advised by our PRC Legal Advisors, throughout the Track Record Period and up to the Latest Practicable Date, our Group has obtained all necessary permits, approvals, consents, certificates and licenses required under the PRC laws and regulations in connection with the business of our Group and all of them are in full force and effect. In particular, we have obtained the necessary permits and approvals from the local Development and Reform Commission in respect of our production line. Furthermore, we have obtained the certificates issued by Wujiang Industrial and Commerce Authority, Wujiang Tax Authority and Wujiang Environmental Protection Authority recognizing our compliance with the relevant laws and regulations in terms of our business operation, tax and environmental compliance throughout the Track Record Period.

Further, as advised by our PRC Legal Advisors, Dongwu Cement is not an enterprise subject to the shut down policy under the Notice of State Council on Speeding up the Structural Adjustment to Industries with Surplus Production Capacity (《國務院關於加快推進產能過剩行業結構調整的通知》, the “Notice on Surplus Production Capacity”). Neither the production line nor the production capacity for cement of Dongwu Cement would be regarded as obsolete or of laggard production technologies pursuant to the “Notice on Further Strengthening the Elimination of Obsolete Production Capacities” (《關於進一步加強淘汰落後產能工作的通知》, “Notice on Obsolete Production Capacities”) and the Notice on Surplus Production Capacity. Accordingly, our production line and the production capacity would not be subject to the elimination or phasing out arrangement as stipulated under the said two notices. All the PRC cement producers, whether state-owned or privately owned, are subject to and regulated by the Notice on Surplus Production Capacity and the Notice on Obsolete Production Capacities.

## SUMMARY

Please refer to the paragraph headed “Production Facilities” under the section headed “Business” in this document for further details.

### RAW MATERIALS AND ENERGY SUPPLY

The principal raw material for our production is limestone. We use coal and electricity to fuel our production process.

We procure our raw materials from a variety of different sources that are within easy access to our production facilities and they are transported to our production facilities mainly via waterway. We have a stable and reliable source of raw materials. We have 3 to 7 years’ business relationship with our key suppliers. We also entered into a 5-year master contract with one of our suppliers to secure the limestone supply of approximately 3.5 million tonnes until the end of September in 2016, representing more than 50% of our limestone requirements over the same period. The price, volume and other terms shall be negotiated and agreed between our Group and the supplier on an annual basis in the form of supplementary agreements. Set out below is a table illustrating our key costs of sales for the three years ended 31 December 2009, 2010 and 2011 respectively:

|               | Year ended 31 December |                    |                   |                    |                   |                    |
|---------------|------------------------|--------------------|-------------------|--------------------|-------------------|--------------------|
|               | 2009                   |                    | 2010              |                    | 2011              |                    |
|               | <i>Total cost</i>      | <i>% of our</i>    | <i>Total cost</i> | <i>% of our</i>    | <i>Total cost</i> | <i>% of our</i>    |
|               | <i>(RMB’000)</i>       | <i>total costs</i> | <i>(RMB’000)</i>  | <i>total costs</i> | <i>(RMB’000)</i>  | <i>total costs</i> |
|               |                        | <i>of sales</i>    |                   | <i>of sales</i>    |                   | <i>of sales</i>    |
| Raw materials | 69,307                 | 25.8               | 67,058            | 21.9               | 94,989            | 27.8               |
| Coal          | 87,918                 | 32.7               | 110,952           | 36.3               | 124,525           | 36.4               |
| Electricity   | 48,402                 | 18.0               | 49,559            | 16.2               | 55,603            | 16.3               |

During the Track Record Period, our costs of raw materials significantly increased due to an increase in the limestone purchase price. The increase in our costs for coal in 2010 was mainly attributable to the changes in the market demand and supply relationship.

During the Track Record Period, we used waste materials in our production of PC 32.5. All the waste materials we used are industry by-products or wastes or mineral wastes and are non-poisonous in nature. This has reduced our production costs and entitled us to claim a VAT refund for our PC 32.5 products. For the three years ended 31 December 2009, 2010 and 2011, we were awarded approximately RMB8.9 million, RMB8.7 million and RMB13.4 million respectively as VAT refunds, all of which were from the production of our PC 32.5 products. The VAT refund is commonly granted to cement products comprised of no less than 30% of waste materials as its ingredient.

Please refer to the paragraph headed “Raw materials and energy supply” and the paragraph “Use of waste materials in production process” under the section headed “Business” in this document for further details.

## SUMMARY

### CUSTOMERS

The table below sets forth the breakdown of our revenue by customer type during the Track Record Period:

| Type of customers             | Year ended 31 December |                     |                       |                     |                       |                     |
|-------------------------------|------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|
|                               | 2009                   |                     | 2010                  |                     | 2011                  |                     |
|                               | <i>RMB'000</i>         | <i>%</i>            | <i>RMB'000</i>        | <i>%</i>            | <i>RMB'000</i>        | <i>%</i>            |
| Construction developers       | 145,296                | 49.8                | 181,497               | 51.1                | 213,040               | 45.9                |
| Ready-mixed concrete stations | 101,701                | 34.9                | 137,483               | 38.7                | 208,888               | 45.1                |
| Trading companies             | 32,282                 | 11.1                | 16,246                | 4.6                 | 15,536                | 3.3                 |
| Walk-in customers             | 12,343                 | 4.2                 | 19,724                | 5.6                 | 26,581                | 5.7                 |
| <b>Total</b>                  | <b><u>291,622</u></b>  | <b><u>100.0</u></b> | <b><u>354,950</u></b> | <b><u>100.0</u></b> | <b><u>464,045</u></b> | <b><u>100.0</u></b> |

Depending on the type of customers, we will have different settlement terms. Set out below is a summary of the settlement terms and our credit terms agreed with our customers during the Track Record Period:

| Type of customers       | Settlement terms or credit terms                                                                                                                                                                                                                                                                                                               |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Construction developers | <ul style="list-style-type: none"> <li>Payment by cash or bank acceptance bills on or before delivery of our products which is applicable to approximately 90% of our construction developer customers.</li> <li>For the remaining approximately 10% of these customers, we typically granted them credit periods of up to 60 days.</li> </ul> |

## SUMMARY

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|                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ready-mixed concrete stations | <ul style="list-style-type: none"><li>• The credit terms include (i) a revolving credit limit of between RMB1 million and RMB3.5 million with a credit period of up to 365 days, and (ii) any outstanding payables in excess of the said revolving credit limit with a credit period of between 0 to 30 days, save for one customer to whom we have granted a credit period of up to 180 days because of its background as a state-owned enterprise and also as a major concrete producer in Shanghai. Nevertheless, we have not granted this customer any revolving credit limit. Such long credit period is granted on a case-by-case basis based on the credibility and the transaction volume of the customers concerned.</li></ul> |
| Trading companies             | <ul style="list-style-type: none"><li>• Payment by cash or bank acceptance bills on or before delivery of our product.</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Walk-in customers             | <ul style="list-style-type: none"><li>• Payment by cash or bank acceptance bills on or before delivery of our product.</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

Please refer to the paragraph headed “Customers” under the section headed “Business” in this document for further details.

### ***Our geographical markets***

Our products are sold to customers in Jiangsu Province, Zhejiang Province and Shanghai.

During the Track Record Period and up to the Latest Practicable Date, our business covers Jiangsu Province, Zhejiang Province and Shanghai municipality with a primary focus on Wujiang City. Wujiang City accounted for approximately 49.3%, 51.8% and 60.1% of our total revenue for

## SUMMARY

the three years ended 31 December 2009, 2010 and 2011 respectively. The table below sets forth the breakdown of our revenue by geographical markets:

|                                               | Year ended 31 December |                     |                       |                     |                       |                     |
|-----------------------------------------------|------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|
|                                               | 2009                   |                     | 2010                  |                     | 2011                  |                     |
|                                               | <i>RMB'000</i>         | %                   | <i>RMB'000</i>        | %                   | <i>RMB'000</i>        | %                   |
| <b>Jiangsu</b>                                | <b>157,504</b>         | <b>54.0</b>         | <b>199,971</b>        | <b>56.3</b>         | <b>288,111</b>        | <b>62.1</b>         |
| Wujiang                                       | 143,801                | 49.3                | 183,784               | 51.8                | 279,044               | 60.1                |
| Suzhou (excluding Wujiang)                    | 13,703                 | 4.7                 | 16,187                | 4.5                 | 9,067                 | 2.0                 |
| <b>Zhengjiang</b>                             | <b>65,458</b>          | <b>22.5</b>         | <b>64,486</b>         | <b>18.2</b>         | <b>107,785</b>        | <b>23.2</b>         |
| South Zhejiang (Taizhou, Zhoushan and Ningbo) | 40,061                 | 13.8                | 53,647                | 15.1                | 97,959                | 21.1                |
| Jiaxing                                       | 25,397                 | 8.7                 | 10,839                | 3.1                 | 9,826                 | 2.1                 |
| <b>Shanghai</b>                               | <b>68,660</b>          | <b>23.5</b>         | <b>90,493</b>         | <b>25.5</b>         | <b>68,149</b>         | <b>14.7</b>         |
| <b>Total</b>                                  | <b><u>291,622</u></b>  | <b><u>100.0</u></b> | <b><u>354,950</u></b> | <b><u>100.0</u></b> | <b><u>464,045</u></b> | <b><u>100.0</u></b> |

## HIGHLIGHTS OF OUR COMPETITIVE STRENGTHS

1. We are an integrated cement and clinker producer in Suzhou Prefecture and we produce high quality products at competitive cost. We enjoy low production costs and produce high grade quality cement.
2. We enjoy the benefits of a convenient transportation network, including a wharf adjoining our production facilities with daily transportation capacity of 10,000 tonnes of raw materials and cement, which are situated on the banks of the Taipu River that flows through fifteen counties and towns in Jiangsu Province, Shanghai and Zhejiang Province. Most of our products are transported by waterway, which is an inexpensive method of transportation and is less expensive as compared with transportation by road.
3. We enjoy stable and long-term relationships with our customers and suppliers. Approximately 80% of our total revenue during the Track Record Period was derived from sales to customers with whom we have had business relationships for at least 3 years. In addition, we have maintained business relationships with our key suppliers of principal raw materials for a period of between 3 and 7 years. In particular, we entered into a 5-year master contract with a limestone supplier in Zhejiang Province which agreed to supply limestone of approximately 3.5 million tonnes since October 2011, representing more than 50% of our limestone requirements over the same period.

## SUMMARY

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### HIGHLIGHTS OF OUR STRATEGIES

1. We intend to strengthen our sales network and market position in our regional markets by implementing the following measures: (a) enhance our logistics system and capability by establishing our own entrepots at selected strategic locations in close proximity to the existing and new markets; (b) continue to strengthen the relationships with our construction developer customers, ready-mixed concrete station customers and selected trading companies with a view to increasing our sales; (c) consolidate our market position in Wujiang City; (d) increase our market penetration, in particular, the urban area of Suzhou Prefecture (excluding Wujiang City) and Shanghai Municipality; and (e) work on more large-scale government construction projects in Suzhou Prefecture and Shanghai Municipality.
2. We intend to expand our business to downstream industries by acquiring, or acquiring a majority stake in, a suitable ready-mixed concrete station located in Wujiang City in the second half of 2012. This will enable us to (a) expand our business into the production of concrete and mortar products and offer our customers a fuller range of products, (b) attract more construction developer customers in both public and private sectors, and (c) enhance our prospects of being awarded more public infrastructure projects.
3. We intend to enhance our brand and our corporate profile in all regional markets through increasing our marketing activities, such as upgrading our company catalogue, advertising through the mass media and participating in more government tenders.
4. We intend to further stabilize our limestone supply by entering into more long-term contracts with suitable limestone suppliers and quarry operators.
5. We intend to further enhance our operational efficiency and reduce our production costs by (a) providing regular training to our production staff, (b) reducing our energy consumption through innovation, and (c) upgrading our production equipment to ensure energy efficiency.
6. We intend to maintain our independence in view of our whole cement production line despite the PRC government’s policy of encouraging consolidation of the cement industry.

## SUMMARY

### SUMMARY FINANCIAL INFORMATION

The following tables set out a summary of the consolidated financial information of our Group during the Track Record Period which has been prepared in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants. This summary should be read in conjunction with the Accountant’s Report of our Group as set out in Appendix I to this document.

#### Summary Consolidated Statements of Comprehensive Income

|                                                             | Year ended 31 December |                      |                      |
|-------------------------------------------------------------|------------------------|----------------------|----------------------|
|                                                             | 2009                   | 2010                 | 2011                 |
|                                                             | <i>RMB’000</i>         | <i>RMB’000</i>       | <i>RMB’000</i>       |
| <b>Revenue</b>                                              | 291,622                | 354,950              | 464,045              |
| Cost of sales                                               | <u>(268,592)</u>       | <u>(305,619)</u>     | <u>(341,923)</u>     |
| <b>Gross profit</b>                                         | <u>23,030</u>          | <u>49,331</u>        | <u>122,122</u>       |
| <b>Operating profit</b>                                     | <u>16,850</u>          | <u>44,364</u>        | <u>116,567</u>       |
| <b>Profit before income tax</b>                             | 14,834                 | 39,909               | 109,378              |
| <b>Income tax expense</b>                                   | <u>(3,034)</u>         | <u>(8,123)</u>       | <u>(22,434)</u>      |
| <b>Profit attributable to equity holders of the Company</b> | <u><u>11,800</u></u>   | <u><u>31,786</u></u> | <u><u>86,944</u></u> |
| <b>Total comprehensive income for the year</b>              | <u><u>14,484</u></u>   | <u><u>33,440</u></u> | <u><u>82,606</u></u> |

## SUMMARY

### Summary Consolidated Statements of Financial Position

|                                         | As at 31 December      |                       |                       |
|-----------------------------------------|------------------------|-----------------------|-----------------------|
|                                         | 2009                   | 2010                  | 2011                  |
|                                         | <i>RMB'000</i>         | <i>RMB'000</i>        | <i>RMB'000</i>        |
| Non-current assets                      | 263,516                | 245,425               | 192,113               |
| Current assets                          | <u>175,014</u>         | <u>220,022</u>        | <u>215,013</u>        |
| <b>Total assets</b>                     | <b><u>438,530</u></b>  | <b><u>465,447</u></b> | <b><u>407,126</u></b> |
| Non-current liabilities                 | 9,677                  | 9,553                 | 2,697                 |
| Current liabilities                     | <u>199,943</u>         | <u>176,916</u>        | <u>164,487</u>        |
| <b>Total liabilities</b>                | <b><u>209,620</u></b>  | <b><u>186,469</u></b> | <b><u>167,184</u></b> |
| <b>Net current (liabilities)/assets</b> | <b><u>(24,929)</u></b> | <b><u>43,106</u></b>  | <b><u>50,526</u></b>  |
| <b>Total equity</b>                     | <b><u>228,910</u></b>  | <b><u>278,978</u></b> | <b><u>239,942</u></b> |

### Summary Consolidated Statement of Cash Flows

The following table presents the cash flows of our Group for the three years ended 31 December 2011:

|                                                        | Year ended 31 December |                |                |
|--------------------------------------------------------|------------------------|----------------|----------------|
|                                                        | 2009                   | 2010           | 2011           |
|                                                        | <i>RMB'000</i>         | <i>RMB'000</i> | <i>RMB'000</i> |
| Net cash (used in)/generated from operating activities | (12,884)               | 42,459         | 36,004         |
| Net cash (used in)/generated from investing activities | (31,097)               | (71,583)       | 110,639        |
| Net cash generated from/(used in) financing activities | 43,747                 | 37,138         | (123,461)      |

## SUMMARY

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### LATEST DEVELOPMENT RELATING TO OUR GROUP SUBSEQUENT TO THE TRACK RECORD PERIOD

We continue to keep an eye on the development and opportunities in our business subsequent to the Track Record Period.

After 31 December 2011 and up to 30 April 2012, we continue to sell cement products to different types of customers, with sales volume totalling 198,678 tonnes (for PC 32.5 cement) and 153,753 tonnes (for PO 42.5 cement) respectively and with revenue of approximately RMB51.8 million (for PC 32.5 cement) and RMB48.4 million (for PO 42.5 cement) respectively. For the four months ended 30 April 2012, we had produced approximately 244,221 tonnes clinker which was mainly used for our own cement production, 176,602 tonnes of PC 32.5 cement and 156,267 tonnes of PO 42.5 cement and such production volumes were in accordance with our production plan. According to the estimate of the PRC government, the growth of FAI in 2012 will be slowed down which will likely lower the pace of property development and infrastructure construction and in turn result in a decrease in the market demand for cement in 2012. With the decrease in the market demand for cement, the average selling prices for our PC 32.5 cement and PO 42.5 cement dropped to RMB260.7 per tonne and RMB314.6 per tonne respectively for the four months ended 30 April 2012, which had been reduced by approximately RMB41.7 per tonne and RMB44.1 per tonne, or approximately 13.8% and 12.3% respectively as compared to the average selling prices of our PC 32.5 cement and PO 42.5 cement for the year ended 31 December 2011. As a result of such drop in cement price, we recorded a total revenue of RMB103.5 million for the four months ended 30 April 2012 (based on our management accounts) whilst the gross profit margin of our cement products had reduced to 10.4% for the same period. We believe that the decrease in the selling prices of our cement is mainly due to a decrease in the market demand and therefore the overall decrease in the market prices for cement in Jiangsu Province, Zhejiang Province and Shanghai and more intense competition. On the other hand, the average costs for our key raw material (i.e. limestone) had increased from RMB38.5 per tonne respectively for the year end 31 December 2011 to RMB38.9 per tonne for the four months ended 30 April 2012, whilst the price of coal had decreased from RMB817.3 per tonne for the year end 31 December 2011 to RMB779.2 per tonne for the four months ended 30 April 2012. The decrease in the average selling prices of our products had resulted in a decrease in our gross profit margin for the four months ended 30 April 2012. **Based on the current information available to our Directors, we anticipate that our gross profit margin and net profit for the year ending 31 December 2012 will be significantly and adversely affected.**

As at 30 April 2012, the trade and bills receivable balance was RMB104.1 million, which has been reduced by RMB16.6 million when compared with the balance as at 31 December 2011. The reduction is caused by the reduction in bills receivables by RMB29.0 million and the increase in trade receivables by RMB12.4 million. The decrease in bills receivables was due to cash-in of bank acceptance bills upon their maturity. Total borrowings have increased by RMB5.6 million to RMB96.0 million as at 30 April 2012. Such increase in borrowings was caused by the increase in bank borrowings by RMB6.7 million and reduction in other borrowings by RMB1.1 million. The increase in bank borrowings was due to a bank loan of RMB6.7 million granted to us in January 2012. We have not experienced any difficulties in collecting the trade and bills receivable and obtaining new borrowings since 31 December 2011 and up to the Latest Practicable Date.

## SUMMARY

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Given the situation mentioned above, subsequent to the Track Record Period and up to the Latest Practicable Date, there were material adverse changes in our financial or trading position or prospects. Nevertheless, we confirm that there has been no event since 31 December 2011 which would materially affect the financial information shown in the Accountant’s Report of the Company set out in Appendix I to this document.

We were not aware of any material adverse change in the legal frameworks as at the Latest Practicable Date.

## HIGHLIGHTS OF THE RISK FACTORS

Below only sets forth some of the selected particular risks relating to our business whilst more details are set out in the section headed “Risk Factors” in this document.

Cement prices fluctuated significantly during the Track Record Period. For the four months ended 30 April 2012, we recorded a decline in our average selling prices for cement, which we believe was mainly due to the decrease in the market demand for cement in 2012. There is no assurance that we can maintain similar level of gross profit margin in light of the fluctuations in the average selling price of cement and our production costs. **Based on the current information available to our Directors, we anticipate that our gross profit margin and net profit for the year ending 31 December 2012 will be significantly and adversely affected.**

Since December 2003, the relevant PRC authority has granted to us the exclusive right to occupy a river bank, and a permit to use a wharf on the river bank which is adjacent to our production facilities. Such right is subject to annual inspection and the right to renew our use of the river bank is at the sole discretion of the Jiangsu Waterway Administration Bureau (吳江水利局). Our rights to occupy the river bank are also subject to other conditions. In the event that the relevant PRC authority does not renew our right to occupy and use the river bank, or if we make any modifications to or damage the levee construction, our right to occupy the river bank may be revoked by the relevant PRC authority. In such circumstances, we will not be able to utilize our fully automatic loading lines alongside the river bank and our costs for waterway transportation will be increased whereupon our business operations, financial condition and profitability would be adversely affected.

Besides, it may be difficult to maintain or manage our growth momentum at our previous growth rates or at all. In particular, our plan in entering into further long-term strategic agreements with limestone suppliers is subject to negotiations and any risk-reward tradeoff arrangement may strain our managerial, operational, technical and financial resources.

Moreover, the PRC government has recently promulgated regulations and notices encouraging the consolidation of the PRC cement industry. If the PRC government implements more stringent regulations and policies which are unfavourable to our current practice in the future, we may be required to make significant adjustment to our current or future development plans, which will increase our costs and divert our management resources and may in turn adversely affect our profitability, competitiveness and prospects.

## **SUMMARY**

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Further, the PRC government currently has adopted various environmental policies to reduce the adverse effects of the cement industry on the environment. The PRC government may introduce new rules and regulations that impose more stringent controls over industrial pollution. In such circumstance, our business, results of operations and financial condition could be materially and adversely affected.

## DEFINITIONS

*In this document, unless the context otherwise requires, the following terms have the following meanings.*

|                                              |                                                                                                                                                                                                                                                                 |
|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Articles of Association”                    | the articles of association of our Company conditionally adopted pursuant to resolutions passed by our Shareholders in writing on 28 May 2012                                                                                                                   |
| “associate(s)”                               | has the meaning ascribed thereto under the [•••]                                                                                                                                                                                                                |
| “Audit Committee”                            | the audit committee of the Board                                                                                                                                                                                                                                |
| “Board” or “Board of Directors”              | the board of Directors                                                                                                                                                                                                                                          |
| “business day”                               | any day (other than Saturdays and Sundays and public holidays in Hong Kong) on which banks in Hong Kong are generally open for normal banking business                                                                                                          |
| “BVI”                                        | the British Virgin Islands                                                                                                                                                                                                                                      |
| “CAGR”                                       | compound annual growth rate                                                                                                                                                                                                                                     |
| “Cayman Companies Law” or<br>“Companies Law” | the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands                                                                                                                                                                   |
| “China” or “PRC”                             | the People’s Republic of China excluding, for the purpose of this document, Hong Kong, the Macau Special Administrative Region of China and Taiwan                                                                                                              |
| “China Cement Association”                   | China Cement Association (中國水泥協會), a non-profit industry organization organized by the constituencies of the cement industry of the PRC, which includes over 4,000 cement producers in the PRC with an annual aggregate production volume of 1.2 billion tonnes |
| “cm <sup>2</sup> ”                           | square centimeter                                                                                                                                                                                                                                               |
| “Companies Ordinance”                        | the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time                                                                                                                                  |

## DEFINITIONS

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|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Company” or “our Company”      | Dongwu Cement International Limited (東吳水泥國際有限公司), a company incorporated in the Cayman Islands on 29 November 2011 as an exempted company with limited liability                                                                                                                                                                                                                           |
| “Company Novation Deed”         | the novation deed dated 27 December 2011 entered into among Far East International, Dongwu HK and our Company                                                                                                                                                                                                                                                                              |
| “Concord”                       | Concord Ocean Ltd, a limited liability company incorporated in the BVI on 25 October 2000, wholly-owned by Mr. Jin and will continue to be a substantial shareholder of the Company immediately after [•••]                                                                                                                                                                                |
| “Controlling Shareholder(s)”    | has the meaning ascribed to it under [•••], refers to Mr. Tseung and Goldview                                                                                                                                                                                                                                                                                                              |
| “Covenantors” or “Indemnifiers” | collectively, Concord, Goldview, Mr. Jin and Mr. Tseung                                                                                                                                                                                                                                                                                                                                    |
| “CSRC”                          | China Securities Regulatory Commission (中國證券監督管理委員會)                                                                                                                                                                                                                                                                                                                                       |
| “Digital Cement”                | an organization that is established by China Cement Association (an Independent Third Party), which advises the PRC government on formulating industry development strategies, legal policies, and industry standards and guidelines, publishes cement industry publication regularly and also provides internet-based information services and industry consulting services to the public |
| “Director(s)”                   | the director(s) of our Company                                                                                                                                                                                                                                                                                                                                                             |
| “Dongwu Cement”                 | Suzhou Dongwu Cement Co., Ltd. (蘇州東吳水泥有限公司), a limited liability company incorporated on 5 June 2003 in the PRC and an indirect wholly-owned subsidiary of our Company                                                                                                                                                                                                                     |
| “Dongwu HK”                     | Dongwu Cement (Hong Kong) Limited (東吳水泥(香港)有限公司), a limited liability company incorporated on 16 December 2011 in Hong Kong and an indirect wholly-owned subsidiary of our Company                                                                                                                                                                                                         |

## DEFINITIONS

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|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Dongwu HK Novation Deed”          | the novation deed dated 27 December 2011 entered into among Far East International, our Company, Goldview and Concord in connection with novating the payment obligations of Dongwu HK under the Dongwu HK Novation Deed                                                                                                             |
| “Dongwu Investment”                | Dongwu International Investment Limited (東吳國際投資有限公司), a limited liability company incorporated on 29 November 2011 in the BVI and a direct wholly-owned subsidiary of our Company                                                                                                                                                    |
| “DRC”                              | Development and Reform Commission (發展和改革委員會)                                                                                                                                                                                                                                                                                         |
| “FAI”                              | fixed asset investment                                                                                                                                                                                                                                                                                                               |
| “Far East International”           | Far East International Investment Company Limited (遠東國際投資有限公司), a limited liability company incorporated on 29 September 2003 in Samoa which was owned as to 70% and 30% by Goldview and Concord respectively as at the Latest Practicable Date, being the sole shareholder of Dongwu Cement immediately prior to the Reorganization |
| “GDP”                              | gross domestic product (all references to GDP growth are to real as opposed to nominal rates of growth)                                                                                                                                                                                                                              |
| “Goldview”                         | Goldview Development Limited, a limited liability company incorporated in the BVI on 16 March 2004 which has been wholly-owned by Mr. Tseung since 18 May 2004                                                                                                                                                                       |
| “Group”, “we” or “us”              | our Company and its subsidiaries or, where the context so requires in respect of the period before our Company becomes the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors                        |
| “HK dollars” or “HK\$” and “cents” | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong for the time being                                                                                                                                                                                                                                        |
| “HKFRS”                            | Hong Kong Financial Reporting Standards                                                                                                                                                                                                                                                                                              |

## DEFINITIONS

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|------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “HKSCC”                                        | Hong Kong Securities Clearing Company Limited                                                                                                                                                                                                                                                                                                     |
| “HKSCC Nominees”                               | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC                                                                                                                                                                                                                                                                                        |
| “Hong Kong” or “HK”                            | the Hong Kong Special Administrative Region of the PRC                                                                                                                                                                                                                                                                                            |
| “Independent Third Party(ies)”                 | individual(s) or company(ies) who or which is/are not connected with [••] any Directors, chief executive or substantial shareholders of our Company, its subsidiaries or any of their respective associates                                                                                                                                       |
| “Indirect Transfer Tax Circular”               | 《關於加強非居民企業股權轉讓所得稅管理的通知》(國稅函[2009]698號) (Notice Regarding the Reinforcement of Administration of Equity Transfer Tax of Non-resident Enterprise (Guoshuihan [2009] No. 698)                                                                                                                                                                        |
| “Jiangsu Orient”                               | Jiangsu Orient International Group Company Limited (江蘇東方國際集團有限公司), the initial and former shareholder of Dongwu Cement holding 75% equity interest therein since its incorporation and until 26 April 2006, which was owned as to more than 50% by Mr. Tseung’s spouse and therefore an associate of Ms. Tseung as at the Latest Practicable Date |
| “kcal”                                         | kilocalorie, equivalent to one thousand calories                                                                                                                                                                                                                                                                                                  |
| “kg”                                           | kilogram                                                                                                                                                                                                                                                                                                                                          |
| “Latest Practicable Date”                      | [••], being the latest practicable date for ascertaining certain information in this document before its publication                                                                                                                                                                                                                              |
| “LIBOR”                                        | London Interbank Offered Rate                                                                                                                                                                                                                                                                                                                     |
| “Memorandum” or<br>“Memorandum of Association” | the memorandum of association of our Company adopted upon its incorporation as amended from time to time                                                                                                                                                                                                                                          |

## DEFINITIONS

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|                                  |                                                                                                                                                                                                                                                                                 |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “MIIT”                           | the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)                                                                                                                                                                                                 |
| “Ministry of Finance”            | the Ministry of Finance of the PRC (中華人民共和國財政部)                                                                                                                                                                                                                                 |
| “Ministry of Land and Resources” | the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部)                                                                                                                                                                                                                    |
| “MOFCOM”                         | the Ministry of Commerce of the PRC (中華人民共和國商務部)                                                                                                                                                                                                                                |
| “Mr. Jin”                        | Jin Chungun (金春根), an executive Director, our chief executive officer and the sole shareholder of Concord as at the Latest Practicable Date                                                                                                                                     |
| “Mr. Tseung”                     | Tseung Hok Ming (蔣學明), a non-executive Director and the sole shareholder of Goldview as at the Latest Practicable Date                                                                                                                                                          |
| “NDRC”                           | the National Development and Reform Commission of the People’s Republic of China (中華人民共和國國家發展和改革委員會)                                                                                                                                                                            |
| “NPC”                            | the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)                                                                                                                                                                                                                     |
| “Orient Expressway (HK)”         | Orient Expressway (Hong Kong) Company Limited, the initial and former shareholder of Dongwu Cement holding 25% equity interest therein since its incorporation and until 6 March 2007, which was beneficially owned by Mr. Tseung and Mr. Jin as at the Latest Practicable Date |
| “PBOC”                           | The People’s Bank of China (中國人民銀行)                                                                                                                                                                                                                                             |
| “PRC Company Law”                | the Company Law of the PRC (中華人民共和國公司法), enacted by the Standing Committee of 全國人大常委會 NPC on 27 October 2005 and effective on 1 January 2006, as amended, supplemented or otherwise modified from time to time                                                                  |
| “PRC Court”                      | any court or arbitral tribunal of the PRC                                                                                                                                                                                                                                       |

## DEFINITIONS

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|------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “PRC EIT Law”                                              | the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), promulgated on 16 March 2007 by the NPC and effective on 1 January 2008                                                                                                                   |
| “PRC GAAP”                                                 | the generally accepted accounting principles in the PRC                                                                                                                                                                                      |
| “PRC Government”                                           | the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof                                                   |
| “PRC Legal Advisors”                                       | Deheng Law Offices, the legal advisors to the Company as to the PRC Law                                                                                                                                                                      |
| “Reorganization”                                           | the reorganization of the companies within our Group as discussed in the paragraph headed “Our Reorganization” under the section headed “Company History and Reorganization” in this document                                                |
| “Reorganization Equity Transfer Agreement”                 | the equity transfer agreement dated 26 December 2011 entered into between Dongwu HK and Far East International pursuant to which Far East International transferred its 100% equity interest in Dongwu Cement to Dongwu HK at US\$33 million |
| “RMB” or “Renminbi”                                        | Renminbi, the lawful currency of the PRC                                                                                                                                                                                                     |
| “Samoa”                                                    | the Independent State of Samoa                                                                                                                                                                                                               |
| “Shareholder(s)”                                           | holder(s) of the Share(s)                                                                                                                                                                                                                    |
| “Share(s)”                                                 | ordinary share(s) with a nominal value of HK\$0.01 each in the issued share capital of our Company                                                                                                                                           |
| “sq.m.”                                                    | square metres                                                                                                                                                                                                                                |
| “State Administration for Industry and Commerce” or “SAIC” | the State Administration for Industry and Commerce of the PRC (中華人民共和國工商行政管理總局)                                                                                                                                                              |

## DEFINITIONS

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|---------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “State Administration of Foreign Exchange” or “SAFE”                      | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental authority responsible for matters relating to foreign exchange administration, including local branches, when applicable |
| “State Administration of Taxation” or “SAT”                               | the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)                                                                                                                                                         |
| “State Council”                                                           | the State Council of the PRC (中華人民共和國國務院)                                                                                                                                                                               |
| “State Environmental Protection Administration” or “SEPA”                 | the State Environmental Protection Administration of China (中華人民共和國國家環境保護總局)                                                                                                                                            |
| “State-owned Assets Supervision and Administration Commission” or “SASAC” | the State-owned Assets Supervision and Administration Commission of the State Council (中華人民共和國國務院國有資產監督管理委員會)                                                                                                           |
| “Stock Exchange” or “Hong Kong Stock Exchange”                            | The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited                                                                                                          |
| “Takeovers Code”                                                          | the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time                                                                            |
| “Track Record Period”                                                     | the three financial years ended 31 December 2009, 2010 and 2011                                                                                                                                                         |
| “United States” or “U.S.”                                                 | the United States of America, its territories, its possessions and all areas subject to its jurisdiction                                                                                                                |
| “US dollars” or “US\$”                                                    | United States dollars, the lawful currency of the United States                                                                                                                                                         |
| “VAT”                                                                     | value added tax                                                                                                                                                                                                         |
| “%”                                                                       | per cent                                                                                                                                                                                                                |

## DEFINITIONS

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*In this document, unless the context requires otherwise, the terms “associate”, “connected person”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the same meanings given to such terms in the [••].*

*In this document, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars at an exchange rate of RMB0.8130 = HK\$1.00, respectively, for illustration purpose only. Such translations should not be construed as representations that amounts in Renminbi were or may have been converted into HK dollars at such rates or any other exchange rates.*

*Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Any discrepancies in the tables between the [••] amounts and the totals thereof are due to rounding.*

*In this document, if there is any inconsistency between the Chinese names of the PRC laws, regulations and rules, the PRC entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English names of certain entities referred to in this document are provided for your convenience only. Some of these entities do not have registered English names.*

## GLOSSARY OF TECHNICAL TERMS

*This glossary of technical terms contains an explanation of certain terms used in this document as they relate to the Company and as they are used in this document in connection with the Group and its business. These terms and their given meanings may not correspond to standard industry definitions.*

|                                          |                                                                                                                                                                                                           |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “cement”                                 | a mixture of cement clinker, limestone, clay, silica and gypsum, being a fine powder which sets to a hard mass when mixed with water as a result of hydration                                             |
| “clay”                                   | a natural mineral having plastic properties and composed of very fine particles, moldable when wet and fused into permanent form at very high temperatures                                                |
| “clinker”                                | a major semi-finished product in the cement production process                                                                                                                                            |
| “coal gangue”                            | residue generated from coal mining and washing                                                                                                                                                            |
| “Composite Portland cement”<br>or “PC”   | a type of cement produced by Ordinary Portland Cement Clinker along with 15% to 50% of aggregates, such as flyash                                                                                         |
| “concrete”                               | an artificial, stonelike material used for various structural purposes, made by mixing cement and water together with various aggregates, such as sand, pebbles, gravel or shale                          |
| “Distributed Control System”<br>or “DCS” | a control system, in which the controller elements are not central in location, but are distributed throughout the system                                                                                 |
| “flyash”                                 | residue generated from the combustion of coal                                                                                                                                                             |
| “gypsum”                                 | a mineral composed of calcium sulphate dehydrate                                                                                                                                                          |
| “km”                                     | kilometer(s)                                                                                                                                                                                              |
| “KW”                                     | kilowatt(s), equivalent to one thousand watts                                                                                                                                                             |
| “KWH”                                    | kilowatt-hour, the standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour |
| “limestone”                              | a sedimentary rock composed largely of the mineral calcite                                                                                                                                                |

## **GLOSSARY OF TECHNICAL TERMS**

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|                                       |                                                                                                                                                                                              |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “limestone refuse”                    | residues generated from the limestone quarrying, which contains less than 50% mineral calcite                                                                                                |
| “MPa”                                 | Megapascals, a customary unit in the International System of Units for measuring compressive strength                                                                                        |
| “NO <sub>x</sub> ”                    | mono-nitrogen oxides, nitric oxide (NO) and nitrogen dioxide (NO <sub>2</sub> )                                                                                                              |
| “NSP technology”                      | New Suspension Preheater technology, an energy efficient technology, in which raw materials are preheated in conical vessels using high temperature gas from the dry rotary kiln             |
| “Ordinary Portland cement”<br>or “PO” | a type of quick hardening cement with relatively strong initial compressive strength and is resistant to abrasion                                                                            |
| “Portland Cement”                     | a kind of cement matrix composed of Portland cement clinkers and appropriate gypsum, plus specified admixture                                                                                |
| “sandstone”                           | a sedimentary rock composed mainly of sand-sized minerals or rock grains                                                                                                                     |
| “shale”                               | a fine-grained, clastic sedimentary rock composed of mud that is a mix of flakes of clay minerals and tiny fragments (silt-sized particles) of other minerals, especially quartz and calcite |
| “sulfate slag”                        | a partially vitreous by-product of smelting ore to separate the metal fraction from the unwanted fraction                                                                                    |
| “tonne(s)”                            | metric tonnes                                                                                                                                                                                |

## RISK FACTORS

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### RISKS RELATING TO OUR BUSINESS

#### **Significant fluctuations in the market price and demand for cement may materially and adversely affect our profit margin as well as our profitability**

Cement prices fluctuated significantly during the Track Record Period. For the three years ended 31 December 2009, 2010 and 2011, the average selling price of PC 32.5 was approximately RMB193.4 per tonne, RMB234.0 per tonne and RMB302.4 per tonne respectively. The average selling price of PO 42.5 was approximately RMB217.8 per tonne, RMB279.4 per tonne and RMB358.7 per tonne respectively. Our overall gross profit was approximately RMB23.0 million, RMB49.3 million and RMB122.1 million respectively and our gross profit margin was approximately 7.9%, 13.9%, and 26.3% for the same periods respectively. During the period from 1 January 2012 up to 30 April 2012, the average selling prices of PC 32.5 and PO 42.5 dropped to RMB260.7 per tonne and RMB314.6 per tonne respectively. The declines in the selling prices for cement was attributable to the intense competition among cement producers in the market. The price for cement may continue to experience significant fluctuations in the future due to changes in the supply and demand for cement products in our existing and future markets. The cement companies in the PRC may try to maintain their production volumes despite the weak market demand for cement in order to avoid being classified as small enterprises and be requested to shut down in accordance with the PRC governmental policy. This may result in high levels of production and an oversupply of cement, which in turn poses downward pressure on the selling prices of cement. There is also no assurance that we can maintain a similar level of gross profit margin in light of the fluctuations in the average selling prices of cement and our cost of productions. **Based on the current information available to the Directors, we anticipate that our gross profit margin and net profit for the year ending 31 December 2012 will be significantly and adversely affected.**

#### **Our transportation network depends heavily on waterway transportation via our wharf which adjoins our production facilities on the Taipu River**

Since December 2003, the relevant PRC authority has granted to us the exclusive right to occupy a river bank, and the permit to use a wharf built on the river bank which is adjacent to our production facilities. Our right to occupy the river bank is subject to renewal every year. The wharf which is equipped with fully automatic loading lines, affords us convenient access to our network of customers and suppliers. In the event that the Taipu River experiences emergency events such as flooding or drought, or during the construction of major public waterway projects or construction of flood control works, we may be required to temporarily evacuate from the river bank. Furthermore, in the event that the relevant PRC authority does not renew our right to occupy the river bank, or if we make any modifications to or damage the levee construction, our right to occupy the river bank may be revoked by the relevant PRC authority. As advised by our PRC Legal Advisors, in the event that our right to occupy the river bank is revoked or expires due to unsuccessful renewal, there would be no legal impediments for us to use the river bank to load and unload our products, but all the supporting facilities on the river bank, including the fully automatic loading lines, will have to be demolished or relocated. In such circumstances, in addition to the demolition and relocation costs,

## **RISK FACTORS**

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we will need to make short-forwarding arrangements between our production facilities and Taipu River for the transportation of our products or raw materials whilst the loading and unloading works alongside the Taipu River will have to be operated manually. We estimate that our loading/unloading costs and labour costs will increase by approximately RMB5 per tonne due to such arrangements. As such, our business operations, financial condition and profitability would be adversely affected.

### **Our profitability hinges on general market conditions in the construction industry including the level of fixed assets investment of our regional markets in Jiangsu Province, Zhejiang Province and Shanghai**

We supply our cement products produced at our production facility in Wujiang City of Jiangsu Province to regional markets in Jiangsu Province, Zhejiang Province and Shanghai. As such, demand for our cement products in these areas is dependent upon the amount of construction activities and the level of investment in fixed assets in Jiangsu Province, Zhejiang Province and Shanghai Municipality which in turn can be significantly affected by any material changes in gross domestic product and its growth rate, level of fixed assets investment, PRC government policies, mortgage rate, interest rate, inflation, rate of unemployment, demographic trends and other relevant national and regional economic factors and conditions.

Significant uncertainties and risks may adversely affect the recovery of the global economy from the recent financial crisis and economic slowdown. Any deterioration in the global economy could in turn adversely affect the economic conditions in Jiangsu Province, Zhejiang Province and Shanghai.

### **Restrictions on general market conditions in the regional construction industry may ultimately decrease the demand for our products**

Various tax laws and restrictions have recently been imposed by the PRC government in an effort to impede surging prices in the real estate sector and initiatives in infrastructural development have been driven by the PRC government in a more prudent manner which may ultimately decrease the demand for our cement products. According to the latest estimate of the PRC government, the growth of FAI in 2012 will be slowed down which will likely lower the pace of property development and infrastructure construction and in turn result in a decrease in the market demand for cement in 2012. Therefore, any slowdown in the growth of the economy in each of Jiangsu Province, Zhejiang Province and Shanghai or any downturn in the regional construction industry where we operate in, particularly in the public infrastructural development sector and in the private real estate development sector, could materially and adversely affect our results of operations and our financial condition.

### **Maintaining and managing our growth momentum at our previous growth rates or at all may become difficult**

Our revenue has grown significantly during the Track Record Period from approximately RMB291.6 million in 2009 to approximately RMB355.0 million in 2010 and subsequently to approximately RMB464.0 million in 2011, representing a CAGR of 26.1% from 2009 to 2011. In addition, our net profits during the three years ended 31 December 2009, 2010 and 2011 were approximately RMB11.8

## RISK FACTORS

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million, RMB31.8 million and RMB86.9 million respectively. The increase in the selling price of and demand for our products contributed to this significant growth in our revenue and net profits which was driven by growth in the regional economies and the construction industry in our regional markets.

However, underlying economic conditions are often cyclical in nature, maintaining our business to grow at our historical growth rates or at all may become difficult. A change in the level of activities in the construction industry or the amount of investment in fixed assets and property developments in our regional markets, as well as difficulties encountered in implementing future business strategies may affect our sales and profitability. As at the Latest Practicable Date, we do not have any plan to increase our production capacity beyond our existing level.

For example, our plans in entering into further long-term strategic agreements with limestone suppliers is subject to negotiations and any risk-reward tradeoff arrangement may strain our managerial, operational, technical and financial resources. As a result, we may not be able to manage such growth in a cost-effective manner. Failure to effectively manage our growth could have a material adverse effect on our business, results of operations and financial condition, and could jeopardize our ability to achieve our business strategies and maintain our market position.

**Our strategy in expanding our business by acquiring ready-mixed concrete station may be difficult to implement and such acquisition and/or business expansion may not be successful**

We are planning to acquire a ready-mixed concrete station in Wujiang City.

Acquisitions involve risks, including, inter alia, challenges in retaining personnel, risks and difficulties associated with integrating the operations and culture of acquired businesses, and diversion of management’s attention and other resources. In particular, if any of the acquired businesses fail to perform, we may be required to recognize a significant impairment charge which may materially and adversely affect our results of operations. As a result, there is no assurance that we will be able to achieve the strategic purpose of any acquisition, the desired level of operational synergy or our investment return target in the future. Any incurred costs and impairment charges may not be passed on to our customers.

It is our intention to retain the existing management and staff to manage and operate the ready-mixed concrete station to be acquired by our Group, as our Group currently does not have senior staff who possess solid operational and management experiences in the concrete station business. In the event that we are unable to retain the existing management and staff of that concrete station, we may not have sufficient experts and experienced staff to effectively operate the ready-mixed concrete station, which in turn may have an adverse impact on our overall financial performance and operations.

Furthermore, we may not be able to identify suitable acquisition or investment targets, or that if suitable targets are identified, we may not be able to complete such transactions on terms acceptable to us or at all, or we may fail to obtain the requisites governmental and other approvals for such acquisitions or investments. It may adversely affect our competitiveness or growth prospects.

## **RISK FACTORS**

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### **Our strategy in establishing our own entrepots at selected strategic locations may be difficult to implement and such establishment may not be successful**

We intend to strengthen our sales network by enhancing our logistics system and capabilities through establishing our own entrepots at strategic locations in close proximity to our existing and potential new markets. We may invest significant time and resources for the purpose of establishing such entrepots. However, as we currently do not possess solid experience in establishing and operating such entrepots, we cannot assure you that such entrepots will be established in accordance with the expected timetables, nor can we assure you of our performance and profitability targets. If the establishment of our own entrepots is not successful, we will have to use and rely on other means of distribution to strengthen our sales network. This may cause material adverse impact on our financial condition and operation results.

### **Price fluctuations and supply shortages of raw materials or utilities (coal and electricity) may cause a substantial negative impact to our business and results of operations**

During the production process, we use large quantities of raw materials such as limestone, limestone mineral refuse, shale, sandstone, coal gangue, sulfate slag, clay, flyash and gypsum. It is important for us to secure reliable supplies of raw materials in order to maintain a high level of cement production output. For the three years ended 31 December 2009, 2010 and 2011, our cost of raw materials accounted for approximately 25.8%, 21.9%, and 27.8% of our total cost of sales respectively. These raw materials, in particular limestone, are subject to price volatility caused by external conditions, such as market price fluctuations and changes in governmental policies.

For the three years ended 31 December 2009, 2010 and 2011, the purchases from our top five raw material suppliers accounted for approximately 34.7%, 42.6% and 42.6% of our total purchases of raw materials respectively. There is no assurance that our key suppliers will continue to provide us with raw materials at reasonable prices or at all. If there is any interruption to the supply of raw materials or if the prices of raw materials required for our production increase significantly and we cannot pass on such incremental cost increases in our raw materials to our customers, our business, results of operations and financial condition could be materially and adversely affected.

To maintain our furnace operating at a high temperature and to mobilize heavy machineries, a substantial amount of coal and electricity is required in our production process. In the Yangtze River Delta Region, power restrictions against cement production enterprises occur occasionally. In particular, the PRC government at both local and central levels may restrict the supply of electricity due to policy reasons. For instance, various policies restricting electricity supplies were implemented by the PRC government at different levels to ensure the achievement of those energy consumption and pollutant emission control targets as set forth in Eleventh Five-year Plan during the second half of 2010. We cannot assure that the PRC government at both local and national levels will not further enforce the power restrictions due to policy reasons in the future, nor can we be assured that we will not encounter any future power shortage caused by other reasons. In the event that we experience electricity shortages and our residuary heat recovery system is unable to make up the difference between the electricity that we require for our operations and that which we receive, our operations would be severely disrupted and our business, results of operations and financial condition could be materially and adversely affected.

## **RISK FACTORS**

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Further, interruptions in the coal supply could also severely disrupt our operations, and any price hike for coal or electricity could increase our cost of sales and reduce our profitability.

For the three years ended 31 December 2009, 2010 and 2011, our cost of coal represented approximately 32.7%, 36.3% and 36.4% of our total cost of sales respectively.

For the three years ended 31 December 2009, 2010 and 2011, our cost of electricity represented approximately 18.0%, 16.2% and 16.3% of our total cost of sales respectively. Electricity prices for industrial enterprises are generally regulated by the PRC government. The average purchase price per KWh for electricity sourced from the local public utility supplier was approximately RMB0.5, RMB0.6 and RMB0.6 for the three years ended 31 December 2009, 2010 and 2011 respectively. An increase in the electricity price may not be passed on to our customers and it could have a material adverse effect on our business, results of operations and financial condition.

During the Track Record Period, we have experienced some minor occasional disruptions and power rationing to our operations due to insufficient supply of electricity.

**We currently enjoy VAT refunds, if such tax incentives or refunds expire or change unfavourably, it may materially and adversely affect our results of operations and financial condition**

Pursuant to the Notice regarding Policies relating to Value-Added Tax on Products Made Through Comprehensive Utilization of Resources and Certain Other Products issued by the Ministry of Finance and the State Administration of Taxation (財政部國家稅務總局關於部分資源綜合利用及其他產品增值稅政策問題的通知) promulgated on 9 December 2008, we are eligible for VAT refunds for utilizing recycled materials, such as slag and flyash as raw materials for producing cement. For the three years ended 31 December 2009, 2010 and 2011, we obtained approximately RMB8.9 million, RMB8.7 million and RMB13.4 million respectively as VAT refunds.

Although this incentive is currently in effect and we are not aware of any intention of the PRC government to discontinue the same, there is no assurance that such VAT tax refunds will be available on the same terms or at all in the future. If such tax incentives or refunds expire or change unfavorably, it may adversely and materially affect our business, financial condition and results of operations.

**Managing our working capital prudently is crucial to the success of our business and an inadequate management of working capital may adversely affect our results of operations and financial condition**

Our working capital for operations and capital expenditures are to a certain extent financed by funds generated from operating activities. As such, our ability in ensuring sufficient amounts of working capital can be material to our future success. We recorded a negative cash flow of operating activities of approximately RMB12.9 million for the year ended 31 December 2009.

## **RISK FACTORS**

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Prudent management of working capital requires timely payments of our short-term indebtedness and securing of new loans on favourable terms; timely payments or re-negotiation of our payment terms for our trade payables; timely collection of trade receivables; utilization of banking facilities in an efficient manner; and establishment and execution of accurate and feasible budgets for our business operations. However, if we cannot manage our working capital successfully, our business, results of operations and financial condition could be materially and adversely affected. There is no assurance that we will be able to manage our working capital effectively. Should we fail to implement adequate sufficient internal control procedures and management systems to manage our working capital and other sources of financing, we may have insufficient capital to maintain and expand our business, and may breach the terms of financing agreements with banks, face claims under cross-default provisions, and be unable to obtain new financing, either of which could have a material adverse effect on our business, results of operations and financial condition.

### **Our business operations are susceptible to disruptions by reasons beyond our control such as adverse climatic conditions**

Our operations are susceptible to uncertainties and contingencies beyond our control that could result in material disruptions and adversely affect our revenues. These include fires, natural disasters, epidemics, raw material shortages, equipment and system failures or other operational problems, strikes or other labour difficulties and disruptions of public infrastructure such as roads, ports or power grids. Adverse climatic conditions, such as extreme climatic and weather conditions, snow storms, heavy or sustained rainfall or drought affecting water levels in the Taihu lake and the Taipu River, may also affect our normal business operations. For example, we may encounter transportation delays in the supply and shipment of raw materials and products along the Taipu River at times of drought and flooding, causing water levels to fall or rise significantly, which could result in load restrictions being imposed or a suspension of river transportation services. Furthermore, if we experience serious flooding which renders our production facilities impracticable for use, we may not be able to continue our normal production and our business operations, financial condition and profitability could be adversely affected.

Power interruptions or rationing, could disrupt or restrict the supply of such utilities. Any such disruption of our operations could adversely affect our production, prevent us from meeting customer orders, increase our costs of production or require us to make unplanned capital expenditures, each of which could adversely affect our business and financial performance. In addition, our operations are by nature subject to operational risks associated with the production of clinker and cement, such as storage tank leakage, explosion, discharge of hazardous substances and malfunctioning of production machinery. If these risks materialize, they may result in personal injuries, property damages and imposition of civil or even criminal liabilities.

## **RISK FACTORS**

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**Our business operations are susceptible to disruptions beyond our control if the PRC government categorizes us as a “small enterprise” and requires us to comply with the governmental consolidation policy in the PRC cement industry**

Throughout the Track Record Period and up to the Latest Practicable Date, the annual production capacity of our cement production facilities has been 1,636,800 tonnes, which is well above the threshold of 200,000 tonnes (the “200,000 Threshold”) as stipulated under the Notice Regarding Phase-Out of Obsolete Cement Production Capability (《國家發改委關於做好淘汰落後水泥生產能力有關工作的通知》). Nevertheless, we cannot assure you how the PRC government will interpret the 200,000 Threshold, which may either be the production capacity or the production volume of cement. In the event that the 200,000 Threshold is interpreted as annual cement production volume, we cannot assure you that our annual cement production volume will not fall below the 200,000 Threshold in future when there are unfavourable conditions such as significant reduction in the market demand for cement or failure of a substantial portion of our production facilities to function properly. We also cannot assure you that the PRC government will not raise the consolidation threshold (i.e. currently the 200,000 Threshold) to a standard which is higher than the annual production capacity of our cement production facilities (i.e. 1,636,800 tonnes) or our annual production volume for the year ended 31 December 2011 (i.e. approximately 1.4 million tonnes). Under such circumstances, the PRC government may categorize us as a “small enterprise” and may request us to merge with or be acquired by other cement companies or even close down our operations. To avoid being classified as a “small enterprise”, we may try to maintain our production volume. The resulting high level of production of cement under unfavourable conditions such as extremely low market demand for our cement may in turn lead to an oversupply and hence impose downward pressure on the selling prices of our cement.

**We no longer enjoy a preferential enterprise income tax rate of 12.5%**

Commencing from 1 January 2012, we no longer enjoy the benefit of the preferential tax rate of 12.5% as a foreign owned enterprise. As advised by our PRC Legal Advisors, from 1 January 2012 onwards, we shall be subject to an enterprise income tax of 25%. Moreover, there can be no assurance that the PRC taxation laws, rules and regulations will not be amended in the future. If any such changes occur and are not favourable to our Group, our profitability and financial position may be adversely affected.

**Quality control is crucial to our success and failure to put an effective system in place to ensure consistent product quality and any significant product liability claims made against us, whether successful or not, could have a material adverse effect on our business, results of operations and financial condition**

Ensuring that our products possess consistent quality helps us to maintain our market position and to stay competitive against our competitors. As such, the establishment of an effective quality control system is crucial to our success. Our quality control standards consists of training programs, quality control policies and guidelines for our production process covering areas from the purchase of raw materials to the delivery of finished products. However, any significant failure or deterioration of our quality control system may jeopardise our reputation, business, results of operations and financial condition as defective or substandard products may necessitate the replacements.

## **RISK FACTORS**

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During the Track Record Period, we sold clinker and cement of different grades to our customers. We are exposed to risks associated with product liability claims if the use of our cement products causes any damage or injury. While we seek to ensure that our products meet a variety of contractual specifications and regulatory requirements, there is no assurance that product liability claims against us will not arise, whether due to product malfunctions, defects, or other causes. Furthermore, there is no assurance that we will be able to defend against such claims successfully. If any such claims were successful, we could be required to pay damages, which could materially and adversely affect our business, results of operations and financial condition.

### **We are vulnerable to fluctuations in the costs of our principal raw materials**

Our principal raw materials are coal and limestone. For the three years ended 31 December 2009, 2010 and 2011:

- the average price of coal we purchased was RMB594.2 per tonne, RMB737.9 per tonne and RMB817.3 per tonne, respectively; and
- the average price of limestone we purchased was RMB26.6 per tonne, RMB28.5 per tonne and RMB38.5 per tonne, respectively.

The prices at which we purchase our raw materials are based on prevailing market prices and are affected by market supply and demand, the conditions of which may fluctuate from time to time. In addition, the prices of raw materials may fluctuate due to the implementation of government policies which may affect their supply. Further, we have not implemented any hedging policy up to the Latest Practicable Date.

In the event that there is a material increase in the purchase prices of our raw materials, and we are unable to pass on such price increment to our customers, our cost of production will increase whereupon our gross profit margin and profitability may be adversely affected.

### **Retaining our executive Directors, senior management and other key personnel as well as a skilled labour force and maintaining their continued efforts are vital to the success of our business**

Our success is dependent upon our executive Directors, senior management and key personnel as named in the section headed “Directors and Senior Management” in this document as each of them brings along a unique combination of technical and management skills as well as industry experience in the cement industry in areas such as finance, strategic business development, sales and marketing which are vital to the success of our business. If one or more of our executive Directors or senior management are unable or unwilling to continue their employment with us, we may not be able to identify and recruit suitable replacements in a timely manner, or at all.

## **RISK FACTORS**

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Furthermore, recruiting and retaining capable personnel, particularly experienced engineers and technicians familiar with our production processes, are important to maintain the quality of our products and improve our production processes.

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

Our business and operations are by their nature exposed to liabilities for personal injury and loss of life, damage to or destruction of property, plant and equipment, transportation accidents and delays, environmental pollution, industrial damages and risks posed by natural disasters. In particular, our business involves the operation and handling of heavy machineries, which, if operated improperly, may result in personal injuries or even deaths. During the Track Record Period, we did not experience any incidents of personal injuries and/or death arising from improper operation and handling of machinery.

There is no assurance that accidents that would have a material impact on our operations will not happen in the future. In the event of any accident, we could be liable for personal injuries, loss of life or damage to property or for fines or penalties for violation of applicable PRC laws and regulations, and we may be subject to business interruptions caused by equipment shutdowns or suspension of operations due to government investigations or the requirement to implement additional safety measures. We maintain insurance coverage in such amounts and against such risks as we believe to be appropriate in accordance with industry practice. If we were to incur substantial losses or liabilities and our insurance coverage were unavailable or inadequate to cover such losses or liabilities, we would be responsible for such losses and our business, results of operations and financial condition could be materially and adversely affected.

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

We rely on the PRC intellectual property and competition laws and contractual restrictions to protect our brand name and trademarks. Our brand name and trademarks are important to our business. Our cement products are principally sold under the trademark . Any unauthorized use of our brand name and trademarks by third-parties could adversely affect our business, reputation and market position. There is no assurance that the measures we take to protect our brand name and trademarks and to minimize the possibility of our key brand name and trademarks from being associated with products of inferior quality will be sufficient. In addition, the application, interpretation and enforcement of the PRC laws governing intellectual property rights in the PRC are uncertain, which undermines the level of legal protection such laws may offer. If we are unable to adequately protect our brand name and trademarks, our business, results of operations and financial condition could be adversely and materially affected.

## **RISK FACTORS**

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### **With the increasingly stringent PRC environmental regulatory framework, we may not be able to comply with relevant environmental regulations in the future on a cost-effective basis**

We are subject to national and local environmental protection laws and regulations. These laws and regulations include provisions for prevention and treatment of noise, water, soil and air pollution and other industrial pollution. Failure to comply with these laws and regulations may result in penalties, fines, administrative sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business. The PRC government has adopted various environmental policies to reduce the adverse effects of the cement industry on the environment. With the increasing awareness of environmental protection issues, we anticipate that the PRC environmental regulatory framework will become increasingly stringent, which may include those relating to air quality, solid waste management and waste water treatment. For instance, it is reported that the head of SEPA expressed the PRC government's intention to implement more stringent atmospheric pollutant emission standards against the cement industry which will reduce the allowed NO<sub>x</sub> emission standards from 800 mg per m<sup>3</sup> under the current standards to 500 mg per m<sup>3</sup>. It is also a target set in the PRC National Environmental Protection Twelfth Five-Year Plan (國家環境保護“十二五”規劃) that the PRC overall NO<sub>x</sub> emission should be reduced by 10% during the period from 2011 to 2015. In the event of such policy change, we may need to maintain our costs for the maintenance of our pollution control equipment at a relatively high level. For instance, our NO<sub>x</sub> emission standards during the period from April 2011 (since where we used the electric dust precipitators) to April 2012 ranged from 0mg/m<sup>3</sup> to 605 mg/m<sup>3</sup>, with an average monthly emission standard at 330 mg/m<sup>3</sup> for the same period. If the NO<sub>x</sub> emission standards implemented by the PRC government are adjusted to a level which is lower than our NO<sub>x</sub> emission amount (such as down to the level of 300 mg/m<sup>3</sup>), we may need to upgrade our production facility and our production costs are expected to increase in such event. As such, we estimate that capital expenditure of approximately RMB16.8 million may be required to upgrade the relevant production equipment, with an annual operation cost of approximately RMB3.6 million. Based on the assumption that we produce 1.4 million tonnes of cement per annum, our cost of production will increase by approximately RMB5.29 million each year. The production costs for cement is expected to increase by RMB3.78 per tonne. If the PRC government implements more strict environmental laws, regulations, rules and/or policies, such as policy against sulphur content in coal, we may further upgrade our production facilities and take other actions if necessary. In such circumstances, our business, results of operations and financial condition could be materially and adversely affected.

### **Our interests may conflict with those of the Controlling Shareholders who may take actions that are not in, or may conflict with, our or our public Shareholders' best interests**

Our Controlling Shareholders will hold approximately 59.5% of our issued share capital upon completion of the [•••] and the [•••] Issue, assuming the [•••] Option is not exercised (or approximately 57.35% if the [•••] Option is exercised in full). Accordingly, subject to our Articles of Association and applicable laws and regulations, the Controlling Shareholder(s) will be able to influence our major policy decisions. The interests of Controlling Shareholder(s) may not always coincide with our other Shareholders' best interests. If the interests of the Controlling Shareholders conflict with the interests of our other Shareholders, or if the Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, those other Shareholders may be disadvantaged as a result.

## **RISK FACTORS**

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### **We do not possess valid legal titles to certain properties that we occupy**

We have not obtained all valid title certificates to certain properties that we occupy. We may not be able to freely transfer title to those properties. With respect to the properties which we own, as at the Latest Practicable Date, we had not obtained proper Completion Acceptance Permits and Property Ownership Certificates of 8 buildings with an aggregate gross floor area of approximately 9,181.57 sq.m. respectively. We use these properties for various purposes, including as a warehouse, repair work-shop and staff quarters. The operations we conduct in these properties may be adversely affected as a result of the absence of valid legal titles. We may be imposed a fine against us ranging from RMB0.2 million to RMB1.5 million because of our failure to obtain the Completion Acceptance Permit. We may also be required to relocate such operations temporarily or permanently and any such business interruptions may adversely affect our business, results of operation and financial condition.

### **Our failure to register and open housing fund accounts for our employees and to deposit sufficient funds into the same accounts may materially and adversely affect our business**

According to the Regulations on Management of Housing Fund (住房公積金管理條例), enterprises and institutions in the PRC are required to register and open housing fund accounts for their employees with the housing fund authorities, and pay the housing fund. The housing fund management centre has the right to demand any enterprise or institution who has failed to register and open the housing fund accounts to complete the registration within a specified time, and failing which a fine ranging from RMB10,000 to RMB50,000 may be imposed. A maximum fine of RMB50,000 may therefore be imposed on us. During the Track Record Period, we did not register and open housing fund accounts for our employees, nor pay the housing fund. There is no assurance that the housing fund management centre or any relevant PRC authority will not impose administrative penalties against us in connection with the non-compliance referred above, which may adversely affect the business and results of operations of us.

### **We may agree, on a voluntary basis and as a matter of business strategy, to accept a favourable merger or acquisition plan of our Group or any of its members by other large scale cement producers**

The PRC government is currently promoting the consolidation of the PRC cement industry. On 31 December 2006, the NDRC, the Ministry of Land and Resources and the People’s Bank of China jointly issued the “Notice of List of Large-scale Enterprises (Group) in relation to Adjustment of Structure of Cement Industry supported by the State” (關於公佈國家重點支援水泥工業結構調整大型企業(集團)名單的通知) (the “Notice”). It is stated in the Notice that when seeking project investments or mergers and acquisitions, government support and priority with respect to project approvals, land use right grants and credit approvals will be given to the 12 national and 48 local cement companies listed on the Notice.

## **RISK FACTORS**

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Although we do not anticipate that we will be a consolidator or consolidate despite the consolidation policy governing the PRC cement industry, we may become a target for merger or acquisition by other large scale cement producers, including those listed on the Notice which may receive support from the PRC government for carrying out merger or acquisition plans, particularly in light of the fact that (i) our competitive strength of having a convenient transportation network and business situated at good geographical location; (ii) our profitable operation; and (iii) our compliance with the relevant PRC laws and regulations throughout the Track Record Period.

### **We may need to incur extra capital expenditure in maintaining or replacing our production equipment upon expiry of its depreciation period**

The depreciation period for our production equipment is 10 years. As at the Latest Practicable Date, most of our production equipment has been operated for approximately 7.5 years. In the event that some or all of our production equipment can no longer function properly or need substantial repair and maintenance upon expiry of the relevant depreciation period, we may need to incur extra capital expenditure in maintaining or replacing such production equipment. Under such circumstances, our financial condition and operation results may be adversely affected.

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

### **The cement industry in the Yangtze River Delta Region is competitive and if competition intensifies, demand for our cement products may decrease**

The regional markets and the cement industry in which we primarily conduct business in are intensely competitive and price sensitive. In Wujiang City, our major competitors include regional producers in the markets in which we operate such as Wujiang Minggang Road and Bridge Ltd., Co. (吳江市明港道橋工程有限公司) and Wujiang Xingyuan Cement Ltd., Co. (吳江市興源水泥有限公司) as well as nationwide producers such as Conch Cement Company (海螺水泥) and South Cement Company (南方水泥). There are also other major competitors in other areas we operate in, and potential competitors, such as those cement producers listed in the Notice of List of Large-scale Enterprises (Group) in relation to Adjustment of Structure of Cement Industry supported by the State (關於公佈國家重點支援水泥工業結構調整大型企業(集團)名單的通知). Conch Cement Company is one of the companies listed in the Notice.

We compete directly with our regional competitors and other competitors for customers and raw materials. We compete primarily on the pricing for our products, variety of products offered, access to resources, sales and marketing network, production capacity and efficiency, and brand image. If we fail to compete successfully against our competitors, our business, results of operations and financial condition may be materially and adversely affected. Further, if more cement companies enter into our regional markets, it may increase the supply for cement in our regional markets, which may have a negative impact on our selling prices and adversely affect our profitability and financial performance.

Furthermore, some of the cement companies with national presence are currently expanding their businesses into the downstream ready-mixed concrete industry by merging with or acquiring ready-mixed concrete stations in Yangtze Delta River Region. Such expansion may reduce the number

## **RISK FACTORS**

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of our ready-mixed concrete station customers in the market. On the other hand, an increasing number of large cement entrepôts have been established in the Yangtze Delta Region, which has facilitated the penetration of cement produced in Northern China or upstream of the Yangtze River into our markets in the Yangtze River Delta Region at a relatively low production cost which will further intensify the competition we face in our markets. As a result, we may fail to compete successfully against our competitors, which might in turn materially and adversely affect our business, results of operations and financial condition.

### **Our results of operations are subject to seasonal fluctuations in demand for our cement products**

The amount of construction activities is generally cyclical with a lower volume of sales during humid periods in June and July and during the Chinese New Year holidays in January or February. During the rest of the year, we generally record a higher volume of sales when construction activities remain at a stable level. Consequently, our interim results may not be indicative of our business and financial performance for the whole year as our results of operations are subject to seasonal fluctuations.

### **The PRC government exerts control over the cement industry through extensive regulations**

In order to carry on our business in cement production, we are required to maintain licenses and permits such as cement production permits and production safety permits which are governed by various PRC government authorities empowered to issue and implement regulations governing various aspects of the cement production and excavation activities of raw materials. Such government authorities include the Ministry of Land and Resources, the State Environmental Protection Administration, the General Administration of Quality Supervision Inspection and Quarantine, MOFCOM and the Ministry of Construction of the PRC.

We are also required to comply with certain standards stipulated by various PRC government authorities such as the General Administration of Quality Supervision Inspection and Quarantine issued the GB175-2007 standards that specifies among others the constituents, strength, technical requirements, testing methods, inspection rules, packaging, labeling, transportation and dosage for Portland cement and ordinary Portland cement. Should there be any change to the existing requirements or new requirements applicable to our cement products, we may need to incur additional expenses to ensure compliances and there is no assurance that we will successfully obtain such licenses, permits or approvals in a timely manner or at all. If we are not able to meet all the licensing conditions or the regulatory requirements, our business, results of operations and financial condition could be adversely and materially affected.

Furthermore, the PRC government may also implement regulations to control the development of the cement industry. One example is that the NDRC issued the *Notice Regarding Phase-Out of Obsolete Cement Production Capability* (關於做好淘汰落後水泥生產能力有關工作的通知) on 18 February 2007 that requires local governments to gradually phase out cement producers with annual output of less than 200,000 tonnes and those with production methods that are not environmentally friendly. Another example is that the State Council issued the *Notice Approving the NDRC and Certain Other*

## RISK FACTORS

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*Departments’ Guidelines on Redundant Construction, Curbing Overcapacity in Certain Industries for Healthy Industrial Development* (國務院批轉發展改革委等部門關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知) on 26 September 2009 to strictly control newly added cement capacities and phase out obsolete cement production capacities. We are in full compliance with the existing governing rules and regulations. However, if the PRC government continues to implement stringent regulations and policies in the future which are unfavourable to our current practice, we may be required to make significant adjustments to our current or future development plans, increase our costs and divert our management resources, which may in turn may adversely affect our profitability, competitiveness and prospects.

### RISKS RELATING TO THE PRC

#### **Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax laws**

Under the new PRC EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises” (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Similarly, any gain realized on the transfer of shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. Under the Arrangement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, which became effective on 1 January 2007, income tax on dividend 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%.

Similarly, the Indirect Transfer Tax Circular provides that where a foreign investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company (“Indirect Transfer”) located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5%, or (ii) does not tax its residents on their foreign incomes, the foreign investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. The PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the transfer in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company and re-characterize the Indirect Transfer.

As a result, gains derived from such Indirect Transfer may be subject to the PRC withholding tax at the rate of 10%. The Indirect Transfer Tax Circular also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the competent PRC tax authority has the authority to adjust the amount of taxable income pertaining to the transaction.

## **RISK FACTORS**

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

Substantially all of our cement products are sold to our domestic customers in the PRC. Accordingly, our business, results of operations and financial condition are significantly affected by economic, political and legal developments in the PRC. Demand for our products is dependent on the pace of economic growth in the PRC such as the GDP growth rate and in particular the general level of construction activities and the level of investment in fixed assets in Jiangsu Province, Zhejiang Province and Shanghai where we primarily conduct our business in. In addition, local economic conditions such as mortgage and interest rate levels, inflation, unemployment, demographic trends, GDP growth and consumer confidence also influence the performance and growth of the construction industry and investments in fixed assets and, consequently, the demand for our products.

A downturn in the construction industry in Jiangsu Province, Zhejiang Province and Shanghai where we primarily operate could materially and adversely affect our business, results of operations and financial condition. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures, while benefiting the overall PRC economy, may have a negative effect on the regional markets. For example, efforts by the PRC government to slow the pace of growth of the real estate industry in the PRC may negatively affect the regional real estate market and consequently impede the growth of the regional construction industry. Policies and measures that were introduced and those that may be introduced by the PRC government may lead to changes in market conditions, including price instability and an imbalance between the supply of, and demand for, properties in the PRC. Any weakening in the PRC property sector in our target regional markets could adversely affect our financial condition and results of operations. As a result, any adverse change in government policies or economic conditions in the PRC could have a material adverse effect on the overall economic growth in the PRC, which in turn could lead to a reduction in the demand for our products and consequently have a material adverse effect on our business, financial position and results of operations.

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

Substantially all of our business and operations are conducted in the PRC and are governed by PRC laws, rules and regulations. Dongwu Cement, our sole PRC subsidiary is generally subject to laws, rules and regulations applicable to foreign investments in the PRC and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

However, the PRC has not developed a fully integrated legal system, and recently-enacted laws and regulations may not sufficiently address all relevant aspects of economic and investment activities in the PRC. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that 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.

## **RISK FACTORS**

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### **PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the proceeds of the [•••] to make additional capital contributions or loans to Dongwu Cement**

Any capital contributions or loans that we, as an offshore entity, make to Dongwu Cement, our sole PRC subsidiary, are subject to PRC regulations. For example, pursuant to the *Interim Measures on the Management of Foreign Debts* (外債管理暫行辦法), promulgated by the State Administration of Foreign Exchange of the PRC on 1 March 2003, any of our loans to Dongwu Cement cannot exceed the difference between the total amount of investment Dongwu Cement is approved to make under relevant PRC laws and the registered capital of Dongwu Cement, and such loans must be registered with the local branch of SAFE. Moreover, our capital contributions to Dongwu Cement must be approved by MOFCOM or its local counterpart. There is no assurance that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to Dongwu Cement or to fund their operations may be adversely affected, which may in turn adversely affect Dongwu Cement’s liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments.

### **We may be subject to fines and penalties under the PRC Labour Contract Law, and our labour costs may increase**

The PRC Labour Contract Law imposes requirements concerning, among others, the types of contracts to be executed between an employer and an employee, and establishes time limits for probation periods and for fixed-term employment contracts. It also requires the employer to contribute to social insurance and housing funds on behalf of its employees. We are unsure whether the PRC Labour Contract Law will affect our current employment policies. There is no assurance that our employment policies do not or will not violate the PRC Labour Contract Law and that we will not be subject to related penalties, fines or legal fees. Furthermore, if labour costs increase in the PRC, our production costs will increase and we may not be able to pass these increases on to our customers due to competitive pricing pressures. If we are subject to large penalties or fees related to the PRC Labour Contract Law or our labour costs increase, our business, results of operations and financial condition may be materially and adversely affected.

### **Exchange rate fluctuations of the Renminbi may adversely affect investment in our Company and our results of operations**

The exchange rates between the Renminbi and the Hong Kong Dollar, the U.S. Dollar and other foreign currencies are affected by, among other things, changes in political and economic conditions of the PRC. Pursuant to the *Announcement Reforming the RMB Exchange Rate Regime* (關於完善人民幣匯率形成機制改革的公告) issued by PBOC on 21 July 2005, the PRC government has changed its decade-old policy of pegging the value of the Renminbi to the U.S. Dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall by as much as 0.5% each day.

## **RISK FACTORS**

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As of the Latest Practicable Date, this change in policy has resulted in the value of the Renminbi appreciating against the U.S. Dollar by approximately 30.7% since 2005. Appreciation of the Renminbi against the relevant foreign currencies would have an adverse effect on the Renminbi amount we receive following conversion. As we rely on dividends paid to us by Dongwu Cement, any significant revaluation of Renminbi may have a material adverse effect on the value of the dividends payable in foreign currency terms.

Furthermore, we will need to convert the proceeds from [•••] and future financing in foreign currencies into the Renminbi for our operational use. Very limited hedging transactions are available in the PRC to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions to reduce our exposure to foreign currency exchange risks. While we may decide to 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 at all. In addition, our currency exchange losses may be increased by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies. As a result, any significant revaluation of the Renminbi may have a material and adverse effect on our cash flow, results of operations and financial position.

### **Government control over currency conversion may affect the value of investment in our Shares and limit our ability to utilize our cash effectively**

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies.

The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Under our current corporate structure, we derive a significant portion of our income from dividend payments from Dongwu Cement, our sole PRC subsidiary. Shortages in the availability of foreign currency may restrict the ability of Dongwu Cement to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

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

## DIRECTORS

### DIRECTORS

| <b>Name</b> | <b>Address</b> | <b>Nationality</b> |
|-------------|----------------|--------------------|
|-------------|----------------|--------------------|

#### Executive Directors

|                   |                                                                                |         |
|-------------------|--------------------------------------------------------------------------------|---------|
| Xie Yingxia (謝鶯霞) | Room 2802, Building 20<br>Lane 388, Furongjiang Road<br>Shanghai 200051<br>PRC | Chinese |
|-------------------|--------------------------------------------------------------------------------|---------|

|                   |                                                                                |         |
|-------------------|--------------------------------------------------------------------------------|---------|
| Jin Chungun (金春根) | Room 103, No. 36<br>Wuyue Lingxiu Community<br>Suzhou, Jiangsu Province<br>PRC | Chinese |
|-------------------|--------------------------------------------------------------------------------|---------|

|               |                                                                                    |         |
|---------------|------------------------------------------------------------------------------------|---------|
| Yang Bin (楊斌) | Room 602, No. 40, Lane 300<br>Huaguang Road<br>Minhang District<br>Shanghai<br>PRC | Chinese |
|---------------|------------------------------------------------------------------------------------|---------|

#### Non-executive Director

|                       |                                                                                                                        |         |
|-----------------------|------------------------------------------------------------------------------------------------------------------------|---------|
| Tseung Hok Ming (蔣學明) | Flat B, 23/F,<br>Block 5 Belvedere Garden Phase 3<br>625 Castle Peak Road<br>Tsuen Wan<br>New Territories<br>Hong Kong | Chinese |
|-----------------------|------------------------------------------------------------------------------------------------------------------------|---------|

#### Independent non-executive Directors

|                   |                                                                                            |         |
|-------------------|--------------------------------------------------------------------------------------------|---------|
| Cao Kuangyu (曹貺予) | Flat D, 26/F, Tower 2<br>Harbour Place<br>8 Oi King Street, Hung Hom<br>Kowloon, Hong Kong | Chinese |
|-------------------|--------------------------------------------------------------------------------------------|---------|

## **DIRECTORS**

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|                         |                                                                               |         |
|-------------------------|-------------------------------------------------------------------------------|---------|
| Cao Guoqi (曹國琪)         | Room 1002, No. 2 Building<br>258 Nong, Puming Road<br>Shanghai, PRC           | Chinese |
| Lee Ho Yiu Thomas (李浩堯) | Flat A, 19/F, Block Two<br>Lyttelton Garden<br>29 Lyttelton Road<br>Hong Kong | Chinese |

## **INDUSTRY OVERVIEW**

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### **PRODUCTION**

Cement is a hydraulic binder and construction material derived from grinding limestone with clay to produce a fine powder which can then be mixed with water to form a paste and poured to set as a solid mass and harden by means of hydration reactions. After hardening, cement retains its strength and stability. Cement possesses adhesive properties and acts as a binding agent when mixed with water and aggregate such as sand, rock and gravel.

Cement is the most active and essential constituent of mortar and concrete. Mortar is made by mixing cement, fine aggregate and water. It is used for joining structural blocks, brickwork and plastering. Concrete is made by mixing cement and coarse and fine aggregate. When mixed with water it can be placed in situ or cast in moulds such as concrete blocks. It is a highly versatile building material valued for its high compressive strength, fire resistance, mouldability, impermeability and durability. Both mortar and concrete are vital construction materials for the construction and civil engineering industries.

In construction, cement is either non-hydraulic or hydraulic. Non-hydraulic cement is characterized by not binding with water and thus must be kept dry to retain its durability. Hydraulic cement is characterized by hardening when hydrated. The anhydrous cement powder when mixed with water creates a chemical reaction that produces hydrates that are non-water soluble. Hydraulic cement can thus harden even when under water or constantly exposed to wet weather conditions. The most common type of hydraulic cement is Portland cement which is graded and categorized on the basis of its compressive strength as measured in kg per cm<sup>2</sup>. Depending upon the specific application required such as the nature of work, local environment and method of construction, different types of Portland cement with varying degrees of compressive strength can be used in the construction industry.

The cement industry in the PRC is governed by various laws and regulations promulgated in connection with cement production, mineral resources and environmental protection and safety. For a detailed introduction of such laws and regulations, please refer to the section headed “Regulatory Overview” in this document.

### **Types of Portland Cement**

In accordance with the national standard of the PRC, implemented on 1 June 2008, and issued on the 9 November 2007 by the General Administration of Quality Supervision, Inspection and quarantine of the PRC CNS Management committee, common Portland cement includes Portland cement, ordinary Portland cement, Slag Portland cement, Portland-Pozzolana cement, Fly-ash Portland cement and Composite Portland cement.

## INDUSTRY OVERVIEW

The strength of Portland cements of different classifications and different strength levels at different ages should comply with specifications below.

| Classification            | Strength level | Unit as MPa          |         |                   |         |
|---------------------------|----------------|----------------------|---------|-------------------|---------|
|                           |                | compressive strength |         | flexural strength |         |
|                           |                | 3 days               | 28 days | 3 days            | 28 days |
| Portland Cement           | 42.5           | ≥17.0                | ≥42.5   | ≥3.5              | ≥6.5    |
|                           | 42.5R          | ≥22.0                |         | ≥4.0              |         |
|                           | 52.5           | ≥23.0                | ≥52.5   | ≥4.0              | ≥7.0    |
|                           | 52.5R          | ≥27.0                |         | ≥5.0              |         |
|                           | 62.5           | ≥28.0                | ≥62.5   | ≥5.0              | ≥8.0    |
|                           | 62.5R          | ≥32.0                |         | ≥5.5              |         |
| Ordinary Portland Cement  | 42.5           | ≥17.0                | ≥42.5   | ≥3.5              | ≥6.5    |
|                           | 42.5R          | ≥22.0                |         | ≥4.0              |         |
|                           | 52.5           | ≥23.0                | ≥52.5   | ≥4.0              | ≥7.0    |
|                           | 52.5R          | ≥27.0                |         | ≥5.0              |         |
| Slag Portland cement      | 32.5           | ≥10.0                | ≥32.5   | ≥2.5              | ≥5.5    |
| Portland-Pozzolana Cement | 32.5R          | ≥15.0                |         | ≥3.5              |         |
| Fly-ash Portland Cement   | 42.5           | ≥15.0                | ≥42.5   | ≥3.5              | ≥6.5    |
| Composite Portland cement | 42.5R          | ≥19.0                |         | ≥4.0              |         |
|                           | 52.5           | ≥21.0                | ≥52.5   | ≥4.0              | ≥7.0    |
|                           | 52.5R          | ≥23.0                |         | ≥4.5              |         |

The most common types of cement are Ordinary Portland Cement (PO), Slag Portland Cement (PS) and Composite Portland Cement (PC).

Ordinary Portland Cement is a quick hardening cement with relatively strong initial compressive strength.

Slag Portland Cement is produced by mixing clinker with blast furnace slag and other additives. Slag Portland Cement has lower initial strength and less stable coagulate time than Ordinary Portland Cement. It has better heat resistance and good adhesion with steel bars.

Composite Portland Cement is made of Ordinary Portland Cement Clinker along with 15% to 50% of aggregates, such as flyash, which is waste material derived from power stations. Composite Portland Cement is less expensive than Ordinary Portland Cement and Slag Portland Cement. It also has a lower compressive strength than Ordinary Portland Cement.

## **INDUSTRY OVERVIEW**

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### **Properties of Portland Cement**

The proportions of raw materials and the production process can be varied to produce different cements with a different range of properties.

Portland cement contains four main compounds:

- (a) Tricalcium silicate – this reacts rapidly with water producing relatively large amounts of heat to form calcium silicate hydrate. It has high strength and is the main contributor to the early strength of cement hydrate.
- (b) Dicalcium silicate – this reacts slowly with water to form the same product as Tricalcium silicate. Due to the slow reaction, the heat evolved is dissipated before significant increase in temperature occur. It increasingly contributes to strength at later stages.
- (c) Tricalcium Aluminate – this compound reacts rapidly with water, evolving a relatively large amount of heat and with a rapid set. This reaction is retarded by the addition of gypsum during the grinding stage.
- (d) Tetracalcium aluminoferrite – this compound reacts rapidly with water but does not produce much heat or strength.

### **FACTORS INFLUENCING CEMENT INDUSTRY IN THE PRC**

The cement market in the PRC is significantly influenced by the following factors:

#### **Urbanization, infrastructure construction and FAI**

Cement is the most essential constituent of mortar and concrete and thus the most important construction material consumed in the course of urbanization and infrastructure construction. Therefore, faster rates of urbanization and/or large scale infrastructure construction typically generates an increased demand for cement.

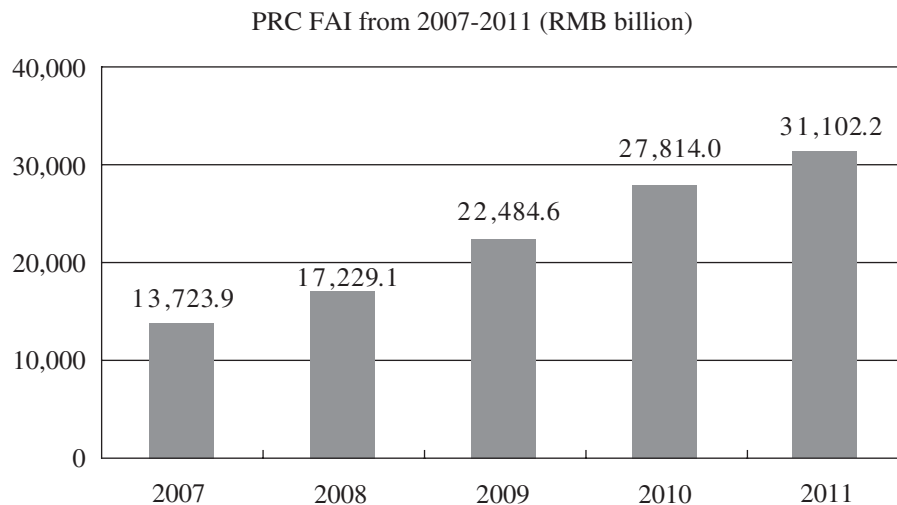
The Twelfth-Five Year Plan placed an emphasis on creating sustainable growth and increasing domestic consumption.

Amongst the government’s economic development initiatives is the plan to invest extensively in social housing. The government plans to build 10 million units in 2011-2012 and 36 million units during the entire Twelfth-Five Year Plan. As the demand for cement can be linked to the growth of FAI, it is anticipated that cement demand will be boosted in order to achieve the government’s unit construction target. To achieve this target of 36 million units the government has budgeted RMB1.3 trillion.

## INDUSTRY OVERVIEW

Urbanization in the PRC is expected to sustain high levels of construction activities, especially for water conservancy and infrastructure upgrades. Urbanization should remain the major growth driver for cement demand, off-setting any slowdown in the property market. To achieve meeting targets for the construction of water projects, the government has budgeted the sum of RMB400 billion per year for the next ten years. The budget for the construction of high-speed railways throughout the Twelfth-Five Year plan is RMB3.5 trillion.

The FAI of PRC has increased from RMB13,723.9 billion in 2007 to RMB31,102.2 billion in 2011, representing a CAGR of 22.7% for the same period. Set out below is a chart illustrating the total FAI in the PRC from 2007-2011:



*Source: PRC National Statistics Bureau*

### Transportation

The low value-to-weight ratio of cement’s raw materials and finished products deters long distance transportation. It is generally accepted by the industry that the maximum economically justifiable road transportation radius for cement is no more than 200 km. Water way transportation, on the other hand, is much more inexpensive as compared to other transportation methods and thereby may extend the maximum transportation radius to approximately 500 km.

### Industry participants in the region

Due to the relatively high transportation costs, cement industry participants are normally exclusively competing against each other within a 200 km radius. Therefore, aside from market demand, the competition of a region is significantly determined by the number, location and production capacity of the industry participants in the region.

## INDUSTRY OVERVIEW

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### Regulatory and policy control

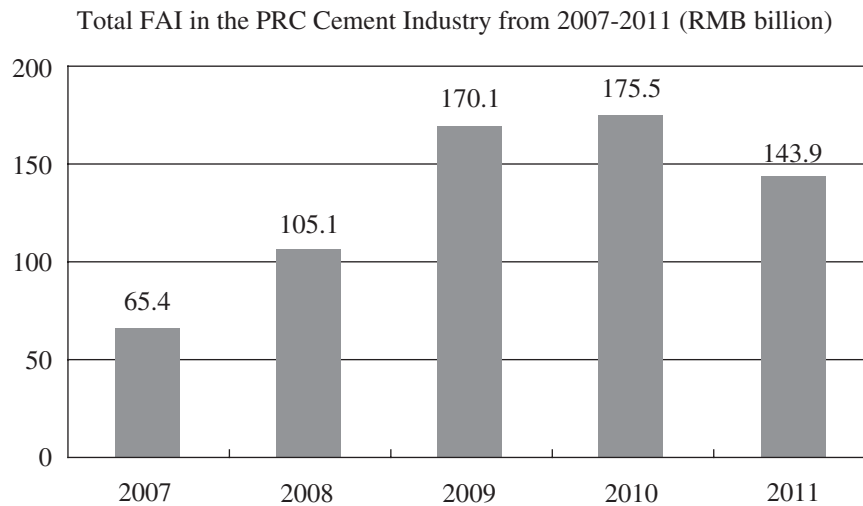
As a high energy intensive industry, the cement industry is heavily regulated by various laws, regulations and policies. Currently, the PRC central and local governments are promulgating four major cement policies, namely (1) the continued phasing out of vertical kilns, (2) curbing overcapacity, (3) promoting environmentally responsible technologies and practices and (4) continued industry consolidation.

The policy concerning phasing out of vertical kilns follows a national trend that was initiated in 2007 through the Notice Regarding Replacement of Obsolete Cement Production Capability (關於做好淘汰落後水泥生產能力有關工作的通知) issued on 18 February 2007 and Policies on the Development of the Cement Industry (水泥工業產業發展政策) issued on 17 October 2006, when the National Development and Reform Commission of the PRC mandated that all production facilities using less advanced technologies, including dry hollow kilns and wet kilns, should be replaced. The government also promoted the use of NSP technology. Whilst the policy of achieving 70% NSP cement output by 2010 as set out in the Policies on the Development of Cement Industry has largely been successful, i.e. approximately 81% of clinker was produced by NSP technology in 2010, approximately 19% of clinker in the PRC was produced by other production technologies, such as vertical kiln production technology. It is anticipated that most of these non-NSP cement technologies will continue to be gradually phased out.

In respect to curbing overcapacity, the Ministry of Industry and Information Technology (MIIT) has accelerated plans to eliminate obsolete cement capacity within the industry. The entry barriers set for new cement production companies entering into the industry remains high. Under the State Council’s Notice Approving the NDRC’s Guidelines on Redundant Construction, Curbing Overcapacity in Certain Industries and the Healthy Development of Industries (國務院批轉發展改革委等部門關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知) issued by the State Council on 26 September 2009, and the Criteria for Entry to Cement Industry (水泥行業准入條件) issued by the Ministry of Industry and Information Technology on 16 November 2010, the government imposed stringent entry-barriers for new cement production companies. These increased entry-barriers included higher requirements for capital and experience in the industry. Under the central government’s Twelfth-Five Year Plan passed on the 14 March 2011, this trend is set to continue. The central government will not relax the criteria for approvals for new cement production lines thus restricting growth for at least the next two to three years.

## INDUSTRY OVERVIEW

Set out below is a chart illustrating the total FAI in the PRC cement industry from 2007-2011:



Source: Digital Cement

- Note:* (1) The above chart denotes the total amount of FAI in the PRC cement industry for the years ended 31 December 2007, 2008, 2009 and 2010. For the purposes of preparing the above chart, only individual FAI exceeding RMB0.5 million were taken into account by *Digital Cement*.
- (2) The above chart denotes the total amount of FAI in the PRC cement industry for the year ended 31 December 2011. For the purposes of preparing the above chart, only individual FAI exceeding RMB5 million were taken into account by *Digital Cement*.

The central government continues to promote environmentally responsible practices in cement production in the PRC. This has taken the form of continuing to promote the use of NSP technology and rotary kilns and promoting a decrease in energy consumption by advocating the use of the residual heat recovery systems and environmentally sustainable practices, such as recycling.

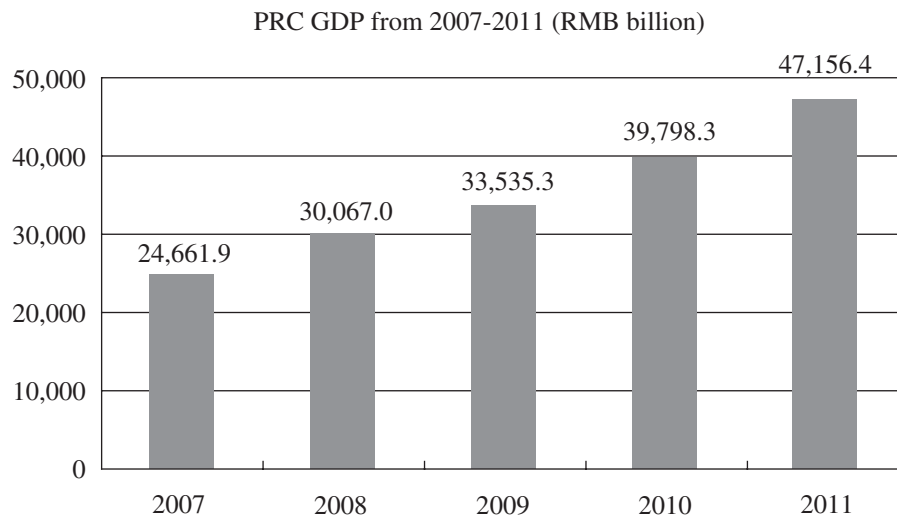
On 31 December 2006, the NDRC, the Ministry of Land and Resources and the PBOC jointly issued the “Notice of List of Large-scale Enterprises (group) in relation to Adjustment of Structure of Cement Industry supported by the State” (關於公佈國家重點支援水泥工業結構調整大型企業(集團)名單的通知) (the “Notice”). It is stated that when seeking project investments or mergers and acquisitions, government support and priority with respect to project approvals, land use right grants and credit approvals will be given to 12 national and 48 local cement companies listed on the Notice. Dongwu Cement is not listed in the Notice and thus will not receive the government support as set out therein.

## INDUSTRY OVERVIEW

### PRC MARKET OVERVIEW

Since 2010, the PRC has ranked as the second largest economy in the world. It is the fastest growing major economy with consistent growth rates of approximately 9% to 10% over the past 30 years. In 2011, the GDP of the PRC was RMB47.2 trillion with a GDP growth of 9.2%.

Set out below is the chart illustrating GDP of the PRC from 2007-2011:

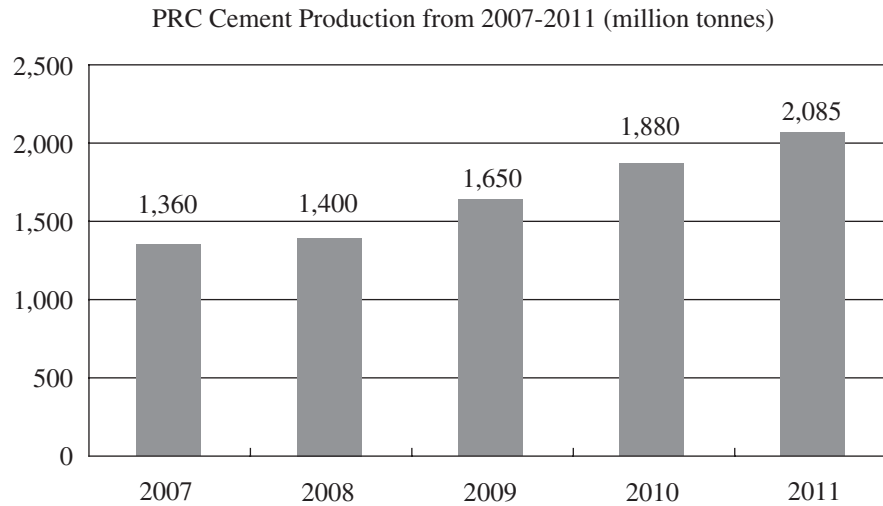


*Source: PRC National Statistics Bureau*

The cement production industry in the PRC is presently the largest in the world. The secondary industry accounts for approximately 46.8% of the GDP of the PRC for the year ended 31 December 2011. According to the Digital Cement, the PRC produced 2,085 million tonnes of cement in 2011, representing an increase of approximately 16.1% compared to 2010. In 2011, the output of clinker rose 15.1% year on year to nearly 1,281.4 million tonnes.

## INDUSTRY OVERVIEW

Set out below is the chart illustrating the cement production volume in the PRC from 2007-2011:



Source: Digital Cement

### CEMENT INDUSTRY IN THE YANGTZE RIVER DELTA REGION

Our current business covers the Yangtze River Delta Region, with a primary focus on Wujiang City, Jiangsu Province.

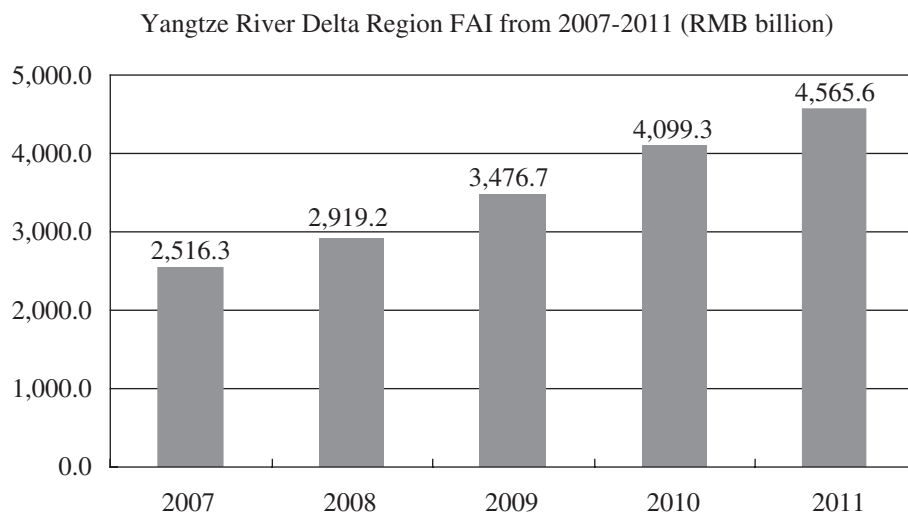


## INDUSTRY OVERVIEW

The GDP in Yangtze River Delta Region has increased from approximately RMB5.6 trillion in 2007 to a approximately RMB10.0 trillion in 2011, representing CAGR of 15.6% for the same period.

At the end of 2010, the Yangtze River Delta Region possessed a resident population of 156.1 million, or approximately 11.7% of the PRC total population. The FAI in Yangtze River Delta Region reached RMB4.6 trillion in 2011, or 14.7% of the PRC total FAI for the same period.

The following chart illustrates the FAI of the Yangtze River Delta Region from 2007-2011:



Source: Jiangsu Statistics Bureau, Zhejiang Statistics Bureau and Shanghai Statistics Bureau

For the years ended 31 December 2007, 2008, 2009, 2010 and 2011, the cement production volume in Yangtze River Delta Region has constituted approximately 17.0%, 17.4%, 15.3%, 14.8% and 13.3% of the PRC’s total cement production volume, according to Digital Cement.

### Cement Price Movement in Yangtze River Delta Region

The movement of cement price is influenced by market demand and supply. In 2010, the demand and supply balance in Yangtze River Delta Region cement market has been broken. The cement supply has reduced significantly due to the electricity supply restriction imposed against the cement industry by the PRC government, as part of its energy consumption and pollutant emission control policy <sup>note 1</sup>, as well as the phasing out policy against some small scale cement producers employing less advanced technology. By the end of 2010, the price of PO 42.5 cement <sup>note 2</sup> in Jiangsu Province (Nanjing City, capital of Jiangsu Province), Zhejiang Province (Hangzhou City, capital of Zhejiang Province) and Shanghai Municipality has climbed to its peak at RMB540 per tonne, RMB500 per tonne and RMB600 per tonne respectively from RMB280 per tonne, RMB310 per tonne and RMB325 per tonne respective in January 2010. The cement price gradually fell back with the relief of electricity supply shortage in 2011. However, since some small scale cement producers had been phased out in 2010 which resulted in the reduction in cement supply, the cement price did not fall back to the level of early 2010.

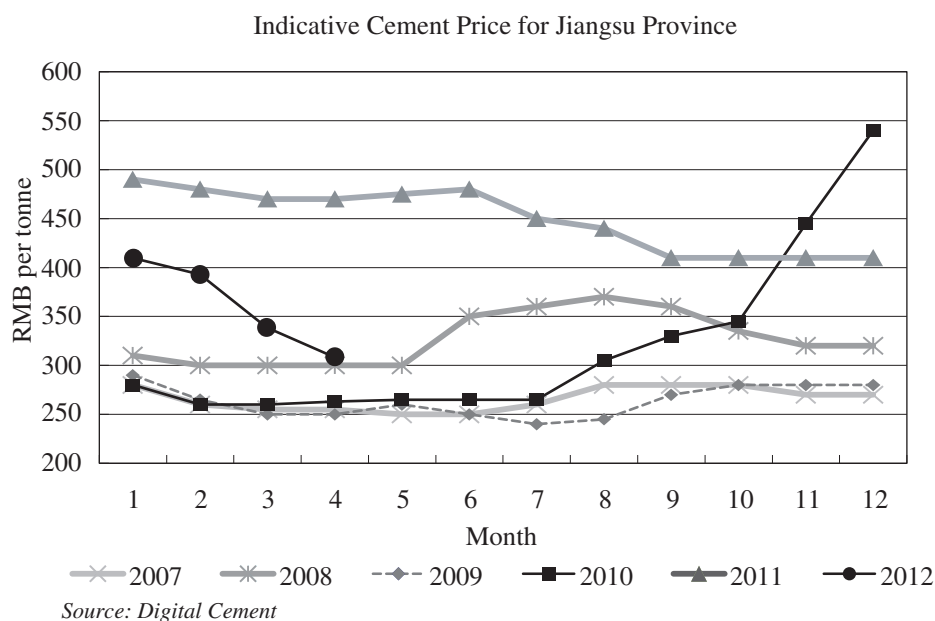
## INDUSTRY OVERVIEW

From January 2012 to April 2012, the market price of PO 42.5 cement declined from RMB410 per tonne to RMB310 per tonne in Jiangsu Province (Nanjing City, capital city of Jiangsu Province), from RMB430 per tonne to RMB350 per tonne in Zhejiang Province (Hangzhou City, capital city of Zhejiang Province) and from RMB430 per tonne to RMB330 per tonne in Shanghai Municipality. Such decline in PO 42.5 cement price is attributable to the increasingly intensified competition in those markets.

### Notes:

- Such policy is typically aimed to ensure the achievement of energy consumption and pollutant emission control targets as set forth in the Eleventh Five-year Plan. According to the Notice of Strengthening Energy Consumption and Pollutant Control to Ensure the Achievement of 2010 Energy Consumption and Pollutant Emission Control Targets of Jiangsu Provincial Government (省政府關於進一步加大工作力度確保實現2010年節能減排目標的通知) issued in May 2010, the Jiangsu Provincial Government intended to, amongst others, reduce the energy consumption level by 2 million tonnes of standard coal in 2010.
- Since (i) only the price trend of PO 42.5 cement is available in the market, and (ii) the factors influencing the production cost for other classes of cement would be similar to those factors influencing the production cost for PO 42.5 cement, our Directors are of the view that disclosure of the PO 42.5 price trend in this document is sufficient to give a fair and representative price movement of cement in the region.

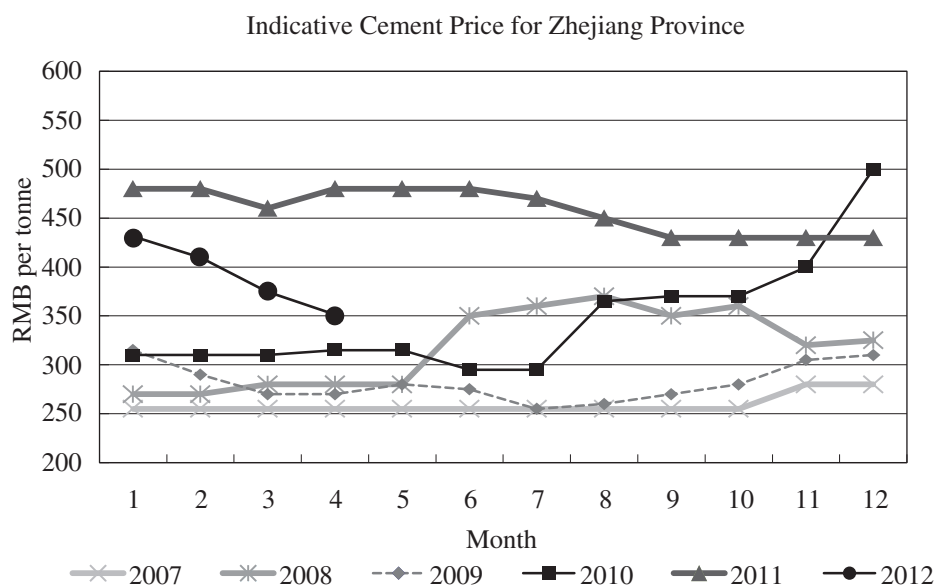
Set out below is a chart illustrating the movement of indicative cement price for Jiangsu Province during the period from January 2007 to April 2012:



Note: The indicative cement price is the average monthly market price for PO 42.5 cement in Nanjing City, the capital of Jiangsu Province.

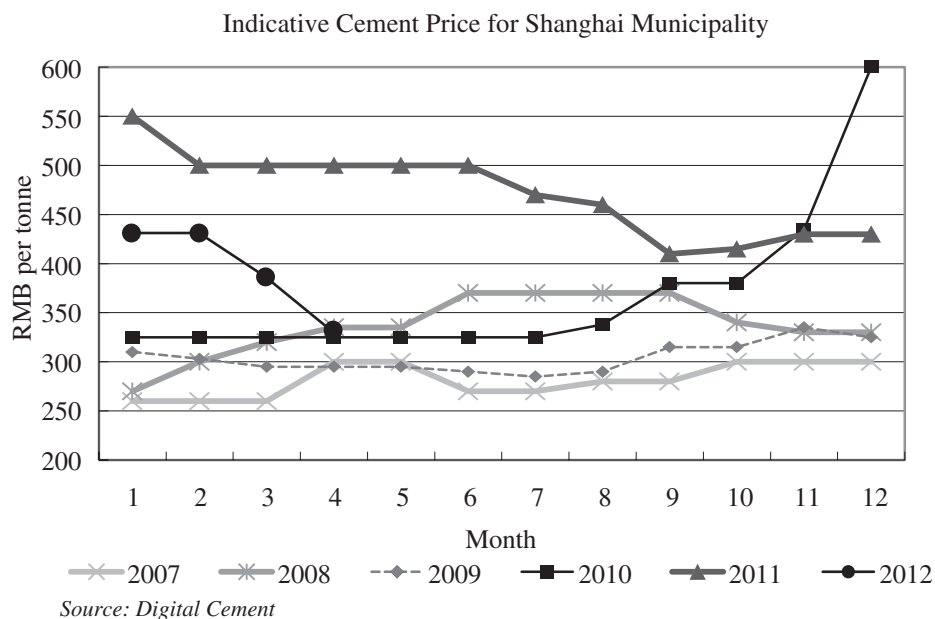
## INDUSTRY OVERVIEW

Set out below is a chart illustrating the movement of indicative cement price for Zhejiang Province during the period from January 2007 to April 2012:



*Note:* The indicative cement price is the average monthly market price for PO 42.5 cement in Hangzhou City, the capital of Zhejiang Province.

Set out below is a chart illustrating the movement of indicative cement price for Shanghai Municipality during the period from January 2007 to April 2012:



*Note:* The indicative cement price is the average monthly market price for PO 42.5 cement.

## INDUSTRY OVERVIEW

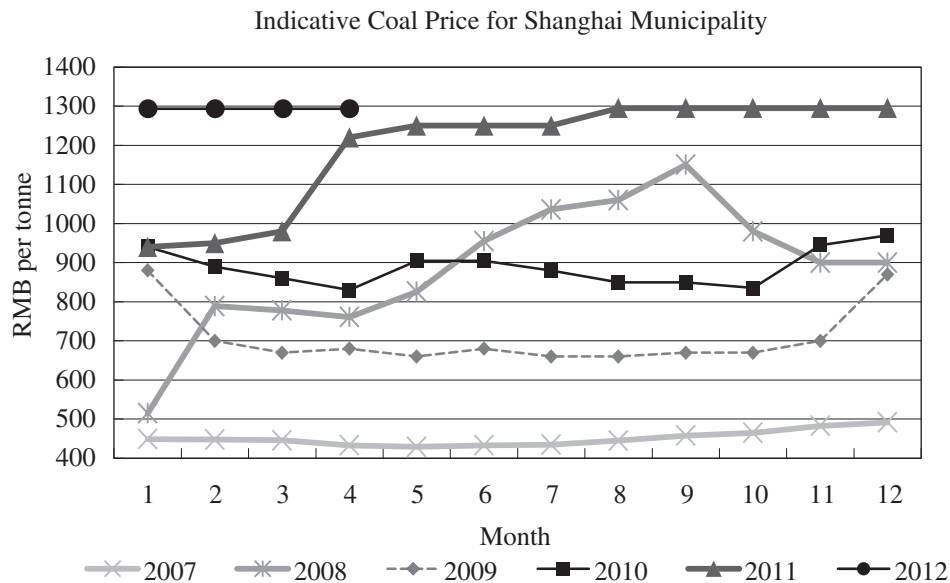
### *Price fluctuation of raw materials and energy supply*

Apart from market demand and supply, the fluctuation of raw materials and energy supply price is another important factor influencing the cement price movement. In particular, the price fluctuations of limestone, coal and electricity supply, which are the principal raw materials and energy supply in cement production process, have the most significant influence over the cement price movement.

Our limestones are typically procured from Anji county and Changxing county in Huzhou City, Zhejiang Province and Guangde county in Xuancheng City, Anhui Province. To the best knowledge of our Directors, the market prices of limestones in these regions were relatively stable during the period from 2007 to 2010. In 2011, the market price for limestone experienced a material increase, which we believe is mainly attributable to the change of market demand and supply relationship.

The coal prices of Shanghai Municipality and Ningbo sub-provincial City of Zhejiang Province are typically regarded as indicative prices in Yangtze River Delta Region.

Set out below is a chart illustrating the indicative coal price fluctuation in Shanghai Municipality during the period from January 2007 to April 2012:

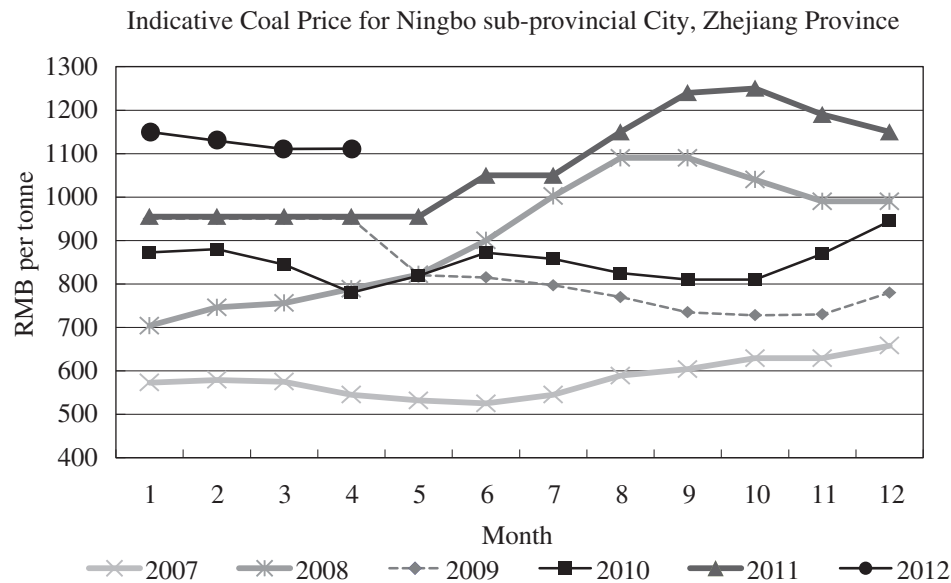


Source: Digital Cement

*Note:* The indicative coal price for Shanghai Municipality is the market price for bituminous coal with calorific values at 5,500 Kcal per kilogram.

## INDUSTRY OVERVIEW

Set out below is a chart illustrating the indicative coal price fluctuation in Ningbo sub-provincial level city during the period from January 2007 to April 2012:



*Note:* The indicative coal price for Ningbo sub-provincial City, Zhejiang Province is the market price for bituminous coal with calorific values at 5,600 Kcal per kilogram.

The fluctuation of coal price is primarily influenced by market demand and supply.

The electricity price is heavily regulated by the PRC government. The NDRC has the power to adjust the price of electricity from time to time.

In June 2008, November 2009 and December 2011, the average electricity price in:

- Jiangsu Province has increased by RMB0.03, RMB0.031 and RMB0.0354 per KWH respectively;
- Zhejiang Province has increased by RMB0.032, RMB0.029 and RMB0.034 per KWH respectively; and
- Shanghai Municipality has increased by RMB0.03, RMB0.036 and RMB0.035 per KWH respectively.

## **INDUSTRY OVERVIEW**

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### **JIANGSU PROVINCE**

#### **Marcoeconomic Information**

Jiangsu Province is one of the leading economic centers of the PRC. With an area of 102,600 square km, Jiangsu borders the East China Sea to the east, Anhui to the west, Shandong Province to the north and Zhejiang Province and Shanghai in the south. Jiangsu Province lies within the lower reaches of the Yangtze River. The Province has a coastline of 954 km.

There are 13 municipalities under the jurisdiction of the provincial government, namely, Nanjing, Wuxi, Xuzhou, Changzhou, Suzhou, Nantong, Lianyungang, Huai'an, Yancheng, Yangzhou, Zhenjiang, Taizhou and Suqian. Under these municipalities, there are 52 counties or county-level cities. The capital of the Province is Nanjing.

By the end of 2011, the number of Jiangsu Province's permanent residents grew to approximately 79.0 million. Jiangsu Province has the highest population density in the PRC, outside the municipalities of Shanghai, Beijing and Tianjin.

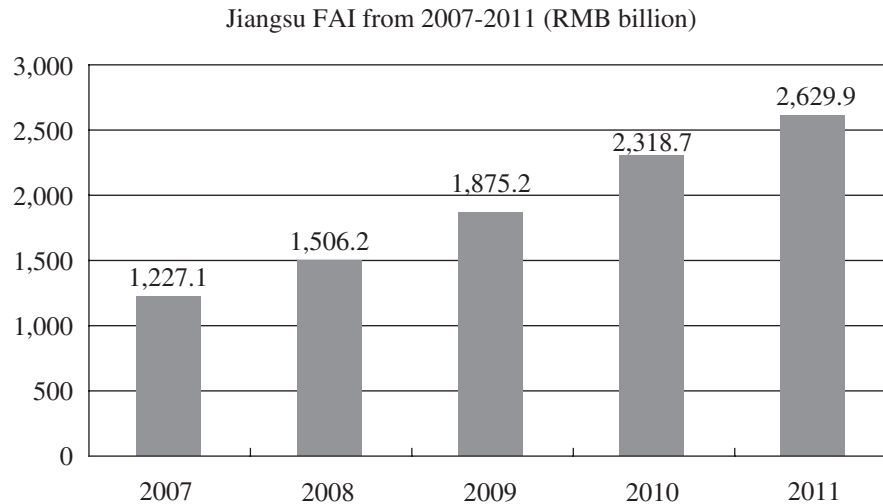
In 2011, Jiangsu Province led the economic growth in the Yangtze River Delta Region with a GDP growth rate of 11%. The GDP of Jiangsu Province stood at RMB4,860.4 billion. The total trade volume stood at US\$539.8 billion, representing an increase of 15.9% over the previous year. The GDP per capita of Jiangsu in 2011 was RMB61,649. In 2011, disposable income of Jiangsu residents increased by 14.8% in urban areas to reach RMB26,341 and in rural areas, disposable income increased by 18.5% to reach RMB10,805.

#### **FAI**

By the end of 2011, the Jiangsu Province possessed a resident population of 79.0 million or 5.9% of the PRC total population. The FAI in Jiangsu reached RMB2,629.9 billion in 2011 from RMB1,227.1 billion in 2007, representing a CAGR of 21.0%.

## INDUSTRY OVERVIEW

Set out below is a chart illustrating the total FAI in Jiangsu Province from 2007-2011:

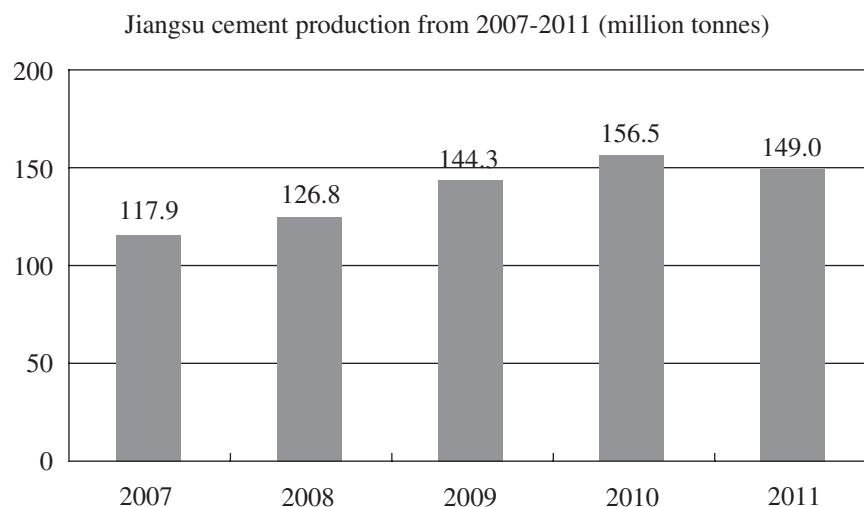


Source: Jiangsu Statistics Bureau

### Cement Production in Jiangsu Province

According to information disclosed on the Digital Cement, Jiangsu Province ranked number one in terms of cement production volume amongst all Provinces, municipalities and autonomous regions of the PRC in 2010.

Set out below is a chart illustrating the cement production volume in Jiangsu Province from 2007-2011:

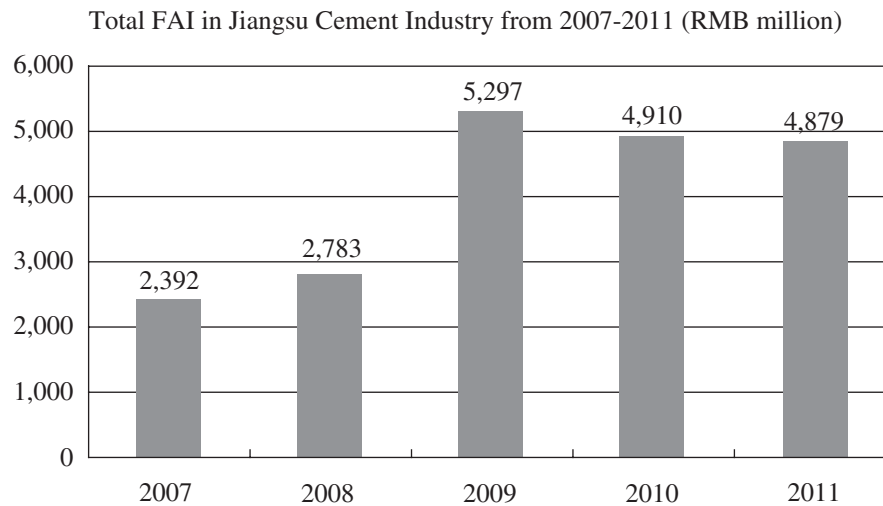


Source: Digital Cement

Contrasted with speedy FAI growth and influenced by high entrance barriers, FAI in the cement industry recorded 7.3% reduction in 2010.

## INDUSTRY OVERVIEW

Set out below is a table illustrating the total FAI in the cement industry in Jiangsu Province from 2007-2011:



Source: Digital Cement

- Note:* (1) The above chart denotes the total amount of FAI in the Jiangsu cement industry for the years ended 31 December 2007, 2008, 2009 and 2010. For the purposes of preparing the above chart, only individual FAI exceeding RMB0.5 million were taken into account by Digital Cement.
- (2) The above chart denotes the total amount of FAI in the Jiangsu cement industry for the year ended 31 December 2011. For the purposes of preparing the above chart, only individual FAI exceeding RMB5 million were taken into account by Digital Cement.

### Major Cement Producers in Jiangsu Province

By the end of 2011, there were 216 cement producers in Jiangsu Province with a total cement production volume of approximately 149.0 million tonnes for the year ended 31 December 2011.

According to information disclosed on the Digital Cement, the annual cement production volume of the top 5 cement producers in Jiangsu Province accounted for approximately 19.4% of total cement production volume in Jiangsu Province for the year ended 31 December 2011. Among these top 5 cement producers, Jiangsu Leida Corporation Limited (江蘇磊達股份有限公司) and China United Cement (Huihai) Company Limited (淮海中聯水泥有限公司) are the largest cement producers in term of cement production volume, which produced approximately 7.9 million tonnes and 5.6 million tonnes of cement respectively, representing approximately 5.3% and 3.8% of total cement production volume of Jiangsu Province for the year ended 31 December 2011.

## INDUSTRY OVERVIEW

### SUZHOU PREFECTURE

According to Suzhou Cement Industry Association, as at 31 December 2011, there were 18 cement enterprises in Suzhou Prefecture. The cement production volume in Suzhou Prefecture was 12.0 million tonnes for the year ended 31 December 2011.

Conch Cement (Zhangjiagang) Company Limited (張家港海螺水泥有限公司) was the largest cement producer in Suzhou Prefecture in term of cement production volume in 2011. Dongwu Cement ranked the 3rd among these 18 cement producers in terms of cement production volume, which accounted for approximately 11.9% of total cement production volume in Suzhou Prefecture.

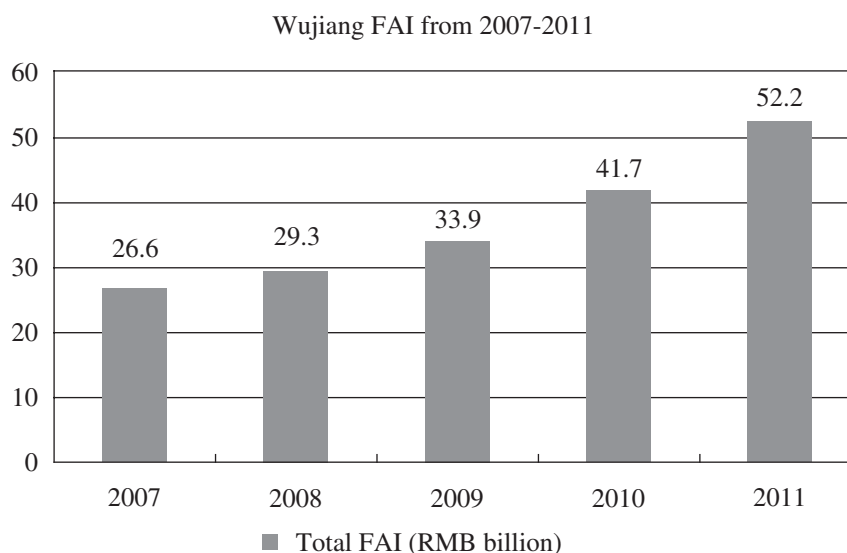
### WUJIANG CITY

#### Overview

Wujiang City is a county level city of Suzhou Prefecture. Situated at the golden triangle intersection of Jiangsu Province, Zhejiang Province and Shanghai, the city stretches approximately 1,176 square kilometers and possesses a population of approximately eight hundred thousand.

According to the China Institute of City Competitiveness (中國城市競爭力研究會), Wujiang ranked the 5th among all PRC county level cities in terms of “comprehensive competitive strength” (城市綜合競爭力) and “development potential” (城市成長競爭力) in 2011. In 2011, Wujiang’s GDP reached approximately RMB119.2 billion in total, or RMB93,417 per capita.

The FAI in Wujiang City experienced significant growth from RMB26.6 billion in 2007 to RMB52.2 billion in 2011, representing a CAGR of 18.4%. Set out below is a table illustrating FAI of Wujiang City from 2007-2011:



Source: Wujiang Statistics Bureau

## INDUSTRY OVERVIEW

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### Waterway Networks and Road Transportation

Wujiang City is criss-crossed by rivers, canals and lakes including Lake Tai (太湖) and Taipu River (太浦河). The Taipu River, a 57.2 km-long river that flows through fifteen counties and towns in Jiangsu Province, Shanghai and Zhejiang Province respectively. The Taipu River is a upper tributary to the Huangpu river (黃浦江). The Huangpu river has historically played a significant logistical role in the commercial activities between Shanghai and the rest of the Yangtze River Delta Region. Flowed into East China Sea, the Huangpu river also makes it possible to transport materials from Wujiang to many costal cities of the PRC, including Zhoushan prefecture, Taizhou prefecture, and the provincial level city of Ningbo in Zhejiang Province, via water way. We are also connected via the Taipu River to the Jiangnan canal (江南運河) the southernmost section of the Beijing-Hangzhou Grand Canal (京杭大運河), which is the longest canal in the world which strethches from Beijing to Hangzhou via the provinces of Tianjin, Hebei, Shandong, Jiangsu and Zhejiang.

Wujiang City is also covered by extensive road transportation networks, including Sujiahang (Suzhou-Jiaxing-Hangzhou) Expressway and the Husuzhe (Shanghai-Suzhou-Zhejiang) Expressway. The developed highway system connects Wujiang with Shanghai, Suzhou Downtown (蘇州市區) and Jiaxing.

### Twelfth Five-year Plan

The Wujiang Twelfth Five-year Plan focused on the further urbanization, living environment improvement, transportation facility enhancement, the development of new residential areas and senic spots development, infrastructure construction and social welfare system improvement. In particular, the Twelfth Five-year Plan of Wujiang City discussed the following matters:

#### *Transportation Facilities Construction*

In the Twelfth Five-year Plan, the Wujiang government is planning the construction of the following major transportation facilities:

- Suzhou-Jiaxing inter city railway (通蘇嘉城際鐵路);
- Huzhou-Suzhou-Shanghai inter city railway (湖蘇滬城際鐵路);
- Songling light railway extention project (松陵輕軌延伸工程); and
- East-West major Express Way (東西快速幹線).

The transportation facilities construction planned to be completed during the twelfth five year plan include:

- Suzhou-Jiaxing-Ningbo Express Way (蘇嘉甬高速公路);
- South section of Suzhou-Zhenze-Taoyuan first class high way (蘇震桃一級公路南段);
- Suzhou-Songling road transportation networks integration project (松陵城區對接蘇州道路工程); and
- Great Canal Wujiang section third class waterway improvement project (京杭大運河三級航道整治工程).

## **INDUSTRY OVERVIEW**

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According to Wujiang Roadway Network Twelfth Five Year Plan (吳江公路網十二五規劃), the aggregate length of roadway network in Wujiang City is expected to reach 2,511 km in 2015.

### ***Construction of other Infrastructure Projects***

It is planned that during the twelfth five year period, various infrastructure projects will be initiated, including the construction of domestic sewage water plants, gas and electricity transmission facilities.

To improve the social welfare coverage of Wujiang City, the Wujiang government plans to open more education facilities, hospitals and health centers, museums, exhibition centers, gymnasiums, stadiums, nursing homes and disaster prevention facilities. For instance, it is expected that by the end of 2015, the average gymnasium area per capita will increase to 2.5 sq.m., from 1.5 sq.m. in the end of 2010. The average recreational area per capita will increase from 0.14 sq.m. to 0.18 sq.m. during the five years.

### ***Lakeside New District (濱湖新城) Development***

Strategically located at the bank of Taihu Lake, the Lakeside New District is positioned as the future commercial center, leisure and tourist center and residential center of Wujiang City. In November 2011, a commercial-residential neighbourhood construction project has started in the Lakeside New district. The total investment in such project is estimated to be approximately RMB12 billion.

### ***Urbanization and Rural Development***

According to the Twelfth Five-year plan, the Wujiang City’s urbanization rate should increase from 57.8% to 62% during the twelfth five-year plan period. Accompanied with rapid urbanization and in order to improve the living standards in rural areas of Wujiang cities, the Wujiang government is planning to increase the speed for construction of farmers’ residential apartments.

### ***Cement Industry in Wujiang City***

By the end of 2011, there were seven cement producers in Wujiang City producing approximately 3.5 million tonnes of cement in aggregate during the year ended 31 December 2011. According to the Suzhou Cement Association, apart from Dongwu Cement, all the cement producers are grinding stations which do not have the capacity to produce clinker.

## INDUSTRY OVERVIEW

According to Wujiang New Construction Materials Association (吳江新型建材協會), Dongwu Cement is the largest cement producer in Wujiang City, the production volume of which accounts for approximately 40.9% of the total cement produced in Wujiang in 2011 or approximately 0.07% of the total cement production volume in the PRC for the same period. Set out below is the table illustrating the production volume of each of the seven cement producers in Wujiang City in 2011:

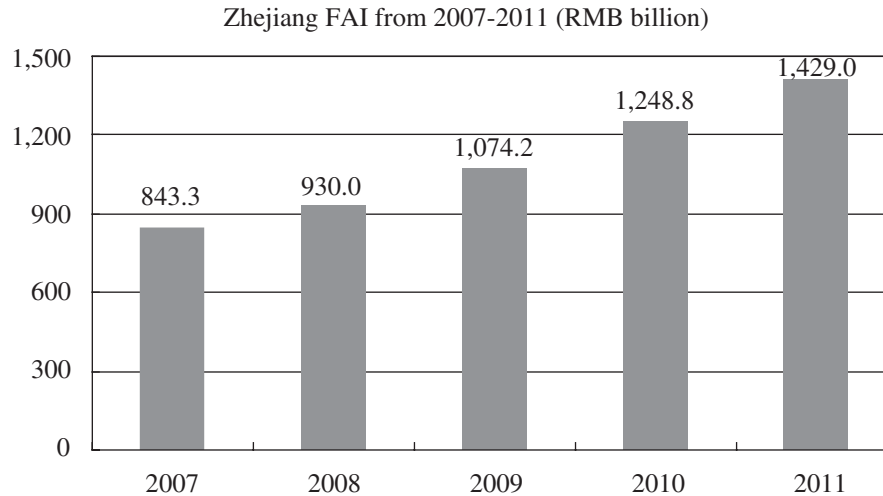
| Name                                                          | Production<br>volume<br><i>thousand<br/>tonnes</i> | % of<br>total<br>cement<br>production<br>volume in<br>Wujiang<br>in 2011 |
|---------------------------------------------------------------|----------------------------------------------------|--------------------------------------------------------------------------|
| Dongwu Cement                                                 | 1,428.1                                            | 40.9                                                                     |
| Wujiang Minggang Road and Bridge Ltd., Co.<br>(吳江市明港道橋工程有限公司) | 994.5                                              | 28.5                                                                     |
| Wujiang Sanshi Cement Ltd., Co.<br>(吳江市三獅水泥有限公司)              | 445.2                                              | 12.7                                                                     |
| Wujiang Xingyuan Cement<br>Ltd., Co. (吳江市興源水泥有限公司)            | 350.2                                              | 10.0                                                                     |
| Other three cement producers in aggregate                     | 273.8                                              | 7.8                                                                      |
| Total                                                         | 3,491.8                                            | 100.0                                                                    |

## ZHEJIANG PROVINCE

Zhejiang is one of the most affluent provinces in the PRC. The per capita disposable income of urbanites in Zhejiang reached RMB30,971 in 2011, representing an annual real growth of 7.5% and has been ranked 3rd in the PRC for the last 11 years. The per capita income of rural residents stood at RMB13,071, representing a real growth of 9.5% year-on-year and has been ranked 1st in the PRC for the last 27 years. Zhejiang’s GDP for 2011 was RMB3.2 trillion with a GDP per capita of RMB58,665. In 2011, Zhejiang’s primary, secondary, and tertiary industries were worth RMB158.1 billion, RMB1.6 trillion and RMB1.4 trillion respectively. Zhejiang had a resident population of 54.6 million by the end of 2011.

## INDUSTRY OVERVIEW

Strongly supported by its economic development, the FAI of Zhejiang Province has increased from RMB843.3 billion in 2007 to RMB1.429 trillion in 2011, representing a CAGR of 14.1%. Set out below is a chart illustrating the total FAI in Zhejiang Province from 2007-2011:



*Source: Zhejiang Statistics Bureau*

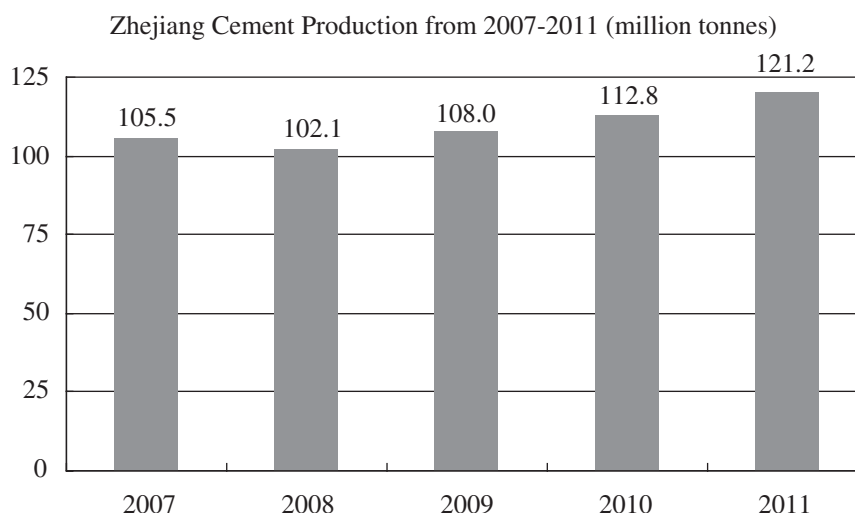
Zhejiang is a province covered by extensive waterways as well as an developed highway system. Amongst its 11 prefecture or sub-provincial level cities, Ningbo sub-provincial city, Zhoushan prefecture, Taizhou prefecture, Wenzhou prefecture and Shaoxing prefecture are accessible via the East China sea.

### Cement Production in Zhejiang Province

According to Digital Cement, in the eleven months ended 30 November 2011, Zhejiang ranked the 7th in terms of cement production volume amongst all provinces, municipalities and autonomous regions of the PRC.

## INDUSTRY OVERVIEW

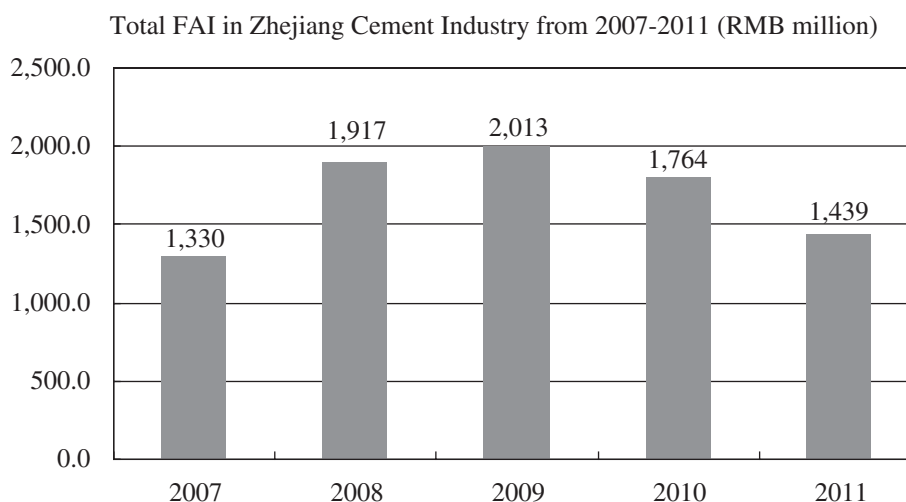
Set out below is a chart illustrating the cement production volume in Zhejiang Province from 2007-2011:



Source: Digital Cement

Similar to Jiangsu Province, the FAI for Zhejiang Province has also encountered a reduction for the year 2010.

Set out below is a table illustrating the total FAI in cement industry in Zhejiang Province from 2007-2011:



Source: Digital Cement

- Note: (1) The above chart denotes the total amount of FAI in the Zhejiang cement industry for the years ended 31 December 2007, 2008, 2009 and 2010. For the purposes of preparing the above chart, only individual FAI exceeding RMB0.5 million were taken into account by *Digital Cement*.
- (2) The above chart denotes the total amount of FAI in the Zhejiang cement industry for the year ended 31 December 2011. For the purposes of preparing the above chart, only individual FAI exceeding RMB5 million were taken into account by *Digital Cement*.

## INDUSTRY OVERVIEW

### Major Cement Producers in Zhejiang Province

By the end of 2011, there were 170 cement producers in Zhejiang Province with a total cement production volume of approximately 121.2 million tonnes for the year ended 31 December 2011.

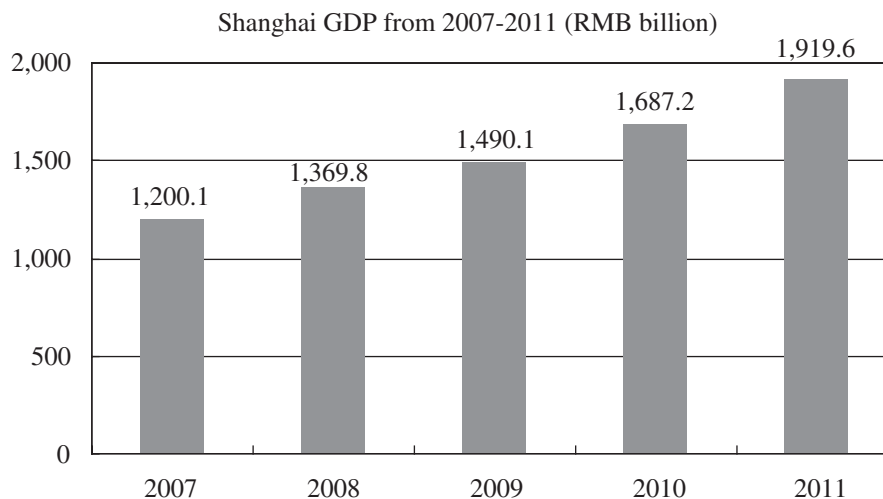
According to information disclosed on the Digital Cement, the annual cement production volume of the top 5 cement producers in Zhejiang Province accounted for approximately 13.7% of total cement production volume in Zhejiang Province for the year ended 31 December 2011. Among these top 5 cement producers, Zhejiang Hongshi Cement Corporation Limited (浙江紅獅水泥股份有限公司) and Jiangshan South Cement Company Limited (江山南方水泥有限公司) are the largest cement producers in term of cement production volume, which produced approximately of 3.7 million tonnes and 3.66 million tonnes of cement respectively, representing approximately 3.1% and 3.0% of total cement production volume of Zhejiang Province for the year ended 31 December 2011 respectively.

### SHANGHAI MUNICIPALITY

By the end of 2011, Shanghai had a resident population of approximately 23.5 million.

Shanghai is the most important financial center in the PRC with a GDP of over RMB1.9 trillion in 2011. As one of the most urbanized cities in the PRC, Shanghai’s urbanization rate has reached 89.3% at the end of 2010. The high urbanization rate has generated an increase on FAI. The FAI in Shanghai has increased from RMB445.9 billion in 2007 to RMB506.7 billion in 2011, representing a CAGR of 3.3%.

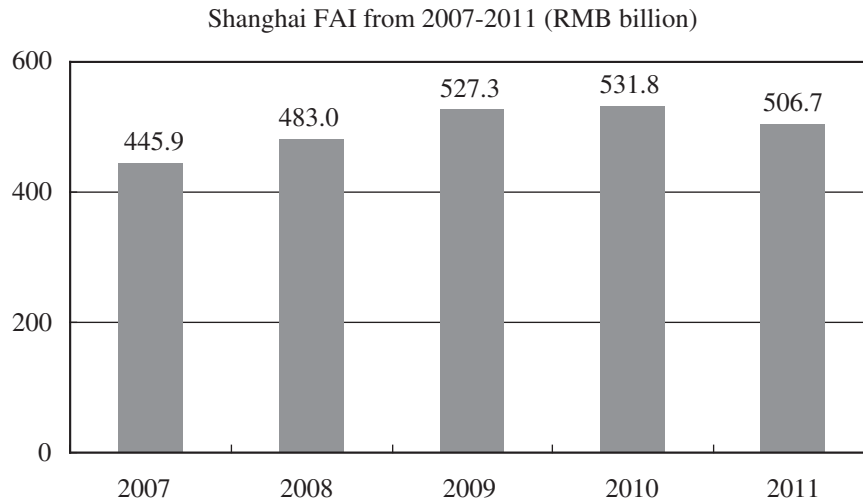
Set out below is the table illustrating the GDP of Shanghai from 2007-2011:



Source: Shanghai Statistics Bureau

## INDUSTRY OVERVIEW

Set out below is the chart illustrating Shanghai FAI from 2007-2011:



Source: Shanghai Statistics Bureau

### ***Twelfth Five Year Plan***

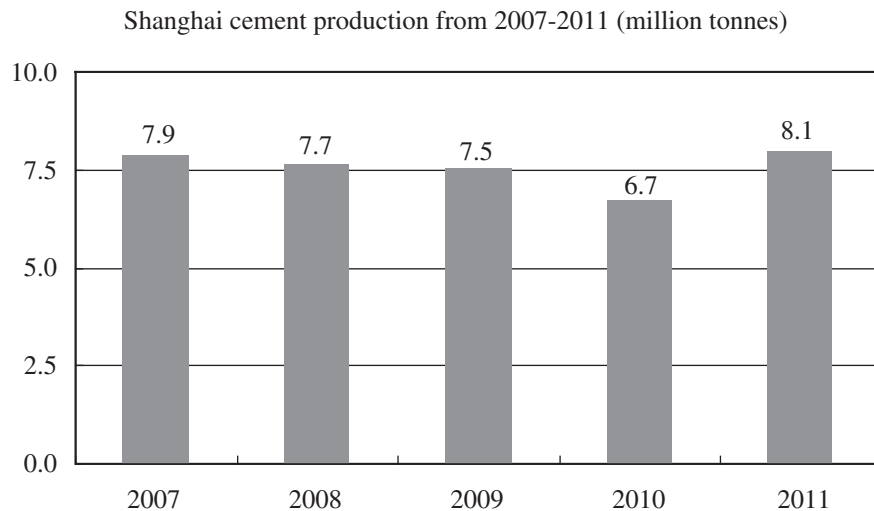
The Shanghai government has planned to construct one million social housing units during the twelfth five year plan period.

The Shanghai government has also indicated her plan to upgrade the city’s transportation system. It is planned that the Pudong International Airport will employ a fourth runway during the twelfth five year period. Moreover, the construction of massive transportation network system, including the Yangshan Port phase four, G40 expressway, S26 expressway, Shanghai-Tongzhou high speed railway (滬通高鐵), Shanghai-Zhapu railway (滬乍鐵路) are planned for the twelfth five year period.

## INDUSTRY OVERVIEW

### Cement Industry in Shanghai

Notwithstanding the high urbanization rate and rapid FAI growth, Shanghai’s cement production volume is relatively modest. For the years ended 2007, 2008, 2009, 2010 and 2011, Shanghai’s cement production volume accounted for 0.58%, 0.55%, 0.46%, 0.36% and 0.39% of the PRC’s total cement production. The cement production volume per capita in Shanghai was only approximately 0.3 tonnes in 2010, less than one fourth of national average of 1.4 tonnes. Set out below is a chart illustrating cement production volume in Shanghai from 2007-2011:



Source: Digital Cement

The demand for cement can not be satisfied by local cement producers only. Shanghai relies heavily on external cement supplies.

### Major Cement Producers in Shanghai Municipality

By the end of 2011, there were 8 cement producers in Shanghai Municipality with a total cement production volume of approximately 8.1 million tonnes for the year ended 31 December 2011.

According to information disclosed on the Digital Cement, the annual cement production volume of the top 5 cement producers in Shanghai Municipality accounted for approximately 81.4% of total cement production volume in Shanghai Municipality for the year ended 31 December 2011. Among these top 5 cement producers, Shanghai Juerong Industry Company Limited (上海崛榮實業有限公司) and Shanghai Building Materials Group Cement Company Limited (上海建築材料集團水泥有限公司) are the largest cement producers in term of cement production volume, which produced approximately 1.59 million tonnes and 1.55 million tonnes of cement respectively, representing approximately 19.8% and 19.3% of total cement production volume of Shanghai Municipality for the year ended 31 December 2011 respectively.

## **REGULATORY OVERVIEW**

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### **THE LAWS AND REGULATIONS OF THE PRC**

This section summarizes the principal laws and regulations of the PRC which are relevant to our business and operations. These include the laws and regulations relating to our production and sales of cement in the PRC and the relevant laws and regulations in relation to environmental protection, taxation, labor and foreign exchange. As this is a summary, it does not contain the detailed analysis of the PRC laws which are relevant to our business and operations.

### **THE PRC LAWS IN RELATION TO CEMENT INDUSTRY**

#### **Cement Production License**

Pursuant to the “Regulations of the People’s Republic of China on the Administration of Production License for Industrial Products” (《中華人民共和國工業產品生產許可證管理條例》) promulgated by the State Council on 9 July 2005, which entered into force on 1 September 2005, the “Measures for the Implementation for the Regulations of the People’s Republic of China on the Administration of Production License for Industrial Products” (《中華人民共和國工業產品生產許可證管理條例實施辦法》) as amended by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC on 21 April 2010, which became effective on 1 June 2010 and the “Implementation Rules for the Production License of Cement Products” (《水泥產品生產許可證實施細則》) which was promulgated by the National Office of Production License for Industrial Products and became effective on 4 April 2007, the PRC adopted a production license system for the enterprises producing cement products. The valid period for the production license shall be five years. The cement plants with the production licenses for general purpose cement products are permitted to produce and sell general purpose cement and Portland cement clinker. The clinker plants with production license for the clinker products are permitted to produce and sell Portland cement clinker. The Cement Grinding Stations and batching plants with cement production licenses are permitted to produce and sell general purpose cement. Any enterprise without a production license shall not produce cement products, and in the absence of production licenses, any unit or individual shall not sell or use any cement products in operating activities. The General Administration of Quality Supervision, Inspection and Quarantine of the PRC is responsible for the centralized administration of the production licenses for cement products. The local department in charge of the Production License for Industrial Products must conduct the supervision and inspection for industrial products, whether on a regular or irregular basis. The enterprises do not need to pay any consideration for the supervision and inspection.

#### **Industry Policy**

Pursuant to the “Interim Provisions on ‘Promoting Industrial Structure Adjustment’ for Implementation” (《國務院關於發佈實施<促進產業結構調整暫行規定>的決定》) promulgated by the State Council on 2 December 2005 and the “Guiding Catalog of Industrial Structure Adjustment (version 2011)” (《產業結構調整指導目錄(2011年本)》) promulgated by the NDRC on 27 March 2011, the following activities belong to the “encouraged” category of business: energy-saving renovations, including disposal of Industrial Waste Materials, urban sludge and household waste using the existing NSP Kiln with a daily production capacity of 2,000 tons and above, pure low temperature residual heat power generation and cement grinding system. The following activities belong to the “restricted”

## REGULATORY OVERVIEW

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category of business: NSP clinker production lines with a daily production capacity of less than 2,000 tons and Cement Grinding Stations with an annual production capacity of less than 0.6 million tons. The following activities belong to the “eliminated” category of business: the Mechanical Vertical Kilns of 3 meters in diameter and above (2012), Dry Hollow Kilns (excluding those for producing special cement such as high alumina cement and sulphoaluminate cement), Lepol Kilns, Wet Process Kilns and cement grinding equipment of 3 meters in diameter or less.

According to the “Guidance Catalog of Industries for Foreign Investment” (revised 2007) (《外商投資產業指導目錄》(2007修訂)) which was jointly promulgated by the NDRC and the Ministry of Commerce on 31 October 2007 and became effective on 1 December 2007, cement production project is listed in the “permissible” category for foreign investment.

Pursuant to the “Policies on the Development of Cement Industry” (《水泥工業產業發展政策》) promulgated by the NDRC and became effective on 17 October 2006, the State encourages local governments and enterprises to eliminate obsolete production methods and develop NSP cement. The State also encourages and supports enterprises to develop circular economy by utilizing recycled exhaust gas residual heat of the NSP Kiln system and generating power from pure cryogenic exhaust gas residual heat. The government encourages foreign investment in the development of large scale NSP cement production facilities to optimize the utilization of foreign investment. The government encourages large enterprises to convert smaller enterprises into Cement Grinding Stations using advanced technology and equipment. The scale of the newly constructed Cement Grinding Stations should have an annual production capacity of not less than 600,000 tons. The State has restricted the construction of new NSP cement production lines with a daily production capacity of less than 2,000 tons. Local governments and enterprises are not permitted to construct new kilns and cement production lines with backward technology. By the end of 2008, cement manufacturers shall cease using obsolete production technologies and equipment, including all kinds of Dry Hollow Kilns and Wet Process Kilns; further reduce the production capacity of Vertical Kilns, and where possible, eliminate all Vertical Kilns. Local governments at all levels should close down and rationalize the production capacities of enterprises with annual production capacity of less than 200,000 tons and those which are not in compliance with environmental protection requirements or producing cement of substandard quality in accordance with the law.

Pursuant to the “Special Plan for the Development of Cement Industry” (《水泥工業發展專項規劃》) promulgated by the NDRC and became effective on 17 October 2006, the State encourages the promotion of technologies including energy-saving grinding, residual heat power generation as well as the disposal of industrial waste and classification of household waste in cement kilns to develop circular economy.

According to the “Notice on Further Strengthening the Elimination of Obsolete Production Capacities” (《關於進一步加強淘汰落後產能工作的通知》) issued by the State Council on 6 February 2010, cement is one of the key industries which are subject to the elimination of obsolete capacities in the short term. The specific target of the Notice is to eliminate obsolete cement production capacities including Mechanical Vertical Kiln production lines with a kiln diameter below 3.0 meters, Dry Hollow Kilns production line (excluding those for producing high alumina cement) with a kiln diameter below 2.5 meters and Wet Process Kiln cement production lines (excluding those mainly used for disposing

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sludge, carbide slag) with a kiln diameter below 2.5 meters, Cement Grinding Mills with a diameter below 3.0 meters (excluding those for producing special cement), cement earth kilns (egg-shape) and ordinary Vertical Kilns by the end of 2012.

Pursuant to “the Notice of State Council on Speeding up the Structural Adjustment to Industries with Surplus Production Capacity” (《國務院關於加快推進產能過剩行業結構調整的通知》) promulgated by the State Council on 12 March 2006, although the industries of cement, coal, electricity and textile have basically reached the balance between production and demand, potential overcapacity problem still exists given a large scale of construction in progress. The key to promote the structural adjustment to industries with surplus production capacity is to make the market function effectively in allocating resources and promoting competition to realize the survival of the fittest. The important measures to promote the structural adjustment to industries with surplus production capacity include: to effectively prevent a rebound in investment in fixed assets; to promote technological innovation; to strengthen the coordination of credit, land, construction, environmental protection and security policies with industrial policies; to deepen the reform of the administrative and investment systems and the price formation and market exit mechanisms; and to improve the industry information release system. The approval of newly-constructed projects should be strictly controlled and the access threshold should be raised. According to the applicable PRC laws, the construction of the projects which are not in conformity with the relevant national planning, industrial policy, land supply policy, environmental protection and production safety should be ceased. A number of small businesses which cause resource destruction and environmental pollution and do not have safe production conditions should be closed. Backward production capacity should be eliminated in stages and the wasted production equipment should be destroyed. All the PRC cement producers, whether state-owned or privately owned, are subject to the above Notice.

According to the “Access Requirements for Cement Industry” (《水泥行業准入條件》) promulgated by the Ministry of Industry and Information Technology on 16 November 2010 and which became effective on 1 January 2011, the access requirements for cement industry are as below: the construction of new cement (clinker) production line should be equipped with NSP Technology; the newly constructed cement (clinker) production line is required to facilitate cryogenic residual heat power generation; the annual cement production capacity of newly constructed Cement Grinding Station should be more than 600,000 tons; the newly constructed cement (clinker) should adopt advanced, mature, energy-saving and environmental-friendly technologies and equipment to ensure the safety, stability and sustainability of the system; evaluation documents on the effect to the environment of the newly constructed or transformed cement (clinker) production line project should be prepared in accordance with the regulations; the cement (clinker) production enterprises should get the production license of cement product in accordance with the “Implementation Rules for the Production License of Cement Products” and the product quality of the finished cement (clinker) should meet the relevant product standards; the production process of cement (clinker) should be in accordance with the laws and regulations of “Production Safety Law” (《安全生產法》), “Law on Safety in Mines” (《礦山安全法》) and the “Law on Prevention and Control of Occupational Diseases” (《職業病防治法》), to ensure production safety and prevention and control of occupational diseases, and set up and perfect the safe production responsibility system and other regulatory systems. The newly constructed or transformed cement (clinker) production projects must fulfill the above access requirements. The department in charge of investment and industrial development will not grant approval for those projects which are

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not in compliance with such entry requirements; the land department will not proceed with the land supply procedures; the environmental department will not grant approval on the valuation on the effect of environment; the quality inspection department will not issue the production license; the financial authority will not provide additional supporting loan; and the electricity supply department will terminate the supply of electricity.

Pursuant to the “12th Five-Year Plan for Comprehensive Working Program for Energy Conservation and Emissions Reduction” (《「十二五」節能減排綜合性工作方案》) issued by the State Council on 31 August 2011, the local people’s government at various levels shall actively raise capital to finance the elimination of obsolete capacity. Meanwhile, they shall focus on the promotion of energy conservation and emission reduction technologies such as energy gradient utilization and low temperature residual heat power generation.

On 31 December 2006, the NDRC, the Ministry of Land and Resources and the PBOC jointly issued the “Notice of List of Large-scale Enterprises (group) in relation to Adjustment of Structure of Cement Industry supported by the State” (關於公佈國家重點支援水泥工業結構調整大型企業(集團)名單的通知) (the “Notice”). It is stated that when seeking project investments or mergers and acquisitions, government support and priority with respect to project approvals, land use right grants and credit approvals will be given to 12 national and 48 local cement companies listed on the Notice. The Notice does not constitute laws nor regulations and is for guidance only. Further, up to the Latest Practicable Date, there are no PRC laws nor regulations imposing compulsory consolidation obligations against cement companies in the PRC. Up to the Latest Practicable Date, the Notice and the list attached to the Notice have not been updated since its implementation.

### **Bulk Cement**

Pursuant to the “Administrative Measures of Bulk Cement” (《散裝水泥管理辦法》) jointly promulgated by the MOFCOM, the Ministry of Finance, the Ministry of Construction, the Ministry of Railways, the Ministry of Transportation, the General Administration of Quality Supervision, Inspection and Quarantine, and the State Administration for Environmental Protection on 29 March 2004, the PRC government encourages and promotes the development of bulk cement. The design and construction for newly constructed, expanded and reconstructed cement production enterprises shall comply with the requirement that the bulk cement production capacity shall account for more than 70% of the total cement capacity, and the construction projects shall be put into operation as scheduled.

Pursuant to the “Administrative Measures of Bulk Cement Special Funds Collection and Usage” (《散裝水泥專項資金徵收和使用管理辦法》) issued by the Ministry of Finance and the State Economic and Trade Commission on 18 April 2004, bagged cement production enterprises and users shall pay bulk cement special funds. Cement production enterprises selling bagged cement (including paper bag, plastic compound bag and compound bag) shall pay bulk cement special funds on a maximum rate of RMB1 per ton, and entities using bagged cement shall pay bulk cement special funds on a maximum rate of RMB3 per ton.

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### **Residual Heat Recovery System**

Pursuant to the “Guiding Catalog of Industrial Structure Adjustment (version 2011)” (《產業結構調整指導目錄 (2011年本) 》) issued by the NDRC on 27 March 2011, the “encouraged” category of industries shall include the application of existing NSP kilns with a daily capacity of 2,000 tons or above to dispose industrial waste, urban sludge and domestic waste, and the energy-saving renovation system using pure low-temperature residual heat for power generation.

Pursuant to the Implementation Proposal for the Promotion of the Pure Low-temperature Residual Heat Power Generation Technology in NSP Kilns (新型乾法水泥窯純低溫餘熱發電技術推廣實施方案) promulgated by the Ministry of Industry and Information Technology on 20 January 2010, the pure low-temperature residual heat power generation technology in NSP kilns refers to an energy-saving technology that transforms the residual heat of medium-and-low temperature waste gas discharged from the top and bottom of a kiln into electrical power. This technology will effectively improve energy utilization rate during cement production, reduce energy consumption and mitigate thermal pollution so as to fulfill the energy conservation and emission reduction goals in the cement industry. Pursuant to the proposal, efforts will be made to promote the pure low-temperature residual heat power generation technology in NSP kilns with a daily production capacity of 2,000 tons or above in four years from 2010 to 2013 so that 95% of NSP cement production lines with a daily production capacity of 2,000 tons or above will be equipped with residual heat power generation systems. The move will save the amount of energy generated by 4.27 million tons of standard coal, playing a proactive role in further reducing production costs and realizing energy conservation and consumption reduction for cement manufacturers in an increasingly competitive market. The subject equipment of cement manufacturers under this proposal shall be in compliance with the requirement under the “encouraged” category of Development Policies for Cement Industries (《水泥工業產業發展政策》), Specific Planning for the Development of Cement Industry (《水泥工業發展專項規劃》) and Guiding Catalog of Industrial Structure Adjustment (《產業結構調整指導目錄》) and Certain Opinion on the Acceleration of the Adjustment in the Structure of Cement Industry (《關於加快水泥工業結構調整的若干意見》).

## **THE PRC LAWS IN RELATION TO ENVIRONMENTAL PROTECTION**

### **General**

Pursuant to the “Environmental Protection Law of the People’s Republic of China” (《中華人民共和國環境保護法》) promulgated by the Standing Committee of the NPC and implemented on 16 December 1989, the competent administration for environmental protection of the State Council is empowered to formulate national environmental quality standards. For items which are not governed by the national environmental quality standards, the people’s governments of provinces, autonomous regions, and municipalities directly under the Central Government may formulate local standards and file the same with the competent administration for environmental protection of the State Council for records. Pursuant to the “Opinion on the Enforcement of the Environmental Protection Laws to Prevent Credit Risks” (《關於落實環保政策法規防範信貸風險的意見》) promulgated by Administration for Environmental Protection of the PRC, the PBOC and the CBRC on 12 July 2007, the financial institutions shall, on the basis of the administrative provisions of the PRC government on environmental protection

## REGULATORY OVERVIEW

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in respect of construction projects and the information disclosed by the environmental protection authority, conduct their examination and approval, disbursement, and supervision and administration of loans stringently. No additional credit in whatever form shall be granted to any project which has not passed the environmental assessment examination or the environmental protection facilities inspection. Financial institutions shall, based on the industrial policies of the PRC government, further enhance credit risk management. Credit support shall be provided in a proactive manner to projects under encouraged category given the risks are under control; no credit support shall be provided to new projects under restricted and eliminated categories; continuous credit support may be provided in accordance with credit principles to existing production projects under restricted category and the PRC government has granted permission for such companies to take measures within a period of time to upgrade their production facilities; no additional credit support shall be provided to projects under eliminated category and measures shall be taken to recover the loans granted.

### Environmental Impact Assessment

Pursuant to the “Environmental Impact Assessment Law of the People’s Republic of China” (《中華人民共和國環境影響評價法》) promulgated by the Standing Committee of the NPC on 28 October 2002 and implemented on 1 September 2003, the “Administrative Regulations for the Environmental Protection of Construction Projects” (《建設項目環境保護管理條例》) promulgated by the State Council on 29 November 1998 and implemented on the same day, and the “Administrative Measures for the Examination and Approval of Environmental Protection Facilities of Construction Projects” (《建設項目竣工環境保護驗收管理辦法》) promulgated by State Administration for Environmental Protection on 17 December 2001 and implemented on 1 February 2002, the PRC government implements a classification system in the management of the environmental impact appraisal of construction projects based on the degree of environmental impacts. Construction entities shall prepare environmental impact report, environmental impact report form or file environmental impact registration form in accordance with the relevant regulations. Among the environmental impact appraisal documents, the environmental impact report or environmental impact report form shall be prepared by the competent institutions with relevant qualifications for environmental impact appraisal.

Upon the completion of the subject of the construction project, its ancillary environmental protection facilities shall be put into production or operation in tandem with the subject. Where trial production is needed, the ancillary environmental protection facilities shall be put into trial operation in tandem with the subject. Upon the completion of the construction project, construction entities shall apply to the competent environmental protection authority for the environmental protection inspection acceptance for the completion of construction projects. A publication system is implemented in the PRC in respect of the environmental protection inspection acceptance for the completion of construction projects. Competent environmental protection authority shall announce the result of the environmental protection inspection acceptance for the completion of construction projects to the public on a regular basis. Construction projects without obtaining the approval for the application report for the environmental protection inspection acceptance for the completion of construction projects, the application form of the environmental protection inspection acceptance for the completion of construction projects or the registration card for the environmental protection inspection acceptance for the completion of construction projects shall not be officially put into production or use.

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Pursuant to the “Classification of Construction Project Lists for Environmental Impact Assessments” (《建設項目竣工環境影響評價分類管理名錄》) promulgated by the Ministry of Environmental Protection on 2 September 2008 and implemented on 1 October 2008, as cement manufacturing may cause significant environmental impact, cement manufacturers shall prepare an environmental impact report to fully evaluate the relevant environmental impact caused by their operations.

### Discharge of Pollutants

Pursuant to the “Environmental Protection Law of the People’s Republic of China” (《中華人民共和國環境保護法》), new industrial companies and existing industrial enterprises under renovation shall deploy equipment and techniques that have a high resources utilization rate and low pollutant emissions, and adopt cost-effective comprehensive waste utilization technology and pollutant treatment technology; pollution prevention facilities of construction projects shall be designed, constructed and put into operation in tandem with the subject of the project. Construction projects shall not be put into production or use until the pollution prevention facilities pass the inspection and acceptance procedures conducted by the same competent environmental protection authority that reviews and approves the environmental impact report.

The competent environmental protection authority under the State Council is responsible for promulgating national standards for the discharge of pollutants based on the national environmental quality standard and the economic and technological conditions of the PRC. Provincial governments, local governments of autonomous regions under the direct jurisdiction of the PRC central government and municipalities may promulgate local standards for the discharge of pollutants on matters not clearly defined and regulated by national standards, and may promulgate more stringent standards than national ones for matters regulated by the national counterparts. Such local standards shall be filed with the relevant environmental protection administrative authorities under the State Council of the PRC for record. Enterprises and institutions discharging pollutants in excess of the prescribed national or local discharge standards shall pay a fee for excessive discharge according to state provisions and shall assume responsibility for pollution elimination and control. Where construction projects with pollution prevention facilities that are incomplete or fail to meet the requirement of national standards are put in production or use, the competent environmental protection administrative authority that approves the environmental impact report of the construction project shall order such companies to suspend production or use and may impose a penalty.

Pursuant to the “Law on the Prevention and Control of Water Pollution of the People’s Republic of China” (《中華人民共和國水污染防治法》) amended on 28 February 2008 by the Standing Committee of the NPC and implemented on 1 June 2008, newly constructed, reconstructed or expanded construction projects and other water facilities that discharge pollutants into the water directly or indirectly should conduct an environmental impact assessment in accordance with relevant laws. Institutions and enterprises which discharge industrial sewage directly or indirectly into water system should obtain pollutant discharge permits and report to and register with the environmental protection administrative department above county level in relation to the facilities owned by them for discharging water pollutants, as well as the types, quantities and concentrations of water pollutants discharged under normal operating conditions. These institutions and enterprises are also required to provide relevant technical information as to how to prevent and control water pollution.

## **REGULATORY OVERVIEW**

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Pursuant to the “Law on Prevention and Control of Air Pollution of the People’s Republic of China” (《中華人民共和國大氣污染防治法》) amended on 29 April 2000 by the Standing Committee of the National People’s Congress and implemented on 1 September 2000, newly constructed, expanded or reconstructed projects which discharge pollutants into the atmosphere have to comply with certain national regulations relating to the management of environmental protection of construction projects. Entities that discharge pollutants into the atmosphere should report to the local environmental protection administrative department in relation to the facilities owned by them for the discharge of pollutants, as well as the types, quantities and concentrations of the pollutants discharged under normal operating conditions in accordance with the requirements of the competent environmental protection authority under the State Council. They are also required to provide relevant technical information as to how to prevent and control atmospheric pollution.

Pursuant to the “Law on Prevention and Control of Environmental Pollution Caused by Solid Waste of the People’s Republic of China” (《中華人民共和國固體廢物污染環境防治法》) amended on 29 December 2004 by the Standing Committee of the NPC and which became effective on 1 April 2005, enterprises and individuals producing industrial solid waste shall take measures to prevent or reduce environmental pollution caused by solid waste. Environmental impact assessment shall be carried out in accordance with relevant laws prior to the construction of projects producing solid waste and projects for the storage, utilization and disposal of solid waste, and such construction shall be in compliance with the relevant administrative requirements of environmental protection of construction projects in the PRC. In accordance with the relevant requirements of the competent environmental protection authority under the State Council, entities producing industrial solid waste must provide relevant information to the environmental protection administration under the local people’s government above the county level, where such information includes the type, quantity, flow, storage and treatment of the industrial solid waste.

Pursuant to the “Law on Prevention and Control of Environmental Noise Pollution of the People’s Republic of China” (《中華人民共和國環境噪聲污染防治法》) promulgated by the Standing Committee of the NPC, with effect from 1 March 1997, newly constructed, reconstructed or expanded projects shall comply with the relevant administrative requirements of environmental protection of construction projects in the PRC. Institutions and enterprises producing noise pollution shall maintain the normal operation of the facilities that prevent and control environmental noise pollution. Industrial enterprises producing noise pollution as a result of using their fixed facilities in industrial production shall report to the environmental protection administration under the local people’s government above the county level in relation to their facilities that produce noise pollution by category, quantity, and noise pollution level under normal operating conditions as well as the conditions of their noise pollution preventive facilities, together with the technical information on how to prevent and control noise pollution in accordance with the requirements of the competent environmental protection authority under the State Council. Industrial enterprises producing noise pollution shall adopt effective measures to mitigate the impact that the noise imposes on the living environment of the surrounding area.

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### THE PRC LAWS IN RELATION TO TAXATION

#### Income Tax

Pursuant to the “Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises” (《中華人民共和國外商投資企業和外國企業所得稅法》), which took effect on 1 July 1991 and became invalid on 1 January 2008 when the PRC EIT Law entered into force, for foreign investment enterprises engaged in manufacturing, the enterprise income tax shall be exempted for the first two years starting from the first profit-making year and shall be reduced by half during the third to fifth years.

Pursuant to the PRC EIT Law which was promulgated by the NPC on 16 March 2007 and took effect on 1 January 2008, a unified income tax rate of 25% will be applied towards foreign investment enterprises and domestic enterprises in the PRC. Enterprises receiving preferential tax treatment which were approved to be established prior to the promulgation of the PRC EIT Law, in accordance with the requirements of the then applicable laws and administrative regulations on taxation were eligible for a five-year transition period to the unified income tax rate of 25% upon the implementation of the PRC EIT Law. Since 1 January 2008 enterprises originally enjoying fixed term preferential tax treatment like “full exemption for two years and 50% exemption for three years” (兩免三減半) and “full exemption for five years and 50% exemption for five years” (五免五減半) will continue to hold the preferential treatment in accordance with the original laws and administrative regulations on taxation and related documents after the implementation of the new tax law until the term expires. However, for enterprises which have not made any profits and thus do not enjoy such preferential treatments, the preferential term starts from 2008.

Pursuant to the PRC EIT Law and the “Implementation Regulations of the Enterprise Income Tax” (《企業所得稅法實施條例》) which was promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008, a resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the territory of the PRC. An organization or establishment set up by a non-resident enterprise in the PRC is subject to enterprise income tax for the income derived from such organization or establishment in the PRC and the income derived from outside the PRC but with actual connection with such organization or establishment in the PRC. For a non-resident enterprise which has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, its income derived in the PRC will be subject to enterprise income tax at the reduced rate of 10%.

Moreover, pursuant to the “Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income” (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), where a Hong Kong enterprise directly holds at least 25% of the shareholding of a PRC enterprise, the withholding tax rate in respect to the dividend payment by such PRC enterprise to such Hong Kong enterprise is 5%. Otherwise, the withholding tax rate for the relevant dividends is 10%.

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### **Value Added Tax**

Pursuant to the “Provisional Regulations on Value Added Tax of the People’s Republic of China” (《中華人民共和國增值稅暫行條例》) and its implementation regulations as amended on 5 November 2008 by the State Council and implemented since 1 January 2009, unless stated otherwise, for value added tax payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

### **Value Added Tax Benefits Regarding Comprehensive Utilization of Resources**

Pursuant to the “Administrative Measures on the Recognition of Comprehensive Utilization of Resource Encouraged by the State” (《國家鼓勵的資源綜合利用認定管理辦法》), which was jointly issued on 7 September 2006 by the NDRC, the Ministry of Finance and the State Administration of Taxation, enterprises applying for certificates of comprehensive utilization of resources shall meet the following conditions: (1) production process, technology or products conform to the national industrial policies and relevant standards; (2) gains and losses of the products in connection with comprehensive utilization of resources can be calculated independently; (3) sources of raw materials (fuel) used are stable and reliable, with quantities and qualities in line with the relevant requirements, and the complementary conditions, such as water and electricity, are ascertained; (4) environmental protection requirements are satisfied, without secondary pollution. The products in connection with comprehensive utilization of resources or the enterprises that adopt the process and technology with respect to comprehensive utilization of resources are recognized and verified by the competent authority for comprehensive utilization of resources at the provincial level by issuing the Certificates of Comprehensive Utilization of Resources (《資源綜合利用認定證書》). They are entitled to enjoy the preferable policies on taxation and operation in accordance with the relevant requirements of the PRC. The Certificates of Comprehensive Utilization of Resources have a valid period of two years.

Pursuant to the “Notice on Value Added Tax Policy Regarding Comprehensive Utilization of Resources and Other Products” (《關於資源綜合利用及其他產品增值稅政策的通知》) and “Supplemental Notice” (《補充通知》) promulgated by the Ministry of Finance and the State Administration of Taxation on 9 December 2008 and 29 December 2009 respectively, the cement (including cement clinker) produced using rotary kiln process or cement produced with purchased cement clinker using grinding process, whose raw materials are mixed with no less than 30% of waste residue, is entitled to enjoy the VAT drawback policy.

## **THE PRC LAWS IN RELATION TO LABOR**

Pursuant to the “Labor Law of the People’s Republic of China” (《中華人民共和國勞動法》) effective as of 1 January 1995 and the “Labor Contract Law of the People’s Republic of China” (《中華人民共和國勞動合同法》) effective as of 1 January 2008, labor relationships are established between employers and employees from the date when the employers start to put the employees to work. Employers shall enter into labor contracts with the employees in writing and shall prepare a roster of employees for inspection. Employers shall pay their employees the full amount of remuneration in a timely manner. In order to reduce occupational hazards, employers shall establish systems for labor safety and sanitation and educate their employees on labor safety and sanitation.

## **REGULATORY OVERVIEW**

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Pursuant to the “Social Insurance Law of the People’s Republic of China” (《中華人民共和國社會保險法》), which was issued by the Standing Committee of the NPC on 28 October 2010 and became effective on 1 July 2011, the employers and individuals within the territory of the PRC shall pay their social insurance premiums in accordance with laws. Social insurance funds shall include basic endowment insurance, basic medical insurance, occupational injury insurance, unemployment insurance and maternity insurance. Employers shall declare and make full payment of the social insurance premiums on their own as scheduled and shall not delay or reduce the payment for reasons other than statutory causes such as force majeure. The social insurance premiums payable by employees shall be withheld and paid by their employers and the employers shall inform the employees of the detailed payment of social insurance premiums on a monthly basis.

### **THE PRC LAWS IN RELATION TO PRODUCTION SAFETY**

Pursuant to the “Production Safety Law of the People’s Republic of China” (《中華人民共和國安全生產法》) which has been effective from 1 November 2002, production and operating enterprises should be provided with the safety conditions for production required by the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entities that fail to provide such safety conditions will not be allowed to be engaged in any production or operation. The major persons-in-charge of the production and operation entities shall perform the following duties and responsibilities regarding the production safety of their own entity: (1) establishing and perfecting the accountability system relating to production safety; (2) formulating the rules of production safety and operational rules of the entity; (3) ensuring the effective implementation of efforts regarding the production safety of their entities; (4) monitoring and inspecting the production safety of their entities and eliminate any hidden safety problems in production timely; (5) formulating and executing plans for emergency response and relief of production safety misadventures of the entity; (6) reporting the safety incidents honestly and timely. Production and operation entities shall provide education and training to employees regarding production safety so as to ensure that employees have the necessary knowledge of production safety, are familiar with relevant rules and regulations for production safety as well as rules for safe operation, and master the skills for safe operation for their own positions. The design, manufacturing, installation, application, testing and checking, maintenance, reformation and abandonment of safety facilities are subject to the national standards or industrial standards.

### **THE PRC LAWS IN RELATION TO FOREIGN EXCHANGE**

Pursuant to the “Foreign Exchange Administration Regulations of the People’s Republic of China” (《中華人民共和國外匯管理條例》), which was amended on 1 August 2008 and implemented on 5 August 2008 by the State Council, the management on foreign exchange can be divided into management on foreign exchange management under the current account and management on foreign exchange under the capital account including marketable securities, issue transaction of derivatives, overseas debts and external guarantees. The foreign currency receipts and remittances under the current account should have a genuine and legitimate basis. The foreign currency income under the current account may be retained or sold to the financial institution engaged in foreign exchange settlement and sale business in accordance with the relevant requirements of the State. Foreign

## **REGULATORY OVERVIEW**

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exchange payment under the current account shall, in accordance with provisions relating to foreign exchange payments and purchases enacted by the foreign exchange administrative department under the State Council, be made out of the payer’s own foreign exchange funds on the strength of valid invoices or be made with foreign exchange purchased from any financial institution engaged in foreign exchange settlement and sales business. As for the management of the foreign exchange under the capital account, it requires investors to complete the procedures of foreign exchange registration at the foreign exchange administrative department under the State Council. Transactions that require approval or acknowledgment in advance by the competent authority of the State must complete the necessary approval or acknowledgment procedures before registration of foreign exchange.

Pursuant to the “Notice on the Relevant operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Investment” (《關於完善外商投資外匯資本金支付結匯管理有關業務操作問題的通知》) issued on 29 August 2008 by SAFE, unless otherwise approved by the PRC laws and regulations, the RMB capital that was exchanged from the foreign capital by foreign invested enterprises could only be used within the business scope approved by such foreign invested enterprise and could not be used in domestic equity investments or acquisitions.

### **THE PRC LAWS IN RELATION TO THE RETAINED PROFITS**

Pursuant to the “Law of Foreign-funded Enterprises of the People’s Republic of China” (《中華人民共和國外資企業法》) which was amended and implemented on 31 October 2000 by the Standing Committee of the NPC (全國人民代表大會常務委員會) and the Implementation Rules for the Law of Wholly Foreign-owned Enterprises of the People’s Republic of China (《中華人民共和國外資企業法實施細則》) which was amended and implemented on 12 April 2001 by the State Council, the investments made by foreign investors within the PRC, together with the profits they obtained and other legal interests, are protected by the PRC laws. Foreign invested enterprises are required to retain certain amount of their profits after tax (paid according to the PRC tax law) as a reserve fund, a bonus and welfare fund for staff and workers. The rate of allocations to the reserve fund shall not be lower than 10% of the after-tax profits. Further allocations may not be made once the cumulative amount of allocations is equivalent to 50% of the registered capital of the enterprise. The rate of allocations to the bonus and welfare fund for staff and workers shall be determined by the foreign invested enterprise. Foreign invested enterprises shall not distribute profits until the losses from preceding accounting years have been made up. The undistributed profits of the preceding accounting years may be allocated together with the profits available for distribution in this accounting year.

### **THE PRC LAWS IN RELATION TO THE QUALITY OF PRODUCTS**

Pursuant to the “Product Quality Law of the People’s Republic of China” (《中華人民共和國產品質量法》) which was amended on 8 July 2000 and implemented on 1 September 2000 by the Standing Committee of the NPC (全國人民代表大會常務委員會), the producers and sellers shall establish a complete internal management system on product quality and strictly implement the quality standards of different positions, carry out the liability of quality and the relevant appraisal measures. The State also carries out a quality accreditation system for enterprises according to the

## **REGULATORY OVERVIEW**

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quality management standard generally accepted in the world. Enterprises can apply, on voluntary basis, for the quality certificate from the accreditation institutions that are approved by the quality supervision division of the State Council or approved by the division authorized by the same. Upon passing of the accreditation, the accreditation organizations would grant a certification for enterprise quality system. The State also promotes the product quality accreditation system with reference to the international standards and technical requirements for advanced products. Enterprises may apply, on voluntary basis, the product quality accreditation at the accreditation institutions recognized by the product quality supervising department of or the department authorized by the same. Upon passing of the accreditation, the accreditation institutions will grant a product quality certificate and allow the awarded enterprise to attach the product quality certificate symbol onto its products or packages of its products.

Pursuant to the “Quality Management Procedures Of Cement Enterprise” (《水泥企業質量管理規程》) promulgated by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) which has become effective on 1 December 2010, a cement enterprise must conduct quality inspection for its products. The cement enterprise which has a daily capacity of 4,000 tons or above or produces the special (characteristic) cement must conduct the quality inspection at the National Cement Quality Supervision and Inspection Center. Other cement enterprise must conduct the quality inspection at the building materials (cement) quality inspection organization designated by the Provincial Building Materials Department or the Building Materials Industry Association which is authorized by the Provincial Building Materials Department. The cement enterprise which produces the ordinary cement must transfer one sample every two months and ensure that no less than 6 samples should be transferred to the quality inspection organization in one year. The cement enterprise should pay the consideration for the quality inspection.

## **OTHERS**

Pursuant to the “Interim Provisions for Investment in China by Enterprises with Foreign Investment” (《關於外商投資企業境內投資的暫行規定》) promulgated on 25 July 2000 and became effective on 1 September 2000, “investment within China by foreign investment enterprises” means an act whereby a Sino-foreign equity joint venture, a Sino-foreign cooperative joint venture or a wholly foreign-owned enterprise legally established in China in the form of a limited liability company, or a company limited by shares with foreign investment, invests in and establishes an enterprise in China or purchases the equity interest of one or more investors in another enterprise (“Investee Company”) in China in its own name. Foreign investment enterprises may invest only if they meet the following conditions: (i) their registered capital has been fully paid in; (ii) they have become profitable; and (iii) they are operating legally and have no record of illegal operations.

## **REGULATORY OVERVIEW**

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If foreign investment enterprise purchases equity interest of another investor in the Investee Company and the scope of business of the Investee Company belongs to the encouraged or permitted category, the foreign investment enterprise is only required to apply for the normal business registration other than any approval. If the scope of business belongs the restricted category, the foreign investment enterprise shall obtain the official approval which the Provincial Level Examination and Approval Authority states its agreement.

### **THE CONCRETE INDUSTRY**

Pursuant to the “Provisions on the Administration of Qualifications of Construction Enterprises” (建築業企業資質管理規定) promulgated by the Ministry of Construction on 1 September 2007, and the “Level of Qualification Standards for Construction Enterprise”(建築業企業資質等級標準) promulgated by the Ministry of Construction, The Ministry of Railways, The Ministry of Communications, The Ministry of Water Resources, The Ministry of Information Industry and The Civil Aviation Administration of China on 1 July 2001, every construction enterprise engaging in the production and sale of ready mix concrete should obtain a qualification certificate of construction enterprise from the construction administration. Depending on the level of the registered capital involved, professionals, technical equipment and the construction engineering achievement of the construction enterprise, the levels of qualification is divided into four levels: special level, level I, level II and level III.

## **COMPANY HISTORY AND REORGANIZATION**

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### **OVERVIEW**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 November 2011 in anticipation of the [•••]. We are an integrated cement and clinker producer in Wujiang City, Suzhou Prefecture. We operate our clinker and cement productions through our sole PRC subsidiary, Dongwu Cement. For details of our corporate structure, please refer to the paragraph headed “Our Corporate Structure” in this section below.

### **OUR BUSINESS DEVELOPMENT**

Our Group traces its roots to 2003 when Dongwu Cement, our sole PRC operating subsidiary, was established in the PRC. The following is a summary of our Group’s key business development milestones:

|               |   |                                                                                                                                                                                                                                                      |
|---------------|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| June 2003     | : | We established Dongwu Cement and commenced cement business operations in Jiangsu Province.                                                                                                                                                           |
| December 2004 | : | Construction of our factories completed and commenced trial production.                                                                                                                                                                              |
| January 2005  | : | Formal production commenced.                                                                                                                                                                                                                         |
| December 2006 | : | Cement production breakthrough of our Company, amounting to 800,000 tonnes.                                                                                                                                                                          |
| 2006-2009     | : | Our principal cement products, PO 42.5 and PC 32.5, have been awarded for the Certificate of Quality Inspection Exemption issued by General Administration of Quality Supervision, Inspection and Quarantine of PRC between 2006 and 2009 each year. |
| June 2009     | : | Completion of construction and examination of the 4.5MW Low Temperature Electricity Generation Project and electricity generation commenced in July 2009.                                                                                            |
| December 2011 | : | Reorganization took place.                                                                                                                                                                                                                           |

### **OUR CORPORATE HISTORY**

In 2003, Jiangsu Orient and Orient Expressway (HK) commenced discussions on their proposed investment in the PRC cement industry in light of the increasing demand for cement products and its sustainable development in the PRC. After considering the feasibility of such investment and further discussions, Jiangsu Orient and Orient Expressway (HK) reached consensus on realizing such investment plan by jointly setting up a company in the PRC as the investment and operating entity, which is Dongwu Cement.

## COMPANY HISTORY AND REORGANIZATION

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### Dongwu Cement

Dongwu Cement was established in Wujiang City, Jiangsu Province on 5 June 2003 as a sino-foreign joint venture with a registered capital of US\$15 million and an approved total investment of US\$29.8 million. At the time of establishment, Jiangsu Orient and Orient Expressway (HK) held 75% and 25% equity interests, respectively, in Dongwu Cement. For more information on Jiangsu Orient and Orient Expressway (HK), please refer to the paragraph headed “Further information on the former shareholders of Dongwu Cement” below. According to the joint venture agreement signed by Jiangsu Orient and Orient Expressway (HK), the registered capital of Dongwu Cement shall be fully settled by 5 June 2006.

Between August 2003 and June 2004, Jiangsu Orient and Orient Expressway (HK) made five capital contributions totalling US\$15 million as registered capital of Dongwu Cement, details of which are as follows: (i) as at 11 August 2003, Jiangsu Orient and Orient Expressway (HK) had contributed US\$2,899,516.64 and US\$1,750,000 to Dongwu Cement respectively, totalling US\$4,649,516.64; (ii) as at 4 December 2003, Jiangsu Orient and Orient Expressway (HK) had contributed US\$3,793,563.59 and US\$3,750,000 to Dongwu Cement respectively, totalling US\$7,543,563.59; (iii) as at 31 March 2004, Jiangsu Orient and Orient Expressway (HK) had contributed US\$6,028,657.58 and US\$3,750,000 to Dongwu Cement respectively, totalling US\$9,778,657.58; (iv) as at 13 April 2004, Jiangsu Orient and Orient Expressway (HK) had contributed US\$7,297,233.15 and US\$3,750,000 to Dongwu Cement respectively, totalling US\$11,047,233.15; (v) as at 14 June 2004, Jiangsu Orient and Orient Expressway (HK) had contributed US\$11,250,000 and US\$3,750,000 to Dongwu Cement respectively, totalling US\$15,000,000.

On 17 November 2004, Jiangsu Orient pledged its 75% equity interest in Dongwu Cement to Industrial and Commercial Bank of China Limited (Hongqiao Branch), Shanghai city (“ICBC”) for loans in the sum of RMB45 million in favour of Shanghai Hesheng Enterprises Development Company Limited (上海合盛企業發展有限公司) (“SH Hesheng”) and Shanghai Dongchuang Industrial Investment Company Limited (上海東創實業投資有限公司) (“SH Dongchuang”) (now known as Orient Hengye Holdings Company Limited (東方恒業控股有限公司)). Due to the default in repayment of the loans by SH Hesheng and SH Dongchuang, ICBC requested Jiangsu Orient to perform its duties as a guarantor and the 75% equity interest in Dongwu Cement was put in public auction on 24 January 2006, during which Orient Expressway (HK) won the auction at the bidding price of RMB40,748,000. Accordingly, on 20 April 2006, Jiangsu Orient and Orient Expressway (HK) entered into an equity transfer agreement pursuant to which Jiangsu Orient transferred its 75% equity interest in Dongwu Cement to Orient Expressway (HK) at a consideration of RMB40,748,000, being the bidding price at the public auction held on 24 January 2006. Such consideration was settled by the internal resources of Orient Expressway (HK). The above equity transfer was approved by Wujiang Municipal Bureau of Foreign Trade and Economic Cooperation (吳江市對外貿易經濟合作局) on 24 April 2006. An updated business licence was granted to Dongwu Cement on 26 April 2006. Upon completion of this equity transfer, Jiangsu Orient ceased to hold any equity interest in Dongwu Cement and Dongwu Cement became a wholly-owned subsidiary of Orient Expressway (HK) and hence has transformed into a wholly foreign owned enterprise.

## **COMPANY HISTORY AND REORGANIZATION**

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Being the ultimate shareholders of each of Orient Expressway (HK) and Far East International with the same shareholding structure, Mr. Tseung and Mr. Jin would like to use Far East International as their main investment holding company in the PRC cement industry. On 9 January 2007, Orient Expressway (HK) and Far East International entered into an equity transfer agreement pursuant to which Orient Expressway (HK) transferred its 100% equity interest in Dongwu Cement to Far East International at a consideration of US\$15 million which was determined with reference to the then registered capital of Dongwu Cement. The above equity transfer was approved by Wujiang Municipal Bureau of Foreign Trade and Economic Cooperation (吳江市對外貿易經濟合作局) on 15 February 2007. An updated business licence was granted to Dongwu Cement on 6 March 2007. Upon completion of this equity transfer, Orient Expressway (HK) ceased to hold any equity interest in Dongwu Cement and Dongwu Cement became a wholly-owned subsidiary of Far East International. For more information on Far East International, please refer to the paragraph headed “Further information on the former shareholders of Dongwu Cement” below.

On 1 December 2008, Dongwu Cement resolved to increase its registered capital from US\$15 million to US\$25 million. In connection with this capital increase, Far East International, the then sole shareholder of Dongwu Cement, had contributed US\$2 million, US\$3 million, US\$2.5 million and US\$2.5 million on 24 December 2008, 28 April 2009, 3 July 2009 and 6 December 2010, respectively as its increased share capital.

On 26 December 2011, Far East International and Dongwu HK entered into the Reorganization Equity Transfer Agreement, pursuant to which Far East International transferred its 100% equity interest in Dongwu Cement to Dongwu HK at a consideration of US\$33 million, which was determined with reference to (i) the net assets value of Dongwu Cement as at 30 September 2011 and, (ii) the dividend of RMB42,930,000 paid on 21 December 2011 and its 10% withholding income tax of RMB4,770,000, totalling RMB47,700,000. The above equity transfer was approved by Wujiang Municipal Bureau of Commerce (吳江市商務局) on 27 December 2011. An updated business licence was granted to Dongwu Cement on 28 December 2011. Upon completion of this equity transfer, Far East International ceased to hold any equity interest in Dongwu Cement and Dongwu Cement became a wholly-owned subsidiary of Dongwu HK.

As at the Latest Practicable Date, Dongwu Cement had an approved business scope of “manufacture of clinker, cement and related products as well as sales of self-produced products”.

### **Further information on the former shareholders of Dongwu Cement**

Since its establishment in 2003 and until the Reorganization in December 2011 (for further details, please refer to the paragraph headed “Our Reorganization” below), the shareholding structure of Dongwu Cement had undergone certain changes involving transfers of the equity interests therein among different entities, namely Jiangsu Orient, Orient Expressway (HK) and Far East International, the details of which are set out below.

Jiangsu Orient, a shareholder of Dongwu Cement since its establishment on 5 June 2003 and until 26 April 2006, is an investment holding company established in the PRC with limited liability. According to its Corporate Legal Person Business License, its business scope includes industrial investment; asset management; domestic trading; manufacture and sales of silk and fabrics, garment, clothing and bedclothes; printing and dyeing, sand wash processing; sales of machinery facilities, communication cables, bamboo and wood floorings, and home-use electric appliances.

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## COMPANY HISTORY AND REORGANIZATION

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To the best knowledge of the Directors, as at the Latest Practicable Date, the shareholders of Jiangsu Orient and their respective shareholdings in Jiangsu Orient were as follows:

|                                                               |             |
|---------------------------------------------------------------|-------------|
| Ms. Zhou Jianhua (spouse of Mr. Tseung)                       | 52.97%      |
| Orient Hengye Holdings Company Limited                        | 8.33%       |
| Mr. Jin (a director of each of the Company and Dongwu Cement) | 3%          |
| Mr. Shan Huixing (a director of Dongwu Cement)                | 2.2%        |
| Other Independent Third Parties (in aggregate)                | 33.5%       |
|                                                               | <hr/>       |
|                                                               | 100%        |
|                                                               | <hr/> <hr/> |

So far as is known to the Directors, as at the Latest Practicable Date, Orient Hengye Holdings Company Limited was beneficially owned by Mr. Tseung (35%), Ms. Xie Yingxia (3%) and other Independent Third Parties.

Orient Expressway (HK), an investment holding company incorporated in Hong Kong, had been a shareholder of Dongwu Cement since its establishment on 5 June 2003 and until 6 March 2007. Since 5 June 2003 and up to the Latest Practicable Date, Orient Expressway (HK) had been beneficially owned by Mr. Tseung and Mr. Jin as to 70% and 30%, respectively.

Far East International, the sole shareholder of Dongwu Cement since 6 March 2007 and until 28 December 2011, is an investment holding company incorporated in Samoa as an international company. Since 6 March 2007 and up to the Latest Practicable Date, the shareholders of Far East International were Goldview and Concord, which are beneficially owned by Mr. Tseung and Mr. Jin, respectively.

### MANAGEMENT HISTORY OF DONGWU CEMENT

Set out below is a summary of the management history of Dongwu Cement.

Since its establishment on 5 June 2003 and until 10 January 2007, Dongwu Cement had been managed by Mr. Shen Jianxin, Mr. Wu Jinxiang, Mr. Shen Ronggen, Mr. Shen Sanmao, Mr. Tu Jianping and Mr. Xu Minghua, with the assistance of Mr. Hu Xiaowei.

Since 10 January 2007, Dongwu Cement had been managed by Mr. Jin, Mr. Shen Sanmao, Mr. Wu Jinxiang, Mr. Shen Ronggen and Mr. Xu Minghua, with the assistance of Mr. Hu Xiaowei. Mr. Shen Jianxin and Mr. Tu Jianping ceased to manage Dongwu Cement since then.

Since 2 July 2008, Dongwu Cement had been managed by Mr. Jin, Ms. Xie Yingxia, Mr. Wu Jinxiang, Mr. Zhou Jianwei and Mr. Hu Xiaowei. Mr. Shen Sanmao, Mr. Shen Ronggen and Mr. Xu Minghua ceased to manage Dongwu Cement since then.

## COMPANY HISTORY AND REORGANIZATION

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Since 11 March 2010 and as at the Latest Practicable Date, Dongwu Cement has been, and was still, managed by Mr. Jin, Ms. Xie Yingxia, Mr. Yang Bin, Mr. Shan Huixing and Mr. Hu Xiaowei, with the assistance of Mr. Zhu Qiwei, Mr. Han Fuliang and Mr. Wu Junxian. Mr. Wu Jinxiang and Mr. Zhou Jianwei ceased to manage Dongwu Cement since 11 March 2010.

### OUR REORGANIZATION

The companies comprising our Group underwent a reorganization to rationalize our corporate structure in preparation for [••], and as a result, our Company became the holding company of our Group. The Reorganization involved the following steps:

- (a) On 25 October 2000, Concord was incorporated in the BVI. On 18 May 2004, Mr. Jin was registered as a sole shareholder of Concord and Concord has been wholly-owned by Mr. Jin since then.
- (b) On 16 March 2004, Goldview was incorporated in the BVI by Mr. Tseung as his wholly-owned investment holding company. At the time of its incorporation, Goldview was wholly-owned by Mr. Tseung.
- (c) On 29 November 2011, our Company was incorporated in the Cayman Islands with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. At the time of its incorporation, the total number of issued shares of our Company was 100 shares, of which 70 shares were held by Goldview and 30 shares were held by Concord, representing 70% and 30% equity interests in our Company, respectively.
- (d) On 29 November 2011, Dongwu Investment was incorporated in BVI with limited liability. On the same date, our Company subscribed for one share in Dongwu Investment at par value. Upon completion of the share subscription, Dongwu Investment became a wholly-owned subsidiary of our Company.
- (e) On 16 December 2011, Dongwu HK was incorporated in Hong Kong with limited liability. Dongwu HK allotted and issued one share to the initial subscriber, Dongwu Investment at par value. Upon completion of the share subscription, Dongwu HK became a wholly-owned subsidiary of Dongwu Investment.
- (f) On 26 December 2011, Dongwu HK and Far East International entered into the Reorganization Equity Transfer Agreement), pursuant to which Far East International transferred its 100% equity interest in Dongwu Cement to Dongwu HK at a consideration of US\$33 million. Such equity transfer was completed on 28 December 2011 and Dongwu Cement became a wholly-owned subsidiary of Dongwu HK thereafter.

To settle the consideration of US\$33 million for the transfer of 100% equity interest in Dongwu Cement (the “**Dongwu Cement Transfer**”) from Far East International to Dongwu HK under the Reorganization Equity Transfer Agreement, Goldview and Concord have

## COMPANY HISTORY AND REORGANIZATION

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agreed to assume Dongwu HK’s payment obligations under the Reorganization Equity Transfer Agreement by way of novation. In this regard, Far East International, Dongwu HK and our Company entered into the Dongwu HK Novation Deed on 27 December 2011, pursuant to which our Company has agreed to pay the consideration of US\$33 million for the Dongwu Cement Transfer payable under the Reorganization Equity Transfer Agreement for and on behalf of Dongwu HK to Far East International whilst Far East International has agreed to discharge Dongwu HK’s payment obligations under the Reorganization Equity Transfer Agreement. Meanwhile, Far East International, our Company, Goldview and Concord entered into the Company Novation Deed on 27 December 2011, pursuant to which Goldview and Concord have agreed to pay, on behalf of our Company, the consideration of US\$33 million for the Dongwu Cement Transfer payable by our Company under the Dongwu HK Novation Deed to Far East International in proportion to their then respective shareholdings in our Company whilst Far East International has agreed to discharge our Company’s payment obligations under the Dongwu HK Novation Deed. On the same date, Goldview and Concord have given written confirmations in relation to their unconditional and irrevocable waiver as to our Company’s repayment obligation of US\$33 million to Goldview and Concord under the Company Novation Deed.

- (g) On 28 May 2012, the Shareholders resolved, among other things, to (i) sub-divide each authorized issued and unissued Share of par value of HK\$1.00 each in the share capital of the Company into 100 Shares of par value of HK\$0.01 each, and (ii) increase the authorized share capital from HK\$10,000 to HK\$100,000,000, divided into 10,000,000,000 Shares of par value of HK\$0.01 each by the creation of an additional of 9,999,000,000 Shares.

### PRC legal compliance

On 21 October 2005, the State Administration of Foreign Exchange issued the “Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Round-trip Investment via Overseas Special Purpose Vehicles” (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (Hui Fa [2005] No.75, which entered into force on 1 November 2005, hereinafter referred to as the “Notice No.75”). Pursuant to the Notice No.75, any domestic residents engaged in equity financing (including convertible bond financing) abroad with the assets or interests of domestic enterprises via overseas special purpose vehicles shall register with the local foreign exchange administration for relevant registration of overseas investments. Given that Mr. Tseung and Mr. Jin are not “domestic natural person residents” under the Notice No.75 and no round-trip investment is involved in the [••], Mr. Tseung and Mr. Jin are not required to carry out foreign exchange registration for individuals conducting overseas investment in accordance with the Notice No.75.

On 8 August 2006, six ministries and commissions directly under the State Council of the PRC jointly promulgated the “Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors” (《關於外國投資者併購境內企業的規定》) (which entered into force on 8 September 2006, hereinafter referred to as the “Order No.10”). Pursuant to the Order No. 10, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, such acquisition is subject to approval from the MOFCOM. The Order No. 10 also stipulates that

## **COMPANY HISTORY AND REORGANIZATION**

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an offshore special purpose vehicle formed for [•••] purpose and controlled, directly or indirectly, by companies or individuals of the PRC shall obtain approval from the CSRC prior to [•••]. Given that Dongwu Cement has been a foreign-invested enterprise since its establishment in 2003 and Mr. Tseung, the de facto controller of the company, is a permanent resident of Hong Kong who holds a Hong Kong Permanent Identity Card, the Order No.10 is not applicable to the establishment and the previous changes in shareholding of Dongwu Cement.

Our PRC Legal Advisors have confirmed that, following the Reorganization and [•••], the Company will hold the entire registered capital in Dongwu Cement (a company established in the PRC) indirectly through Dongwu Investment and Dongwu HK, which is in compliance with the relevant laws and regulations of the PRC, and thus is legitimate and valid.

## BUSINESS

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### OVERVIEW

We are a cement and clinker producer in Wujiang City, Suzhou Prefecture, which is situated in south Jiangsu Province. Since our establishment, our packed cement products have been sold and distributed under the trademark “”. We are also the only cement producer in Suzhou Prefecture that employs NSP technology in our production process which involves preheating of the raw materials for clinker production before the raw materials are mixed and fed into the rotary kiln. NSP technology generally emits fewer harmful pollutants and produces higher quality cement. NSP technology has now become the most common cement production technology in the PRC, contributing approximately 81% of the total clinker produced in 2010.

Our principal products comprise ordinary Portland cement strength class 42.5 (“PO 42.5”) and composite Portland cement strength class 32.5 (“PC 32.5”), though we also sell clinker as a by-product. According to the independent mandatory inspection reports issued by Jiangsu Construction Materials Quality Supervision and Inspection Station (江蘇省質量技術監督建材產品質量檢驗站), (i) in May 2012, with regard to our PO 42.5; and (ii) in April 2012, with regard to our PC 32.5, both our PO 42.5 and PC 32.5 products are of a substantially higher-grade quality than the PRC national standard.

During the Track Record Period, our products were sold in Jiangsu Province, Zhejiang Province and Shanghai. Our strategic geographical location in the area known as the Golden Triangle of the Yangtze affords us easy access and places us within close proximity to our markets. Our production facilities enjoy the benefit of the exclusive use of an adjoining wharf situated on the Taipu River (太浦河). The wharf enables us to transport raw materials and cement of 10,000 tonnes per day and affords our customers and suppliers convenient transportation access to us.

Our products are primarily sold through (i) direct sales to construction developers that are involved with construction projects in both public and private sectors, (ii) direct sales to ready-mixed concrete stations, all of which are conveniently accessible to our production facilities, (iii) trading companies selected by our Group on a transaction by transaction basis and (iv) direct sales to a number of walk-in customers. For the three years ended 31 December 2009, 2010 and 2011, we sold approximately 1.5 million tonnes, 1.4 million tonnes and 1.4 million tonnes of products, representing sales of approximately RMB291.6 million, RMB355.0 million and RMB464.0 million, respectively.

We have a stable and reliable source of raw materials. The raw materials used in our cement production process include limestone, shale, sandstone, coal gangue, converter slag, clay, flyash and gypsum, etc. We procure our raw materials from a variety of different sources that are within easy access to our production facilities and they are transported to our production facilities mainly via waterway. In addition, coal and electricity are used to fuel our production process. For the three years ended 31 December 2009 and 2010 and 2011:

- our costs on raw materials represented approximately 25.8%, 21.9% and 27.8% of our total cost of sales respectively;

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- our costs on coal represented approximately 32.7%, 36.3% and 36.4% of our total cost of sales respectively; and
- our costs on electricity represented approximately 18.0%, 16.2% and 16.3% of our total cost of sales respectively.

For the three years ended 31 December 2009, 2010 and 2011, we have improved our production efficiency by implementing stringent quality control measures and by reducing our production costs. For instance, we use waste materials in our production of PC 32.5. This reduces our production costs and entitles us to claim a VAT refund for our PC 32.5 products from the PRC government for adoption of energy efficient and environmentally responsible practices. For the three years ended 31 December 2009, 2010 and 2011, these VAT refunds amounted to approximately RMB8.9 million, RMB8.7 million and RMB13.4 million respectively, all of which were from the production of our PC 32.5 products. Additionally, we have equipped our clinker production line with a residual heat recovery system which recycles the heat produced in our production process to generate power that is then re-utilized. This enables us to be less reliant on external electricity sources and further reduces our costs of production. For the three years ended 31 December 2009, 2010 and 2011, electricity generated by our residual heat recovery generators accounted for approximately 12.6%, 20.7% and 17.8% respectively, of our total electricity consumed.

For the three years ended 31 December 2009, 2010 and 2011, our total revenue was approximately RMB291.6 million, RMB355.0 million and RMB464.0 million, respectively, representing a CAGR of 26.1%. Our operating profit increased from approximately RMB16.9 million for the year ended 31 December 2009 to approximately RMB44.4 million for the year ended 31 December 2010 and to approximately RMB116.6 million for the year ended 31 December 2011 representing a CAGR of 162.7%. Our net profit increased from approximately RMB11.8 million for the year ended 31 December 2009 to approximately RMB31.8 million for the year ended 31 December 2010 and to approximately RMB86.9 million for the year ended 31 December 2011, representing a CAGR of 171.4%.

### OUR COMPETITIVE STRENGTHS

We believe that our competitive strengths include the following:

**We are an integrated cement and clinker producer in Suzhou Prefecture and we produce high quality products at competitive cost**

- (i) *We enjoy low production costs by employing NSP technology, a residual heat recovery system and by using waste materials*

According to the certificate issued by the Suzhou Cement Association (蘇州水泥協會) on 15 November 2011, we were the only cement producer in Suzhou Prefecture that employed NSP technology which enabled us to reduce our energy costs by consuming less amounts of coal and water. Being environmentally responsible, NSP technology results in high production efficiency by employing a dry rotary kiln in the production process.

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### *Notes*

- (1) Suzhou Cement Association is a non-profit making organization administered by the Suzhou Economics and Information Technology Commission (蘇州市經濟和信息化委員會) which is registered under the Suzhou Civil Affairs Bureau (蘇州市民政局). Its duties include, but are not limited to, conducting industry surveys, publishing industry data, participating in the formulation of industry plans and standards as well as quality management and supervision as directed by the relevant PRC governmental authorities. Suzhou Cement Association is an Independent Third Party.
- (2) According to Digital Cement, rotatory kilns used in NSP technology are more heat efficient than kilns being used in non NSP production lines. Production lines employing NSP technology typically have a lower coal/clinker ratio than production lines which do not employ NSP technology.

We have equipped our production line with a residual heat recovery system which recycles the heat produced in the clinker production process to generate power that can be used in the production process. This reduces our reliance on external electricity sources and thus reduces our costs of production. For the three years ended 31 December 2009, 2010 and 2011, electricity generated by our residual heat recovery generators accounted for approximately 12.6%, 20.7% and 17.8% of the total electricity consumed, respectively. We received an energy saving reward in the sum of RMB1.28 million in 2008 and RMB0.81 million in 2010 respectively, from the Provincial government for our use of the residual heat recovery system at our production facilities.

We are also able to reduce our production costs by adopting various environmentally responsible measures and technologies, including the use of waste materials in our production of PC 32.5 products. These waste materials and by-products such as coal gangue, limestone mineral refuses, flyash and fluorine gypsum are utilized to reduce the use of clinker and other raw materials. This entitles us to claim a VAT refund for our PC 32.5 products.

### ***(ii) We produce high-grade quality cement***

We are able to maintain a high quality level of our products largely because of our stringent quality control system that has been implemented and observed at our production facilities which involves twenty separate inspection points at various stages in the production process.

According to the independent mandatory inspection reports issued by Jiangsu Construction Materials Quality Supervision and Inspection Station, (i) in May 2012, with regard to our PO 42.5; and (ii) in April 2012, with regard to our PC 32.5, both our PO 42.5 and PC 32.5 products are of a substantially higher quality than the PRC national standard in almost every respect that was examined or inspected.

### ***(iii) We produce clinker for our own production use***

We are a cement producer in Suzhou Prefecture which has the capability of producing clinker, the principal ingredient of cement. By producing our own clinker, we are able to control the quality and supply of our cement and at the same time reduce our reliance on external sources and thus control our production costs.

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### **We employ environmentally-friendly technologies**

Our employment of NSP technology in our production process emits less pollutants and by equipping our production line with an residual heat recovery system we are able to save energy costs and be less reliant on on-grid electricity sources.

According to the Inspection Report issued by the Wujiang Environmental Inspection Station (吳江環境監測站) in August 2009, our atmospheric pollutant emission were substantially lower than those required under the national Emission Standard of Air Pollutants for Cement Industry GB4915-2004 (水泥工業大氣污染物排放標準), which is the applicable PRC national standard as at the Latest Practicable Date, in almost all the aspects including, in particular, our emission of NOx as stated in the Inspection Report was 468 mg per m<sup>3</sup>, which was significantly lower than the NOx emission limit of no more than 800 mg per m<sup>3</sup> as stipulated under the said national standard. In order to continuously monitor the pollutants emitted during our production process, we have installed monitoring facilities for measuring the quantity of the pollutants emitted in accordance with the relevant PRC emission control policies. Such facilities generate data on a daily basis and are generally inspected by Wujiang Environmental Bureau every three months. As our pollutants monitoring facilities are connected to the automatic supervision system of Wujiang Environmental Bureau, both our Group and Wujiang Environmental Bureau can access and obtain the data at any time. According to the data generated from the facilities, our NOx emission standards during the period from April 2011 to April 2012 ranged from 0mg/m<sup>3</sup> to 605 mg/m<sup>3</sup>, and our average monthly NOx emission standard was 330 mg/m<sup>3</sup> for the same period, which was even lower than our NOx emission as stipulated in the said Inspection Report issued in August 2009 as well as the current national NOx emission limit of 800 mg per m<sup>3</sup>. In the event that the PRC government implements more stringent emission control policies, our low pollutant emissions may enhance our market position given the fact that such policies will probably phase out some of the small scale cement producers and therefore reduce the cement supply in the markets, whilst we are less likely to be affected by such policies.

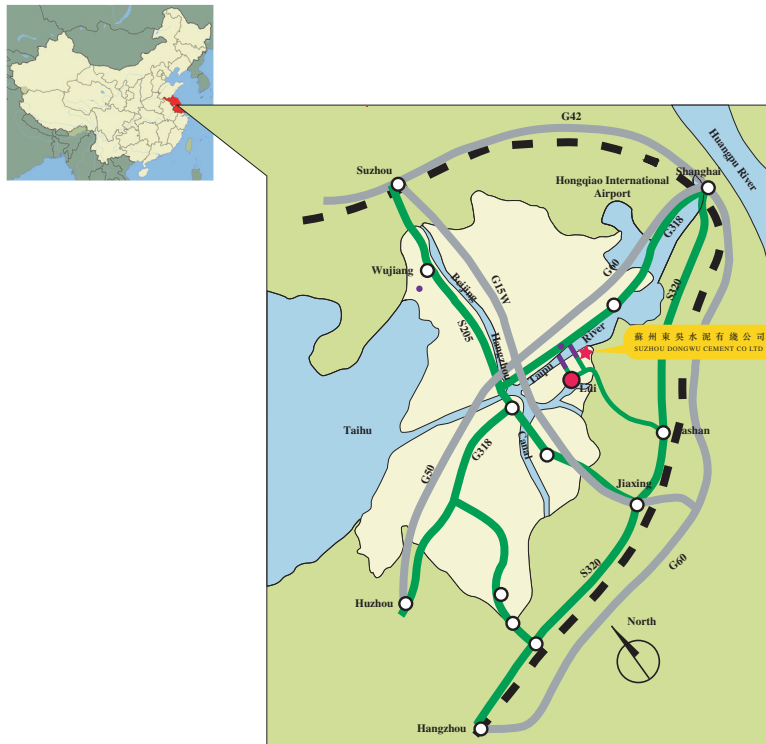
To further reduce the impact on the environment, we have installed two electric dust precipitators in our production line. These precipitators can precipitate more than 99.9% of the dust generated during the production process.

Additionally, the use of waste materials in our production process entitles us to claim a VAT refund for our PC 32.5 from the PRC government by adoption of energy efficient and environmentally-friendly practices. The VAT refund is only available on the condition that at least 30% of the raw materials used during our production process are waste materials. As we produce our own clinker, we are able to control this process and to ensure that a minimum of 30% waste material is used.

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**We enjoy the benefits of a convenient transportation network, including a wharf adjoining our production facilities which is strategically located in the Yangtze River Delta Region**

During the Track Record Period, our products were sold in Jiangsu Province, Zhejiang Province and Shanghai.



Our production facilities are situated alongside the banks of the Taipu River (太浦河), a 57.2 km-long river that flows through fifteen counties and towns in Jiangsu Province, Shanghai and Zhejiang Province. The Taipu River is a upper tributary to the Huangpu river (黃浦江). The Huangpu river has historically played a significant logistical role in the commercial activities between Shanghai and the rest of the Yangtze River Delta Region. We are also connected via the Taipu River to the Jiangnan canal (江南運河) the southernmost section of the Beijing-Hangzhou Grand Canal (京杭大運河), which is the longest canal in the world which stretches from Beijing to Hangzhou via the provinces of Tianjin, Hebei, Shandong, Jiangsu and Zhejiang. We have been granted the exclusive right to occupy the 730 meters wide river bank that adjoins our production facilities by the Jiangsu Waterway Administration Bureau (江蘇省水利廳) and was allowed to build and use a wharf on the river bank. Our wharf on the Taipu River with access to its waterway network enables us to extend our market reach as far as Taizhou and Zhoushan in Zhejiang Province which are approximately 500 km from our production facilities. This flexibility also allows us to access potential new markets in Anhui, Jiangsu and Zhejiang provided that they are accessible by waterway. Transportation via waterway is an inexpensive mode of transportation and less expensive than transportation by road. Most of our products and raw materials are transported by waterway. The Taipu River affords us convenient access to an extensive network of rivers, canals and lakes, including a network of small waterways through

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which our customers and suppliers are afforded convenient access to our production facilities. The wharf possesses a daily transportation capacity of 10,000 tonnes of raw materials and cement and is capable of berthing vessels possessing up to 1,000 deadweight tonnage (DWT). The wharf is equipped with automatic loading lines which enables us to easily load and/or off-load materials on to vessels berthed at the wharf.

For further details in connection with our occupation of the river bank, risks relating to our occupation of the river bank and our land use rights, please refer to the paragraph “Property” of this section the section headed “Risk Factors” and Appendix IV to this document respectively.

### **We enjoy stable and long-term relationships with our customers and suppliers**

Our products are sold through direct sales to construction developers, ready mixed concrete stations, trading companies and a number of walk-in customers.

Approximately 80% of our total revenue during the three years ended 31 December 2009, 2010 and 2011 was derived from sales to customers which we have had business relationships with for at least three years. We believe that we are able to maintain stable and long-term relationships with our customers because of our high-grade products, our strategic location and our stable supply.

In addition, we have maintained business relationships with our key suppliers of principal raw materials for a period of between 3-7 years. In October 2011, we entered into a five-year contract with a limestone supplier in Zhejiang Province in order to secure a limestone supply of approximately 3.5 million tonnes over the next five years, representing more than 50% of our limestone requirements over the same period.

### **We have a management team with diverse expertise and skill sets and a highly skilled and experienced workforce**

Our management team consists of highly experienced professionals with diverse skill sets and extensive work experience. Ms. Xie Yingxia (謝鶯霞), our Chairman and one of our executive Directors, graduated from Fudan University (上海復旦大學) in Shanghai, and is a holder of a degree in master of business administration and has a bachelors degree in economics. Currently, Ms. Xie is responsible for the financial matters of the Group including budget, performance evaluation and internal audit and asset management. Mr. Jin, one of our executive Directors and our chief executive officer, joined our Group in 2007 and possesses approximately 30 years of corporate experience in the PRC. Mr. Jin possesses a deep understanding of the markets we serve, including knowledge of the local affairs of Wujiang City and local government policies by reason of having worked in and around Wujiang City since 1991. Mr. Yang Bin (楊斌), one of our executive Directors, graduated from Tsinghua University (清華大學) in Beijing majoring in mechanical engineering and University of International Business and Economic (對外經濟貿易大學) with a masters degree in business administration. In addition, our principal department heads comprise several highly experienced individuals possessing an average of 20 years of experience in the cement industry.

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### OUR STRATEGIES

#### **Strengthen our market position in our regional markets by strengthening our sales network**

We intend to continue to strengthen our relationships with our construction developer customers, our ready-mixed concrete station customers and selected trading companies who possess long and proven business records with a view to increasing our sales in our regional markets. In particular, we intend to consolidate our market position in Wujiang City, where we can sell our products at a higher average selling price and better profit margin, and to increase our market penetration including, in particular, the urban area of Suzhou (excluding Wujiang City) and Shanghai. We also anticipate working on more large-scale government construction projects in Suzhou and Shanghai.

In order to strengthen our sales network, we intend to enhance our logistics system and capability by establishing our entrepots at strategic locations in close proximity to our existing and potential new markets where we will store our cement products and our customers can take delivery of our products after purchasing our products at such entrepots. To establish our own entrepots, we will lease warehouses at those selected strategic locations to store large quantities of our cement products. As our customers will take delivery of our products directly at these entrepots, we do not have to provide any product delivery services to these customers. Instead of delivering our products to various customers at different locations, we can transport some of our products to these entrepots for sale, which enables our customers to reduce the total travelling time and distance in taking delivery of our products. We believe that the establishment of our own entrepots in close proximity to our existing and potential new markets can better serve our customers within and outside Wujiang City, including, in particular, the urban areas of Suzhou and Shanghai.

Besides, as our customers can take delivery of our products after purchasing our products at such entrepots, we believe that such new means of selling our products could attract potential new customers in our existing and potential new markets, thereby facilitating the consolidation of our market position in Wujiang City and our market penetration in new markets, including, in particular, the urban areas of Suzhou and Shanghai.

Moreover, sales of our products at entrepots could enable us to benefit from a relatively higher profit margin due to the reduced production costs and our higher retail price as compared with the wholesale price. We will also require our customers who make orders at our entrepots to pay the purchase price in full before taking delivery of our products.

We plan to establish one entrepot in each of Suzhou and Shanghai and seven to nine entrepots in Wujiang City by mid-2013, with the first one to commence establishment in around July 2012. We intend to establish more entrepots in Wujiang City in view of our significantly higher average sales price and better profit margin in Wujiang market. With more entrepots to be established in Wujiang City as well as the expected positive effects and results to be brought by such entrepots, we expect that we can achieve higher sales volume and revenue in our local Wujiang market as well as their respective proportions to our other geographical markets.

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### **Expand our business to downstream industries**

We intend to expand our business to downstream industries by acquiring, or acquiring a majority stake, in a suitable ready-mixed concrete station located in Wujiang City in the second half of 2012. The ready-mixed concrete stations produce concrete by mixing cement, which is the key raw material for the ready-mixed concrete stations, with water and aggregate, such as sand, natural gravel and crushed stone in the concrete mixers. The major income of ready-mixed concrete stations is typically derived from their sales and transportation of concrete to the construction developers, as well as the provision of onsite concrete pumping services. As at the Latest Practicable Date, we have not identified any suitable acquisition target and as such, we are uncertain of the amount of capital expenditure that will be required to be incurred or the operational and financial impact that such an acquisition will have on our revenue and profitability. In the event that the proceeds from [•••] are insufficient to cover such acquisition cost, we intend to fund the balance by utilizing our own working capital to cover any short fall.

This will enable us to develop and expand our business into the production of concrete and mortar products. By taking advantage of our strategic geographical location and transportation network, this will enable us to better serve our existing and potential new customers by offering a fuller range of products. As we produce our own cement, we will be able to ensure the high quality of these concrete and mortar products. By acquiring, or acquiring a majority stake in, a ready-mixed concrete station, we will also be able to attract more construction developer customers in both the public and private sectors while saving us the time and costs required for establishing a new ready-mixed concrete station which typically involves the application of various licenses. It may also enhance our prospects of being awarded public infrastructure projects. We do not intend to manage the ready-mixed concrete station ourselves. It is our intention that following such acquisition, we will retain the management and staff who shall continue to be responsible for the day-to-day management of such ready-mixed concrete station. With the cooperation between our existing management staff who possess expertise in the cement industry and the experienced management staff of the ready-mixed concrete station(s) to be acquired by our Group through sharing of technology, experience and resources, we believe that we are capable of running the new business effectively. We also intend to instruct a PRC Legal Advisors to conduct a legal due diligence review on the ready-mixed concrete station we target to acquire during the acquisition process so as to ensure that such ready-mixed concrete station is being operated in full compliance with the prevailing relevant laws and regulations.

### **Enhance our brand and our corporate profile**

We intend to increase our marketing activities in all our regional markets. We also intend to enhance our brand image in our regional markets by continuing to strive to provide all our customers with high grade products at a competitive price. Some of our intended marketing plans include upgrading our company catalogue, advertising through the mass media such as magazines and directly attending and participating in more government tenders.

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### **Further stabilize our limestone supply by entering into a long-term contracts with suitable limestone suppliers**

Presently, we have entered into master contracts with some of our limestone suppliers to fix a basic price for each year. The basic price is usually valid for about one year. In October 2011, we entered into a five-year master contract with a limestone supplier in Zhejiang Province in order to secure a limestone supply of approximately 3.5 million tonnes over the next five years, representing more than 50% of our limestone requirements over the same period. The price, volume and other terms shall be negotiated and agreed between our Group and the supplier on an annual basis in the form of supplementary agreements. It is our intention to enter into more long-term contracts with suitable limestone suppliers and quarry operators which will enable us to further secure a steady supply of limestone at a reduced cost through economies of scale.

### **Further enhance our operational efficiency and reduce our production costs**

In order to maximize our profitability and to ensure our long-term competitiveness, we have already implemented a number of measures to improve our operational efficiency and cost-control such as using industrial waste and by-products in our production process and our upgrading our equipment.

We intend to continue to improve our operational efficiency by providing regular training to our production staff, reducing our energy consumption through innovation.

We are testing various types of mineral powder for use as additives in the production process. We anticipate that this not only reduces our cost of sales but is also environmentally responsible. We are also testing new environmentally responsible technologies such as kiln technology that may enable us to incinerate general household waste material. We also intend to upgrade our production equipment to ensure more energy efficiency.

### **Maintain our independence despite the PRC government’s policy of encouraging consolidation of the cement industry**

Leveraging on our advantage of having a whole cement production line in Wujiang City, coupled with the fact that we do not rely on other companies or partners for cement and clinker production, we consider merger with, or acquisition of, other cement companies unnecessary and we do not have such plans at the moment. Up to the Latest Practicable Date, so far as is known to our Directors, there was no governmental order requiring us to merge with or acquire other cement companies. Further, as advised by our PRC Legal Advisors, given the fact that all our existing Shareholders are non-governmental entities, it is unlikely that we will be required by the PRC government to merge with or be acquired by other cement companies as compared with those companies with governmental shareholders. In addition, since (i) both our production capacity and our technology are in compliance with the relevant PRC industry policies, (ii) we have obtained all relevant and necessary permits, approvals, consents, certificates and licenses required under the PRC laws and regulations in connection with the business of our Group and all of them are in full force and effect throughout the Track Record Period and

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up to the Latest Practicable Date, and (iii) under the current PRC legal framework, the government authorities have not been conferred the rights to interfere with the internal management of a company without justifiable reasons, it is even more unlikely that we will be required by the PRC government to merge with or be acquired by other cement companies. Based on the foregoing, our Directors are of the view that we are neither a potential consolidator nor consolidatee.

Although we do not anticipate that we will be a consolidator or consolidate despite the consolidation policy with respect to the PRC cement industry, similar to other industries and as a matter of business strategy, we may become a target of merger or acquisition by other cement producers in view of:

- our predominance of having a convenient transportation network and business situated at a good geographical location;
- our profitable operation;
- our compliance with all relevant PRC laws and regulations such that our Group has obtained all necessary permits, approvals, consents, certificates and licenses required under the PRC laws and regulations in connection with the business of our Group and operation of our production line and all of them are in full force and effect throughout the Track Record Period and up to the Latest Practicable Date and that we have obtained the certificates issued by Wujiang Industrial and Commerce Authority, Wujiang Tax Authority and Wujiang Environmental Protection Authority recognizing our compliance with the relevant laws and regulations in terms of our business operation, tax and environmental compliance throughout the Track Record Period.

Even though it is unlikely that we will be required by the PRC government to merge with or be acquired by other cement companies under the current PRC laws and regulations, as a matter of business strategy, our Directors may consider conducting merger and acquisition activities with other cement producers in future on a voluntary basis, provided that the proposed merger or acquisition is favourable to us and in compliance with the [••] and other applicable laws and regulations. As at the Latest Practicable Date, we did not have of any such merger or acquisition plans, nor were we aware of any offer for the same.

## **OUR PRODUCTS**

Our principal products are PO 42.5 and PC 32.5, which are sold in the form of bulk cement or under our registered trademark “”. We also produce clinker, the key intermediary raw material in cement production. During the Track Record Period, the clinker we produced was mainly for our own cement production purpose, although we also sold it as a by-product occasionally to relieve the pressure of inventories in our warehouses when the market demand for cement was weak.

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The table below sets forth the breakdown of our revenue by product type during the Track Record Period:

|         | Year ended 31 December         |              |                                |              |                                |              |
|---------|--------------------------------|--------------|--------------------------------|--------------|--------------------------------|--------------|
|         | 2009                           |              | 2010                           |              | 2011                           |              |
|         | <i>Sales</i><br><i>RMB'000</i> | <i>%</i>     | <i>Sales</i><br><i>RMB'000</i> | <i>%</i>     | <i>Sales</i><br><i>RMB'000</i> | <i>%</i>     |
| PO 42.5 | 107,623                        | 36.9         | 160,603                        | 45.2         | 224,551                        | 48.4         |
| PC 32.5 | 155,284                        | 53.3         | 184,088                        | 51.9         | 236,185                        | 50.9         |
| Clinker | 28,715                         | 9.8          | 10,259                         | 2.9          | 3,309                          | 0.7          |
| Total   | <u>291,622</u>                 | <u>100.0</u> | <u>354,950</u>                 | <u>100.0</u> | <u>464,045</u>                 | <u>100.0</u> |

The table below sets forth the breakdown of the average selling prices of our products during the Track Record Period:

|         | Year ended 31 December |                  |                  | As at the Latest |
|---------|------------------------|------------------|------------------|------------------|
|         | 2009                   | 2010             | 2011             | Practicable Date |
|         | <i>RMB/tonne</i>       | <i>RMB/tonne</i> | <i>RMB/tonne</i> | <i>RMB/tonne</i> |
| PO 42.5 | 217.8                  | 279.4            | 358.7            | 314.6            |
| PC 32.5 | 193.4                  | 234.0            | 302.4            | 260.7            |
| Clinker | 185.4                  | 206.0            | 320.7            | 247.1            |

The table below sets forth the breakdown of our sales volume and production volume during the Track Record Period:

|         | Year ended 31 December       |                         |                              |                         |                              |                         |
|---------|------------------------------|-------------------------|------------------------------|-------------------------|------------------------------|-------------------------|
|         | 2009                         |                         | 2010                         |                         | 2011                         |                         |
|         | <b>Production<br/>volume</b> | <b>Sales<br/>volume</b> | <b>Production<br/>volume</b> | <b>Sales<br/>volume</b> | <b>Production<br/>volume</b> | <b>Sales<br/>volume</b> |
|         | <i>thousand tonnes</i>       |                         |                              |                         |                              |                         |
| PO 42.5 | 494.8                        | 494.1                   | 574.1                        | 574.8                   | 637.5                        | 626.1                   |
| PC 32.5 | 810.8                        | 803.0                   | 790.3                        | 786.6                   | 790.6                        | 781.1                   |
| Clinker | 890.0                        | 154.9                   | 859.3                        | 49.8                    | 888.4                        | 10.3                    |

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*Notes:*

1. The gradual increase in the sales volume of our PO 42.5 during the Track Record Period was mainly due to the increase in the demand of relatively high strength cement, i.e. PO 42.5 for the development of large scale infrastructure projects in Wujiang City in 2011. Besides, we had been focusing on the development of key governmental administrative construction projects and ready-mixed concrete station customers and such projects and customers mainly used PO 42.5, which also accounted for the gradual increase in the sales volume of our PO 42.5 during the Track Record Period.
2. During the Track Record Period, our sales volume of clinker was much lower than our production volume because most of the clinker we produced was used for our own cement production.

Our sales volume of cement products was approximately 1.3 million tonnes, 1.4 million tonnes and 1.4 million tonnes for the three years ended 31 December 2009, 2010 and 2011 respectively. Our sales volume of clinker was 154,851 tonnes, 49,803 tonnes and 10,320 tonnes during the same period respectively. Our total sales amounted to approximately RMB291.6 million, RMB355.0 million and RMB464.0 million during the same period respectively.

Our overall gross profit margin for the three years ended 31 December 2009, 2010 and 2011 was 7.9%, 13.9% and 26.4% respectively, the breakdown of which is set out as follows:

|         | Year ended 31 December                                    |                                            |                                                           |                                            |                                                           |                                            |
|---------|-----------------------------------------------------------|--------------------------------------------|-----------------------------------------------------------|--------------------------------------------|-----------------------------------------------------------|--------------------------------------------|
|         | 2009                                                      |                                            | 2010                                                      |                                            | 2011                                                      |                                            |
|         | <i>Average<br/>selling<br/>price<br/>(RMB/<br/>tonne)</i> | <i>Gross<br/>profit<br/>margin<br/>(%)</i> | <i>Average<br/>selling<br/>price<br/>(RMB/<br/>tonne)</i> | <i>Gross<br/>profit<br/>margin<br/>(%)</i> | <i>Average<br/>selling<br/>price<br/>(RMB/<br/>tonne)</i> | <i>Gross<br/>profit<br/>margin<br/>(%)</i> |
| Cement  | 202.7                                                     | 8.8                                        | 253.2                                                     | 14.8                                       | 327.4                                                     | 26.3                                       |
| Clinker | 185.4                                                     | -0.5                                       | 206.0                                                     | -15.4                                      | 320.7                                                     | 17.4                                       |

*Notes:*

1. The gradual increase in our gross profit margin during the Track Record Period was mainly due to the increase in the average selling price of PC 32.5 in 2010 and the increase in the average selling price of PO 42.5 in 2011. Such an increase generated an increase in our revenue at a rate exceeding the increase in our cost of sales during the same period. Whilst we also experienced an increase in the demand for our cement products due to the implementation of the energy consumption saving and emission control policies in the PRC. Such policies resulted in changes in the market supply and demand of cement in our markets which benefited the sales of our cement products in such market while phasing out less developed cement production capacity by the PRC government.
2. During the Track Record Period, the clinker we produced was mainly used for our own cement production purpose whilst only some of our clinker was sold as a by-product when the market demand for cement decreased and remained weak for a temporary period due to unfavourable weather conditions such as continuous low temperature and wet weather, etc. For cost-effective purposes, we generally operate our clinker production facilities continuously. In the event that not all of the clinker was used for our cement production as a result of

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the temporary weak market demand for cement, our inventory level of clinker would accumulate and might reach a high level. In order to relieve the pressure of temporarily excessive inventories in our warehouses, we would sell clinker as a stand-alone product at a relatively low price in light of the said circumstances. As only a small portion of the clinker we produced was sold as a stand-alone product, the gross profit margin for clinker varied with the short term fluctuation in its selling price. It also explains why negative gross profit margin for clinker was recorded for the years ended 31 December 2009 and 2010.

3. For the year ended 31 December 2011, the market price of clinker increased significantly due to the strong market demand for both cement products and clinker. Benefiting from the increasing market price, the average price for clinker we sold has reached RMB320.7 per tonne, even higher than the average price for PC 32.5 products during the same period. Therefore, we were able to sell clinker at a positive gross profit margin.

The following table sets forth details of PO 42.5, PC 32.5 and clinker, respectively:

| Type    | Category                  | National Standards                                                                                                                                                                                                                                                                                                                                                                                                      | Characteristics                                                                                                                                                   | Applications                                                                                                                                                                           |
|---------|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PO 42.5 | Common Portland cement    | Loss $\leq 5.0\%$ ;<br>$SO_3 < 3.5\%$ ;<br>$CI - < 0.06\%$ ;<br>$MgO < 5.0\%$ ;<br>3-day compressive strength $\geq 17MPa$ ;<br>28-day compressive strength $\geq 42.5MPa$ ;<br>(3-day fractural load $\geq 3.5MPa$ 28-day fractural load $\geq 6.5MPa$ );<br>initial setting time $\geq 45$ min;<br>final setting time $< 600$ min;<br>compliant stability; and<br>fineness (specific surface area) $\leq 300m^2/Kg$ . | High strength at the initial phase;<br>high hydration heat;<br>high freeze-resistance;<br>low heat-resistance;<br>low corrosion-resistance;<br>low dry shrinkage. | General cement applications such as construction of residential and industrial buildings, pre-cast work. Also structures that require short construction time such as bridges & roads. |
| PC 32.5 | Composite Portland cement | $SO_3 \leq 3.5\%$ ;<br>3-day compressive strength $\geq 10MPa$ ;<br>28-day compressive strength $\geq 32.5MPa$ ;<br>(3-day fractural load $\geq 2.5MPa$ ;<br>28-day fractural load $\geq 5.5MPa$ );<br>initial setting time $\geq 45$ min;<br>final setting time $\leq 600$ min;<br>compliant stability; and<br>fineness (80 micron) $\leq 10.0\%$ .                                                                    | Low strength at the initial phase;<br>high heat-resistance;<br>low acid-corrosion-resistance.                                                                     | General cement applications and structures that do not require high strength such as low rise buildings, paving and mass concreting.                                                   |
| Clinker | –                         | –                                                                                                                                                                                                                                                                                                                                                                                                                       | For the production of cement                                                                                                                                      | Cement production                                                                                                                                                                      |

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According to the independent mandatory inspection reports issued by Jiangsu Construction Materials Quality Supervision and Inspection Station, (i) in May 2012, with regard to our PO 42.5; and (ii) in April 2012, with regard to our PC 32.5 (collectively, the “Reports”), both our PO 42.5 and PC 32.5 products are of a substantially higher-grade quality as compared to the current PRC national standard GB-175-2007 for common Portland cements in almost every respect that was examined or inspected.

The Jiangsu Construction Materials Quality Supervision and Inspection Station is a wholly state-owned enterprise and one of the designated inspection institutions in Jiangsu Province authorized to conduct inspections pursuant to the Quality Management Procedures of Cement Enterprise, which was promulgated by the Ministry of Industry and Information Technology of the PRC. Pursuant to the Quality Management Procedures of Cement Enterprise, cement enterprises are required to have their products inspected by designated inspection institutions once every two months. Accordingly, we commissioned the Jiangsu Construction Materials Quality Supervision and Inspection Station to conduct one of our mandatory inspections on our PO 42.5 and PC 32.5 products and obtained their report in May 2012 and April 2012 respectively. We paid the Jiangsu Construction Materials Quality Supervision and Inspection Station a sum of RMB8,702 to conduct inspection services including six inspections on our products in 2012.

The Reports set out the results of examinations and inspections of different characteristics of our PO 42.5 and PC 32.5 cement products as compared to the relevant standards set in the current PRC national standard GB-175-2007. In almost every category examined and inspected, our cement products were assessed to be of substantially higher-grade quality than the current PRC national standard GB-175-2007. Of particular significance, our cement products improve upon the national standards in respect of the key performance parameters of setting-time and compressive strength.

In particular, the Reports highlighted the key factors of setting-time and compressive strength. The cement paste setting time is affected by a number of factors, including cement fineness, the water-cement ratio, the chemical content (especially gypsum) and admixtures. For construction purposes, the initial set must not be too soon and the final set must not be too late. Additionally, setting times can give an indication of whether or not cement is undergoing normal hydration.

| Product | Applicable National Standards            |                          | Inspection Results of Dongwu Cement |
|---------|------------------------------------------|--------------------------|-------------------------------------|
| PO 42.5 | Initial setting time <sup>1</sup>        | no less than 45 minutes  | 127 minutes                         |
|         | Final setting time <sup>1</sup>          | no more than 600 minutes | 217 minutes                         |
|         | 28-day Compressive strength <sup>2</sup> | No less than 42.5 MPa    | 49.5 MPa (average)                  |
| PC 32.5 | Initial setting time <sup>1</sup>        | no less than 45 minutes  | 211 minutes                         |
|         | Final setting time <sup>1</sup>          | no more than 600 minutes | 270 minutes                         |
|         | 28-day Compressive strength <sup>2</sup> | No less than 32.5 MPa    | 41.0 MPa (average)                  |

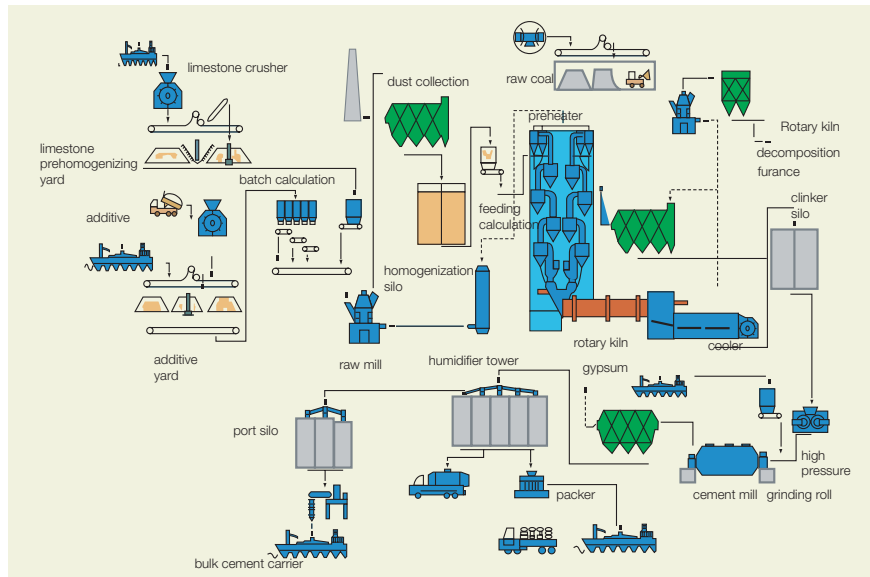
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### Notes:

- 1 Setting time regulates how much time the cement can be placed and finished. The setting of cement is a continuous process. The initial setting time is the interval between the mixing of cement with water and the time when the mix has lost plasticity, stiffening to a certain degree. It marks roughly the end of the period when the cement mix can be molded into shape. The final setting time is the point at which the set cement has acquired a sufficient firmness to resist a defined pressure.
- 2 Cement hardens and gains strength as it hydrates. The hydration process lasts over a long period of time. The 28 day time period is selected by the industry as the age that all cement should be tested. At this age, a substantial percentage of the hydration has taken place.

### Production process

The diagram below illustrates the cement production process:



A raw mix of limestone, silica, iron and aluminum is prepared from rock sources which have been crushed and pounded to the size of small pebbles. Although cement is essentially powdered rock, the various materials must be present in precise quantities in order for high-grade quality Portland cement to be produced. In order to ensure that the correct mix is obtained at the beginning of the cement making process, controlled amounts of each of the raw materials are fed from silos onto a conveyor belt, which takes them to the raw mill.

Once in the raw mill, the raw mix is then blended in a blending chamber, and chemically analyzed to ensure that the precise ratios of raw materials are present. It is important that the raw mix is mixed thoroughly to form a completely homogeneous mixture, and that all elements in the mix are as close to being the same size as is possible. Calcium and silicone make up the bulk of the mix because they are the ingredients which later form the calcium silicates that comprises 66% of Portland cement. Smaller amounts of iron and aluminum are present to act as flux during the firing process, lowering the temperature at which calcium silicates will form.

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After blending, the raw mix is stored in a silo from where it is transported to the kiln pre-heater. The raw materials are then fed to the kiln, a large rotating cylinder which is heated gradually over the length of the kiln, with the temperature rising to between 1,400 and 1,450 degrees Celsius at its hottest point. As the raw mix grows hotter, aluminum and iron melt, and calcium silicates begin to form. This process is called pyroprocessing and is the most energy-intensive stage of the cement production process. The major raw material for the production of clinker is limestone mixed with a second material containing clay as source of aluminum-silicate. Second raw materials (materials in the raw mix other than limestone) depend on the purity of the limestone. Some of the secondary raw materials used include clay, shale, sandstone, iron powder. By the end of the firing process, small nodules of an entirely new compound are formed. These nodules are called clinker and are typically 3-25 mm in diameter.

The clinker is cooled after it leaves the kiln and stored until required for milling when it is fed into tube mills to be ground with gypsum flyash and slag. Approximately 3-6% gypsum is added, gypsum operates as an additive which controls the speed at which the cement is set. The grinding process continues until the clinker nodules become a very fine powder. Typically, other additives which impart water-reducing properties to the cement and aid grinding are incorporated during the grinding stage. The cement is then fed to storage silos until required for delivery or diverted to a bagging plant.

### **NSP technology**

The important feature of the NSP technology lies in the pre-heating of raw materials for the production of clinker before they are mixed and fed into the rotary kiln. In the non-NSP technology production process, the raw materials are crushed and mixed to form a raw meal and fed into the rotary kiln without pre-heating. The pre-heating process significantly enhances the efficiency of calcination resulting in the formation of better quality clinker in the rotary kiln.

### ***Benefits of the NSP technology***

The benefits of the NSP technology are as follows:

- (i) the use of the NSP technology increases the production capacity of traditional suspension preheater kilns by 1.5 to 2 times;
- (ii) the NSP technology decreases the sintering energy consumed during the production process. Accordingly, NSP technology is more heat efficient and requires less consumption of energy;
- (iii) the NSP technology provides a more efficient cooling rate system; and
- (iv) the NSP technology emits less pollutants and enables us to reduce our energy costs by consuming less coal and water.

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### **Use of waste materials in production process**

We use waste materials as raw materials in our production of PC 32.5 products. The waste materials we used include (i) mineral refuses produced during the mining activities, such as coal gangue and limestone mineral refuses, and (ii) industrial wastes or by-products, such as flyash and fluorine gypsum. Flyash are normally generated during the course of coal burning, while fluorine gypsum is a by-product of hydrogen fluoride production. All of the waste materials we used are procured from external sources. All the waste materials we used are industry by-products or wastes or mineral wastes and are non-poisonous in nature.

### **Production Facilities**

Our two production facilities are located at Lili Town, Wujiang City, Suzhou Prefecture, Jiangsu Province, the PRC with a site area and a gross floor area of approximately 182,000 sq.m. and 32,700 sq.m. respectively.

As at the Latest Practicable Date, we had one production line employing a dry rotary kiln that possesses a production capacity of 775,000 tonnes of clinker per annum and two grinding mills. The two grinding mills are for the production of both PO 42.5 and PC 32.5 cement products based on the production plan and market demand of each product.

The average length of our production cycle with respect to our products is approximately five hours. During the production process, our production line can carry out the raw meal grinding stage, the clinker calcination stage and the cement grinding stage concurrently.

As advised by our PRC Legal Advisors, we have obtained the necessary permits and approvals from the local DRC in respect of our production line.

Our production facilities are equipped with the DCS which ensure high efficiency, energy saving and optimized control via automation. The DSC is capable of overseeing several industrial processes simultaneously in order to ensure production quality, environmental protection and management cost-effectiveness. The DCS is an automated control system that is installed throughout the various parts of the production facility rather than relying upon a central controller. The entire system of controllers is connected by networks for communication and monitoring.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any breakdown of any major production equipment which resulted in material impact on our normal operations and productions.

We employ a residual heat recovery system which enables us to reduce our production costs and save the amount of on grid electricity consumed.

The depreciation period for production equipment and structures is 10 years and 20 years respectively. As at the Latest Practicable Date, most of our production equipment and structures have been utilized for approximately 7.5 years.

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The following table sets out our utilization rate of cement and clinker production facilities during the Track Record Period and up to 30 April 2012:

|                                       |             | <b>Year ended<br/>31 December</b> |             | <b>Four months<br/>ended<br/>30 April</b> |
|---------------------------------------|-------------|-----------------------------------|-------------|-------------------------------------------|
|                                       | <b>2009</b> | <b>2010</b>                       | <b>2011</b> | <b>2012</b>                               |
| Cement utilization rate <sup>1</sup>  | 79.8%       | 83.4%                             | 87.2%       | 61.0%                                     |
| Clinker utilization rate <sup>2</sup> | 114.8%      | 110.9%                            | 114.6%      | 94.5%                                     |

*Notes:*

- 1 The cement utilization rate is equal to the aggregate of annual production volume of PO 42.5 and annual production volume of PC 32.5, divided by the annual production capacity of our two cement grinding mills.
- 2 The clinker utilization rate is equivalent to the annual production volume of clinker divided by the annual production capacity of clinker.

During the Track Record Period and up to the Latest Practicable Date, we conducted comprehensive maintenance work on our production facilities and equipment during the period of the Chinese New Year each year. The comprehensive maintenance work would typically last for approximately 20 days and our production facilities would cease to operate during such period which in turn resulted in a relatively low utilization rate for our cement production facilities for the four months ended 30 April 2012.

According to MIIT, the cement utilization rates for PRC cement industry were approximately 72.0% and 73.0% respectively for the two years ended 31 December 2010 and 2011.

According to the feasibility report of Suzhou Dongwu Cement Co. Ltd 2,500/day tonnes of Clinker NSP Production Line (蘇州東吳水泥有限公司 2500t/d 噸熟料新型幹法水泥生產線可行性報告) (the “Feasibility Report”) jointly issued by the China Kaisheng International Construction Co. Ltd (中國凱盛國際工程公司) and the Nanjing Kaisheng Cement Technology and Construction Co., Ltd. (南京凱盛水泥技術工程有限公司), the hourly production capacity of each cement grinding mill is 110 tonnes. Based on the said hourly production capacity, the annual production capacity of our two cement grinding mills is 1,636,800 tonnes. This is calculated by 110 tonnes per hour multiplied by 24 hours per day for 310 operation days per year and two cement grinding mills.

According to the Feasibility Report, the annual production volume of clinker is 775,000 tonnes. The annual clinker production volume is based upon the calculation of 2,500 tonnes per day multiplied by 310 operation days per year, which is the estimated annual production days under the Feasibility Report.

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During the Track Record Period, the utilization rate of our clinker production facility exceeded 100% over the designated capacity, which was due to our clinker production facility being operated for 24 hours per day and over 310 days per year, with an aim to lowering the average production costs through continuous operations (except for annual examinations, testing and repairs).

Despite the high utilization rates for our cement and clinker production facilities, we do not have any plan to increase our production capacity given the recent government policies on controlling the cement production capacity. Any increase in our production capacity is accordingly subject to approvals by the relevant PRC governmental authorities which are, so far as is known to our Directors, unlikely to be obtained.

Our profitability is sensitive to fluctuation in the utilization rate for our production line. For the three years ended 31 December 2009, 2010 and 2011, an increase in cement utilization rate would have a positive effect on our revenue and net profit while a decrease in cement utilization rate would have a negative effect on our revenue and net profit, assuming other factors remain unchanged. The table set out below illustrates the decrease in our revenue and net profit which would have been caused by a decrease to the cement utilization rate by 10% during the Track Record Period, assuming that other factors remain unchanged:

|                         | Year ended 31 December |          |                    |          |                    |          |
|-------------------------|------------------------|----------|--------------------|----------|--------------------|----------|
|                         | 2009                   |          | 2010               |          | 2011               |          |
|                         | <i>RMB million</i>     | <i>%</i> | <i>RMB million</i> | <i>%</i> | <i>RMB million</i> | <i>%</i> |
| Change in revenue by    | 33.0                   | 11.3     | 41.3               | 11.6     | 52.8               | 11.4     |
| Change in net profit by | 2.3                    | 19.6     | 4.9                | 15.3     | 11.1               | 12.8     |

The clinker we produced is mainly for our own cement production purpose. Therefore, the influence of utilization rate fluctuation of our clinker production facilities on our revenue and net profit has already been reflected by the fluctuation of the utilization rate of our cement production facilities.

The table below illustrates the breakeven quantity analysis for our cement products for each of the three years ended 31 December 2011 and for the four months ended 30 April 2012 based on our management accounts, assuming that the selling prices remain unchanged:

|                                         | 2009    | Year ended 31 December |         | For the four months ended |
|-----------------------------------------|---------|------------------------|---------|---------------------------|
|                                         |         | 2010                   | 2011    | 30 April 2012             |
| Breakeven quantity (thousand tonnes)    | 1,035.5 | 868.1                  | 530.5   | 275.1                     |
| Actual sales quantity (thousand tonnes) | 1,297.1 | 1,361.4                | 1,407.2 | 352.4                     |
| Average selling price of                |         |                        |         |                           |
| our cement products (RMB/tonne)         | 202.7   | 253.2                  | 327.4   | 284.2                     |
| Average cost of sales of our cement     |         |                        |         |                           |
| products (RMB/tonne)                    | 184.9   | 215.8                  | 241.0   | 254.6                     |

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Attributable to the continuous increase in the average selling price of our cement products, which exceeds the increase in our cost of sales of our cement products during the Track Record Period, the breakeven quantity of the Group’s cement products decreased from approximately 1,035,500 tonnes in 2009 to approximately 530,500 tonnes in 2011.

Due to the significant decrease in our average selling price of our cement products from approximately RMB327.4 per tonne, for the year ended 31 December 2011 to approximately RMB284.2 per tonne for the four months ended 30 April 2012, representing a decrease of 13.2% and the Directors are of the view that the downward trend since 2009 in breakeven quantity may not be sustained in 2012, as the table indicated above.

As advised by our PRC Legal Advisors, throughout the Track Record Period and up to the Latest Practicable Date, our Group has obtained all necessary permits, approvals, consents, certificates and licenses required under the PRC laws and regulations in connection with the business of our Group and all of them are in full force and effect. In particular, we have obtained the necessary permits and approvals from the local DRC in respect of our production line. Furthermore, we have obtained the certificates issued by Wujiang Industrial and Commerce Authority, Wujiang Tax Authority and Wujiang Environmental Protection Authority recognizing our compliance with the relevant laws and regulations in terms of our business operation, tax and environmental compliance throughout the Track Record Period.

According to the Notice of State Council on Speeding up the Structural Adjustment to Industries with Surplus Production Capacity (《國務院關於加快推進產能過剩行業結構調整的通知》), the “Notice on Surplus Production Capacity”), enterprises who possess operations which:

- impair natural resources;
- emit pollutant to environment; and
- do not carry out operation under safe conditions, shall be shutdown according to the relevant laws and regulations.

Besides, the PRC government intends to gradually phase out laggard production capacities, including the cement production capacities of laggard technologies, such as vertical kiln technologies.

According to the “Notice on Further Strengthening the Elimination of Obsolete Production Capacities” (《關於進一步加強淘汰落後產能工作的通知》, “Notice on Obsolete Production Capacities”) issued by the State Council on 6 February 2010, the cement industry is one of the key industries which is subject to the elimination of obsolete capacities in the short term. The specific target of the Notice on Obsolete Production Capacities is to eliminate obsolete cement production capacities including mechanical vertical kiln production lines with a kiln diameter below 3.0 meters, dry hollow kilns production line (excluding those for producing high alumina cement) with a kiln diameter below 2.5 meters and wet process kiln cement production lines (excluding those mainly used for disposing sludge, carbide slag) with a kiln diameter below 2.5 meters, cement grinding mills with a diameter below 3.0 meters (excluding those for producing special cement), cement earth kilns (egg-shape) and ordinary vertical kilns by the end of 2012.

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All the PRC cement producers, whether state-owned or privately owned, are subject to and regulated by the Notice on Surplus Production Capacity and the Notice on Obsolete Production Capacities.

As advised by our PRC Legal Advisors, Dongwu Cement is not an enterprise subject to the shut down policy under the Notice on Surplus Production Capacity. Further, neither the production line nor the production capacity for cement of Dongwu Cement will be regarded as obsolete or of laggard production technologies pursuant to the Notice on Obsolete Production Capacities and the Notice on Surplus Production Capacity. Accordingly, our production line and the production capacity will not be subject to the elimination or phasing out arrangement as stipulated under the said two notices.

### RAW MATERIALS AND ENERGY SUPPLY

Major raw materials used in our cement production process include limestone, shale, sandstone, coal gangue, converter slag, clay, flyash and gypsum, amongst which limestone is the principal raw material for our production.

We procure our raw materials from a variety of different sources that are within easy access to our production facilities and they are transported to our production facilities mainly via waterway. We have a stable and reliable source of raw materials. We have 3 to 7 years business relationship with our key suppliers. We also entered into a 5-year master contract with one of our suppliers to secure the limestone supply of approximately 3.5 million tonnes until 30 September 2016, representing more than 50% of our limestone requirements over the same period. The price, volume and other terms shall be negotiated and agreed between our Group and the supplier on an annual basis in the form of supplementary agreements. Set out below is a table illustrating our key costs of sales for the three years ended 31 December 2009, 2010 and 2011:

|               | Year ended 31 December |                    |                   |                    |                   |                    |
|---------------|------------------------|--------------------|-------------------|--------------------|-------------------|--------------------|
|               | 2009                   |                    | 2010              |                    | 2011              |                    |
|               | <i>Total cost</i>      | <i>% of our</i>    | <i>Total cost</i> | <i>% of our</i>    | <i>Total cost</i> | <i>% of our</i>    |
|               | <i>(RMB'000)</i>       | <i>total costs</i> | <i>(RMB'000)</i>  | <i>total costs</i> | <i>(RMB'000)</i>  | <i>total costs</i> |
|               |                        | <i>of sales</i>    |                   | <i>of sales</i>    |                   | <i>of sales</i>    |
| Raw materials | 69,307                 | 25.8               | 67,058            | 21.9               | 94,989            | 27.8               |
| Coal          | 87,918                 | 32.7               | 110,952           | 36.3               | 124,525           | 36.4               |
| Electricity   | 48,402                 | 18.0               | 49,559            | 16.2               | 55,603            | 16.3               |

*Notes:*

1. The significant increase in our total cost for raw materials in 2011 as compared with that in 2010 was mainly attributable to the increase of our purchase price of limestone, which was mainly caused by the rising prevailing market price of limestone in our source of procurement. For the years ended 31 December 2009, 2010 and 2011, our average purchase price for limestone was RMB26.6 per tonne, RMB28.5 per tonne and RMB38.5 per tonne respectively, representing an annual increase of approximately 7.1% and 35.1% for 2010 and 2011.
2. The significant increase in our total cost for coal in 2010 as compared with that in 2009 was mainly attributable to changes in the market supply and demand relationship.

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During the Track Record Period, we have improved our production efficiency by implementing stringent quality control measures and by reducing our production costs. For instance, we have used waste materials in our production of PC 32.5. This has reduced our production costs and entitled us to claim a VAT refund for our PC 32.5 products. The VAT refund is commonly granted to cement products comprised of not less than 30% of waste materials as its ingredient. For the three years ended 31 December 2009, 2010 and 2011, these VAT refunds amounted to approximately RMB8.9 million, RMB8.7 million and RMB13.4 million respectively. All the VAT refunds we received are derived from the production of our PC 32.5 products. The Resources Comprehensive Utilisation Recognition Committee (蘇州市資源綜合利用認定委員會) are authorized under the relevant PRC laws and regulations to monitor our use of waste materials in the production process for the purposes of ensuring our compliance with the VAT refund policies. For further details of the use of waste materials, please refer to the paragraph headed “Use of waste materials in production process” in this section. Additionally, we have equipped our clinker production facility with a residual heat recovery system which recycles the heat produced in our production process to generate power that is then re-utilized. This has enabled us to be less reliant on external electricity sources and further reduced our costs of production. For the three years ended 31 December 2009, 2010 and 2011, electricity generated by our residual heat recovery generators accounted for approximately 12.6%, 20.7% and 17.8% respectively of our total electricity consumed.

### **Limestone**

The principal raw material used in cement production is limestone.

The limestone used for our cement production is sourced from quarries situated in Anji county and Changxing county in Huzhou City, Zhejiang Province and Guangde county in Xuancheng City, Anhui Province, respectively. During the Track Record Period, we had business relationships with 15 limestone suppliers. We categorize 6 of these 15 limestone suppliers as key suppliers of limestone used by us. These key limestone suppliers are all limestone quarry operators.

We have entered into master contracts with some of our limestone suppliers to fix a basic purchase price for each year. The basic price is usually valid for about one year. These master contracts are binding in nature and contain provisions for cost adjustment whereby the cost of limestone may be adjusted in the event of fluctuations in the cost of limestone, provided that both parties give prior consent to such an adjustment, or whereby the cost of limestone may be reduced in the event that the supply fails to meet the required quality, depending on the terms of the master contracts. For the three years ended 31 December 2009, 2010 and 2011, we purchased approximately 997,285 tonnes, 1,046,695 tonnes and 1,173,427 tonnes of limestone at the total purchase costs of approximately RMB26.5 million, RMB29.8 million and RMB45.2 million respectively, representing approximately 9.9%, 9.8% and 13.2% of our total costs of production respectively.

For the three years ended 31 December 2009, 2010 and 2011, we procured limestone at the average price of RMB26.6 per tonne, RMB28.5 per tonne and RMB38.5 per tonne, respectively.

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For the three years ended 31 December 2009, 2010 and 2011, an increase in the average price of limestone would have a negative effect on our revenue and net profit while a decrease in the average price of limestone would have a positive effect on our revenue and net profit, assuming that other factors remain unchanged. Set out below is a table illustrating the change in our net profit which would have been caused by a change to the average price of limestone by RMB1 per tonne and 10% respectively during the Track Record Period, assuming that other factors remain unchanged:

|                                                        | Year ended 31 December  |          |                |          |                |          |
|--------------------------------------------------------|-------------------------|----------|----------------|----------|----------------|----------|
|                                                        | 2009                    |          | 2010           |          | 2011           |          |
|                                                        | Change in net profit by |          |                |          |                |          |
|                                                        | <i>RMB</i>              |          | <i>RMB</i>     |          | <i>RMB</i>     |          |
|                                                        | <i>million</i>          | <i>%</i> | <i>million</i> | <i>%</i> | <i>million</i> | <i>%</i> |
| Change in average price of limestone by RMB1 per tonne | 0.8                     | 6.7      | 0.8            | 2.6      | 0.9            | 1.1      |
| Change in average price of limestone by 10%            | 2.1                     | 17.9     | 2.4            | 7.5      | 3.6            | 4.1      |

In October 2011, we signed a five-year master contract with a limestone supplier located in Zhejiang Province to secure a supply to us over a five-year period, or until 30 September 2016, of approximately 3.5 million tonnes of limestone. The price, volume and other terms shall be negotiated and agreed between our Group and the supplier on an annual basis in the form of supplementary agreements. This constitutes more than 50% of our limestone requirements over next five years based upon our present and historical consumption. The limestone supplier undertakes to supply limestone to us of an agreed quality and at a purchase price, approximately 5% lower than the prevailing market rate, which is determined with reference to quotations from over 10 qualified limestone suppliers in Zhejiang Province. There are no minimum purchase requirements stipulated in the five-year master contract and as a matter of principle, we will enter into a supplementary agreement on a yearly basis to fix the average purchase price and purchase volume for the next 12 months. However, pursuant to the terms of the contract, we have paid the limestone supplier a deposit of RMB5 million by way of bank acceptance bills, representing RMB1 million per annum for each year of the contract term. It was agreed that part of the purchase price payable by us for the annual consumption of limestone, i.e. the amount of RMB1.5 for each tonne of limestone would be deducted from the deposit and we will pay the remaining purchase price. In the event that the volume of limestone we procure is lower than the purchase volume we agreed under the relevant supplementary agreement, the remaining or undeducted annual deposit amount for that year shall be forfeited by the supplier. In the event that the supplier fails to provide us with the supply quantity stipulated in the relevant supplementary agreement, we are entitled to payment of twice the amount of the remaining or undeducted annual deposit for that year. To secure our right over the deposit under the contract, the de facto controller of the supplier have agreed to provide a guarantee with respect to the supplier's obligation to return the deposit. Our limestone supplier delivers the limestone to a wharf near its limestone quarry and is responsible for loading the limestone on to our vessels and we then assume the responsibility of transporting the limestone to our production facilities by waterway. Pursuant to

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the terms of the five-year master contract, the limestone supplier may terminate the contract in the event that either the relevant local government authority prohibits the transportation of limestone out of its designated jurisdiction or in the event of a force majeure. Under the terms of the five-year master contract, we are entitled to terminate the contract in the event that the limestone supplied to us is not of the requisite quality or quantity agreed for that year, or in the event that the limestone supplier fails and/or is unable to confer to us the discounted price agreed.

Under the current supplementary agreement which was signed on 8 November 2011, the limestone supplier guarantees to supply us with 700,000 tonnes of limestone for the period between November 2011 and October 2012 at a purchase price of RMB36.5 per tonne, subject to adjustment and agreement by both parties in the event that the market price for limestone fluctuates significantly.

All our limestone suppliers are Independent Third Parties.

### **Other raw materials**

Our other raw materials primarily include shale, sandstone, coal gangue, converter slag, fly ash gypsum and clay.

Our sulfate slag, gypsum, flyash, slag, converter slag and clay are transported by our suppliers to our production facilities by water way. Our clay is sourced locally in Wujiang City where it is easy to obtain and inexpensive.

All the above suppliers are Independent Third Parties.

### **Coal**

Coal is used as fuel in our cement production.

We purchase coal from domestic coal suppliers which are licensed to trade coal. The coal is transported to our production facilities by our suppliers via waterway. We typically enter into binding contracts with each of our coal suppliers for a term of 2 months each time. These contracts contain provisions for cost adjustment whereby the cost of coal may be reduced in the event that the supply fails to meet the required quality.

During the Track Record Period and up to the Latest Practicable Date, we only procured domestic coal as we have been able to obtain sufficient coal supplies from domestic coal suppliers and we have not been found to be in non-compliance with any applicable rules and regulations as a result of our use of domestic coal. Based on our experience using domestic coal, coupled with the fact that the supply of imported coal is still limited in the PRC market (for example, for 2012, approximately 182.4 million tonnes of coal have been imported into the PRC, which only accounted for approximately 5.2% of the total coal production volume in the PRC, which stood at approximately 3.5 billion tonnes), we currently have no intention to use imported coal in the near future. Nevertheless, our Directors will closely monitor the local coal market and may consider procuring imported coal should it be economic to do so.

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For the three years ended 31 December 2009, 2010 and 2011, we purchased approximately 147,948 tonnes, 150,356 tonnes and 152,362 tonnes of coal, respectively.

All our coal suppliers are Independent Third Parties.

For the three years ended 31 December 2009, 2010 and 2011, an increase in the average price of coal would have a negative effect on our revenue and net profit while a decrease in the average price of coal would have a positive effect on our revenue and net profit, assuming other factors remain unchanged. Set out below is a table illustrating the change in our net profit which would have been caused by a change in the average price of coal by RMB10 per tonne and 10% respectively during the Track Record Period, assuming that other factors remain unchanged:

|                                                          | Year ended 31 December  |      |                |      |                |      |
|----------------------------------------------------------|-------------------------|------|----------------|------|----------------|------|
|                                                          | 2009                    |      | 2010           |      | 2011           |      |
|                                                          | Change in net profit by |      |                |      |                |      |
|                                                          | <i>RMB</i>              |      | <i>RMB</i>     |      | <i>RMB</i>     |      |
|                                                          | <i>million</i>          | %    | <i>million</i> | %    | <i>million</i> | %    |
| Change in average price<br>of coal by RMB10<br>per tonne | 1.2                     | 9.9  | 1.2            | 3.8  | 1.2            | 1.4  |
| Change in average price<br>of coal by 10%                | 7.0                     | 59.3 | 8.8            | 27.8 | 9.9            | 11.4 |

### Electricity

We obtain our electricity supplies (1) on grid from the electricity supply bureau of Jiangsu Province; and (2) via our residual heat system.

## BUSINESS

The table below sets out our electricity consumption for the three years ended 31 December 2009 and 2010 and 2011:

|                                                        | Year ended 31 December |                                        |                    |                                        |                    |                                        |
|--------------------------------------------------------|------------------------|----------------------------------------|--------------------|----------------------------------------|--------------------|----------------------------------------|
|                                                        | 2009                   |                                        | 2010               |                                        | 2011               |                                        |
|                                                        | <i>Million KWH</i>     | <i>% of total electricity consumed</i> | <i>Million KWH</i> | <i>% of total electricity consumed</i> | <i>Million KWH</i> | <i>% of total electricity consumed</i> |
| On Grid Electricity Supply                             | 90.8                   | 87.4                                   | 84.0               | 79.3                                   | 94.4               | 82.2                                   |
| Electricity Generated by Residual Heat Recovery System | 13.1                   | 12.6 <sup>Note</sup>                   | 22.0               | 20.7                                   | 20.4               | 17.8                                   |
| <b>Total Electricity Consumed (Million KWH)</b>        | <b>103.9</b>           | <b>100.0</b>                           | <b>106.0</b>       | <b>100.0</b>                           | <b>114.8</b>       | <b>100.0</b>                           |

*Note:* We started employing the residual heat recovery system in July 2009.

During the Track Record Period, our average on grid electricity price per KWH was RMB0.5331, RMB0.5897 and RMB0.5890 respectively and our total electricity costs amounted to approximately RMB48.4 million, RMB49.6 million and RMB55.6 million, respectively. Up to the Latest Practicable Date, we have not enjoyed preferential electricity prices, nor have we signed any contract with the electricity bureau of Jiangsu Province.

For the three years ended 31 December 2009, 2010 and 2011, the cost of purchasing electricity accounted for approximately 18.0%, 16.2% and 16.3% of our total cost of sales respectively.

We have installed a residual heat recovery system at our production facilities with a total installed capacity of 4,500 KW, which collects residual heat from the clinker production process to generate power which can then be re-utilized. For the three years ended 31 December 2009, 2010 and 2011, our residual heat system generated 13.1 million KWH, 22.0 million KWH and 20.4 million KWH respectively, representing approximately 12.6%, 20.7% and 17.8% of our total electricity consumed during the Track Record Period respectively. The utilization of the residual heat recovery system in general provides approximately 20% self-sufficiency for cement production.

We have experienced occasional shortages of electricity which is common in the Yangtze River Delta Region especially during the summer months. In such circumstances, we are usually given prior notice of such shortages by the electricity supply bureau of Jiangsu Province and we are permitted to operate at a reduced capacity until normal electricity supply is resumed. In the event that we are given prior notice of a shortage of electricity, we will re-schedule our production plans accordingly. Moreover, we can utilize our residual heat recovery system to make up for any shortfall in the electricity supply. During the Track Record Period, electricity shortages did not have a material impact upon our production.

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### **SUPPLIERS**

Our procurement department is responsible for the purchase of coal and our key raw materials such as limestone and gypsum from our suppliers. Coal and raw materials are ordered according to our monthly production plans. We are typically required to make full payment for our raw materials within 30 to 60 days after delivery or upon the issuance of the relevant invoice by the suppliers, depending on the terms agreed with the suppliers. During the Track Record Period, we were normally responsible for the transportation of limestone and had to bear the transportation costs incurred in relation thereto. For our coal procurement, our coal suppliers are typically required to deliver coal to our production facilities and bear the transportation costs incurred. Our transportation costs for raw materials are included in the raw materials costs. During the Track Record Period, our Group purchased all the required raw materials and coal in the PRC and all our Group’s purchases were settled in RMB.

The quality of our raw materials is inspected by our quality control department to ensure that they comply with our production requirements. If any raw materials do not comply with our quality control standards and have material defects, they will be rejected. If any raw materials contain minor defects but are still useable in our production process, we typically negotiate with our suppliers for a discounted price.

For the three years ended 31 December 2009, 2010 and 2011:

- purchases from our five largest suppliers accounted for approximately 34.7%, 42.6% and 42.6% of our total cost of purchase, respectively; and
- purchases from our largest supplier accounted for approximately 10.6%, 20.2% and 14.2% of our total cost of purchase, respectively.

Our five largest suppliers during the Track Record Period were mainly suppliers of coal and limestone.

As at the Latest Practicable Date, none of our Directors, their associates or shareholders holding more than 5% of the issued share capital of our Company held any equity interests in any of our five largest suppliers during the Track Record Period.

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### SALES AND MARKETING

#### Marketing

We have a team of marketing and sales personnel which is responsible for closely monitoring our markets in Wujiang City, the urban area of Suzhou, Shanghai, Jiaxing, Taizhou, Zhoushan and Ningbo and the marketing activities in these areas. As at the Latest Practicable Date, we had eighteen staff responsible for our marketing activities. In addition, our marketing and sales personnel closely monitor business developments with our ready-mixed concrete stations customers.

These personnel visit potential new customers with a view to developing new business opportunities. We provide potential new customers with cement product samples upon their request for inspection. With regards to our well-established customers, our personnel will visit them on a regular basis to maintain good relationships with them.

As an important part of our sales and marketing strategy, we hold an annual dinner every year where we invite our customers together with our prospective or potential new customers.

### CUSTOMERS

We have a stable and well-established customer base, many of whom we have had a business relationship with for 3-7 years.

We sell our products (i) by way of direct sales to construction developers in both the private and public sector; (ii) by way of direct sales to ready-mixed concrete stations; (iii) through trading companies selected by our Group on a transaction by transaction basis and (iv) by way of direct sales to walk-in customers.

The table below sets forth the breakdown of our revenue by way of customer type:

| Types of customer             | Year ended 31 December |                     |                       |                     |                       |                     |
|-------------------------------|------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|
|                               | 2009                   |                     | 2010                  |                     | 2011                  |                     |
|                               | RMB'000                | %                   | RMB'000               | %                   | RMB'000               | %                   |
| Construction developers       | 145,296                | 49.8                | 181,497               | 51.1                | 213,040               | 45.9                |
| Ready-mixed concrete stations | 101,701                | 34.9                | 137,483               | 38.7                | 208,888               | 45.1                |
| Trading companies             | 32,282                 | 11.1                | 16,246                | 4.6                 | 15,536                | 3.3                 |
| Walk-in customers             | 12,343                 | 4.2                 | 19,724                | 5.6                 | 26,581                | 5.7                 |
| <b>Total</b>                  | <b><u>291,622</u></b>  | <b><u>100.0</u></b> | <b><u>354,950</u></b> | <b><u>100.0</u></b> | <b><u>464,045</u></b> | <b><u>100.0</u></b> |

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Our products are sold to construction developers in both the public and private sectors. Our products have been used in a number of large-scale construction projects in the Yangtze River Delta Region, including Suzhou Metro Line 1 (蘇州地鐵一號線), Shanghai – Hangzhou Passenger Railway (滬杭客運專線), Suzhou Metro Line 2 (蘇州地鐵二號線), Kun Shan City North Avenue Express Way Construction (昆山市北大道快速化改造工程), Nanjing University of Posts and Telecommunications, Wujiang College (吳江南郵學院), Shengze Town Government Buildings (盛澤鎮政府), East China Power Transmission and Transformation Project (華東送變電工程). For the three years ended 31 December 2009, 2010 and 2011, approximately 90% of our construction developer customers paid for our products in cash or bank acceptance bills. These construction developer customers were requested to pay on or before taking delivery of our products. As most of our construction developer customers are requested to pay on or before taking delivery of our products, we normally do not enter into any written agreements with them. During the Track Record Period, we only entered into written agreements with 9, 14 and 8 construction developers respectively, setting out certain major terms such as pricing (at the prevailing market price) and its adjustment method (upon written confirmations between the contractual parties), quantity, settlement method, etc. As the price for our products is determined with reference to the prevailing market price, our Group was able to pass on any cost increase to our customers. For those construction developer customers that were granted credit periods, we granted credit terms of up to 60 days, except for one construction project customer to which we granted credit terms of up to 90 days because it was a new customer which we would like to develop as a long-term customer. We have entered into written agreements with each of these construction developer customers.

Our products are sold to ready-mixed concrete station customers with whom we typically sign one-year master contracts. The master contracts are legally binding in nature and will stipulate a fixed purchase price for the cement, which are payable by our customers during that one year period. During the said year, we can offer proposals to adjust the purchase price. In the event that any of these ready-mixed concrete station customers are unwilling to accept such proposals, we may cease to supply cement to them. For sales to ready-mixed concrete stations, depending on their business relationships with us and their creditworthiness, we may grant them the following credit terms: (i) a revolving credit limit of between RMB1 million and RMB3.5 million with a credit period of up to 365 days, and (ii) any outstanding payables in excess of the said revolving credit limit with a credit period of between 0 to 30 days. We grant such credit terms to our key ready-mixed concrete station customers which have stable business relationship with us. These ready-mixed concrete station customers are considered of high creditability based on our assessment of their creditworthiness and our credit control measures. We also granted to one ready-mixed concrete station a credit period of up to 180 days because of its background as a state-owned enterprise and also as a major concrete producer in Shanghai. Nevertheless, we have not granted this ready-mixed concrete station with any revolving credit limit. Further, such long credit period is granted on a case-by-case basis based on the credibility and the transaction volume of the customer concerned. The Directors confirm that the grant of such credit terms are in line with existing normal industry practice. Our PRC Legal Advisors further advise us that the grant of such credit terms are not subject to the General Principles of Loan (貸款通則) of the PRC and are in full compliance with all the applicable PRC laws and regulations.

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Set out below is a table illustrating the relevant financial information of our Group in connection with our sales to our ready-mixed concrete station customers which were granted credit limits during the Track Record Period:

|                                                                                                                                                        | Year ended 31 December |          |           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|----------|-----------|
|                                                                                                                                                        | 2009                   | 2010     | 2011      |
| Number of ready-mixed concrete station customers which were granted credit limits                                                                      | 4                      | 5        | 6         |
| Our revenue from ready-mixed concrete station customers which were granted the credit limits<br>(RMB'000)                                              | 51,115.1               | 76,444.4 | 140,652.7 |
| Amount of trade receivables due from the ready-mixed concrete station customers which were granted the credit limits at the end of each year (RMB'000) | 14,636.4               | 8,162.0  | 15,233.3  |

Our walk-in customers purchase our products from our sales office located at our production facilities. As at the Latest Practicable Date, we did not operate any other points of sale. As advised by our PRC Legal Advisors, there is no legal requirement in the PRC to obtain business registration in order for us to sell products out of our sales office.

We typically require our trading companies and walk-in customers to make full payment of the contract price before taking delivery of our products. For the three years ended 31 December 2009, 2010 and 2011, we have commercial relationships with 63, 31 and 20 trading companies selected by our Group on a transaction by transaction basis. The number of our trading companies decreased significantly during the Track Record Period due to our preference to shift our focus to sell our products to other types of customers such as construction developers and ready-mixed concrete stations. Although the trading arrangements with these trading companies are informal and non-binding, substantial efforts are required to monitor our trading companies to ensure their compliance with our arrangements. Most of our trading companies are located in the urban areas of Shanghai and Suzhou. The trading companies purchase our products from us on wholesale basis for onward sale mainly to ready-mixed concrete stations and construction developers whilst the trading companies cannot return the unsold products to our Group for refund. The Group's revenue derived from sales through its distribution channels during the Track Record Period was 11.1%, 4.6% and 3.3%, respectively. Our selected trading companies do not compete with us because they purchase our cement products on a wholesale basis for onward sale to markets typically beyond our own geographical markets. As of the Latest Practicable Date, all our selected trading companies were Independent Third Parties with no past or present business, family, trust or employment relationship with our Group, including our shareholders, directors, senior management or any of our respective associates.

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For those customers to which we grant credit period, we will assess their credit worthiness before deciding on the exact credit term offered. We typically review our ready-mixed concrete station customers’ credit worthiness annually, as well as the credit worthiness of construction developers every time before entering into contractual relationships with them.

### *Our geographical markets*

Our products are sold to customers in Jiangsu Province, Zhejiang Province and Shanghai, respectively.

During the Track Record Period, our principal market was situated at Wujiang City, Suzhou Prefecture, Jiangsu Province, which accounted for approximately 49.3%, 51.8% and 60.1% of our total revenue for the three years ended 31 December 2009, 2010 and 2011 respectively. The table below sets forth the breakdown of our revenue by geographical markets:

| Markets                                       | Year ended 31 December |                     |                       |                     |                       |                     |
|-----------------------------------------------|------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|
|                                               | 2009                   |                     | 2010                  |                     | 2011                  |                     |
|                                               | <i>RMB'000</i>         | <i>%</i>            | <i>RMB'000</i>        | <i>%</i>            | <i>RMB'000</i>        | <i>%</i>            |
| <b>Jiangsu</b>                                | <b>157,504</b>         | <b>54.0</b>         | <b>199,971</b>        | <b>56.3</b>         | <b>288,111</b>        | <b>62.1</b>         |
| Wujiang                                       | 143,801                | 49.3                | 183,784               | 51.8                | 279,044               | 60.1                |
| Suzhou (excluding Wujiang)                    | 13,703                 | 4.7                 | 16,187                | 4.5                 | 9,067                 | 2.0                 |
| <b>Zhejiang</b>                               | <b>65,458</b>          | <b>22.5</b>         | <b>64,486</b>         | <b>18.2</b>         | <b>107,785</b>        | <b>23.2</b>         |
| South Zhejiang (Taizhou, Zhoushan and Ningbo) | 40,061                 | 13.8                | 53,647                | 15.1                | 97,959                | 21.1                |
| Jiaxing                                       | 25,397                 | 8.7                 | 10,839                | 3.1                 | 9,826                 | 2.1                 |
| <b>Shanghai</b>                               | <b>68,660</b>          | <b>23.5</b>         | <b>90,493</b>         | <b>25.5</b>         | <b>68,149</b>         | <b>14.7</b>         |
| <b>Total</b>                                  | <b><u>291,622</u></b>  | <b><u>100.0</u></b> | <b><u>354,950</u></b> | <b><u>100.0</u></b> | <b><u>464,045</u></b> | <b><u>100.0</u></b> |

For the three years ended 31 December 2009, 2010 and 2011:

- sales to our five largest customers accounted for approximately 23.5%, 29.0% and 33.4% of our total revenue, respectively; and
- sales to our largest customer accounted for approximately 7.7%, 8.1% and 8.3% of our total revenue respectively. Our largest customer is a ready-mixed concrete station customer that has maintained a business relationship with us for 3 years.

As at the Latest Practicable Date, none of our Directors, their associates or shareholders holding more than 5% of the issued share capital of our Company held any equity interests in any of our five largest customers during the Track Record Period.

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### ***Transportation***

As a general policy and in order to maximize our profitability, our customers are typically responsible for taking delivery of our products and the costs and risks of transportation shall be borne by them.

Occasionally, pursuant to the terms of the relevant contract, we may deliver our products to some of our customers, most of which are developers of construction sites or infrastructure projects. In such circumstances, we will engage external logistics service providers to deliver our products to our customers by means of roadway at our own risk and cost. We have had business relationships with these external logistics service providers for approximately 3 years or more. For the three years ended 31 December 2009, 2010 and 2011, our products delivered by us represented approximately 12.1%, 6.3% and 5.3% of our sales, respectively, whilst our transportation costs incurred amounted to approximately RMB2.9 million, RMB1.4 million and RMB1.2 million, respectively. The decrease in the transportation costs incurred over the Track Record Period was mainly due to the engagement of logistics service providers by our customers themselves, and hence reducing the frequency of the delivery services provided by us and the transportation costs incurred therefrom. Nevertheless, our average transportation costs will increase going forward should labour costs and the price of oil increase.

### ***Credit control***

We do not grant credit terms to our trading companies customers and walk-in customers. They are typically required to make full payment of the contract price before taking delivery of our products.

During the Track Record Period, approximately 90% of our construction developer customers made full payments before taking delivery of our products. For those construction developer customers that are granted credit terms, we generally grant credit terms of up to 60 days, except for one construction project customer to which we have granted credit terms of up to 90 days because it is a new customer which we would like to develop as a long-term customer. The exact credit term offered is determined based on (i) the background of the shareholders of the construction developer customer; (ii) the nature of the construction project involved; (iii) the reputation and credit worthiness of the construction developer customer; and (iv) the past collection history and length of our business relationship.

For sales to our ready-mixed concrete station customers, we may grant them the following credit terms: (i) a revolving credit limit of between RMB1 million and RMB3.5 million with a credit period of up to 365 days, and (ii) any outstanding payables in excess of the said revolving credit limit with a credit period of between 0 to 30 days. We also granted to one ready-mixed concrete station a credit period of up to 180 days because of its background as a state-owned enterprise. Nevertheless, we have not granted this ready-mixed concrete station with any credit limit. The exact credit term offered is determined based on (i) the background of the shareholders of the ready-mixed concrete station customer; (ii) the value of their fixed assets; (iii) their production capacity; (iv) the reputation and credit worthiness of the ready-mixed concrete station customer; and (v) the past collection history and length of our business relationship.

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Our Directors believe that our credit control policies are effective. During the Track Record Period and up to the Latest Practicable Date, save for those disclosed under the paragraph headed “Legal proceedings and compliance” below, no new legal proceedings have been filed by us against our customers to recover any outstanding payment.

### **PRICING POLICY**

The prices of our products are dependent upon the prevailing market conditions which are adjusted from time to time. The pricing of our products are determined primarily upon our production costs and capacity, sales volume, competitors’ prices, logistics costs and projected profit margin. These variables are assessed by our management at regular intervals for markets where we have less presence, we also follow the local prices fixed by other leading national cement producers.

### **COMPETITION**

The cement industry in the PRC remains fragmented and a regional industry. Consequently we only consider those cement producers with a presence in or near our geographical markets as competitors. Our geographical markets are situated in Jiangsu Province, Zhejiang Province and Shanghai, respectively. Our primary focus during the Track Record Period was in Wujiang City.

Our Directors believe that key factors affecting the operational and financial performance of companies operating in the cement industry are (1) general macroeconomic conditions, particularly the level of fixed-asset investments; (2) cost of energy and raw materials, particularly coal and limestone; (3) labour costs; (4) transportation costs; and (5) indirect costs such as depreciation of equipment and utility costs. Should any of these factors materially increase, then our operational and financial performance may be adversely affected.

Since 2006, encouraged by various policies including the “Notice of List of Large-scale Enterprises (group) in relation to Adjustment of Structure of Cement Industry supported by the State” (關於公佈國家重點支援水泥工業結構調整大型企業（集團）名單的通知) (the “Notice”), the consolidation of the cement industry in the PRC has led to the creation of more large scale cement companies with a national presence. Through large scale production, these cement companies are able to reduce their costs of production through economies of scale. In addition, some of these cement companies are currently expanding their businesses into the downstream ready mixed concrete industry by merging with or acquiring ready-mixed concrete stations. Such expansion may reduce the number of our ready-mixed concrete station customers in the market. Furthermore, an increasing number of large cement entrepôts have been established in the Yangtze Delta Region. This has enabled cement produced in Northern China or upstream of the Yangtze River to become accessible to our markets in the Yangtze River Delta Region at a relatively low production cost which has and will intensify the competition we face in our markets.

Our main competitors in Wujiang City include some local cement producers with smaller-scale production capacity including Wujiang Minggang Road and Bridge Ltd., Co. (吳江市明港道橋工程有限公司, “Minggang Cement”) and Wujiang Xingyuan Cement Ltd., Co. (吳江市興源水泥有限公司, “Xingyuan Cement”). We estimate that Minggang Cement has a production capacity of approximately 800,000 tonnes of

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cement per annum. Whilst Minggang Cement possesses a more flexible pricing policy, we believe that we have an advantage with respect to our higher-grade quality products, a more stable supply and a larger production capacity. Xingyuan Cement has a production capacity of approximately 330,000 tonnes of cement per annum. Whilst Xingyuan Cement is able to offer lower prices for their products we believe that we have an advantage with regards to higher-grade quality products, a more stable supply and a larger production capacity. Moreover, up to the Latest Practicable Date, Xingyuan Cement had not produced any PO 42.5 products. Neither Minggang Cement nor Xingyuan Cement is listed in the Notice.

The cement markets in Jiangsu Province, Zhejiang Province and Shanghai are fragmented. Our competitors include both cement producers with a national presence together with some local cement producers with smaller-scale production capacity. Our major competitors are those with a national presence such as Conch Cement Company (海螺水泥) and South Cement Company (南方水泥). Conch Cement Company is the largest cement manufacturer in the PRC. Both Conch Cement Company and South Cement Company are state-owned enterprises. Conch Cement Company has significant influence over prices of cement in the Shanghai and Zhejiang markets. We typically set our prices slightly lower than those set by Conch Cement Company. We believe that our cement products are of similar quality as compared with those produced by both Conch Cement Company and South Cement Company. We believe that we have an advantage by reason of our convenient transportation network, and in particular, our convenient access to markets by waterway via the Taipu River and the Huangpu river (黄浦江), respectively. Conch Cement Company is one of the companies listed in the Notice whilst South Cement Company is not a company listed in the Notice.

We believe that the traits that distinguishes us from our competitors are that we (i) are an integrated cement and clinker producer in Suzhou Prefecture and we produce high-grade products at competitive cost; (ii) employ environmentally-friendly technologies; (iii) enjoy the benefits of a convenient transportation network including a wharf adjoining our production facilities and being strategically located in the Yangtze River Delta Region; (iv) enjoy stable and long-term relationships with our core customers and suppliers; and (v) have a management team with diverse expertise and skill sets and a highly skilled and experienced workforce. Notwithstanding Dongwu Cement is not listed in the Notice and thus will not receive the government support as set out therein, we do not anticipate any negative impact on our operation, business and future plans without such support at the moment and in the foreseeable future. Further, the [•••] will enhance our financial resources and strengthen our market position and allow us to better compete with our competitors.

For more details of our competitive strengths, please refer to the paragraph headed “Our Competitive Strengths” of this section.

## **RESEARCH AND DEVELOPMENT**

Our research and development efforts are focused on reducing our production costs and enhancing our environmentally responsible technologies and practices. We are testing various types of mineral powder for use as additives in the production process. We anticipate that this not only reduces our cost of sales but is environmentally responsible. We are also testing new environmentally responsible technologies such as kiln technology that may enable us to incinerate general household waste material.

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### INTELLECTUAL PROPERTY

We sell our packaged cement products under the trademark which is registered with the PRC trademark office under the State Administration for Industry and Commerce for class 19 products and is valid for 10 years commencing from April 2006, as well as certain other trademarks. We have also registered the trademarks ,  and  on 31 October 2011 and trademarks  on 2 November 2011 in Hong Kong. All of the said trademarks are to be registered under classes 19 and 35.

Further details of our intellectual property rights are set out in the paragraph headed “Intellectual Property” in Appendix V to this document.

### QUALITY CONTROL

We have been awarded the quality management system certificate GB/T 19001-2008 ISO 9001: 2008 by Jiangsu Jiuzhou Certification Co. Ltd in respect of our process of production and sale of “DONGWU” brand PO 42.5 cement, which is valid until September 2014.

Since our establishment, we have implemented a stringent quality control system comprising twenty separate inspection points which cover our entire production process from inspection and analysis of our raw materials to delivery of our products. The quality control standards that we have implemented since our establishment are over and above those set by The Quality Control Guidelines for Cement Enterprises (水泥企業品質管理規程 the “Guidelines”) issued by the MIIT which came into effect on 1 January 2011 and our products are of a superior quality than those set out in the Guidelines.

As at the Latest Practicable Date, our Group had twenty-four staff responsible for quality control. Our quality control team and our engineers examine all twenty inspection points on a regular basis.

In particular, we believe that our quality control system is better than the standards as required by the Guidelines in the following aspects:

- we employ an x-ray fluorescent analyzer that accurately analyses the quality of our raw meal and clinker;
- we typically require that the sulfur content of the coal that we use is no more than 1.3% by weight. The Guidelines recommend a level of 2.5%;
- we also require that our 28 day-clinker strength is no less than 58MPa. The Guidelines recommend no less than 50MPa; and
- our inspection pass rates for raw materials and products are approximately 5-10% higher than those set out in the Guidelines.

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During the Track Record Period, we have not encountered any incident of rejection for defective products by our customers. Nor have we encountered any property damage or personal injury incidents caused by the use of our products during the same period. We believe that our quality control system can effectively prevent the occurrence of such incidents in future.

### INVENTORY CONTROL

We make an annual production plan and we plan our production and manage our inventory level of our finished products on a monthly basis based on actual sales orders received and our inspection of inventory levels and stock. Clinker can normally be stored for 3 months in a warehouse under proper environmental conditions.

We typically maintain an inventory levels of between 15-30 days for coal and one month for other raw materials.

The table below sets out the breakdown of inventories as at 31 December 2009, 2010 and 2011:

|                  | As at 31 December    |                     |                      |                     |                      |                     |
|------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|
|                  | 2009                 |                     | 2010                 |                     | 2011                 |                     |
|                  | <i>RMB'000</i>       | <i>%</i>            | <i>RMB'000</i>       | <i>%</i>            | <i>RMB'000</i>       | <i>%</i>            |
| Raw Materials    | 4,652                | 32.2                | 13,888               | 66.4                | 10,776               | 48.2                |
| Work-in Progress | 2,112                | 14.6                | 2,137                | 10.2                | 7,002                | 31.3                |
| Finished goods   | <u>7,682</u>         | <u>53.2</u>         | <u>4,900</u>         | <u>23.4</u>         | <u>4,575</u>         | <u>20.5</u>         |
| <b>Total</b>     | <b><u>14,446</u></b> | <b><u>100.0</u></b> | <b><u>20,925</u></b> | <b><u>100.0</u></b> | <b><u>22,353</u></b> | <b><u>100.0</u></b> |

### REPAIR & MAINTENANCE

Regular repair and maintenance programs for our production facilities are scheduled and carried out by our repair teams to maximize production efficiency and avoid unexpected interruptions to our operations.

Our repair teams carry out day-to-day maintenance and repair of the facilities and machinery on an as-need basis. Our internal maintenance team determines whether any maintenance work is required to be outsourced to third parties.

We conduct comprehensive maintenance work on our production facilities and equipment during the Chinese new year period each year.

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### **OCCUPATIONAL HEALTH & SAFETY**

The Production Safety Law of the PRC, which was promulgated on 29 June 2002 and became effective on 1 November 2002, is a fundamental law aimed at strengthening the supervision and administration of production safety and labor protection.

To ensure compliance with relevant PRC regulatory requirements, we have implemented a comprehensive system of safety management procedures and regulations which all our employees must comply with. We also conduct regular training sessions for our employees on accident prevention and management.

We have a few safety supervision staff who are responsible for regulating and coordinating safety procedures with assistance from the supervisors of our different production units. These safety supervision staff in each key production procedure are responsible for conducting inspections of our production facilities to ensure that all of our operations are in compliance with existing laws and regulations.

Our customers do not impose any specific requirements with respect to health and safety measures.

Since the commencement of our operations and up to the Latest Practicable Date, we have not experienced any serious or material industrial accidents at our production facilities. We also have not been adjudged by any relevant PRC governmental authority for any non-compliance with any health and safety requirements under PRC laws and regulations. Our PRC Legal Advisors have confirmed that our Group has been in compliance with all relevant laws and regulations in respect of occupational health and safety in the PRC during the Track Record Period.

### **INSURANCE**

We maintain insurance in respect of potential damage to our facilities, machinery equipment and vehicles. The insurance cover in respect of our facilities and machinery equipment covers various risks including comprehensive property insurance, machinery insurance and vehicle insurance. We believe that our current insurance coverage is standard with respect to the type and scope of coverage for companies of comparable size in the cement industry in the PRC.

We have not taken out any insurance policies to cover product liability. To control our product liability risk, we place significant emphasis on quality control. For details of quality control measures of our Group, please refer to the paragraph headed “Quality Control” of this section.

## BUSINESS

### EMPLOYEES

As at the Latest Practicable Date, we had approximately 256 employees. The following table shows the breakdown of our employees by department and function:

|                      | <b>As at the<br/>Latest Practicable Date</b> |
|----------------------|----------------------------------------------|
| Management           | 16                                           |
| Engineers/Production | 188                                          |
| Quality Control      | 24                                           |
| Procurement          | 5                                            |
| Sales & Marketing    | 14                                           |
| Finance              | 9                                            |
| <b>Total</b>         | <b>256</b>                                   |

### SOCIAL WELFARE SCHEMES

We are required by PRC laws and regulations to participate in various social welfare schemes, which include pension, medical, unemployment, birth and work-related injury insurances. As set out in the legal opinion issued by our PRC Legal Advisors, we have made the social insurance contributions for our employees and complied with all national and local regulations relating to labor law. Up to the Latest Practicable Date, we are not involved in any labor disputes. The local social insurance authorities where we are located have confirmed that we do not have any non-compliance incidents with social insurance and we have never been penalized.

We are required to register with the Managing Center of Housing Fund and establish an account for housing fund in the entrusted bank for all the employees and pay the full amount of contributions as part of our employees’ welfare and benefits. However, we have not registered with the Managing Center of Housing Fund and have failed to establish an account for housing fund in the entrusted bank for our employees and make contributions for all of our employees towards housing fund. This is due to the reluctance of our employees, who are mostly from the sub-urban areas, in making such contributions.

As advised by our PRC Legal Advisors, according to the Regulations on the Administration of Housing Fund, the Managing Center of Housing Fund is authorized to notify us to register with it and to establish an account for housing fund in the entrusted bank for each employee within a specific time limit. After receiving the above notification, if we can register with the Managing Center of Housing Fund and establish the aforesaid account within a specified time limit, the Managing Centre of Housing Fund will not impose any penalty upon us. However, if we fail to accomplish this within the specified time limit, the Managing Center for Housing Fund may impose upon us a penalty ranging from RMB10,000 to RMB50,000. Up to the Latest Practicable Date, we have not received

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any notifications or directives from the relevant authorities for reasons related to the housing fund contribution and registration and also the establishment of a special account for housing fund in the entrusted bank for each employee.

We intend to promote the Housing Fund scheme among our employees and enhance their awareness of the Housing Fund scheme as rectification measures. We are now communicating with the relevant departments and authorities for the exact procedures to be followed. We will strive to complete all the relevant procedures and open an account for payment of the contributions to our employees prior to the [•••]. After opening of the account, we will make deposits to such account with adequate amount from time to time in compliance with relevant laws and regulations; where necessary, we will seek advice from our legal advisors with respect to other necessary actions to be taken.

Each of the employers and employees is required to contribute 8% of their respective salaries according to the local Housing Fund scheme. For the three years ended 31 December of 2009, 2010 and 2011, our outstanding housing fund contributions were approximately RMB224,000, RMB228,000 and RMB248,000 respectively. We have not made any provisions for the outstanding Housing Fund contribution and the relevant penalty, as we believe that it is unlikely that we are requested to pay the contributions and to be penalized by the local authority because up to the Latest Practicable Date, we have not received any notifications from the relevant authorities on any matters relating to housing fund contribution registration or establishment of the account of housing fund in the entrusted bank for our employees. Our Indemnifiers have undertaken to fully indemnify the Company for any losses arising from the aforesaid breaches and also penalties and surcharges that may be imposed by the local authorities.

## **PROPERTY**

Our production facilities are located at Lili Town, Wujiang City, Suzhou Prefecture, Jiangsu Province, the PRC with an aggregate site area of approximately 182,000 sq.m.. As of Latest Practicable Date, we own 3 parcels of land, with an aggregate site area of approximately 137,571.4 sq.m. We are also entitled to occupy a section of the Taipu River bank with an area of approximately 44,400 sq.m. On these parcels of land and the River bank, we own 45 buildings and units, with an aggregate gross floor area of approximately 32,700 sq.m. All of the properties we own are located in Wujiang City, Suzhou Prefecture, Jiangsu Province, PRC. Please refer to Appendix IV “Property Valuation” of this document for further details of these properties. As advised by our PRC Legal Advisors, unless disclosed in the subsection headed “Legal Proceedings and Compliance” of this section, we have obtained the land use right certificates in respect of all our lands and ownership certificates for all our self-owned properties.

We have also been granted the exclusive right to occupy the 730 meters width river bank of Taipu River that adjoins our production facilities by the Jiangsu Waterway Administration Bureau (江蘇省水利廳) and was allowed to build and use a wharf on the river bank. This provides us with an efficient and convenient way to transport materials and to access our network of customers and suppliers. We are required to pay the sum of RMB180,000 per annum to the Jiangsu Waterway Administration

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Bureau for the right to occupy the river bank. Such right is subject to annual inspection and the right to renew our use of the river bank is at the sole discretion of the Jiangsu Waterway Administration Bureau. As at the Latest Practicable Date, our right to occupy the river bank is subject to annual inspection and renewal in October 2012. Since 2004, we have passed every annual inspection. As advised by our PRC Legal Advisors, at such annual inspection, Jiangsu Waterway Administrative Bureau will usually consider, amongst others, whether we are in compliance with the applicable PRC laws and regulations such as PRC Water Law (中華人民共和國水法), PRC Flood Control Law (中華人民共和國防洪法), Regulations on Waterway Management of the PRC (中華人民共和國河道管理條例), Regulations on Waterway Constructions of Jiangsu Province (江蘇省水利工程管理條例) and Implementation Measures on Waterway of Jiangsu Province (江蘇省河道管理實施辦法). In addition, the wharf built on the river bank was subject to The Reply Letter Concerning the Approval of Construction of a Wharf Exclusively used by Suzhou Dongwu Cement Co. Ltd by Taipu River (關於蘇州東吳水泥有限公司在太浦河建設專用港池審批的復函), which was issued to us by the Waterway Department of Jiangsu Transportation Bureau (江蘇省交通廳航道局) in 2003.

According to the Taipu River Waterway Construction Occupation Agreement, the Construction Works Occupation Permit and the applicable PRC laws, in the event that the Taipu River experiences emergency events such as flooding or drought, or the construction of major public waterway projects or construction of flood control works, we may be required to evacuate the river bank. We are further required not to make any modifications or damage the levee construction, especially the retaining walls. The relevant PRC authority may conduct random site inspections on the preservation of the levee construction. The relevant PRC authority may also order us to adopt rectification measures, pay compensation and/or to revoke our rights to occupy the river bank if we fail to comply with such requirements, although there is no provision in the Taipu River Waterway Construction Occupation Agreement regulating the termination of our right to occupy the river bank. Since we were granted the right to occupy the river bank in December 2003, we have not experienced any flooding or droughts, nor have we had to vacate our occupation of the river bank for any other reasons, such as the construction of major public waterway projects or construction of flood control works, etc. Besides, we have not been found to be in violation of the requirements concerning the preservation of the levee construction during the same period. Notwithstanding the aforesaid, as we own the land use rights over the piece of land (Land Use Right Certificate Ref: Wu Guo Yong (2004) Di No.1004225) situated adjacent to the river bank where some of our supporting facilities (i.e. fully automatic loading lines, other transportation related facilities and raw material warehouses) are situated, in the event that our right to occupy the river bank is revoked or expires due to unsuccessful renewal, or we are required to evacuate the river bank by the relevant PRC authorities for the purposes of construction of flood control works and/or other emergency reasons, we intend to relocate such transportation related facilities and raw material warehouses to that piece of land in respect of which we own the land use rights. As advised by our PRC Legal Advisors, the land use rights cannot be resumed or suspended by the PRC government without compelling reasons and reasonable compensation, nor are the land use rights subject to any annual renewal requirements. As advised by our PRC Legal Advisors, in the event that our right to occupy the river bank is revoked or expires due to unsuccessful renewal, we may still use the river bank to load and unload our products, but all the supporting facilities on the river bank, including the fully automatic loading lines, will have to be demolished or relocated. In such circumstances, our costs for waterway transportation will increase, and we will need to incur extra costs for demolition and relocation works. Nevertheless, as our main production facilities (such as rotatory kilns, grinding mills, DCS, residual heat recovery system, etc) are situated near that piece of land, if we experience large scale flooding of the Taipu River which affects the inner part of the land

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where our main production facilities are located and renders all production facilities impracticable for use, we may not be able to continue our production and our business operations, financial condition and profitability may be adversely affected. However, given that we have not experienced any flooding or drought since December 2003 when we were first granted the right to occupy the river bank, we consider that the chance of the Group’s operations being affected by flooding or drought is remote. Based on the foregoing, we are of the view that the above contingency plan is effective to protect our business operations as far as practicable. For further details of the risks relating to our occupation of river bank and our land use rights, please refer to the section headed “Risk Factors” and Appendix IV “Property Valuation” to this document respectively.

## **ENVIRONMENTAL COMPLIANCE AND POLLUTION CONTROLS**

The cement industry is categorized as a pollution industry under PRC laws. Our production facilities can meet the requirements of related environmental laws and regulations promulgated by national and local governments with respect to various pollutants and disposal of waste and hazardous materials. According to the Environmental Protection Law of the PRC and other related laws and regulations, the State Environmental Protection Administration sets national discharge standards for various pollutants and local environmental protection bureaus may set more stringent local standards. Enterprises are required to satisfy the more stringent one of the two applicable standards. Our production line, prior to the commencement of its construction, was evaluated for its environmental impact, and upon the completion of its construction, was tested and approved by the local environmental agencies as required by the relevant laws and regulations, and subject to continuous government supervision thereafter. See the section headed “Regulatory Overview – The PRC Laws on environmental protection” in this document.

To comply with such requirements, we have installed two electric dust precipitators in our production line. Such dust precipitators can collect more than 99.9% of the dust generated during the cement production process. Further, we control the emission of NO<sub>x</sub>, one of the major pollutants produced during the cement production process by:

- maintaining sufficient degree of dispersion of raw materials in the decomposition furnace to allow for a better mixture of coal and raw materials;
- maintaining a catalyst effect in the decomposition furnace to improve the reduction of NO<sub>x</sub> emission; and
- employing an improved coal spraying pipe to control the air/coal ratio and thereby ensuring that the coal has been sufficiently combusted.

Moreover, it is our policy to source coal which satisfies our internal quality standard for cement production such as calorific value, water content and sulphur content, etc. and we have our own laboratory to inspect all coal procured so as to ensure that the quality of the coal meets with our required standard.

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As advised by our PRC Legal Advisors, the relevant PRC regulations on pollution control applicable to our operation only regulate the pollutant emission levels but not the quality of coal used.

As a result of our pollution control efforts and as confirmed by our PRC Legal Advisors, we are in compliance with the applicable laws and regulations on environmental protection in the PRC and have not encountered material environmental claims nor have we been subjected to any significant penalties for breach of applicable environmental laws or regulations. Our PRC Legal Advisors further advise us that we have obtained all environmental permits and approvals necessary for the conduct of our business.

For the three years ended 31 December 2009, 2010 and 2011, our costs incurred for environmental compliance and pollution controls were approximately RMB1.7 million, RMB1.8 million and RMB1.5 million respectively. Our Directors estimate that our costs to be incurred for the aforesaid matters during the year ending 31 December 2012 will be approximately RMB4.2 million. Our costs for environmental compliance and pollution controls for the year ended 31 December 2012 comprise two parts, namely the costs for implementation of the plan to improve our current dust collection system and the maintenance costs for current pollution control equipment. It is estimated that RMB4.1 million will be used for purchasing various improved dust collection equipment and technologies, which will be used at different stages of our production and the maintenance of our current pollution control equipment is estimated to amount to approximately RMB120,000 for the year ending 31 December 2012. As the PRC environmental protection regulations continue to evolve, we may be required to incur significant expenses to upgrade our production facilities in order to comply with environmental regulations that may be adopted or imposed in the future.

Up to the Latest Practicable Date, save as disclosed in the document, the Directors are not aware any new laws and regulations on tightening of pollutant emission standard have been promulgated in the PRC. Our Company will work with our legal advisors from time to time to ensure compliance with those laws and regulations when any of them is promulgated in future and take necessary actions, including but not limited to facility upgrades, as and when appropriate. As there are no such laws and regulations as at the Latest Practicable Date and our Company is not required to take any positive actions with respect to the pollutant emission standard, our Company does not expect that there will be much compliance costs incurred in the near future.

### **APPROVALS AND PERMITS**

Our PRC Legal Advisors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, our Group has obtained all necessary permits, approvals, consents, certificates and licenses required under the PRC laws and regulations in connection with the business of our Group and all of them are in full force and effect.

### **LEGAL PROCEEDINGS AND COMPLIANCE**

During the Track Record Period, we were involved in nine legal proceedings which arose in our regular course of business. All these litigations have been filed by us against our customers for outstanding payments and all these legal proceedings were filed before the Track Record Period. As

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at the Latest Practicable Date, all the litigations have been concluded. The outstanding amount was approximately RMB4.4 million, which accounted for approximately 0.21% of our total revenue for such period. As the outstanding amount only constituted a relatively small portion of our turnover, our Directors believe that it should have no material adverse effect on our business. Notwithstanding the aforesaid, provisions have been made by our Group in the amount of RMB2.5 million for the outstanding trade receivables from those customers.

Except as disclosed above, up to the Latest Practicable Date, we were not aware of any current, pending or threatened litigation, arbitration proceedings or administrative proceedings against us or any of our subsidiaries or any of our Directors or senior management members which could have a material adverse effect on our financial or results of operations.

### **Material non-compliance incidents and indemnity**

Pursuant to the effective Regulations on Discretion of Different Levels Governmental Authority to Grant Approval for Environmental Impact Assessment Documents of Construction Projects (2003 version) (建設項目環境影響評價文件分級審批規定2003版) (the “2003 Regulations”), when we applied for the approval of the construction of our cement production line in 2003, we were required to obtain relevant approval regarding the environmental impact assessment from the PRC governmental authority responsible for environmental protection (“EP Authority”) at the national level. However, we have only obtained the approval from the EP Authority at the provincial level, which is not in full compliance with the then applicable 2003 Regulations. Notwithstanding the foregoing, we believe that we are unlikely to be subjected to administrative sanction due to our failure to obtain relevant approval regarding environmental impact assessment from EP Authority at national level in 2003 based on the following reasons:

- as advised by our PRC Legal Advisors, pursuant to the Notice on Strengthening the Policies Concerning the Discretion of Different Levels Governmental Authority to Grant Approval for Environmental Impact Assessment of Construction Projects (關於加強建設項目環境影響評價分級審批的通知) (the “Notice”) implemented since December 2004, only cement production projects with a daily clinker production capacity of 5,000 tonnes or above are required to obtain the approval from the EP Authority at the national level. In light of the fact that our daily clinker production capacity is 2,500 tonnes, approval from the EP Authority at provincial level was sufficient;
- as advised by our PRC Legal Advisors, pursuant to the Regulations on Discretion of Different Levels Governmental Authority to Grant Approval for Environmental Impact Assessment Documents of Construction Projects (2009 version) (建設項目環境影響評價文件分級審批規定2009版) (the “2009 Regulations”) implemented since March 2009, the 2003 Regulations have been repealed since March 2009 and only cement projects with cross-provincial production activities will require the approval from the EP Authority at the national level whilst other cement production projects are only required to obtain the approval from the EP Authority at the provincial level;

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- as advised by our PRC Legal Advisors, pursuant to the PRC Administrative Sanction Law (中華人民共和國行政處罰法), the time bar for imposing administrative sanction was two years since the date of the non-compliance. Up to the Latest Practicable Date, we have not received any administrative sanctions with respect to the above non-compliance since 2003.

Our Group has not, in accordance with the Regulations on the Administration of Housing Provident Fund, registered and established housing fund accounts for our employees and paid the housing fund. This is due to the reluctance of our employees, who are mostly from the sub-urban areas, in making such contributions. The housing fund management centre has the right to demand us to complete the registration within a specified time, failing which, the housing fund management centre may impose a fine ranging from RMB10,000 to RMB50,000. Our Indemnifiers have undertaken to fully indemnify our Group for all losses and damages arising from the above breaches due to our failure to register and/or to make full contribution for all of our employees, penalties and surcharges that may be imposed by the local authorities.

On the other hand, we have not yet obtained the building ownership certificates for 8 buildings which are used by us for the storage of raw materials and for other purposes, such as, repair workshops, and staff quarters, because these 8 buildings are only ancillary buildings which are not used for our main production activities. Among those 8 buildings, 5 buildings are located on the parcels of lands in respect of which our Group has obtained the land use right certificates. Based on the legal opinion issued by our PRC Legal Advisors, although we have obtained the Planning Permit on Land for Construction Use (建設項目用地規劃許可證), the Planning Permit on Construction Works (建設工程規劃許可證), and the Working Permit on Construction Works (建築工程施工許可證) (collectively the “Construction Permits”) in respect of those 5 buildings, we have not obtained the Completion Acceptance Permit. Accordingly, we could not obtain the building ownership certificates in respect of those buildings. We did not obtain the Completion Acceptance Permit since all these 5 buildings are only ancillary buildings of minor importance. We are currently using these buildings although we do not have the building ownership certificates. As advised by our PRC Legal Advisors, since no land use rights certificate will be issued for land at the river bank, no building ownership certificates can be obtained for those 3 buildings located at river banks. Nevertheless, provided that we have the valid Construction Works Occupation Permit and pass the annual verification of the Construction Works Occupation Permit, we can use these 3 buildings, notwithstanding the fact that we have not obtained the building ownership certificates.

We may be imposed a fine ranging from RMB0.2 million to RMB1.5 million for our failure to obtain the Completion Acceptance Permit. We may also be required to relocate from such operations temporarily or permanently. Even though we may be penalized or required to be relocated from these buildings, we believe that there is no material adverse impact on our operations and financial conditions, as these buildings are only sheds which are being used to store the raw materials and the value of these buildings only constituted a small portion of our owned properties. If the local authorities require us to relocate from those properties without the building ownership certificates, we will demolish the relevant buildings. We have not considered any relocation plan for those buildings since we can pile the raw materials in the open space of our production premises instead of constructing other new

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sheds or lease other quarters for staff nearby as rectification measures. We are currently liaising with the relevant PRC governmental authorities for the application of the certificates which we failed to obtain concerning the 5 buildings located on the parcels of land. Notwithstanding the aforesaid, there is no assurance that any such liaison or consequent application will be successful. Our PRC Legal Advisors are of the view that the chance of a fine being imposed by the relevant PRC government authority due to the absence of the permits is remote given that the responsible Housing and Urban Construction Bureau has confirmed that we would not be penalized for failing to obtain the Completion Acceptance Permits of the 5 buildings. Nevertheless, to avoid such non-compliance in the future, we plan to provide training to our management on compliance with the relevant PRC laws. Further, our indemnifiers have undertaken to fully indemnify the Company for all the possible losses or penalty arising from the above breaches and also penalties that may be imposed on us.

Save as disclosed above, our PRC Legal Advisors have confirmed that we are in full compliance with all applicable PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date.

### **INTERNAL CONTROLS**

The Indemnifiers have given indemnities in favour of our Company (for itself and as trustee for our subsidiaries) in connection with any and all expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (including, but not limited to, legal and other professional costs), charges, liabilities, fines, penalties and tax which any member of our Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with any aforementioned activities by Dongwu Cement in the PRC that are in breach of, or any default, failure or delaying in complying with, the relevant PRC laws and regulations.

In order to continuously improve our corporate governance and to prevent recurrence of the non-compliance incidents, we intend to adopt or have adopted the following measures:

- (i) our Group has appointed Mr. Zhu Qiwei as the chief financial officer of the Group in December 2011 and Ms. Sun Xin as the Financial Controller in December 2011 to oversee and monitor the internal control environment of our Group; Mr. Zhu and Ms. Sun, both possess accounting and financial management expertise, with the support of our PRC Legal Advisors engaged by us, will be responsible for ensuring our compliance with the applicable laws and regulations as well as reporting to our audit committee regularly every six months;
- (ii) our Group has appointed three independent non-executive Directors with experience in the financial and accounting industries respectively. In particular, Mr. Lee Ho Yiu Thomas, the chairman of the audit committee, has extensive experience in auditing, accounting and financial management and is a fellow of the Association of Chartered Certified Accountants, a practicing member of the Hong Kong Institute of Certified Public Accountants, a certified tax advisor and a member of the Hong Kong Taxation Institute, a certified internal auditor and a member of the Institute of Internal Auditors, a certified

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information systems auditor and member of the ISACA and a director of the Wanchai and Central & Western District Industries and Commerce Association. Our Directors believe that the Group will be able to utilize this experience with respect to the compliance with applicable financial reporting requirements;

- (iii) an audit committee established by our Group, comprising three independent non-executive Directors, will assume the overall responsibility for reviewing the adequacy and integrity of our internal control and risk management system;
- (iv) our Group has engaged PRC Legal Advisors to provide legal services to our Group in relation to future compliance with PRC laws and regulations;
- (v) we have arranged for our Directors and senior management to attend training programs on applicable laws and regulations, including [••], provided by our legal advisors prior to [••]. We will continue to arrange various training programs to be provided by the PRC Legal Advisors engaged by us and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the relevant laws and regulations regularly every six months; and
- (vi) our Group has improved the existing internal control framework by adopting a set of internal control manual and policies, including the corporate governance manual, which covers corporate governance, risk management, operations, legal matters, finance and audit.

Based on the above, our Directors are of the view that our Company has taken all reasonable steps to establish a proper internal control system to prevent future non-compliance with the PRC laws and regulations by our Group.

During the Track Record Period, the Group provided three guaranteed borrowings as a guarantor (for details, please refer to the paragraph headed “Contingent Liabilities” under the section headed “Financial Information” in this document) and we have already been fully released as a guarantor from these three guaranteed borrowings as at 31 December 2011. Currently, we do not have any intention to enter into any new guaranteed borrowing arrangements after [••]. However, in case we do enter into any similar arrangements in the future, we will ensure that the arrangements will be in compliance with the [••] and other applicable laws and regulations, where applicable.

## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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Immediately following completion of the [●●●] and the [●●●], Goldview, which is wholly-owned by Mr. Tseung, will be interested in 59.5% of the issued share capital of our Company. Hence, Mr. Tseung and Goldview will be our Controlling Shareholders within the meaning of the [●●●]. Goldview was incorporated in the BVI on 16 March 2004 and is an investment holding company, whose only asset is its interest in our Company.

### **COMPETING INTERESTS**

As confirmed by our Directors, our Controlling Shareholders and their respective associates do not have any interests in any business apart from the business operated by members of our Group that competes or is likely to compete, directly or indirectly, with our business.

### **DEED OF NON-COMPETITION**

To better safeguard our Group from any potential competition, each of our Controlling Shareholders, Mr. Jin and Concord, as Covenantors, has entered into a deed of non-competition with our Company whereby each of the Covenantors jointly and severally, irrevocably and unconditionally, undertakes with our Company that with effect from the [●●●] [●●●] and the Covenantors, individually or collectively (whether or not with their respective associates), are, directly or indirectly, interested in not less than 30% of the Shares in issue (or such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer as required thereunder), or control the composition of a majority of the Board, or the Covenantors or their respective associates remain as a director or senior management of any member of our Group, subject to the terms therein, subject to the terms therein, the Covenantors shall, and shall procure that their respective associates shall, among others:

- (a) directly or indirectly, either on their own account, in conjunction with, on behalf of, or through any person, firm or company, among other things, carry on, participate or be interested, engaged or otherwise involved in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise)
  - (i) the current and potential business engaged or to be engaged by our Group, including but not limited to manufacture and sales of cement, clinker, concrete and mortar products and/or
  - (ii) any other new business that our Group may undertake from time to time after the [●●●] (collectively, the “Restricted Business”) and where they become aware of such engagement of the Restricted Business they shall notify our Company forthwith;
- (b) solicit or procure any of the suppliers and/or the customers of our Group from time to time to terminate their business relationships or otherwise reduce the amount of business with our Group;
- (c) solicit or procure any of the directors, senior management or other employees of our Group from time to time to resign or otherwise cease providing services to our Group; and/or

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (d) unless with the prior written consent of our Company, disclose any confidential information of our Group to any other third parties, including but not limited to, customers list and supplier list.

In addition, each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, undertakes that if any new business opportunity relating to any products and/or services of our Group (the “**Business Opportunity**”) is made available to any of the Covenantors or their respective associates (other than members of our Group), he/it will direct or procure the relevant associate to direct such Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the Business Opportunity.

The relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to enable our Group to secure the Business Opportunity. None of the Covenantors and their respective associates (other than members of our Group) will pursue the Business Opportunity until our Company decides not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company will have to be approved by the independent non-executive Directors (with those independent non-executive Directors who are interested in such Business Opportunity and their associates abstained from voting) taking into consideration the prevailing business and financial resources of our Group, the financial resources required for the Business Opportunity and any expert opinion on the commercial viability of the Business Opportunity. If a Business Opportunity is rejected by our Company under the right of first refusal clause in the deed of non-competition, our Company will disclose the background of the Business Opportunity and the basis of rejection in our latest annual or interim reports.

Each of the Covenantors further jointly and severally, irrevocably and unconditionally, undertakes that he/it will (i) provide to our Group all information necessary for the enforcement of the undertakings contained in the deed of non-competition; and (ii) confirm to our Company on an annual basis as to whether he/it has complied with such undertakings.

## CORPORATE GOVERNANCE MEASURES

We will adopt the following measures to manage the conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors will review on an annual basis the compliance with the non-competition undertaking by the Covenantors under the deed of non-competition;
- (b) the Covenantors undertake to provide to us all information necessary for the annual review by our independent non-executive Directors and the enforcement of the deed of non-competition;

## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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- (c) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the non-competition undertaking of the Covenantors under the deed of non-competition in our annual report; and
- (d) the Covenantors will make an annual statement on compliance with their undertaking under the deed of non-competition in our annual report.

## **INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS**

Having taken into account the following factors, our Directors are satisfied that we can carry on our business independently of our Controlling Shareholders following the [•••]:

### **Management independence**

Our management and operational decisions are made by the Board and a team of senior management. The Board consists of seven members, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. Each of the Directors is aware of his or her fiduciary duties as a Director of our Company which requires, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and the Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. Further, the independent non-executive Directors will bring independent judgment to the decision making process of the Board. In addition, members of our senior management, who are responsible to take charge of our daily operations, except for Mr. Wu Junxian who is the nephew of Mr. Tseung, are independent from the Controlling Shareholders and their associates. Our senior management team possesses in-depth experience and understanding of the industry in which we are engaged. In this regard, the Directors are of the view that our Group can be managed independently notwithstanding that Mr. Tseung, being a Controlling Shareholder, is a non-executive Director and do not participate in day-to-day management and operation of the Company.

### **Operational Independence**

Our organizational structure is made up of a number of departments, comprising management department, engineers and production department, quality control department, procurement department, sales and marketing department and finance department. Each department takes a specific role in our operations. There are internal control procedures to ensure effective operation of our business. Furthermore, we have our own production lines and our own sources of suppliers and customers, which are all Independent Third Parties. Accordingly, we can carry out our business operations independently.

## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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### **Financial Independence**

Our Directors are of the view that we do not unduly rely on the advances from our Controlling Shareholders and related parties for our business operations. As at 31 December 2009, 2010 and 2011, we did not maintain any balances due to our Controlling Shareholders and their associates. The personal guarantee provided by Mr. Tseung for our bank borrowings of RMB34.3 million, RMB30.3 million and RMB28 million as at 31 December 2009, 2010 and 2011 respectively will be released upon [•••] and replaced by corporate guarantees of the Group. Our Directors believe that we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders. Furthermore, we have established our own financial accounting system independent of our Controlling Shareholders. We have our own bank account, make our tax registrations and have employed a sufficient number of financial accounting personnel. Accordingly, our Directors consider that we are capable of operating independently from a financial perspective.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

Our Board of Directors consists of seven Directors, three of whom are independent non-executive Directors.

The following table sets forth certain information concerning our Directors:

| Name                    | Age | Title                                          | Date of Appointment as Director |
|-------------------------|-----|------------------------------------------------|---------------------------------|
| Xie Yingxia (謝鶯霞)       | 35  | Chairman and Executive Director                | 29 November 2011                |
| Jin Chungeng (金春根)      | 50  | Chief Executive Officer and Executive Director | 29 November 2011                |
| Yang Bin (楊斌)           | 38  | Executive Director                             | 29 November 2011                |
| Tseung Hok Ming (蔣學明)   | 50  | Non-executive Director                         | 29 November 2011                |
| Cao Guoqi (曹國琪)         | 49  | Independent non-executive Director             | 28 May 2012                     |
| Cao Kuangyu (曹貺予)       | 62  | Independent non-executive Director             | 28 May 2012                     |
| Lee Ho Yiu Thomas (李浩堯) | 34  | Independent non-executive Director             | 28 May 2012                     |

### Executive Directors

**Xie Yingxia (謝鶯霞)**, aged 35, is the Chairman and an executive Director of the Company, responsible for the financial matters of the Group. Ms. Xie obtained a bachelors degree in investment economics from Fudan University (復旦大學) and a masters degree in business administration from China Europe International Business School (中歐國際工商學院), an accredited institution authorized by the PRC Ministry of Education to grant the said degree. Ms. Xie has extensive experience in financial management. From 1998 to 2001, Ms. Xie had worked for Xiamen International Bank as the account manager and the deputy head of the credit department, responsible for marketing, running account credit and account services. Subsequently from 2001 to 2008, Ms. Xie had worked for Orient Holdings Group Limited (“Orient Holdings”), an investment holding company, as the manager of the investment department, the chief financial officer and the vice president, responsible for evaluation and management of project investment, financial management, human resources and administrative matters, etc. Since joining our Group in July 2008, Ms. Xie has been serving as a director of Dongwu Cement and was responsible for

## DIRECTORS AND SENIOR MANAGEMENT

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formulating annual budget, business plan, long term/strategic development of our Company and monitoring the implementation, conducting internal audit as well as reviewing and monitoring the performance of our senior management. Through active involvement in daily operation and management of Dongwu Cement, Ms. Xie gained specific knowledge and experience in cement industry. Ms. Xie did not hold any directorship in any other listed companies in the past three years.

**Jin Chungen (金春根)**, aged 50, is the Chief Executive Officer and an executive Director of the Company, responsible for the Group’s general operation. Mr. Jin has extensive experience in cement-related industries such as highway operation, maintenance and renovation, etc. From 1995 to 2005, Mr. Jin had been the general manager of Wujiang Yuan Tong Road Construction and Development Co., Ltd. (吳江遠通公路建設發展有限公司), a company principally engaged in the operation and toll collection of the National Highway Road No. 318 (Wujiang Section), responsible for the company’s day-to-day management such as operation of toll roads, daily maintenance and renovation of roads, human resources, financial and administrative matters, etc. During the said period, Mr. Jin was heavily involved in the operation of toll highways as well as maintenance and renovation of roads, and since the operation, maintenance and renovation of roads involve substantial use of, inter alia, cement, Mr. Jin has also gained specific knowledge and experience in cement. Mr. Jin also possesses over 33 years of experience in corporate management. Between 1979 and 1990, Mr. Jin had worked for Jiangsu Orient as an officer and officer head, responsible for the company’s daily operational and management affairs. Subsequently from 1991 to 1994, Mr. Jin had served as a general manager for Wujiang Fuyuan Garment Co., Ltd (吳江富源製衣有限公司), a company principally engaged in the processing garment, responsible for the company’s overall management. Since joining our Group in January 2007, Mr. Jin has served as the director, chairman and general manager, respectively, of Dongwu Cement, and is responsible for the management of Dongwu Cement’s daily operation, such as making production plan, raw materials procurement and sales etc. Currently, Mr. Jin is the vice chairman of the Cement Committee (the third session) of Jiangsu Province Building Material Industry Association (江蘇省建材行業協會第三屆水泥分會). Mr. Jin did not hold any directorship in any other listed companies in the past three years.

**Yang Bin (楊斌)**, aged 38, is an executive Director of the Company. Mr. Yang graduated from Tsinghua University (清華大學) majoring in mechanical engineering and University of International Business and Economics (對外經濟貿易大學) with a masters degree in business administration. Mr. Yang possesses over 10 years of experience in investment and capital markets. From 2000 to 2008, Mr. Yang was the manager of the investment division, assistant to the president and vice president of Orient Holdings. Since 2009, Mr. Yang has served as the vice president of Far East International. Since joining our Group in March 2010, Mr. Yang has become a director of Dongwu Cement, and participated in the overall management of Dongwu Cement, such as participating in the board meetings of Dongwu Cement, reviewing major decisions submitted to the board on operational matters, and reviewing the reports by the general manager.. Mr. Yang did not hold any directorship in any other listed companies in the past three years.

### Non-executive Director

**Tseung Hok Ming (蔣學明)**, aged 50, was appointed as a non-executive Director of the Company on 29 November 2011. Mr. Tseung possesses over 25 years of experience in business and investment. He has been a director of Orient Financial Holdings Limited since July 2002, a director

## DIRECTORS AND SENIOR MANAGEMENT

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of Far East International since March 2004, a director of Orient International Petroleum & Chemical Limited since December 2004, a director of Sunshine Oilsands Limited, a company listed on the Stock Exchange (stock code: 02012) since March 2010 and a director of Orient International Resources Group Limited since April 2010.

Mr. Tseung began his career in 1986 as a director of a factory in Suzhou Province and was responsible for overseeing textile manufacturing and trading. In 1996, Mr. Tseung established Orient International Group (HK) Limited, a textile trading and investment business, and managed the business as a director until 2005. In 1995, Mr. Tseung invested into Wujiang Yuan Tong Highway Construction and Development Limited, a highway construction and operations management business. He has acted as its Vice Chairman since 1995, and responsible for its investment and construction business. In 2003, Mr. Tseung invested in Anhui Hefei-Caohu-Wuhu Highway Limited, which is principally engaged in the business of highway construction and maintenance, and acted as its chief representative until 2005. In June 2003, Mr. Tseung invested in Dongwu Cement, whose business scope is manufacture and sales of clinker and cement.

Mr. Tseung acted as a director of the second board of directors of China Foreign Affairs University from 2005. Mr. Tseung is currently a vice chairman of the Hong Kong Financial Services Institute and the Hong Kong China Education Fund. Mr. Tseung graduated from the Chinese Academy of Social Sciences (中國社會科學院) in 1998 majoring in International Trading. Save as disclosed above, Mr. Tseung did not hold any directorship in any other listed companies in the past three years.

### Independent Non-executive Directors

**Cao Guoqi (曹國琪)**, aged 49, was appointed as an independent non-executive Director of the Company on 28 May 2012. Mr. Cao specializes in project investment, finance and management, fund operation and management, mergers and acquisitions, assets and capital operations, human resources management and project consultation. Mr. Cao obtained a doctoral degree in political economics from Shanghai Academy of Social Sciences (上海社會科學院) in 2004. Mr. Cao has been the MBA supervisor Shanghai Advanced Institute of Finance, Shanghai Jiaotong University (上海交通大學上海高級金融學院) since December 2011, the part-time professor of Hunan University (湖南大學) since April 2008, the consultant to the government of Dongli District of Tianjin Municipality (天津市東麗區政府顧問) since March 2010, the executive director and general manager of Probest Limited in Hong Kong, the executive director and general manager of Master Energy INC in Hong Kong, and was appointed as the general manager of Shanghai Lingang New City Investment and Development Co., Ltd. (上海臨港新城投資開發集團有限公司) from April 2002 to April 2005. Mr. Cao is also an independent non-executive director of Shanghai Jiaoda Withub Information Industrial Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8205). Mr. Cao is also an independent director of Inner Mongolia Jinyu Group Stock Company (內蒙古金字集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600201). Save as disclosed above, Mr. Cao did not hold any directorship in any other listed companies in the past three years.

**Cao Kuangyu (曹貺予)**, aged 62, was appointed as an independent non-executive Director of the Company on 28 May 2012. Mr. Cao has over 30 years of experience in the banking industry. Mr. Cao graduated from Hunan University in 1981 with a bachelors degree in economics, and obtained

## DIRECTORS AND SENIOR MANAGEMENT

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his masters degree in financial management from the University of London in 1998. Mr. Cao worked in the Bank of China, Hunan branch from 1981 to 1996 and his last position was the deputy general manager of the branch. In 1996, Mr. Cao was transferred to the Singapore branch of Bank of China as deputy general manager until 1999. Mr. Cao worked in Citic Bank, Shenzhen branch from 1999 to 2003 and his last position was the president of the branch. Mr. Cao came to Hong Kong in 2003 when he worked as managing director, head of global investment banking division of BOCI Asia Limited until 2007. Mr. Cao has been an independent non-executive director of JLF Investment Company Limited (formerly known as Applied (China) Limited), a company listed on the Stock Exchange (stock code: 00472) since February 2004, and Huili Resources (Group) Limited, a company listed on the Stock Exchange (stock code: 01303) since December 2011. Mr. Cao also served as an independent non-executive director of Simsen International Corporation Limited (stock code: 00993) from April 2010 to June 2010. Save as disclosed above, Mr. Cao did not hold any directorship in any other listed companies in the past three years.

Mr. Cao Kuangyu and Mr. Cao Guoqi do not have any blood or family relationship.

**Lee Ho Yiu, Thomas (李浩堯)**, aged 34, was appointed as an independent non-executive Director of the Company on 28 May 2012. Mr. Lee has extensive experience in auditing, accounting and financial management. Mr. Lee is currently a partner of Messrs. Lee, Au & Co., Certified Public Accountants. Mr. Lee previously worked as an assistant financial controller in a multinational luxury brands group and also worked at one of the big four international accounting firms. Mr. Lee is a fellow of the Association of Chartered Certified Accountants, a practicing member of the Hong Kong Institute of Certified Public Accountants, a certified tax advisor and member of the Hong Kong Taxation Institute, a certified internal auditor of the Institute of Internal Auditors and a certified information systems auditor of the ISACA. Mr. Lee holds a bachelor's degree in science from the University of Warwick and a second bachelor's degree in Chinese law from Tsinghua University (清華大學) in Beijing. Mr. Lee is currently an independent non-executive director of Suncorp Technologies Limited (stock code: 1063), ABC Communications (Holdings) Limited (stock code: 0030) and Active Group Holdings Limited (stock code: 1096). All the aforesaid companies are listed on the Main Board of the Stock Exchange. Save as disclosed above, Mr. Lee did not hold any directorship in any other listed companies in the past three years.

## SENIOR MANAGEMENT

**Hu Xiaowei (胡小偉)**, aged 36, is deputy general manager of Dongwu Cement. Mr. Hu is responsible for the marketing and sales of our Group. Prior to joining our Group in December 2006, Mr. Hu worked for Orient Holdings, an investment holding company, as the manager of the assets management department and was responsible for management of external investment enterprises and administrative matters. Mr. Hu graduated from the School of Management of Donghua University (東華大學) with a master degree in corporate governance.

**Wu Junxian (吳俊賢)**, aged 31, is a deputy general manager of Dongwu Cement. Mr. Wu is responsible for human resources, internal controls and procurement of the Group. Mr. Wu joined our Group in March 2009, and has held various positions in Dongwu Cement such as assistant to general manager and deputy general manager. Prior to joining our Group, Mr. Wu worked for Orient Holdings, an investment holding company, as an officer of the assets management department, responsible for

## DIRECTORS AND SENIOR MANAGEMENT

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project research and development from 2003 to 2007. Mr. Wu subsequently worked for Shanghai Keli Communications Technology Co., Ltd. (上海科立通訊科技有限公司), a company principally engaged in communication construction and services, as a project manager and was responsible for project development and customer service from 2007 to 2009. Mr. Wu graduated from Nanjing Audit University (南京審計學院) in 2003 with a bachelor degree in management administration.

**Han Fuliang (韓福亮)**, aged 43, is a deputy general manager of Dongwu Cement. Mr. Han is responsible for the production of the Group. Mr. Han possesses over 20 years of experience in the management of cement production, and was previously the head of the production departments in a number of cement enterprises including Jilin Yatai Cement Company Ltd (吉林亞泰水泥有限公司) and Zhejiang Shenhe Cement Company Ltd (浙江申河水泥股份有限公司), respectively. Mr. Han joined our Group in June 2008, and has held various positions in Dongwu Cement such as chief engineer and deputy general manager. Mr. Han graduated from Changchun Institute of Optics and Fine Mechanics (長春光學精密機械學院) in 1993 and obtained tertiary education qualification in cement technologies.

**Zhu Qi-wei (朱奇偉)**, aged 36, is the chief financial officer of our Group. Mr. Zhu joined our Group since May 2009. Mr. Zhu possesses extensive financial and management experience in manufacturing industry and also experienced in financial data analysis. He is familiar with tax policies and regulations in the PRC. Prior to joining the Group, Mr. Zhu previously worked as Assistant to the chief financial officer of General Management Office of Brilliance Tiancifu Group from 1998 to 2003, as vice manager of financial department, General Management Office Executive and Manager of Management Department of Choice Printing (Shanghai) Co., Ltd. from 2003 to 2007 and as Manager of Operating Analysis Department of Shanghai Only Education and Technology Company Limited (上海昂立教育科技有限公司) from 2008 to 2009. Mr. Zhu obtained a bachelor degree in accounting from Shanghai University of Finance and Economics (上海財經大學) in 1998 and passed CPA exam in 2003 and has been qualified as a non-practicing member of Chinese Institute of Certified Public Accountants since 2005. In 2004, Mr. Zhu was qualified as a medium level accountant.

## JOINT COMPANY SECRETARIES

**Sun Xin (孫馨)**, aged 28, was appointed as the joint company secretary of the Company on 28 May 2012. Ms. Sun joined the Group in August 2010. From August 2006 to August 2010, Ms. Sun acted as the senior consultant of the business advisory and tax consultancy department of Deloitte Touche Tohmatsu CPA Ltd. During the office term, Ms. Sun was responsible for the provision of due diligence service and structuring support to the foreign multi-national companies and the private equity funds concerning acquisition activities in the PRC, as well as the provision of tax consultancy services, including international tax consultancy, indirect tax consultancy, general domestic tax consultancy and tax standardization. From September 2002 to July 2006, Ms. Sun studied at Shanghai International Studies University (上海外國語大學) majoring in international economic law and obtained a bachelor degree in law. From September 2003 to June 2005, she studied at Shanghai University of Finance and Economics (上海財經大學) and obtained the Certificate for Second Major (輔修專業證書) in Accounting. Ms. Sun is currently a member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會).

## **DIRECTORS AND SENIOR MANAGEMENT**

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**Chan Chin Wang Keith (陳展泓)**, aged 36, was appointed as the joint company secretary of the Company on 28 May 2012. Mr. Chan obtained his Bachelor of Laws degree in 1998 from the City University of Hong Kong, Master of Laws from the University of Hong Kong in 2005 and International Diploma in compliance from the University of Manchester Business School in 2008. Mr. Chan was admitted as a solicitor of the High Court of Hong Kong in January 2003. Mr. Chan was in private practice from 2003 to 2007 before he became an in-house legal counsel in 2008. From 2008 to 2011, Mr. Chan was the in-house legal counsel for a number of companies listed on the Main Board of the Stock Exchange, advising on corporate, company secretarial and compliance matters. He was appointed as the joint company secretary and authorized representative of Amax Holdings Limited (Stock Code: 959) in August 2009 and had become its sole company secretary in November 2009 until his resignation of both positions in June 2010. Mr. Chan is an associate solicitor of Messrs. Li & Partners, a practising law firm in Hong Kong since January 2012. He is not an employee of our Company and he provides services to our Company as an external service provider.

### **BOARD COMMITTEE**

#### **Audit Committee**

The audit committee is comprised of three members, namely, Lee Ho Yiu Thomas, Cao Kuangyu and Cao Guoqi, all of whom are Independent non-executive Directors. The primary duties of the audit committee are to review and supervise our financial reporting processes and internal control systems, nominate and monitor external auditors and provide advice and comments to the Directors. Mr. Lee Ho Yiu Thomas is the chairman of the audit committee.

#### **Remuneration Committee**

The remuneration committee is comprised of three members, namely, Lee Ho Yiu Thomas, Cao Kuangyu and Cao Guoqi, all of whom are Independent non-executive Directors. The primary duties of the remuneration committee are to evaluate the performance and determine the remuneration packages of our executive Directors and senior management and to make recommendations on the remuneration of our non-executive Director. Mr. Cao Guoqi is the chairman of the remuneration committee.

#### **Nomination Committee**

The nomination committee is comprised of three members, namely, Lee Ho Yiu Thomas, Cao Kuangyu and Cao Guoqi, all of whom are Independent non-executive Directors. The chairman of the nomination committee is Mr. Cao Guoqi. The primary duties of the nomination committee are to review the structure, size and composition of our Board on a regular basis and make recommendations to our Board regarding the nomination of appropriate candidates to fill vacancies on our Board. Mr. Cao Guoqi is the chairman of the nomination committee.

### **COMPENSATION OF DIRECTORS**

During the Track Record Period, our Group has not granted any fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of our Directors) or discretionary bonuses to any of our Directors.

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## FINANCIAL INFORMATION

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### OVERVIEW

We are a cement and clinker producer in Wujiang City, Suzhou Prefecture, which is situated in south Jiangsu Province. Since our establishment, our packed products have been sold and distributed under the trademark “”. We are also the only cement producer in Suzhou Prefecture that employs NSP technology in our production process.

Our principal products comprise ordinary Portland cement strength class 42.5 (“PO 42.5”), composite Portland cement strength class 32.5 (“PC 32.5”) and clinker, respectively. According to the independent mandatory inspection reports issued by Jiangsu Construction Materials Quality Supervision and Inspection Station, (i) in May 2012, with regard to our PO 42.5; and (ii) in April 2012, with regard to our PC 32.5, both our PO 42.5 and PC 32.5 products are of a substantially higher-grade quality than the PRC national standard.

Our products are sold in Jiangsu Province, Zhejiang Province and Shanghai respectively. Our strategic geographical location in the area known as the Golden Triangle of the Yangtze affords us easy access and places us within the close proximity to our markets. Our production facilities enjoy the benefit of the exclusive use of an adjoining wharf situated on the Taipu River (太浦河). The wharf enables us to transport raw materials and cement of 10,000 tonnes per day and affords our customers and suppliers convenient transportation access to us.

For the years ended 31 December 2009, 2010 and 2011, our sales volume of cement products (PO 42.5 and PC 32.5) was approximately 1.3 million tonnes, 1.4 million tonnes and 1.4 million tonnes, respectively. Other than our self-production of cement products, we also sold 154,851 tonnes, 49,803 tonnes, and 10,320 tonnes of clinker to external customers, including the ready-mixed concrete stations for the years ended 31 December 2009, 2010 and 2011. For the years ended 31 December 2009, 2010 and 2011, the average selling price per tonne of our cement products was RMB202.7, RMB253.2 and RMB327.4, respectively and the average selling price per tonne of our clinker was RMB185.4, RMB206.0 and RMB320.7, respectively during the same periods.

During the Track Record Period, for the years ended 31 December 2009, 2010 and 2011, our total revenue was approximately RMB291.6 million, RMB355.0 million and RMB464.0 million, respectively. Our operating profit increased from approximately RMB16.9 million for the year ended 31 December 2009 to approximately RMB44.4 million for the year ended 31 December 2010 and to approximately RMB116.6 million for the year ended 31 December 2011. Our net profit increased from approximately RMB11.8 million for the year ended 31 December 2009 to approximately RMB31.8 million for the year ended 31 December 2010 and to approximately RMB86.9 million for the year ended 31 December 2011.

## **FINANCIAL INFORMATION**

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### **BASIS OF PRESENTATION**

Our Company was established in the Cayman Islands on 29 November 2011 with limited liability as part of the Reorganization in preparation for [•••] of our shares on the [•••]. Our Controlling Shareholders have owned and controlled our Group during the Track Record Period.

The Reorganization is merely a reorganization of the Group’s business with no change in management of such business and the ultimate owners remain the same. Accordingly, the consolidated financial information of the companies now comprising the Group are presented using the carrying values of the Group’s business for all periods presented.

Our consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period, as set out in Part I of Appendix I to this document, respectively, have been prepared as if the current group structure had been in existence throughout the Track Record Period.

Our financial information has been prepared in accordance with HKFRS throughout the Track Record Period. All material inter-company transactions and balances have been eliminated in our consolidated financial information.

### **FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

We believe the most significant factors affecting our results of operations and financial condition are as follows:

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

We supply our cement products produced at our production facility in Wujiang of Jiangsu Province to regional markets in Jiangsu Province, Zhejiang Province and Shanghai. As such, demand for our cement products in these areas is dependent upon the amount of construction activities and the level of investment in fixed assets in Jiangsu Province, Zhejiang Province and Shanghai which in turn can be significantly impacted by any material changes in gross domestic product and its growth rate, level of fixed assets investment, PRC government policies, mortgage rate, interest rate, inflation, rate of unemployment, demographic trends and other relevant national and regional economic factors and conditions.

The local economies in Jiangsu Province, Zhejiang Province and Shanghai as well as the economies in the PRC have generally experienced and enjoyed a prolonged period of growth in recent years, we believe the economic growth in the PRC and, in particular, the growth in our target markets, will continue to have a significant impact on our results of operations and financial condition.

## FINANCIAL INFORMATION

### PRC government policies

The PRC government may from time to time adopt new industry policies to adjust the level of investment in infrastructure projects and real estate development using both economic incentives and disincentives and administrative means. In recent years, the PRC government’s regulation of the cement industry, its overhaul and invigoration plans specific to the cement industry, and its industry policies on resource development and the property market have had and may continue to have a material impact on the investment in, and the growth of, the PRC’s cement industry and other industries related to our businesses, bringing us new opportunities and challenges. These and any other future PRC government policy changes would affect the demand for our products to a large extent and therefore affect our financial condition and results of operations.

### Pricing

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

|         | Year ended 31 December |            |            |
|---------|------------------------|------------|------------|
|         | 2009                   | 2010       | 2011       |
|         | <i>RMB</i>             | <i>RMB</i> | <i>RMB</i> |
| PC 32.5 | 193.4                  | 234.0      | 302.4      |
| PO 42.5 | 217.8                  | 279.4      | 358.7      |
| Clinker | 185.4                  | 206.0      | 320.7      |

The prices of our products are dependent upon prevailing market conditions. The pricing of our products are determined primarily upon our production capacity, sales volume, competitors’ prices, logistics costs and projected profit margin. During the Track Record Period, the selling prices of our clinker and cement products fluctuated significantly in our target regions, which affected our business, results of operations and profitability.

For the three years ended 31 December 2009, 2010 and 2011, the average selling price per tonne of our cement products was RMB202.7, RMB253.2 and RMB327.4, respectively. In the same periods, the average selling price per tonne of (i) our PO 42.5 products was RMB217.8, RMB279.4 and RMB358.7, respectively and (ii) our PC 32.5 products was RMB193.4, RMB234.0 and RMB302.4, respectively.

## FINANCIAL INFORMATION

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During the Track Record Period, the average selling price of our PC 32.5 products increased by 21.0% and 29.2% for the years ended 31 December 2010 and 2011 respectively whilst the average selling price of our PO 42.5 products increased by 28.3% and 28.4% for the years ended 31 December 2010 and 2011 respectively. Such increases were mainly attributable to the energy saving and emission reduction policies implemented by the PRC government against the high energy consumptive industries such as cement industry for the purposes of realization of the Eleven Fifth Plan as well as the elimination of cement companies of laggard production capacity by the PRC government in July 2010, thereby affecting the production and supply of cement, resulting in the increases in the selling prices of our cement products. In 2011, despite the relaxation of the energy saving policies, the elimination of cement companies with laggard production capacity led to a decrease in the supply of cement products, which also accounted for the increases in the selling prices of our cement products.

### **Costs of coal and electricity**

Our results of operations are significantly affected by the costs of coal and electricity. The cost of coal is one of the principal components of our cost of sales and constituted 32.7%, 36.3% and 36.4% of our cost of sales for the years ended 31 December 2009, 2010 and 2011, respectively. We endeavor to improve our production efficiency and reduce our coal costs. However, due to market conditions, we may find it necessary to purchase certain types of coal that do not achieve maximum levels of coal consumption efficiency. Our average purchase price for coal was approximately RMB594.2 per tonne, RMB737.9 per tonne, and RMB817.3 per tonne in 2009, 2010 and 2011, respectively. During the Track Record Period, our business and results of operations were affected by the significant fluctuation of coal price. We maintain long term business relationships with our coal suppliers to secure their stable supply of coal. A purchase price is usually determined based on the prevailing market price when we place a particular purchase order.

Our operations also require a significant amount of electricity. Our electricity expenses, which account for approximately 99% of our utilities and energy costs, were approximately 18.0%, 16.2% and 16.3% of our cost of sales for the years ended 31 December 2009, 2010 and 2011, respectively. For the years ended 31 December 2009, 2010 and 2011, our average electricity purchase price per KWH was approximately RMB0.53 per KWH, RMB0.59 per KWH and RMB0.59 per KWH, respectively. We have installed residual heat recovery systems in our production lines in July 2009 and consequently reduced our external electricity consumption.

Any significant increase in the prices of coal and/or electricity could have a significant impact on our cost of sales, which could in turn have a material adverse effect on our business, financial condition and results of operations if we are unable to pass on a portion or all of such increased costs to our customers. We may experience difficulties in passing on these increased costs to our customers when the market conditions were unfavorable or the competition intensified.

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### **Cost and availability of raw materials**

We currently source our limestone, a principal raw material for our cement and clinker products, together with other raw materials such as sandstone, gypsum flyash, sulfuric acid residue and slag requirements from third-parties for our operations. Our results of operations are also affected by the costs and availability of these raw materials. Costs of raw materials (excluding coal) as a percentage of cost of sales was 25.8%, 21.9% and 27.8% in 2009, 2010 and 2011, respectively. The average cost of limestone was RMB26.6 per tonne, RMB28.5 per tonne and RMB38.5 per tonne, respectively, for the years ended 31 December 2009, 2010 and 2011. We entered into a long term contract with a limestone supplier for the supply of more than 50% limestone of our yearly usage. However, if the costs of these raw materials increase, or if we are unable to retain access to sufficient amount of limestone, our cost of sales may increase, and results of our operations may be negatively affected.

### **Competition**

Our sales and results of operations are also affected by competition in the markets in which we operate. The cement industry in the PRC remains fragmented and a regional industry. Consequently we only consider those cement producers with a presence in or near our geographical markets as competitors. According to Digital Cement Net there are 216 cement producers in Jiangsu Province as at 31 December 2011.

The cement markets in our targeted markets are fragmented. Our major competitors include both cement producers with a national presence together with some local cement producers with smaller-scale production capacity. Our major competitors include local cement producers, Wujiang Minggang Road and Bridge Ltd., Co. (吳江市明港道橋工程有限公司) and Wujiang Xingyuan Cement Ltd., Co. (吳江市興源水泥有限公司) and those with a national presence, such as Conch Cement Company (海螺水泥) and South Cement Company (南方水泥).

In recent years, the PRC government has implemented policies for industry consolidation and made efforts to restructure the cement industry in the PRC. We expected that these PRC government policies would lead to the closure of a number of cement producers and the competition in the cement industry will become more rational. We intend to leverage our market position and capitalize on the consolidation trend to expand our customer base and increase our market share in our targeted markets. Our profitability and market share will depend on our ability to compete with our competitors.

### **CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements in conformity with HKFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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We have identified the policies below as critical to our business operations and the understanding of our financial condition and results of operations. [•••] should read the following together with Appendix I to this document and the discussion under “FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION” and “SUMMARY OF OPERATING RESULTS” below.

### **Revenue Recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group’s activities. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### **(1) *Sale of goods***

The Group produces and sells cement products to customers in the Jiangsu Province, Zhejiang Province and Shanghai City of the PRC. Sales of goods are recognised when a group entity has delivered products to the customers, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer’s acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer and either the customer has accepted the products in accordance with the relevant sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

#### **(2) *Interest income***

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognised using the original effective interest rate.

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

Construction in progress represents properties under construction and is carried at cost, which includes development and construction expenditure incurred, less any accumulated impairment losses. Construction in progress is not depreciated until such time as the assets are completed and available for use. When the assets concerned are available for use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated below.

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All the other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives.

### **Impairment of non-financial assets**

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

### **Impairment of financial assets**

For financial assets carried at amortized cost, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### **Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

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The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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### SUMMARY OF OPERATING RESULTS

The following table sets out a summary of our consolidated statements of comprehensive income for the years ended 31 December 2009, 2010 and 2011, which are derived from the Accountant’s Report as set out in Appendix I to this document.

|                                                                                                                                | Year ended 31 December |                |                |
|--------------------------------------------------------------------------------------------------------------------------------|------------------------|----------------|----------------|
|                                                                                                                                | 2009                   | 2010           | 2011           |
|                                                                                                                                | <i>RMB’000</i>         | <i>RMB’000</i> | <i>RMB’000</i> |
| Revenue                                                                                                                        | 291,622                | 354,950        | 464,045        |
| Cost of sales                                                                                                                  | (268,592)              | (305,619)      | (341,923)      |
| <b>Gross profit</b>                                                                                                            | 23,030                 | 49,331         | 122,122        |
| Distribution costs                                                                                                             | (3,265)                | (2,016)        | (2,416)        |
| Administrative expenses                                                                                                        | (12,779)               | (14,204)       | (16,284)       |
| Other income                                                                                                                   | 9,386                  | 11,285         | 16,332         |
| Other gains/(losses) – net                                                                                                     | 478                    | (32)           | (3,187)        |
| <b>Operating profit</b>                                                                                                        | 16,850                 | 44,364         | 116,567        |
| Finance income                                                                                                                 | 78                     | 59             | 134            |
| Finance costs                                                                                                                  | (2,094)                | (4,514)        | (7,323)        |
| <b>Profit before income tax</b>                                                                                                | 14,834                 | 39,909         | 109,378        |
| Income tax expense                                                                                                             | (3,034)                | (8,123)        | (22,434)       |
| <b>Profit for the year</b>                                                                                                     | 11,800                 | 31,786         | 86,944         |
| Other comprehensive income                                                                                                     |                        |                |                |
| – Fair value gain of<br>available-for-sale financial assets<br>(net of tax)                                                    | 2,684                  | 1,654          | 2,257          |
| – Recycling of fair value gain in<br>available-for-sale financial assets<br>(net of tax)                                       | –                      | –              | (6,595)        |
| <b>Total comprehensive income<br/>for the year</b>                                                                             | <u>14,484</u>          | <u>33,440</u>  | <u>82,606</u>  |
| <b>Profit attributable to<br/>equity holders of the Company</b>                                                                | <u>11,800</u>          | <u>31,786</u>  | <u>86,944</u>  |
| Total comprehensive income<br>attributable to equity holders<br>of the Company                                                 | <u>14,484</u>          | <u>33,440</u>  | <u>82,606</u>  |
| Earnings per share for profit attributable<br>to equity holders of the Company<br>for the year (expressed in RMB<br>per share) |                        |                |                |
| – Basic and diluted earnings per share                                                                                         | <u>1,180</u>           | <u>3,180</u>   | <u>8,694</u>   |
| – Dividends                                                                                                                    | <u>–</u>               | <u>–</u>       | <u>121,642</u> |

## FINANCIAL INFORMATION

### PRINCIPAL INCOME STATEMENT ITEMS

#### Revenue

Our revenue is mainly generated from the sale of cement products and clinker. The following table provides a breakdown of our sales by product during the Track Record Period:

|         | Year ended 31 December |              |                |              |                |              |
|---------|------------------------|--------------|----------------|--------------|----------------|--------------|
|         | 2009                   |              | 2010           |              | 2011           |              |
|         | <i>RMB'000</i>         | <i>%</i>     | <i>RMB'000</i> | <i>%</i>     | <i>RMB'000</i> | <i>%</i>     |
| PO 42.5 | 107,623                | 36.9         | 160,603        | 45.2         | 224,551        | 48.4         |
| PC 32.5 | 155,284                | 53.3         | 184,088        | 51.9         | 236,185        | 50.9         |
| Clinker | 28,715                 | 9.8          | 10,259         | 2.9          | 3,309          | 0.7          |
|         | <u>291,622</u>         | <u>100.0</u> | <u>354,950</u> | <u>100.0</u> | <u>464,045</u> | <u>100.0</u> |

Our revenue from PO 42.5 as a percentage to our total revenue increased from 36.9% in 2009 to 45.2% in 2010 and further increased to 48.4% in 2011. Such increase was mainly due to the increase in our average selling price of PO 42.5 from RMB217.8 per tonne in 2009 to RMB279.4 per tonne in 2010, which was further increased to RMB358.7 per tonne in 2011 whilst our sales volume of PO 42.5 increased from 494,060 tonnes in 2009 to 574,772 tonnes in 2010 and further increased to 626,094 tonnes in 2011.

Our revenue from PC 32.5 as a percentage to our total revenue did not have significant fluctuation during the Track Record Period.

During the Track Record Period, the sales volumes of PO 42.5 increased by 16.3% and 8.9% for the years ended 31 December 2010 and 2011 respectively. The gradual increase in our sales volume of PO 42.5 during the Track Record Period was mainly due to the increase in the demand of relatively high strength cement (i.e. PO 42.5) for the development of large scale infrastructure projects in Wujiang City such as Wujiang Binhu New Town, construction of the government office buildings of Shengze Town and the project on Fenhu Development Zone in 2011, etc. Besides, we had been focusing on the development of key governmental administrative construction projects and ready-mixed concrete station customers and such projects and customers mainly used PO 42.5, which also accounted for the gradual increase in our sales volume of PO 42.5 during the Track Record Period.

During the Track Record Period, the sales volumes of PC 32.5 decreased by 2.0% and 0.7% for the years ended 31 December 2010 and 2011 respectively, mainly because of an increase in sales to ready-mixed concrete station for PO 42.5 and a shift in preference for a higher grade cement product from our customers. In addition, as our production capacity of clinker and production volume remained relatively stable, the increase in our production and sales volumes of PO 42.5, inevitably led to decrease in our production of PC 32.5.

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Our revenue from clinker as a percentage to our total revenue decreased significantly from 9.8% in 2009 to 2.9% in 2010 and further decreased to 0.7% in 2011. Such decrease was mainly due to the decrease in sales volume of clinker during the Track Record Period as we used majority of the clinker, in our own production.

For the three years ended 31 December 2009, 2010 and 2011, an increase in the average selling price of our PC 32.5 and PO 42.5 products would have a positive effect on our revenue and net profit while a decrease in the average selling price of our PC 32.5 and PO 42.5 products would have a negative effect on our revenue and net profit, assuming that other factors remain unchanged. Set out below are two tables illustrating the change in our revenue and net profit which would have been caused by the change in the average selling price of our PC 32.5 products and PO 42.5 products by RMB1 per tonne and 10% respectively during the Track Record Period, assuming other factors remain unchanged:

### Change in revenue

|                          | Year ended 31 December |          |                    |          |                    |          |
|--------------------------|------------------------|----------|--------------------|----------|--------------------|----------|
|                          | 2009                   |          | 2010               |          | 2011               |          |
|                          | change in revenue by   |          |                    |          |                    |          |
|                          | <i>RMB million</i>     | <i>%</i> | <i>RMB million</i> | <i>%</i> | <i>RMB million</i> | <i>%</i> |
| <b>Change in PC 32.5</b> |                        |          |                    |          |                    |          |
| <b>average price</b>     |                        |          |                    |          |                    |          |
| by RMB1 per tonne        | 0.8                    | 0.3      | 0.8                | 0.2      | 0.8                | 0.2      |
| by 10%                   | 15.5                   | 5.3      | 18.4               | 5.2      | 23.6               | 5.1      |
| <b>Change in PO 42.5</b> |                        |          |                    |          |                    |          |
| <b>average price</b>     |                        |          |                    |          |                    |          |
| by RMB1 per tonne        | 0.5                    | 0.2      | 0.6                | 0.2      | 0.6                | 0.1      |
| by 10%                   | 10.8                   | 3.7      | 16.1               | 4.5      | 22.5               | 4.8      |

### Change in net profit

|                          | Year ended 31 December  |          |                    |          |                    |          |
|--------------------------|-------------------------|----------|--------------------|----------|--------------------|----------|
|                          | 2009                    |          | 2010               |          | 2011               |          |
|                          | change in net profit by |          |                    |          |                    |          |
|                          | <i>RMB million</i>      | <i>%</i> | <i>RMB million</i> | <i>%</i> | <i>RMB million</i> | <i>%</i> |
| <b>Change in PC 32.5</b> |                         |          |                    |          |                    |          |
| <b>average price</b>     |                         |          |                    |          |                    |          |
| by RMB1 per tonne        | 0.6                     | 5.4      | 0.6                | 2.0      | 0.6                | 0.7      |
| by 10%                   | 12.4                    | 104.8    | 14.7               | 46.1     | 18.8               | 21.6     |
| <b>Change in PO 42.5</b> |                         |          |                    |          |                    |          |
| <b>average price</b>     |                         |          |                    |          |                    |          |
| by RMB1 per tonne        | 0.4                     | 3.3      | 0.5                | 1.4      | 0.5                | 0.6      |
| by 10%                   | 8.6                     | 72.6     | 12.8               | 40.2     | 17.9               | 20.6     |

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### Cost of sales

Our cost of sales consists of raw materials and consumables used, utilities, depreciation and amortization expenses, and wages, salaries and bonuses. Raw materials and consumables primarily include coal, limestone and accessories. Utilities refer to electricity and water. Depreciation and amortization expenses are primarily related to plant and equipment we own. Wages, salaries and bonuses primarily include the compensation and benefits we provide to our manufacturing employees.

The table below sets forth, for the periods indicated, the components of our cost of sales and the components as a percentage of total cost of sales.

|                                                             | Year ended 31 December |              |                |              |                |              |
|-------------------------------------------------------------|------------------------|--------------|----------------|--------------|----------------|--------------|
|                                                             | 2009                   |              | 2010           |              | 2011           |              |
|                                                             | RMB'000                | %            | RMB'000        | %            | RMB'000        | %            |
| Raw materials and consumables used                          | 188,882                | 70.3         | 220,206        | 72.1         | 252,928        | 74.0         |
| Utilities and energy costs                                  | 48,600                 | 18.1         | 49,802         | 16.3         | 55,973         | 16.4         |
| Depreciation                                                | 22,620                 | 8.4          | 24,215         | 7.9          | 23,321         | 6.8          |
| Wages, salaries and bonuses                                 | 6,964                  | 2.6          | 6,887          | 2.3          | 7,739          | 2.3          |
| Changes in inventories of finished goods & work in progress | (356)                  | -0.1         | 1,612          | 0.5          | (2,814)        | -0.8         |
| Other expenses                                              | 1,882                  | 0.7          | 2,897          | 0.9          | 4,776          | 1.3          |
|                                                             | <u>268,592</u>         | <u>100.0</u> | <u>305,619</u> | <u>100.0</u> | <u>341,923</u> | <u>100.0</u> |

Our cost of sales mainly consisted of raw materials and consumables used which constituted approximately 70.3%, 72.1% and 74.0% of our total cost of sales for the three years ended 31 December 2011. Coal, an important raw material used in the production process, is also accounted for in the raw materials and consumables used. As the average purchase price for coal has been continuously increasing during the Track Record Period from RMB594.2 per tonne in 2009 to RMB737.9 per tonne in 2010 and further increased to RMB817.3 per tonne in 2011, the percentage of our raw materials and consumables used in our total cost of sales is also in the increasing trend.

The utilities and energy costs constituted approximately 18.1%, 16.3% and 16.4% of our total cost of sales for the three years ended 31 December 2011, among which 99% or more were electricity expenses. The decrease in utilities and energy costs as a percentage of our total cost of sales decreased in 2010 and 2011 was mainly due to the reason that we installed residual heat recovery systems which collects residual heat from the clinker production process to generate power which can then be re-utilized in July 2009 which successfully helped us reduce the electricity purchased.

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### **Distribution costs**

Distribution costs mainly represent transportation expenses for the delivery of our products to our customers, expenses for providing after-sales services, salary and welfare expenses for employees involved in distribution activities, and other operating expenses, including travelling expenses, business development expenses, advertising and promotion expenses, and other miscellaneous expenses.

### **Administrative expenses**

Administrative expenses mainly represent salary and welfare expenses for management and administrative personnel, advertising, tax and levies, entertainment, vehicle, consultancy, legal and professional fees, and other administrative expenses.

### **Other income and other gains/(losses) – net**

Other income mainly represents tax refunds which represents the refund of value added tax for sales of certain types of cement where industrial waste has been used. The use of waste materials in our production process, entitles us to claim a VAT refund from the PRC government by adoption of energy efficient and environmentally-friendly practices. The VAT refund is only available on the condition that at least 30% of the raw materials used during our production process comprise waste materials. In order to achieve this 30% threshold the quality of the clinker is required to be of a high quality. As we produce our own clinker we are able to control this process and to ensure that a minimum of 30% waste material is used. For the three years ended 31 December 2011, these VAT refunds amounted to approximately RMB8.9 million, RMB8.7 million and RMB13.4 million respectively. All the VAT refunds we received are derived from the production of our PC 32.5 products. Other gains – net include sales of scrap materials and gain on disposal of property, plant and equipment.

### **Finance costs**

Finance costs mainly represent interest on borrowings from bank and non-bank financial institutions.

### **Income tax expenses**

The Group is not subject to Hong Kong profit tax as it has no assessable income arising in and derived from Hong Kong during the Track Record Period. Taxes on profits assessable in the PRC have been provided at the rate of tax prevailing in the jurisdictions in which the Group operates.

Under the PRC EIT Law, which became effective from 1 January 2008, enterprises are subject to corporate income tax at a rate of 25%. The Group’s major PRC subsidiary – Dongwu Cement is subject to a full corporate income tax exemption for two years and a 50% deduction in the succeeding three years, commencing from the first profitable year. The year 2007 was the first profitable year of Dongwu Cement; hence the applicable income tax rates for the years ended 31 December 2009, 2010 and 2011 were 12.5%, 12.5% and 12.5%, respectively.

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### Breakeven quantity

The table set out below illustrates the breakeven quantity analysis for our cement products for each of the three years ended 31 December 2011 and for the four months ended 30 April 2012 based on our management accounts, assuming the selling prices remain unchanged:

|                                                              | Year ended 31 December |         |         | Four months ended 30 April 2012 |
|--------------------------------------------------------------|------------------------|---------|---------|---------------------------------|
|                                                              | 2009                   | 2010    | 2011    |                                 |
| Breakeven quantity (thousand tonnes)                         | 1,035.5                | 868.1   | 530.5   | 275.1                           |
| Actual sales quantity (thousand tonnes)                      | 1,297.1                | 1,361.4 | 1,407.2 | 352.4                           |
| Average selling price of our cement products (RMB per tonne) | 202.7                  | 253.2   | 327.4   | 284.2                           |
| Average cost of sales of our cement products (RMB per tonne) | 184.9                  | 215.8   | 241.0   | 254.6                           |

Attributable to the continuous increase in the average selling price of our cement products, which exceeds the increase in our cost of sales of our cement products during the Track Record Period, the breakeven quantity of the Group’s cement products decreased from approximately 1,035,500 tonnes in 2009 to approximately 530,500 tonnes in 2011.

Due to the significant decrease in our average selling price of our cement products from approximately RMB327.4 per tonne, for the year ended 31 December 2011 to approximately RMB284.2 per tonne for the four months ended 30 April 2012, representing a decrease of 13.2% and the Directors are of the view that the downward trend since 2009 in breakeven quantity may not be sustained in 2012, as the table indicated above.

### YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

#### Year ended 31 December 2011 compared with the year ended 31 December 2010

##### *Revenue*

Our revenue from PC 32.5 increased by RMB52.1 million, or 28.3%, from RMB184.1 million in 2010 to RMB236.2 million in 2011. The increase was mainly attributable to the increase in the average selling price of PC 32.5 from RMB234.0 per tonne in 2010 to RMB302.4 per tonne in 2011.

Our revenue from PO 42.5 increased by RMB64.0 million, or 39.9%, from RMB160.6 million in 2010 to RMB224.6 million in 2011. The increase was mainly attributable to both the increase in the average selling price of PO 42.5 from RMB279.4 per tonne in 2010 to RMB358.7 per tonne in 2011 and the increase in sales volume of approximately 574,772 tonnes in 2010 to 626,094 tonnes in 2011.

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Our revenue from clinker decreased by RMB7.0 million, or 68.0%, from RMB10.3 million in 2010 to RMB3.3 million in 2011. The decrease was mainly due to the reason that the majority of the clinker was used in our production instead of sales.

Our total revenue increased by RMB109.0 million, or 30.7%, from RMB355.0 million in 2010 to RMB464.0 million in 2011 as a result of the reasons described above.

### *Cost of sales*

Our cost of sales increased by RMB36.3 million, or 11.9%, from RMB305.6 million in 2010 to RMB341.9 million in 2011. The increase was mainly attributable to increases in the raw materials and consumables used and utilities.

- **Raw materials and consumables used.** The cost of sales attributable to raw materials and consumables used increased by RMB32.7 million, or 14.9%, from RMB220.2 million in 2010 to RMB252.9 million in 2011. The change was mainly attributable to the increase in the average purchase price of coal which increased from RMB737.9 per tonne in 2010 to RMB817.3 per tonne in 2011.
- **Utilities.** The cost of sales attributable to utilities increased by RMB6.2 million, or 12.4%, from RMB49.8 million in 2010 to RMB56.0 million in 2011. The change was primarily attributable to the increase in the production and sales volume of cement products which resulted in the increase in consumption of electricity.

### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased by RMB72.8 million, or 147.7%, from RMB49.3 million in 2010 to RMB122.1 million in 2011, and our gross profit margin increased from 13.9% in 2010 to 26.3% in 2011.

The increase in our gross profit margin was mainly due to the increase in the average selling price of PC 32.5 from RMB234.0 per tonne in 2010 to RMB302.4 per tonne in 2011 and the increase in the average selling price of PO 42.5 from RMB279.4 per tonne in 2010 to RMB358.7 per tonne in 2011. Our cost of sales also increased by 11.9% from 2010 to 2011, however, the increase in our revenue exceeds the increase in our cost of sales as we can pass on the increased costs to our customers by increasing our selling prices during such period due to increase in demand of our cement products in the market we operate arising from the implementation of the energy saving and emission reduction policies, resulting in the changes in the production and supply of cement in regional markets which benefited the sales of our cement products in such market, as well as the elimination of cement companies with laggard production capacity by the PRC government.

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### ***Other income***

Our other income increased by RMB5.0 million, or 44.2%, from RMB11.3 million in 2010 to RMB16.3 million in 2011. The increase was mainly due to the dividend income on available-for-sale financial assets of RMB2.4 million in 2011 and the increase in the amount of tax refund by RMB4.7 million, or 54.0% from RMB8.7 million in 2010 to RMB13.4 million in 2011.

### ***Other losses – net***

Our other net losses increased by RMB3.2 million, from net losses of RMB0.03 million in 2010 to net losses of RMB3.2 million in 2011. The increase was mainly because there was a loss on disposal of property, plant and equipment in a total amount of RMB3.1 million in 2011.

### ***Distribution costs***

Distribution costs increased by RMB0.4 million, or 20.0%, from RMB2.0 million in 2010 to RMB2.4 million in 2011. The increase was mainly attributed for the increase in our sales volume of cement products.

### ***Administrative expenses***

Administrative expenses increased by RMB2.1 million, or 14.8%, from RMB14.2 million in 2010 to RMB16.3 million in 2011. The increase in administrative expenses was mainly due to increase in remuneration of the Group’s auditor from RMB0.03 million in 2010 to RMB1.4 million in 2011.

### ***Finance costs – net***

Finance costs-net increased by RMB2.7 million, or 60.0%, from RMB4.5 million in 2010 to RMB7.2 million in 2011. The increase was mainly due to the increase in our total borrowings from RMB75.0 million in 2010 to RMB90.4 million in 2011 and the increase in the interest rate.

### ***Profit before income tax***

As a result of the aforesaid, our profit before income tax increased by RMB69.5 million, or 174.2%, from RMB39.9 million in 2010 to RMB109.4 million in 2011.

### ***Income tax expense***

Income tax expense increased by RMB14.3 million, or 176.5%, from RMB8.1 million in 2010 to RMB22.4 million in 2011. The increase was mainly due to an increase in taxable income in 2011.

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### *Profit for the year attributable to equity Shareholders of the Company*

As a result of the aforesaid, profit for the year attributable to our equity shareholders increased by RMB55.1 million, or 173.3%, from RMB31.8 million in 2010 to RMB86.9 million in 2011.

### **Year ended 31 December 2010 compared with the year ended 31 December 2009**

#### ***Revenue***

Our revenue from PC 32.5 increased by RMB28.8 million, or 18.5%, from RMB155.3 million in 2009 to RMB184.1 million in 2010. The increase was mainly attributable to the increase in the average selling price of PC 32.5 from RMB193.4 per tonne in 2009 to RMB234.0 per tonne in 2010.

Our revenue from PO 42.5 increased by RMB53.0 million, or 49.3%, from RMB107.6 million in 2009 to RMB160.6 million in 2010. The increase was mainly attributable to both the increase in the average selling price of PO 42.5 from RMB217.8 per tonne in 2009 to RMB279.4 per tonne in 2010 and the increase in sales volume of approximately 494,060 tonnes in 2009 to 574,772 tonnes in 2010.

Our revenue from clinker decreased by RMB18.4 million, or 64.1%, from RMB28.7 million in 2009 to RMB10.3 million in 2010. The decrease was mainly due to the reason that the majority of the clinker was used in our production instead of sales.

Our total revenue increased by RMB63.4 million, or 21.7%, from RMB291.6 million in 2009 to RMB355.0 million in 2010 as a result of the reasons described above.

#### ***Cost of sales***

Our cost of sales increased by RMB37.0 million, or 13.8%, from RMB268.6 million in 2009 to RMB305.6 million in 2010. The increase was mainly attributable to increases in the raw materials and consumables used and utilities.

- **Raw materials and consumables used.** The cost of sales attributable to raw materials and consumables used increased by RMB31.3 million, or 16.6%, from RMB188.9 million in 2009 to RMB220.2 million in 2010. The change was mainly attributable to the increase in the average purchase price of coal which increased from RMB594.2 per tonne in 2009 to RMB737.9 per tonne in 2010.
- **Utilities.** The cost of sales attributable to utilities increased by RMB1.2 million, or 2.5%, from RMB48.6 million in 2009 to RMB49.8 million in 2010. The change was attributable to the increase in the average purchase price of electricity from RMB0.53 per KWh in 2009 to RMB0.59 per KWh in 2010 which outweigh the effect that we installed the residual heat recovery system in July 2009 which helped us reduce the usage of electricity.

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### ***Gross profit and gross profit margin***

As a result of the foregoing, our gross profit increased by RMB26.3 million, or 114.3%, from RMB23.0 million in 2009 to RMB49.3 million in 2010, and our gross profit margin increased from 7.9% in 2009 to 13.9% in 2010.

The increase in our gross profit margin was mainly due to the increase in the average selling price of PC 32.5 from RMB193.4 per tonne in 2009 to RMB234.0 per tonne in 2010 and the increase in the average selling price of PO 42.5 from RMB217.8 per tonne in 2009 to RMB279.4 per tonne in 2010. Our cost of sales also increased by 13.8% from 2009 to 2010, however, the increase in our revenue exceeds the increase in our cost of sales as we can pass on the increased costs to our customers during such period due to the decrease in the supply in our targeted markets as a result of the government policy to consolidate the cement industry in the PRC and to reduce the number of cement producers with backward production capacity.

### ***Other income***

Our other income increased by RMB1.9 million, or 20.2%, from RMB9.4 million in 2009 to RMB11.3 million in 2010. The increase was mainly due to the dividend income on available-for-sale financial assets of RMB1.4 million in 2010.

### ***Other gains/losses – net***

Our other net gains decreased by RMB0.51 million, from RMB0.48 million in 2009 to other net losses of RMB0.03 million in 2010. The decrease was mainly because there was a loss on penalties for our failure to pay the PRC individual income tax on behalf of our temporary staff of RMB0.2 million incurred in 2010 and a decrease in sales of scrap materials of RMB0.2 million in 2010.

### ***Distribution costs***

Distribution costs decreased by RMB1.3 million, or 39.4%, from RMB3.3 million in 2009 to RMB2.0 million in 2010. The decrease was mainly due to the reason that the distribution costs were excluded from our selling price for some of our sales in 2010 when we negotiated the contract terms with customers.

### ***Administrative expenses***

Administrative expenses increased by RMB1.4 million, or 10.9%, from RMB12.8 million in 2009 to RMB14.2 million in 2010. The increase in administrative expenses was mainly due to increase in staff welfare and the consultancy fee we paid to a third party for market and business development in Shanghai.

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The consultancy, legal and professional fees incurred in the year ended 31 December 2010 mainly comprised one-time charges of (i) RMB600,000 that was paid to a related party – Orient Hengye Holdings Company Limited for consultancy services relating to the Company’s marketing activities in Shanghai; and (ii) RMB515,500 paid to China Merchant Bank, Mudu Branch, for financial consultancy service, including but not limited to general consultancy services in relation to government policies and regulations updates, cash and asset management, financing and industry research and analysis.

### ***Finance costs – net***

Finance costs increased by RMB2.5 million, or 125.0%, from RMB2.0 million in 2009 to RMB4.5 million in 2010. The increase was mainly due to the increase in interest expense of RMB2.4 million as a result of the increase in our total borrowings from RMB44.5 million in 2009 to RMB75.0 million in 2010.

### ***Profit before taxation***

As a result of the aforesaid factors, our profit before taxation increased by RMB25.1 million, or 169.6%, from RMB14.8 million in 2009 to RMB39.9 million in 2010.

### ***Income tax***

Income tax expenses increased by RMB5.1 million, or 170.0%, from RMB3.0 million in 2009 to RMB8.1 million in 2010. The increase was mainly due to an increase in taxable income in 2010.

### ***Profit for the year attributable to equity Shareholders of the Company***

As a result for the above factors, profit for the year attributable to our equity shareholders increased by RMB20.0 million, or 169.5%, from RMB11.8 million in 2009 to RMB31.8 million in 2010.

## **LIQUIDITY AND CAPITAL RESOURCES**

We have historically met our working capital needs primarily through cash flow from operating activities, bank loans and the use of trade and other payables. Our primary uses of cash are for our working capital needs and capital expenditures.

Upon the completion of [••], we expect to meet our working capital needs primarily through cash flows from operating activities, bank loans, the use of trade and other payables and the net proceeds to our Company from the [••]. We are satisfied after due and careful inquiry that we have available sufficient working capital for the present requirements, which is for at least the next 12 months from the date of publication of this document.

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### Cash flows

The following table presents the cash flows for the three years ended 31 December 2011:

|                                                        | Year ended 31 December |               |               |
|--------------------------------------------------------|------------------------|---------------|---------------|
|                                                        | 2009                   | 2010          | 2011          |
|                                                        | RMB'000                | RMB'000       | RMB'000       |
| Net cash (used in)/generated from operating activities | (12,884)               | 42,459        | 36,004        |
| Net cash (used in)/generated from investing activities | (31,097)               | (71,583)      | 110,639       |
| Net cash generated from/(used in) financing activities | 43,747                 | 37,138        | (123,461)     |
| Net (decrease)/increase in cash and cash equivalents   | (234)                  | 8,014         | 23,182        |
| Cash and cash equivalents at beginning of the year     | 10,440                 | 10,206        | 18,220        |
| Cash and cash equivalents at the end of the year       | <u>10,206</u>          | <u>18,220</u> | <u>41,402</u> |

### *Cash flows from operating activities*

Our cash from operating activities reflects profit before taxation for the year, adjusted for (i) non-cash items such as depreciation of property, plant and equipment, amortization of prepaid operating lease payments; (ii) provision for impairment loss for receivables (net of reversal); (iii) gain/loss on disposal of property, plant and equipment; (iv) interest income, finance costs and dividend income on available-for-sale financial assets; and (v) the effect of change in working capital, such as increases or decreases in inventories, trade receivables and prepayments and other receivables, trade and other payables.

We had net cash generated from operating activities of RMB36.0 million in 2011, resulting from the cash generated from operations of RMB72.1 million after taking into account interest in the sum of RMB7.3 million paid and income tax in the sum of RMB28.7 million paid. Our cash generated from operations consisted of cash flow from operating activities of RMB142.5 million before net negative changes in working capital of RMB70.4 million. Net negative changes in working capital primarily consisted of (i) an increase in inventories of RMB1.4 million which was mainly due to our expectation of increase in the cost of raw materials and as a result, we purchased more stock to offset the effect of the increase in the cost of raw materials; (ii) an increase in trade and other receivables and prepayments of RMB50.6 million primarily reflected our increase in the total revenue and more customers using bank acceptance bills instead of cash to settle trade receivables; and (iii) a decrease in trade and other payables of RMB18.4 million.

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We had net cash generated from operating activities of RMB42.5 million in 2010, primarily resulting from cash generated from operations of RMB48.5 million, partly offset by interest paid of RMB4.5 million and income tax paid of RMB1.6 million. Our cash generated from operations consisted of cash flow from operating activities of RMB69.3 million before net negative changes in working capital of RMB20.7 million. Net negative changes in working capital primarily consisted of (i) an increase in inventories of RMB6.5 million which was mainly due to our expectation of increase in the cost of raw materials and as a result, we purchased more stock to off set the effect of the increase in the cost of raw materials; (ii) a decrease in trade receivables and prepayments and other receivables of RMB21.2 million primarily reflected the decrease in prepayment to suppliers of RMB20.2 million as a result of the settlement of bills payable of RMB20.2 million; and (iii) a decrease in trade and other payables of RMB50.5 million which was mainly due to the repayment of our bills payables of RMB30.0 million.

We had net cash used in operating activities of RMB12.9 million in 2009, primarily resulting from cash used in operations of RMB10.8 million and interest paid of RMB2.1 million. Our cash generated from operations consisted of cash flow from operating activities of RMB42.1 million before net negative changes in working capital of RMB52.9 million. Net negative changes in working capital primarily reflected (i) a decrease in inventory of RMB11.6 million which reflected the fact that our inventory level as at 31 December 2009 was at a lower level than 31 December 2008; (ii) an increase in restricted bank deposits of RMB15.0 million which were used as the guarantee of our bills payables; (iii) the increase in trade and other receivables and prepayments of RMB37.0 million primarily reflected the increase in prepayment to suppliers of RMB20.0 million and reflected our increase in the total revenue; and (iv) the decrease in trade and other payables of RMB12.5 million.

### ***Cash flows from investing activities***

Our cash outflows from investing activities during the Track Record Period mainly consisted of advances to related parties, increase in restricted bank deposits, acquisition of available-for-sale financial assets and purchase of property, plant and equipment. Our cash inflows from investing activities during the Track Record Period mainly consisted of repayments from/advances to related parties, decrease in restricted bank deposits, and dividends received from available-for-sale financial assets.

We had a net cash inflow from investing activities of RMB110.6 million in 2011, primarily resulting from the net repayments from related parties of RMB101.7 million.

We had a net cash outflow from investing activities of RMB71.6 million in 2010, primarily resulting from net advances to related parties of RMB67.7 million, purchase of property, plant and equipment of RMB3.3 million and acquisition of available-for-sale financial asset of RMB2.1 million.

We had a net cash outflow from investing activities of RMB31.1 million in 2009, primarily resulting from purchase of property, plant and equipment of RMB35.6 million and purchase of land use rights of RMB1.8 million which were partially offset by the net repayments from related parties of RMB6.0 million.

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As disclosed under “Note 33(b) of Significant Related Party Transactions” of the Accountant’s Report as set out in Appendix I, we have made advances to certain related parties, including Suzhou Tailong Real Estate Development Company Limited (蘇州泰隆房地產開發有限公司), Shanghai Orient Control Investment Management Company Limited (上海東控投資管理有限公司), Orient Huaxia Venture Investment Company Limited (東方華夏創業投資有限公司) and Orient Hengxin Capital Holdings Limited (東方恒信資本控股集團有限公司). We entered into these transactions as a general treasury arrangement by the related parties among the related companies. For the purpose of [•••] and to maintain financial independence of the Group from the related parties, all the advances have been fully settled by September 2011 and no similar transaction has been entered into thereafter up to the Latest Practicable Date.

In addition, we have made advances to Orient Holdings, a related party of our Company, as our Company intended to acquire the shares of Orient Holdings in order to participate in its businesses of roads construction and operation. The advances were made without interest as part of the acquisition plan. However, the plan of acquisition was aborted due to our different view on the acquisition price with Orient Holdings. Orient Holdings has since repaid our Company the amount outstanding in full by September 2011.

### *Cash flow from financing activities*

Our cash flow from financing activities during the Track Record Period mainly consisted of proceeds from bank borrowings, proceeds from other borrowing, repayment of bank borrowings, proceeds from capital injection, repayments for long term borrowings, and dividends paid.

We had a net cash outflow from financing activities of RMB123.5 million in 2011, primarily resulting from dividends paid of RMB121.6 million and repayments to a related party of RMB12.2 million the effects of which were partly offset by net proceeds from borrowings of RMB15.4 million.

We had a net cash inflow from financing activities of RMB37.1 million in 2010, primarily resulting from the net proceeds from borrowings of RMB30.5 million, and proceeds from capital injection of RMB16.6 million, the effects of which were partially offset by repayment to a related party of RMB10.0 million.

We had a net cash inflow from financing activities of RMB43.7 million in 2009, primarily resulting from net proceeds from borrowings of RMB24.0 million, net repayment to a related party of RMB17.8 million and proceeds from capital injection of RMB37.6 million.

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### CAPITAL EXPENDITURES

Our capital expenditures were RMB35.6 million, RMB3.3 million and RMB0.7 million for the three years ended 31 December 2009, 2010 and 2011, respectively. The following table sets forth our capital expenditures during the Track Record Period:

|                               | Year ended 31 December |                |                |
|-------------------------------|------------------------|----------------|----------------|
|                               | 2009                   | 2010           | 2011           |
|                               | <i>RMB'000</i>         | <i>RMB'000</i> | <i>RMB'000</i> |
| Property, plant and equipment | 1,473                  | 3,072          | 689            |
| Construction in progress      | 34,163                 | 208            | –              |
|                               | <u>35,636</u>          | <u>3,280</u>   | <u>689</u>     |

Capital expenditures for the three years ended 31 December 2011 primarily went towards the technology upgrades and the construction, purchase and installation of residual heat recovery systems.

We may incur additional capital expenditures from time to time as we pursue new opportunities to expand our production capacities, and actual expenditures may differ significantly from our current plans. Our planned capital expenditure projects may also be changed due to changes in business plans such as potential acquisitions, individual project progress, and market conditions and outlook. Further, our ability to obtain sufficient funding for our planned capital expenditure projects in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, economic, political and other conditions in the PRC, Hong Kong and other jurisdictions in which we may operate.

### WORKING CAPITAL

Based on our current and anticipated levels of operations and conditions in the market and industry, and taking into account the estimated net proceeds available to us from the [•••], our cash at bank and in hand, cash flow from operations, our available banking facilities and future financing, our Directors are of the view that we have sufficient working capital to meet our requirements for at least the next 12 months from the date of publication of this document.

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### NET CURRENT ASSETS

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

|                                                | As of 31 December |                |                | As of          |
|------------------------------------------------|-------------------|----------------|----------------|----------------|
|                                                | 2009              | 2010           | 2011           | 30 April       |
|                                                | RMB'000           | RMB'000        | RMB'000        | 2012           |
|                                                |                   |                |                | RMB'000        |
| <b>Current assets</b>                          |                   |                |                |                |
| Inventories                                    | 14,446            | 20,925         | 22,353         | 31,041         |
| Available-for-sales financial assets           | –                 | –              | –              | –              |
| Trade and other receivables<br>and prepayments | 135,362           | 180,877        | 146,258        | 121,812        |
| Restricted bank deposits                       | 15,000            | –              | 5,000          | 5,000          |
| Cash and cash equivalents                      | 10,206            | 18,220         | 41,402         | 89,271         |
| <b>Total current assets</b>                    | <b>175,014</b>    | <b>220,022</b> | <b>215,013</b> | <b>247,124</b> |
| <b>Current liabilities</b>                     |                   |                |                |                |
| Trade and other payables                       | 159,861           | 102,853        | 71,709         | 87,210         |
| Current income tax payable                     | 1,292             | 1,394          | 2,400          | 215            |
| Borrowings                                     | 38,790            | 72,669         | 90,378         | 95,952         |
| <b>Total current liabilities</b>               | <b>199,943</b>    | <b>176,916</b> | <b>164,487</b> | <b>183,377</b> |
| <b>Net current (liabilities)/assets</b>        | <b>(24,929)</b>   | <b>43,106</b>  | <b>50,526</b>  | <b>63,747</b>  |

As of 30 April 2012, our current assets of RMB247.1 million comprised inventories of RMB31.0 million, trade and other receivables and prepayments of RMB121.8 million, restricted bank deposits of RMB5.0 million and cash and cash equivalents of RMB89.3 million. As of 30 April 2012, our current liabilities of RMB183.4 million comprised trade and other payables of RMB87.2 million, current income tax payable of RMB0.2 million, borrowings of RMB96.0 million.

Our net current assets increased from RMB43.1 million as of 31 December 2010 to RMB50.5 million as of 31 December 2011. The increase was mainly due to an increase in cash and cash equivalents of RMB23.2 million and a decrease in trade and other payables of RMB31.1 million which were partially offset by a decrease in trade and other receivables and prepayments of RMB34.6 million and an increase in borrowings of RMB17.7 million.

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Our net current assets position improved from net current liabilities of RMB24.9 million as of 31 December 2009 to net current assets of RMB43.1 million as of 31 December 2010. The increase was mainly due to an increase in trade and other receivables and prepayments of RMB45.5 million primarily reflected our increase in the total revenue, and a decrease in trade and other payables of RMB57.0 million which was mainly due to the settlement for the construction and installation of our residual heat recovery system. The effects of foregoing factors, however, were partially offset by an increase in borrowings of RMB33.9 million, and a decrease in restricted bank deposits of RMB15.0 million.

### Trade and other receivables and prepayments

The following table sets forth, as of the dates indicated, trade and bills receivables:

|                                           | <b>As of 31 December</b> |                |                |
|-------------------------------------------|--------------------------|----------------|----------------|
|                                           | <b>2009</b>              | <b>2010</b>    | <b>2011</b>    |
|                                           | <i>RMB'000</i>           | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade receivables due from third parties  | 52,833                   | 50,247         | 59,178         |
| Trade receivable due from related parties | 6,369                    | 3,024          | 2,450          |
| Bills receivable                          | 5,674                    | 18,679         | 59,088         |
|                                           | <u>64,876</u>            | <u>71,950</u>  | <u>120,716</u> |

Our trade and bills receivables increased from RMB64.9 million as of 31 December 2009 to RMB72.0 million as of 31 December 2010, and further increased to RMB120.7 million as of 31 December 2011, primarily reflecting our increase in total revenue.

The significant increase in bills receivable as at 31 December 2011 was mainly due to the reason that more of our customers chose to settle trade receivables by bank acceptance bills instead of cash in 2011. These bills are generally valid for 6 months and have little credit risk as they are guaranteed by the banks. In addition, the bank acceptance bills can be used to settle our own trade payables. Therefore, we chose to factor only some of the bills to avoid unnecessary finance costs.

Other than those customers which we required them to settle by cash, we generally grant credit period of 30 to 60 days to our customers, except for one construction project customer to which we have granted credit terms of up to 90 days because it is a new customer which we would like to develop as a long-term customer. For ready-mixed concrete stations customers, our Group may grant them the following credit terms: (i) a revolving credit limit of between RMB1 million and RMB3.5 million with a credit period of up to 365 days, and (ii) any outstanding payables in excess of the said revolving credit limit with a credit period of between 0 to 30 days. We have also granted one ready-mixed concrete station a credit period of up to 180 days because of its background as a state-owned enterprise. The trade receivables to be received from this customer amounted to RMB5.2 million, RMB18.5 million and RMB31.5 million as at 31 December 2009, 2010 and 2011 respectively while the amount of sales to this customer amounted to RMB4.4 million, RMB28.6 million and RMB38.5

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million, respectively, for the years ended 31 December 2009, 2010 and 2011. We granted a longer credit term of 180 days to this customer because this customer, being an Independent Third Party and a state-owned enterprise under the Shanghai Municipal Government, had a relatively large market share in the Shanghai municipal construction industry and we intend to maintain our business relationship with this customer such that it can be our long term key customer. As at 30 April 2012, the trade receivables of this customer amounted to RMB19.6 million, which was granted 180-day credit period.

We granted a property developer a credit period of 90 days in 2010. The trade receivables due from this customer amounted to RMB0.04 million as at 31 December 2010, while the amount of sales to this customers amounted to RMB1.1 million for the years ended 31 December 2010.

The following table sets forth, for the periods indicated, our average trade and bills receivables turnover days:

|                                                      | <b>Year ended 31 December</b> |             |             |
|------------------------------------------------------|-------------------------------|-------------|-------------|
|                                                      | <b>2009</b>                   | <b>2010</b> | <b>2011</b> |
| Average trade and bills<br>receivables turnover days | <u>74</u>                     | <u>70</u>   | <u>76</u>   |

*Note:*

We calculate average trade and bills receivables turnover days by dividing average trade and bills receivables by turnover for the relevant period and multiplying 365 days, while average trade and bills receivables are obtained by dividing the sum of trade and bills receivables at the beginning of the period and at the end of the period by two. All of our bills are the bank acceptance bills.

The increase in average trade and bill receivable turnover days in 2011 is mainly due to the increase in bills receivables as more of our customers have increasingly used bank acceptance bills to settle their purchases for our products. Such bills receivables are generally payable within 6 months, which are longer than the normal credit period granted to our customers (i.e. 1 to 2 months).

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The following table sets forth, as of the dates indicated, an aging analysis of our trade receivables:

|                          | <b>As of 31 December</b> |                |                |
|--------------------------|--------------------------|----------------|----------------|
|                          | <b>2009</b>              | <b>2010</b>    | <b>2011</b>    |
|                          | <i>RMB'000</i>           | <i>RMB'000</i> | <i>RMB'000</i> |
| Below 90 days            | 23,405                   | 38,582         | 33,181         |
| From 91 days to 180 days | 22,523                   | 4,498          | 16,871         |
| From 181 days to 1 year  | 1,572                    | 1,163          | 2,924          |
| From 1 year to 2 years   | 998                      | 1,045          | 542            |
| Over 2 years             | 4,335                    | 4,959          | 5,660          |
|                          | <u>52,833</u>            | <u>50,247</u>  | <u>59,178</u>  |

Our management monitors the recoverability of overdue trade and bills receivables, and, when there is objective evidence that our Group may not be able to collect, our management provides for impairment of these receivables. As at 31 December 2009, 2010 and 2011, trade receivables of RMB5.1 million, RMB6.0 million and RMB6.1 million had been impaired and were fully provided for, respectively. Further details are set out in Note 12 of the Accountant’s Report.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a wide range of customers that have a good track record with our Group. Based on past experience, our management believes that no additional impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 30 April 2012, RMB31.8 million of total trade receivables have been subsequently settled in which RMB3.0 million are overdue trade receivables. Whilst approximately RMB27.4 million remain unsettled which includes (i) approximately RMB19.6 million due from our single largest customer who is a state-own enterprise with credit period of 180 days we granted; and (ii) approximately RMB6.0 million has been impaired as provision for trade receivable. Having considered the payment records and background of the customers with outstanding trade receivables, our Directors are of the view that our provision for trade receivables is adequate.

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The following table sets forth, as of the dates indicated, prepayments and other receivables:

|                                                                                               | <b>As of 31 December</b> |                |                |
|-----------------------------------------------------------------------------------------------|--------------------------|----------------|----------------|
|                                                                                               | <b>2009</b>              | <b>2010</b>    | <b>2011</b>    |
|                                                                                               | <i>RMB'000</i>           | <i>RMB'000</i> | <i>RMB'000</i> |
| Prepayments for                                                                               |                          |                |                |
| – acquisition of raw materials                                                                | 29,960                   | 9,794          | 14,032         |
| – others                                                                                      | –                        | –              | 2,890          |
| Due from related parties                                                                      | 34,020                   | 101,686        | –              |
| Due from a related party resulting<br>from disposal of available-for-sale<br>financial assets | –                        | –              | 13,696         |
| Other receivables                                                                             | 11,559                   | 3,439          | 995            |
|                                                                                               | <u>75,539</u>            | <u>114,919</u> | <u>31,613</u>  |

Our aggregate prepayments and other receivables increased from RMB75.5 million as of 31 December 2009 to RMB114.9 million as of 31 December 2010 primarily reflecting the increase in amount due from related parties which were partially offset by the decrease in prepayment of RMB20.2 million due to the settlement of bills payable of RMB20.2 million. Our aggregate prepayments and other receivables decreased from RMB114.9 million as of 31 December 2010 to RMB31.6 million as of 31 December 2011, primarily reflecting the repayment by the related parties of RMB101.7 million.

As at 31 December 2009, other receivables mainly consists of two items: (a) receivable of RMB7.9 million due from a third party – Shanghai Baohe Energy Engineering and Technology Company Limited (上海寶和能源工程技術有限公司, “Shanghai Baohe”) (Shanghai Baohe originally planned to construct and operate a residual heat power station to supply electricity to the Group and the Group paid RMB7.9 million advance to Shanghai Baohe as a prepayment for electricity. However, the Group was not satisfied with the progress of the construction and decided to construct its own residual heat power station which was completed in 2009. Accordingly, the advance to Shanghai Baohe was classified as other receivable due from Shanghai Baohe as at 31 December 2009 and was subsequently settled in 2010.); and (b) advances to staff amounting to RMB2.7 million, which have subsequently been settled in 2011.

## FINANCIAL INFORMATION

### Trade and other payables

The following table sets forth, as of the dates indicated, our trade and other payables:

|                             | As of 31 December |                |               |
|-----------------------------|-------------------|----------------|---------------|
|                             | 2009              | 2010           | 2011          |
|                             | RMB'000           | RMB'000        | RMB'000       |
| Trade payables              | 57,568            | 56,423         | 48,232        |
| Bills payable               | 30,000            | —              | —             |
| Advance from customers      | 4,839             | 4,296          | 1,265         |
| Other tax payables          | 1,219             | 4,572          | 3,119         |
| Other payables              | 43,905            | 25,342         | 16,197        |
| Amount due to related party | 22,220            | 12,220         | 2,896         |
|                             | <u>159,861</u>    | <u>102,853</u> | <u>71,709</u> |

Trade payables primarily related to the purchases of raw materials and coal from our suppliers. Advances from customers mainly represent the prepayments received from customers for purchase of our products according to the sales contracts. Other taxes payables and other payables primarily consisted of other tax payables and salary and staff welfare expenses payables.

Our aggregate trade and other payables decreased from RMB159.9 million as of 31 December 2009 to RMB102.9 million as of 31 December 2010, primarily reflecting the settlement of bills payable of RMB30.0 million and the settlement of RMB23.5 million for the residual heat recovery system in 2010. Our aggregate trade and other payables decreased from RMB102.9 million as of 31 December 2010 to RMB71.7 million as of 31 December 2011, primarily reflecting the decrease in trade payables of RMB8.2 million, decrease in other payables of RMB9.1 million, and decrease in the amount due to related party of RMB9.3 million.

The credit period granted by our principal suppliers is 30 to 90 days.

The following table sets forth, for the periods indicated, our average trade payables turnover days:

|                                      | Year ended 31 December |           |           |
|--------------------------------------|------------------------|-----------|-----------|
|                                      | 2009                   | 2010      | 2011      |
| Average trade payables turnover days | <u>63</u>              | <u>68</u> | <u>56</u> |

*Note:*

We calculate trade payables turnover days by dividing average trade payables by cost of sales for the relevant period and multiplying 365 days, while average trade payables are obtained by dividing the sum of trade payables at the beginning of the period and at the end of the period by two.

## FINANCIAL INFORMATION

The decrease in our average trade payables turnover days in 2011 was mainly affected by the shortened payment terms stated in our purchase contracts for raw materials and the fact that we used more bank acceptance bills to settle our payment. Taking into account the fact that our working capital was sufficient for the year ended 31 December 2011, we accepted such shortened payment terms with a view to further ensure a stable supply of our raw materials.

The following table sets forth, as of the dates indicated, an aging analysis of trade and bills payables:

|                          | <b>As of 31 December</b> |                |                |
|--------------------------|--------------------------|----------------|----------------|
|                          | <b>2009</b>              | <b>2010</b>    | <b>2011</b>    |
|                          | <i>RMB'000</i>           | <i>RMB'000</i> | <i>RMB'000</i> |
| Below 30 days            | 44,233                   | 44,754         | 23,475         |
| From 30 days to 90 days  | 28,834                   | 7,159          | 19,719         |
| From 91 days to 180 days | 12,179                   | 907            | 1,932          |
| From 181 days to 1 year  | 392                      | 1,509          | 2,000          |
| From 1 year to 2 years   | 1,480                    | 1,260          | 690            |
| Over 2 years             | 560                      | 834            | 416            |
|                          | <u>87,678</u>            | <u>56,423</u>  | <u>48,232</u>  |

As at 30 April 2012, RMB32.2 million of total trade payables have been subsequently settled.

### Inventories

The following table sets forth, as of the dates indicated, a summary of our balance of inventories:

|                                  | <b>As of 31 December</b> |                |                |
|----------------------------------|--------------------------|----------------|----------------|
|                                  | <b>2009</b>              | <b>2010</b>    | <b>2011</b>    |
|                                  | <i>RMB'000</i>           | <i>RMB'000</i> | <i>RMB'000</i> |
| Raw materials                    | 4,652                    | 13,888         | 10,776         |
| Work in progress ( <i>Note</i> ) | 2,112                    | 2,137          | 7,002          |
| Finished goods                   | 7,682                    | 4,900          | 4,575          |
|                                  | <u>14,446</u>            | <u>20,925</u>  | <u>22,353</u>  |

*Note:* For the purpose of the above table, clinker is classified as work in progress.

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## FINANCIAL INFORMATION

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The increase of our inventories from RMB14.4 million as of 31 December 2009 to RMB20.9 million as of 31 December 2010 primarily reflected the increase in our stock of raw materials as we expected that the raw materials price would further rise. Our inventories slightly increase to RMB22.4 million as of 31 December 2011 primarily due to the growth of our business and sales volume.

The following table sets forth, for the periods indicated, our average inventory turnover days:

|                                 | Year ended 31 December |           |           |
|---------------------------------|------------------------|-----------|-----------|
|                                 | 2009                   | 2010      | 2011      |
| Average inventory turnover days | <u>28</u>              | <u>21</u> | <u>23</u> |

*Note:*

Inventory turnover days equal the average inventory divided by cost of sales multiplied by 365 days. Average inventory is the sum of the inventory at the beginning of the period and the inventory at the end of the period divided by two.

There was no significant change in our inventory turnover days during the Track Record Period.

As at 30 April 2012, RMB20.5 million of inventories have been subsequently utilized.

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### INDEBTEDNESS

#### Borrowings

All of our borrowings are dominated in RMB. The table below sets forth, as of the dates indicated, our loans and borrowings:

|                                                          | As of 31 December |               |               | As of<br>30 April |
|----------------------------------------------------------|-------------------|---------------|---------------|-------------------|
|                                                          | 2009              | 2010          | 2011          | 2012              |
|                                                          | RMB'000           | RMB'000       | RMB'000       | RMB'000           |
| Current:                                                 |                   |               |               |                   |
| Bank borrowings ( <i>Note 1</i> )                        | 35,000            | 54,000        | 73,070        | 79,770            |
| Other borrowings                                         |                   |               |               |                   |
| – from non-bank financial institutions ( <i>Note 2</i> ) | 500               | 15,300        | 15,000        | 15,000            |
| – from financing arrangement ( <i>Note 3</i> )           | <u>3,290</u>      | <u>3,369</u>  | <u>2,308</u>  | <u>1,182</u>      |
|                                                          | 38,790            | 72,669        | 90,378        | 95,952            |
| Non-current:                                             |                   |               |               |                   |
| Other borrowings                                         |                   |               |               |                   |
| – from financing arrangement ( <i>Note 3</i> )           | <u>5,677</u>      | <u>2,308</u>  | <u>–</u>      | <u>–</u>          |
|                                                          | <u>44,467</u>     | <u>74,977</u> | <u>90,378</u> | <u>95,952</u>     |
| Representing:                                            |                   |               |               |                   |
| – unsecured                                              | 500               | 300           | –             | –                 |
| – secured                                                | <u>43,967</u>     | <u>74,677</u> | <u>90,378</u> | <u>95,952</u>     |
|                                                          | <u>44,467</u>     | <u>74,977</u> | <u>90,378</u> | <u>95,952</u>     |

## FINANCIAL INFORMATION

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*Notes:*

1. The bank borrowings were for general working capital purposes.
2. These other borrowings represented the borrowings from non-bank financial institutions and are to be repaid in full upon [•••]. The other borrowings were for general working capital purposes.
3. These other borrowings represented a financing arrangement entered by the Group by the form of a sale and leaseback transaction with repurchase option. The subjects sold and leased back under this financial arrangement are the production equipment of the Company. The total selling price for such production equipment amounted to RMB14,285,715. The total amount involved the lease back of such production equipment was RMB16,627,715, including (i) the first payment of RMB4,285,715 which was settled on 7 August 2009 and (ii) the rental fees approximately RMB12,342,000 which shall be paid every 2 months for 36 months commencing from 7 September 2009 to 7 July 2012. For the first 12 months, the rental fees were RMB753,300 every two months. For the second 12 months, the rental fees were RMB691,300 every two months. For the third 12 months, the rental fees were RMB612,400 every two months. After the term of lease, the Company has the right to repurchase such production equipment at nil consideration. As at 30 April 2012, RMB15,402,915 has been paid by us under the lease back arrangement. As the repurchase price is nil and the Group will definitely exercise its repurchase option, this arrangement is in fact a collateralized borrowing to the Group. For further details about the financing arrangement, please refer to Note 7(c) of Appendix I in this document.

As of 31 December 2009, 2010 and 2011, our Group had bank and other borrowings amounting to RMB44.5 million, RMB75.0 million and RMB90.4 million, of which RMB44.0 million, RMB74.7 million and RMB90.4 million were secured, respectively. Our bank borrowings carried a weighted average interest rate of 6.53%, 5.25% and 6.97% per annum while our other borrowings carried a weighted average interest rate of 16.8%, 12.6% and 14.7% per annum during the years ended 31 December 2009, 2010 and 2011, respectively.

As of 30 April 2012, we had bank and other borrowings amounting to RMB96.0 million, which were secured by our properties, plant and equipment, land use rights, bills receivable, restricted bank deposits and corporate guarantees provided by related or unrelated parties.

Our Directors have confirmed that as at the Latest Practicable Date, we did not have any unutilized banking facilities and all of the banking facilities were committed facilities. We also confirmed that we did not have any non-committed banking facilities. Nevertheless, in view of the good business relationship with China Merchants Bank (Mudu Branch) (“CMB”), our principal banker since 2009, we believe that we will be able to refinance our existing borrowings with new bank borrowings from CMB, which is evidenced by its written confirmation to us confirming that, provided that the Group can fulfil its credit requirements and no unforeseeable material adverse circumstances occur, CMB will extend the term of our existing banking facilities of up to RMB60 million until 30 June 2013.

The following sets out the major restrictive covenants of the Group’s banking facilities:

- (i) Dongwu Cement is required to obtain written consent from the lender if it undergoes any mergers, splits, reorganization, transfer of shares, transfer of assets, change of capital structure, or enters into any joint ventures (partnership), or makes any foreign investment, or increases any debt financing;

## FINANCIAL INFORMATION

- (ii) Dongwu Cement shall not delay in demanding payment or waive its credit rights, and in cases of default by the customers, Dongwu Cement shall not waive its debt holders all of its penalties or shall not improperly penalize its debt holders;
- (iii) Dongwu Cement is required to obtain written consent from the lender if it transfers its banking facilities to a third party;
- (iv) Dongwu Cement shall not apply the loans in investments such as fixed assets or shareholdings or securities, futures, real estate speculation or other uses not specified in the facilities contract; and
- (v) Dongwu Cement and its investors (including our Company), shall not dispose of its capital, transfer its assets or transfer the shares in an effort to avoid repayment of its debt.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities as of 30 April 2012.

## FINANCIAL RATIOS

The following table sets forth, as of the periods indicated, our key financial ratios.

|                                         | <i>Notes</i> | <b>Year ended 31 December</b> |             |             |
|-----------------------------------------|--------------|-------------------------------|-------------|-------------|
|                                         |              | <b>2009</b>                   | <b>2010</b> | <b>2011</b> |
| Turnover growth                         |              | N/A                           | 21.7%       | 30.7%       |
| Net profit growth                       |              | N/A                           | 169.5%      | 173.5%      |
| Current ratio                           | 1            | 0.88                          | 1.24        | 1.31        |
| Quick ratio                             | 2            | 0.80                          | 1.13        | 1.17        |
| Gearing ratio                           | 3            | 0.10                          | 0.16        | 0.22        |
| Debt to equity ratio                    | 4            | 0.15                          | 0.20        | 0.20        |
| Interest coverage                       | 5            | 8.05                          | 9.83        | 15.92       |
| Return on equity                        | 6            | 5.2%                          | 11.4%       | 36.2%       |
| Return on total assets                  | 7            | 2.7%                          | 6.8%        | 21.4%       |
| Gross margin                            | 8            | 7.9%                          | 13.9%       | 26.3%       |
| Net profit margin before interest & tax | 9            | 5.8%                          | 12.5%       | 25.1%       |
| Net profit margin                       | 10           | 4.0%                          | 9.0%        | 18.7%       |
| Inventory turnover days                 | 11           | 28                            | 21          | 23          |
| Debtors' turnover days                  | 12           | 74                            | 70          | 76          |
| Creditors' turnover days                | 13           | 63                            | 68          | 56          |

## FINANCIAL INFORMATION

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### *Notes*

1. The calculation of current ratio is calculated by dividing total current assets by total current liabilities.
2. The calculation of quick ratio is calculated by dividing current assets (net of inventories) by current liabilities.
3. The calculation of gearing ratio is calculated by dividing total debt by total assets.
4. The calculation of the debt to equity ratio is calculated by dividing net debt by the resulting value of total assets minus total liability.
5. The calculation of the interest coverage is calculated by dividing profit before interest and tax by interest.
6. The calculation of return on equity is calculated by dividing profit attributable to equity holders of the Company by total equity and multiplying the resulting value by 100%.
7. The calculation of return on total assets is calculated by dividing profit attributable to equity holders of the Company by total assets and multiplying the resulting value by 100%.
8. The calculation of gross margin is calculated by dividing gross profit by sales and multiplying the resulting value by 100%.
9. The calculation of net profit margin before interest and tax is calculated by dividing net profit before interest and taxes by sales and multiplying the resulting value by 100%.
10. The calculation of net profit margin is calculated by dividing profit attributable to equity holders of the Company by revenue and multiplying the resulting value by 100%.
11. The calculation of inventory turnover days is calculated by dividing average inventories by cost of sales and multiplying the resulting value by 365 days. The average inventories is the inventories at the beginning of the period plus the inventories at the end of the period with the sum divided by two.
12. The calculation of debtors’ turnover days is calculated by dividing average trade and bills receivables by sales and multiplying the resulting value by 365 days. The average trade and bills receivables is the trade and bills receivables at the beginning of the period plus the trade and bills receivables at the end of the period with the sum divided by two.
13. The creditors’ turnover days is calculated by dividing trade payable by cost of good sales and multiplying the resulting value by 365 days. The average trade payables is the trade payables at the beginning of the period plus the trade payables at the end of the period with the sum divided by two.

### ***Current ratio***

Our current ratio was 0.88, 1.24 and 1.31 for the three years ended 31 December 2011, respectively. The increase in current ratio reflected our increased net current assets during the Track Record Period. Such an increase was mainly due to an increase in the trade and other receivables which amounted to approximately RMB45.5 million.

### ***Quick ratio***

Our quick ratio was 0.80, 1.13, and 1.17 for the three years ended 31 December 2011, respectively. For the year ended 31 December 2010, the increase in quick ratio was mainly due to an increase in the trade and other receivables which amounted to approximately RMB45.5 million.

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### ***Gearing ratio***

Our gearing ratio was 0.10, 0.16 and 0.22 for the three years ended 31 December 2011, respectively. The increase in gearing ratio was mainly due to the increase in borrowings to meet the working capital requirement and to finance the increase in trade and other receivables.

### ***Interest coverage***

Our interest coverage was 8.05, 9.83 and 15.92 for the three years ended 31 December 2011, respectively. The significant increase in interest coverage in 2011 was mainly due to the comparatively higher percentage increase in profit before interest and tax as compared with the percentage increase in interest cost.

### ***Return on equity***

Our return on equity was 5.2%, 11.4%, and 36.2% for the three years ended 31 December 2011, respectively. For the year ended 31 December 2010, the increase in return on equity was due to an increase in net profit by 169.4% to be offset by an increase in shareholder’s equity of 21.9% which was due to an increase in capital of US\$2.5 million and an increase in retained earnings of RMB28.1 million. For the year ended 31 December 2011, the increase in return on equity was due to an increase in net profit by 173.5% and a decrease of shareholders’ equity by 11.4% which was due to the distribution of dividends that amounted to RMB121.6 million.

### ***Return on total assets***

Our return on total assets was 2.7%, 6.8%, and 21.4% for the three years ended 31 December 2011, respectively. For the year ended 31 December 2010, our net profit increased by 169.4% which led to the overall increase of the return on total assets. For the year ended 31 December 2011, return on total assets increased by 212.7% due to an increase in our net profit by 173.5% and the decrease of total assets caused by the distribution of dividends.

### ***Gross margin***

Our gross margin was 7.9%, 13.9% and 26.3% for the three years ended 31 December 2011, respectively. The increase in gross profit margin was mainly due to (i) the increase in Group’s average selling price of PO 42.5 from RMB217.8 per tonne in 2009 to RMB279.4 per tonne in 2010 and further increased to RMB358.7 per tonne in 2011, and (ii) the increase in Group’s average selling price of PC 32.5 from RMB193.4 per tonne in 2009 to RMB234.0 per tonne in 2010 and further increased to RMB302.4 per tonne; and (iii) the comparatively lesser percentage increase in the cost of as compared with the percentage increase in revenue.

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### ***Net profit margin before interest and tax***

Our net profit margin before interest and tax was 5.8%, 12.5% and 25.1% for the three years ended 31 December 2011, respectively. The improvement of net profit margin before interest and tax of the Company was in line with the improvement in gross profit margin.

### ***Net profit margin***

Our net profit margin was 4.0%, 9.0% and 18.7% for the three years ended 31 December 2011, respectively. An increase in the gross profit margin led to an increase in the net profit margin but the increase in the net profit margin was lower as finance costs also increased for the two years ended 31 December 2010 and 2011.

### ***Inventory turnover days***

The inventory turnover days was 28, 21, and 23 for the three years ended 31 December 2011, respectively. Inventory turnover days increased in the year ended 31 December 2011 because there was a price increase in the main raw materials during this period. Inventory turnover days was higher in the year ended 31 December 2009 since we kept a higher stock level in this period.

### ***Debtors' turnover days***

The increase in average trade and bill receivable turnover days in 2011 was mainly due to the increase in bills receivables as more of our customers have increasingly used bank acceptance bills to settle their purchases for our products. Such bill receivables are generally payable within 6 months, which are longer than the normal credit period granted to our customers (i.e. 1 to 2 months).

### ***Creditors' turnover days***

The decrease in our average trade payables turnover days in 2011 was mainly attributable to the shortened payment terms stated in our purchase contracts for raw materials and the fact that we used more bank acceptance bills to settle our payment. Taking into account the fact that our working capital was sufficient for the year ended 31 December 2011, we accepted such shortened payment terms with a view to further ensuring a stable supply of our raw materials.

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### COMMITMENTS

#### Capital commitments

The Group has the following capital commitments not provided for in respect of land use rights at the respective balance sheet dates:

|                                   | As of 31 December |         |         |
|-----------------------------------|-------------------|---------|---------|
|                                   | 2009              | 2010    | 2011    |
|                                   | RMB'000           | RMB'000 | RMB'000 |
| Authorized but not contracted for |                   |         |         |
| – Land use rights                 | 5,584             | 5,584   | –       |

#### Operating lease commitments

We had future aggregate minimum lease payments under non-cancellable operating leases that are payable as follows:

|                                              | As of 31 December |         |         |
|----------------------------------------------|-------------------|---------|---------|
|                                              | 2009              | 2010    | 2011    |
|                                              | RMB'000           | RMB'000 | RMB'000 |
| Not later than 1 year                        | 180               | 329     | 150     |
| Later than 1 year and not later than 5 years | 45                | –       | –       |
|                                              | 225               | 329     | 150     |

Our operating lease commitments as of 31 December 2011 primarily related to the lease agreement in respect of the leasing of production facilities. Leases for properties are generally negotiated for terms of one to two years.

### CONTINGENT LIABILITIES

During the Track Record Period, the Group provided three guaranteed borrowings as a guarantor at no charge to three companies. Two guaranteed borrowings were made to entities connected to Mr. Shan Huixing (山惠興). Mr. Shan remained a director of Dongwu Cement as at the Latest Practicable Date and at the material time, Mr. Shan was a director of Dongwu Cement as well as a director and/or a shareholder of these two borrowing or guarantee companies. The other guaranteed borrowing was made by Dongwu Cement as a guarantor to an Independent Third Party. Please refer to the Notes 1, 2 and 3 below for further details.

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Although under the terms of the financial guarantee contracts, the Group must make payments to reimburse the lenders upon failure of the guaranteed entities to make payments when due, the Group has since been released from these guaranteed borrowings. Therefore, these guaranteed borrowings will not have an effect on the Group upon [•••] and the Company does not anticipate that the Group will enter into such guaranteed borrowings agreement upon [•••].

Terms and face values of the liabilities guaranteed were as follows:

|                                                    | As of 31 December |         |         |
|----------------------------------------------------|-------------------|---------|---------|
|                                                    | 2009              | 2010    | 2011    |
|                                                    | RMB'000           | RMB'000 | RMB'000 |
| Borrowing matured in November 2011<br>(Note 1)     | —                 | 100,000 | —       |
| Borrowing matured in January 2012<br>(Note 2)      | —                 | —       | —       |
| Borrowing going to mature in June 2012<br>(Note 3) | —                 | 15,000  | —       |
|                                                    | —                 | 115,000 | —       |
|                                                    | —                 | 115,000 | —       |

Notes:

- The financial guarantee contract, in which the borrower was 上海中澤國際貿易有限公司 (China Fortune (Shanghai) International Trading Co., Ltd., “China Fortune”), covered the bank borrowing of RMB100 million. Mr. Shan Huixing, a director of Dongwu Cement, was also a director of China Fortune. The reason for entering into such guarantee contract was to develop business relationships with the borrower with a view to capturing more potential business opportunities for Dongwu Cement in the future. The guarantee was also considered as low risk since one of the controlling shareholders of the borrower was a state-owned enterprise. Dongwu Cement was released as a guarantor by the relevant lender on 31 December 2011. The principal business activities of China Fortune include operating import and export business of various commodities and technologies for its own or as agent, sales of industrial chemicals, metal materials, construction materials and relevant consultation services, meeting services.
- The financial guarantee contract was made with an Independent Third Party of the Company, 浙江奧特電梯有限公司 (Zhejiang Aote Elevator Co., Ltd., “Zhejiang Aote”), whose shareholder was a business acquaintance of Mr. Shan Huixing, covered the bank borrowing of RMB8 million. In January of 2011, the lender sought for a guarantor to back up this bank borrowing of Zhejiang Aote. Dongwu Cement acted as a guarantor for the borrower with a view to capturing more potential business opportunities for Dongwu Cement in the future through developing business relationships with Zhejiang Aote. Dongwu Cement was released as a guarantor on 29 December 2011. The principal business activities of Zhejiang Aote include the manufacturing, sales, installation of elevators and provision of aftersales services.
- Dongwu Cement, Suzhou Hengyuan Investment Co., Ltd. (蘇州恒源投資有限公司) (“Suzhou Hengyuan”) and Wujiang Orient Import and Export Co., Ltd. (吳江東方進出口有限公司) (“Wujiang Orient”, an associate of Mr. Tseung) (collectively, the “Borrowers”) entered into a revolving loan facility letter (the “Letter”) with a finance company (the “Lender”) on 22 June 2010, pursuant to which the Lender agreed to grant a revolving loan facility (the “Facility”) up to the maximum amount of RMB30 million to any of the Borrowers during the period between 22 June 2010 and 21 June 2012. Each loan approved and granted under the Facility by the Lender to any of the Borrowers under the Letter will be guaranteed by the other two Borrowers.

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As at the Latest Practicable Date, Dongwu Cement has utilized RMB15 million of the Facility whilst Suzhou Hengyuan has utilized the remaining RMB15 million. As there is no outstanding loan currently owed by Wujiang Orient under the Facility, there are no liabilities incurred by Wujiang Orient under the Facility which Dongwu Cement is obliged to guarantee in accordance with the Letter for the time being. Regarding the obligations of Dongwu Cement as one of the guarantors in respect of the liabilities of Suzhou Hengyuan for its loan of RMB15 million under the Facility, the Lender has released Dongwu Cement as a guarantor and discharged it from all liabilities in relation to such loan on 30 December 2011.

Wujiang Orient had been, and has resumed as, an associate of Mr. Tseung prior to October 2006 and after December 2011, as Mr. Tseung’s spouse was and Mr. Tseung has been the ultimate controlling shareholder of Wujiang Orient prior to October 2006 and after December 2011 respectively. In addition, Mr. Shan Huixing, a director of Dongwu Cement, has been a shareholder and director of Wujiang Orient since October 2006 and Mr. Jin, a director of each of our Company and Dongwu Cement, has been an ultimate shareholder of Wujiang Orient since December 2011. As at the Latest Practicable Date, Wujiang Orient was held as to 10% and 90% by Mr. Shan Huixing and Orient Hengxin Capital Holdings Group Company Limited (東方恒信資本控股集團有限公司), which was held as to 50%, 5% and 5% by Mr. Tseung, Mr. Jin and Mr. Shan Huixing respectively. Save and except for the above and as disclosed in this document, there have been no other relationships between Wujiang Orient and our Group, our Directors and their respective associates, nor were there any changes in such relationships as at the Latest Practicable Date.

Mr. Shan Huixing, a director of Dongwu Cement, was also a minority shareholder (holding 4% of shares) and a director of Suzhou Hengyuan. The reason for entering into such guarantee contract was to develop business relationships with the borrower with a view to capturing more potential business opportunities for Dongwu Cement in the future. The principal business activities of Suzhou Hengyuan include investment, assets management, operating import and export business of various commodities and technologies for its own or as agent. The principal business activities of Wujiang Orient include the sales of electronic machineries, hardware, metal materials and industrial chemicals, operating import and export business of various commodities and technologies for its own or as agent.

Our Directors confirm that the outstanding loan as well as the Facility will be settled and terminated upon the [•••].

## OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we have not entered into any off-balance sheet transactions or arrangements.

## RELATED PARTY BALANCES

Details of our balances with related parties during the Track Record Period are set out as follows.

## FINANCIAL INFORMATION

### Amounts due from related parties

The following table sets forth, as of the dates indicated, amounts due to us from related parties:

|                                                                                                | As of 31 December |                |                          |
|------------------------------------------------------------------------------------------------|-------------------|----------------|--------------------------|
|                                                                                                | 2009              | 2010           | 2011                     |
|                                                                                                | RMB'000           | RMB'000        | RMB'000                  |
| <b>Trade and bills receivables</b>                                                             |                   |                |                          |
| Sales of goods                                                                                 |                   |                |                          |
| – Suzhou Tailong Real Estate Development Company Limited                                       | 6,369             | 3,024          | 2,450                    |
| <b>Other receivables</b>                                                                       |                   |                |                          |
| Advance to related parties                                                                     |                   |                |                          |
| – Orient Holdings                                                                              | 5,000             | 75,000         | –                        |
| – Suzhou Tailong Real Estate Development Company Limited                                       | 15,000            | 23,000         | –                        |
| – Shanghai Orient Control Investment Management Company Limited                                | 11,020            | 1,020          | –                        |
| – Orient Huaxia Venture Investment Company Limited                                             | –                 | 2,000          | –                        |
| – Orient Hengxin Capital Holdings Limited                                                      | 3,000             | 666            | –                        |
| Amount due from a related party resulting from disposal of available-for-sale financial assets | –                 | –              | 13,696 <sup>(Note)</sup> |
|                                                                                                | <u>40,389</u>     | <u>104,710</u> | <u>16,146</u>            |

*Note:*

The amount due from a related party resulting from disposal of available-for-sale financial assets in the sum of RMB13,696,000 was derived from the disposal of the Dongwu Cement’s interest in the Wujiang Luxiang Rural Small-loan Co., Ltd. to Orient Hengxin Capital Holdings Limited for [•••] purpose and has been settled in full by 22 March 2012.

## FINANCIAL INFORMATION

### Amounts due to related parties

The following table sets forth, as of the dates indicated, outstanding amounts payable by us to related parties:

|                            | As of 31 December |         |         |
|----------------------------|-------------------|---------|---------|
|                            | 2009              | 2010    | 2011    |
|                            | RMB'000           | RMB'000 | RMB'000 |
| Other payables             |                   |         |         |
| – Far East International   |                   |         |         |
| Investment Company Limited | 22,220            | 12,220  | 2,896   |

Amount due from and to related parties are unsecured, interest free and repayable on demand.

### RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth in Note 33(b) to the Accountant’s Report in Appendix I to this document, our Directors confirmed that these transactions were conducted in the ordinary course of business of our Group and on normal commercial terms and/or such terms that were no less favourable to our Group than those available to Independent Third Parties.

### MARKET RISKS

We are exposed to various types of market risks in the normal course of business, including interest rate risks, foreign exchange risks and inflation risks.

#### Foreign Currency Exchange Rate Risk

We conducted our business primarily in the PRC with most of the transactions denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the PBOC or other institutions authorized to buy and sell foreign exchange. In July 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The PRC government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates. An appreciation of RMB may affect the value of the proceeds from the [•••], which will be denominated in HK dollars.

## **FINANCIAL INFORMATION**

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### **Interest Rate Risk**

Our income and operating cash flows are substantially independent of changes in market interest rates. Our exposure to changes in interest rates is mainly attributable to our bank loans, details of which have been disclosed in Note 3.1 of the Accountant’s Report set out in Appendix I to this document. As of 30 April 2012, we had total interest bearing bank loans of RMB79.8 million, as described above in “— Indebtedness.” Upward fluctuations in interest rates will increase the costs of both our existing and new debt. We have not entered into any interest rate hedging contracts or any other derivative financial instruments.

### **Credit Risk**

Credit risk is the risk of financial loss to us if a customer or counterparty to a financial instrument fails to honor its contractual obligations, and arises principally from our trade and other receivables and other financial assets. The carrying amount of pledged deposits, cash and at bank and in hand, trade receivables, bills receivable and other receivables included in our consolidated balance sheet represents our maximum exposure to credit risk in relation to our financial assets. We have policies in place to ensure that credit sales of products are made to customers with an appropriate credit history and we perform periodic credit evaluations of our customers. Our historical experience in the collection of trade and other receivables falls within the recorded allowances and our Directors are of the opinion that adequate provisions for uncollectible trade receivables has been made in the financial statements.

### **DIVIDEND POLICY**

Dividends may be paid out of our distributable profits as permitted under applicable law, subject to the Articles. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all.

On 12 May 2011, 12 September 2011 and 21 December 2011, Dongwu Cement declared and paid out RMB49.3 million, RMB29.4 million and RMB42.9 million of dividends respectively to its then shareholder at the time, Far East International. Such historical dividend distributions should not be used as a reference or basis to determine the amount of dividends, if any, that may be declared or paid by us in the future. Historical dividend distributions should not be used as a reference or basis to determine the amount of dividends, if any, that may be declared or paid by us in the future.

A decision to declare or to pay any dividends in the future, and the amount of any dividends, depend on a number of factors, including our results of operations, financial condition, the payments by our subsidiaries of cash dividends to us, future prospects and other factors that our Directors may consider important.

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## FINANCIAL INFORMATION

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Any distributable profits that are not distributed in any given year may be retained and be made available for distribution in subsequent years. For those profits distributed as dividends, such portion of profits will not be available for use in our business operations. There can also be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our future declaration of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board. As at the Latest Practicable Date, our Directors did not have the intention to declare any dividend for the year ending 31 December 2012.

### MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the Latest Practicable Date, there were material adverse change in our financial or trading position of our Company since 31 December 2011 (being the date to which our latest consolidated financial results were prepared as set out in the “Accountant’s Report” in Appendix I to this document).

### PROPERTY INTERESTS

Details relating to our Group’s property interests are set out in Appendix III to this document.

The table below shows the reconciliation of aggregate amounts of land and buildings from our Group’s audited consolidated balance sheet as of 31 December 2011 to the net book value of our Group’s property interests as of 30 April 2012 (based on our management accounts).

|                                                                          | <i>RMB’000</i> |
|--------------------------------------------------------------------------|----------------|
| Net book value as of 31 December 2011 (audited)                          |                |
| – Buildings                                                              | 93,255         |
| – Land use rights                                                        | 17,957         |
| Less: Depreciation of buildings for the four months ended 30 April 2012* | (2,202)        |
| Amortization of land use rights for the four months ended 30 April 2012* | (134)          |
| Net book value as of 30 April 2012*                                      | 108,876        |
| Valuation surplus                                                        | 27,624         |
| Valuation as of 30 April 2012 per Appendix III to this Document          | <u>136,500</u> |

## **FUTURE PLANS**

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### **FUTURE PLANS**

Please see the section entitled “Business – Our Strategies” in this document for a detailed description of our future plans.

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**APPENDIX I****ACCOUNTANT’S REPORT**

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[DRAFT]

[DATE]

**The Directors****Dongwu Cement International Limited**

[•••]

Dear Sirs,

We report on the financial information (the “Financial Information”) of Dongwu Cement International Limited (the “Company”) and its subsidiaries (together, the “Group”), which comprises the consolidated statements of financial position as at 31 December 2009, 2010 and 2011, the statement of financial position of the Company as at 31 December 2011, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2009, 2010 and 2011 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory information. This Financial Information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the document of the Company dated [•••] in connection with the initial [•••] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 29 November 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization as described in Note 1.1 of Section II headed “Group reorganization” below, which was completed on 28 December 2011, the Company became the holding company of the subsidiaries now comprising the Group (the “Reorganization”).

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.1 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganization. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1.1 of Section II.

## **APPENDIX I**

## **ACCOUNTANT’S REPORT**

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The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the “HKSA”) issued by the HKICPA pursuant to separate terms of engagement with the Company.

The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

### **DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error.

### **REPORTING ACCOUNTANT’S RESPONSIBILITY**

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the [•••] issued by the HKICPA.

### **OPINION**

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2011 and of the state of affairs of the Group as at 31 December 2009, 2010 and 2011 and of the Group’s results and cash flows for the Relevant Periods then ended.

## APPENDIX I

## ACCOUNTANT’S REPORT

### I. FINANCIAL INFORMATION

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2009, 2010 and 2011 and for each of the years ended 31 December 2009, 2010 and 2011 (the “Financial Information”).

#### (a) Consolidated Statements of Financial Position

|                                                                        |            | As at 31 December |                |                |
|------------------------------------------------------------------------|------------|-------------------|----------------|----------------|
|                                                                        | Section II | 2009              | 2010           | 2011           |
|                                                                        | Note       | RMB'000           | RMB'000        | RMB'000        |
| ASSETS                                                                 |            |                   |                |                |
| Non-current assets                                                     |            |                   |                |                |
| Property, plant and equipment                                          | 7          | 223,742           | 201,980        | 174,156        |
| Land use rights                                                        | 8          | 14,257            | 13,942         | 17,957         |
| Available-for-sale financial assets                                    | 10         | 23,068            | 27,054         | –              |
| Trade and other receivables                                            | 12         | 2,449             | 2,449          | –              |
|                                                                        |            | <u>263,516</u>    | <u>245,425</u> | <u>192,113</u> |
| Current assets                                                         |            |                   |                |                |
| Inventories                                                            | 11         | 14,446            | 20,925         | 22,353         |
| Trade and other receivables                                            | 12         | 135,362           | 180,877        | 146,258        |
| Restricted bank deposits                                               | 14         | 15,000            | –              | 5,000          |
| Cash and cash equivalents                                              | 15         | 10,206            | 18,220         | 41,402         |
|                                                                        |            | <u>175,014</u>    | <u>220,022</u> | <u>215,013</u> |
| Total assets                                                           |            | <u>438,530</u>    | <u>465,447</u> | <u>407,126</u> |
| EQUITY                                                                 |            |                   |                |                |
| Capital and reserves attributable to the equity holders of the Company |            |                   |                |                |
| Share capital                                                          | 16         | –                 | –              | –              |
| Other reserves                                                         | 17         | 183,041           | 204,976        | 210,193        |
| Retained earnings                                                      |            | 45,869            | 74,002         | 29,749         |
| Total equity                                                           |            | 228,910           | 278,978        | 239,942        |

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## ACCOUNTANT’S REPORT

|                                       |            | As at 31 December |                |                |
|---------------------------------------|------------|-------------------|----------------|----------------|
|                                       | Section II | 2009              | 2010           | 2011           |
|                                       | Note       | RMB'000           | RMB'000        | RMB'000        |
| LIABILITIES                           |            |                   |                |                |
| Non-current liabilities               |            |                   |                |                |
| Borrowings                            | 20         | 5,677             | 2,308          | —              |
| Deferred income tax liabilities       | 18         | <u>4,000</u>      | <u>7,245</u>   | <u>2,697</u>   |
|                                       |            | <u>9,677</u>      | <u>9,553</u>   | <u>2,697</u>   |
| Current liabilities                   |            |                   |                |                |
| Trade and other payables              | 19         | 159,861           | 102,853        | 71,709         |
| Current income tax payable            |            | 1,292             | 1,394          | 2,400          |
| Borrowings                            | 20         | <u>38,790</u>     | <u>72,669</u>  | <u>90,378</u>  |
|                                       |            | <u>199,943</u>    | <u>176,916</u> | <u>164,487</u> |
| Total liabilities                     |            | <u>209,620</u>    | <u>186,469</u> | <u>167,184</u> |
| Total equity and liabilities          |            | <u>438,530</u>    | <u>465,447</u> | <u>407,126</u> |
| Net current (liabilities)/assets      |            | <u>(24,929)</u>   | <u>43,106</u>  | <u>50,526</u>  |
| Total assets less current liabilities |            | <u>238,587</u>    | <u>288,531</u> | <u>242,639</u> |

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## ACCOUNTANT’S REPORT

### (b) Statement of Financial Position of the Company

|                                                                              |                           | As at<br>31 December<br>2011<br>RMB’000 |
|------------------------------------------------------------------------------|---------------------------|-----------------------------------------|
|                                                                              | Section II<br><i>Note</i> |                                         |
| <b>ASSETS</b>                                                                |                           |                                         |
| <b>Non-current assets</b>                                                    |                           |                                         |
| Investment in a subsidiary                                                   | 9                         | 208,245                                 |
| <b>Total assets</b>                                                          |                           | <u>208,245</u>                          |
| <b>EQUITY</b>                                                                |                           |                                         |
| <b>Capital and reserves attributable to the<br/>Company’s equity holders</b> |                           |                                         |
| Share capital                                                                | 16                        | –                                       |
| Other reserves                                                               | 17                        | 207,930                                 |
| <b>Total equity</b>                                                          |                           | <u>207,930</u>                          |
| <b>LIABILITIES</b>                                                           |                           |                                         |
| <b>Current liabilities</b>                                                   |                           |                                         |
| Amount due to a subsidiary                                                   | 9                         | 315                                     |
| <b>Total liabilities</b>                                                     |                           | <u>315</u>                              |
| <b>Total equity and liabilities</b>                                          |                           | <u>208,245</u>                          |
| <b>Net current assets</b>                                                    |                           | <u>–</u>                                |
| <b>Total assets less current liabilities</b>                                 |                           | <u>208,245</u>                          |

## APPENDIX I

## ACCOUNTANT’S REPORT

### (c) Consolidated Statements of Comprehensive Income

|                                                                                                                       | Section II<br><i>Note</i> | Year ended 31 December |                        |                        |
|-----------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------|------------------------|------------------------|
|                                                                                                                       |                           | 2009<br><i>RMB’000</i> | 2010<br><i>RMB’000</i> | 2011<br><i>RMB’000</i> |
| Revenue                                                                                                               | 6                         | 291,622                | 354,950                | 464,045                |
| Cost of sales                                                                                                         | 23                        | (268,592)              | (305,619)              | (341,923)              |
| <b>Gross profit</b>                                                                                                   |                           | 23,030                 | 49,331                 | 122,122                |
| Distribution costs                                                                                                    | 23                        | (3,265)                | (2,016)                | (2,416)                |
| Administrative expenses                                                                                               | 23                        | (12,779)               | (14,204)               | (16,284)               |
| Other income                                                                                                          | 21                        | 9,386                  | 11,285                 | 16,332                 |
| Other gains/(losses) – net                                                                                            | 22                        | 478                    | (32)                   | (3,187)                |
| <b>Operating profit</b>                                                                                               |                           | 16,850                 | 44,364                 | 116,567                |
| Finance income                                                                                                        |                           | 78                     | 59                     | 134                    |
| Finance costs                                                                                                         |                           | (2,094)                | (4,514)                | (7,323)                |
| Finance costs – net                                                                                                   | 25                        | (2,016)                | (4,455)                | (7,189)                |
| <b>Profit before income tax</b>                                                                                       |                           | 14,834                 | 39,909                 | 109,378                |
| Income tax expense                                                                                                    | 26                        | (3,034)                | (8,123)                | (22,434)               |
| <b>Profit for the year</b>                                                                                            |                           | <u>11,800</u>          | <u>31,786</u>          | <u>86,944</u>          |
| <b>Profit attributable to equity holders of the Company</b>                                                           |                           | <u>11,800</u>          | <u>31,786</u>          | <u>86,944</u>          |
| Other comprehensive income                                                                                            |                           |                        |                        |                        |
| – Fair value gains of available-for-sale financial assets (net of tax)                                                |                           | 2,684                  | 1,654                  | 2,257                  |
| – Recycling of fair value gains in available-for-sale financial assets (net of tax)                                   |                           | –                      | –                      | (6,595)                |
| <b>Total comprehensive income for the year</b>                                                                        |                           | <u>14,484</u>          | <u>33,440</u>          | <u>82,606</u>          |
| <b>Total comprehensive income attributable to equity holders of the Company</b>                                       |                           | <u>14,484</u>          | <u>33,440</u>          | <u>82,606</u>          |
| Earnings per share for profit attributable to equity holders of the Company for the year (expressed in RMB per share) |                           |                        |                        |                        |
| – Basic and diluted earnings per share                                                                                | 27                        | <u>1,180</u>           | <u>3,180</u>           | <u>8,694</u>           |
| Dividends                                                                                                             | 28                        | <u>–</u>               | <u>–</u>               | <u>121,642</u>         |

## APPENDIX I

## ACCOUNTANT’S REPORT

### (d) Consolidated Statements of Changes in Equity

|                                                                                                                      | Section II<br>Note | Attributable to the equity holders of the Company |                              |                                 |                  |
|----------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------|------------------------------|---------------------------------|------------------|
|                                                                                                                      |                    | Share<br>capital<br>RMB'000                       | Other<br>reserves<br>RMB'000 | Retained<br>earnings<br>RMB'000 | Total<br>RMB'000 |
| <b>Balance at 1 January 2009</b>                                                                                     |                    | –                                                 | 141,331                      | 35,535                          | 176,866          |
| <b>Comprehensive income</b>                                                                                          |                    |                                                   |                              |                                 |                  |
| Profit for the year                                                                                                  |                    | –                                                 | –                            | 11,800                          | 11,800           |
| Other comprehensive income                                                                                           |                    |                                                   |                              |                                 |                  |
| – Fair value gains of available-for-sale financial assets                                                            | 17                 | –                                                 | 3,068                        | –                               | 3,068            |
| – Tax effect on fair value gains of available-for-sale financial assets                                              | 17                 | –                                                 | (384)                        | –                               | (384)            |
| <b>Total comprehensive income</b>                                                                                    |                    | <b>–</b>                                          | <b>2,684</b>                 | <b>11,800</b>                   | <b>14,484</b>    |
| <b>Transactions with owners</b>                                                                                      |                    |                                                   |                              |                                 |                  |
| Contribution to a subsidiary by its then equity holder                                                               |                    | –                                                 | 37,560                       | –                               | 37,560           |
| Transfer to statutory reserves                                                                                       | 17(a)              | –                                                 | 1,466                        | (1,466)                         | –                |
| <b>As at 31 December 2009</b>                                                                                        |                    | <b>–</b>                                          | <b>183,041</b>               | <b>45,869</b>                   | <b>228,910</b>   |
| <b>Comprehensive income</b>                                                                                          |                    |                                                   |                              |                                 |                  |
| Profit for the year                                                                                                  |                    | –                                                 | –                            | 31,786                          | 31,786           |
| Other comprehensive income                                                                                           |                    |                                                   |                              |                                 |                  |
| – Fair value gains of available-for-sale financial assets                                                            | 17                 | –                                                 | 1,890                        | –                               | 1,890            |
| – Tax effect on fair value gains of available-for-sale financial assets                                              | 17                 | –                                                 | (236)                        | –                               | (236)            |
| <b>Total comprehensive income</b>                                                                                    |                    | <b>–</b>                                          | <b>1,654</b>                 | <b>31,786</b>                   | <b>33,440</b>    |
| <b>Transactions with owners</b>                                                                                      |                    |                                                   |                              |                                 |                  |
| Contribution to a subsidiary by its then equity holder                                                               |                    | –                                                 | 16,628                       | –                               | 16,628           |
| Transfer to statutory reserves                                                                                       | 17(a)              | –                                                 | 3,653                        | (3,653)                         | –                |
| <b>As at 31 December 2010</b>                                                                                        |                    | <b>–</b>                                          | <b>204,976</b>               | <b>74,002</b>                   | <b>278,978</b>   |
| <b>Comprehensive income</b>                                                                                          |                    |                                                   |                              |                                 |                  |
| Profit for the year                                                                                                  |                    | –                                                 | –                            | 86,944                          | 86,944           |
| Other comprehensive income                                                                                           |                    |                                                   |                              |                                 |                  |
| – Fair value gains of available-for-sale financial assets                                                            | 17                 | –                                                 | 2,580                        | –                               | 2,580            |
| – Tax effect on fair value gains of available-for-sale financial assets                                              | 17                 | –                                                 | (323)                        | –                               | (323)            |
| – Recycling of fair value gains of available-for-sale financial assets to profit or loss upon disposal               | 17                 | –                                                 | (7,538)                      | –                               | (7,538)          |
| – Recycling of tax effect on fair value gains of available-for-sale financial assets to profit or loss upon disposal | 17                 | –                                                 | 943                          | –                               | 943              |
| <b>Total comprehensive income</b>                                                                                    |                    | <b>–</b>                                          | <b>(4,338)</b>               | <b>86,944</b>                   | <b>82,606</b>    |
| <b>Transactions with owners</b>                                                                                      |                    |                                                   |                              |                                 |                  |
| Dividends paid to the then equity holder                                                                             | 28                 | –                                                 | –                            | (121,642)                       | (121,642)        |
| Transfer to statutory reserves                                                                                       | 17(a)              | –                                                 | 9,555                        | (9,555)                         | –                |
| Deemed distribution arising from Reorganization                                                                      | 1.1(d)             | –                                                 | (207,930)                    | –                               | (207,930)        |
| Deemed contribution from shareholders                                                                                | 1.1(e)             | –                                                 | 207,930                      | –                               | 207,930          |
| <b>As at 31 December 2011</b>                                                                                        |                    | <b>–</b>                                          | <b>210,193</b>               | <b>29,749</b>                   | <b>239,942</b>   |

## APPENDIX I

## ACCOUNTANT’S REPORT

### (e) Consolidated Statements of Cash Flows

|                                                                    | Section II<br><i>Note</i> | Year ended 31 December |                        |                        |
|--------------------------------------------------------------------|---------------------------|------------------------|------------------------|------------------------|
|                                                                    |                           | 2009<br><i>RMB'000</i> | 2010<br><i>RMB'000</i> | 2011<br><i>RMB'000</i> |
| <b>Cash flows from operating activities</b>                        |                           |                        |                        |                        |
| Cash (used in)/generated from operations                           | 30                        | (10,790)               | 48,537                 | 72,060                 |
| Interest paid                                                      |                           | (2,094)                | (4,514)                | (7,323)                |
| Income tax paid                                                    |                           | —                      | (1,564)                | (28,733)               |
|                                                                    |                           | <u>          </u>      | <u>          </u>      | <u>          </u>      |
| Net cash (used in)/generated from operating activities             |                           | <u>(12,884)</u>        | <u>42,459</u>          | <u>36,004</u>          |
| <b>Cash flows from investing activities</b>                        |                           |                        |                        |                        |
| Interest received                                                  |                           | 78                     | 59                     | 134                    |
| Dividends received from available-for-sale financial assets        | 21                        | —                      | 1,400                  | 2,400                  |
| Acquisition of available-for-sale financial assets                 | 10                        | —                      | (2,096)                | —                      |
| Proceeds from disposal of available-for-sale financial assets      | 10(d)                     | —                      | —                      | 8,400                  |
| Advances to related parties                                        | 33(b)                     | (25,220)               | (159,466)              | (75,532)               |
| Repayments from related parties                                    | 33(b)                     | 31,200                 | 91,800                 | 177,218                |
| Purchase of property, plant and equipment                          | 7                         | (35,636)               | (3,280)                | (689)                  |
| Proceeds from disposal of property, plant and equipment            |                           | 241                    | —                      | 596                    |
| Purchase of land use rights                                        | 8                         | <u>(1,760)</u>         | <u>—</u>               | <u>(1,888)</u>         |
|                                                                    |                           | <u>          </u>      | <u>          </u>      | <u>          </u>      |
| Net cash (used in)/generated from investing activities             |                           | <u>(31,097)</u>        | <u>(71,583)</u>        | <u>110,639</u>         |
| <b>Cash flows from financing activities</b>                        |                           |                        |                        |                        |
| Proceeds from bank borrowings                                      |                           | 35,000                 | 64,000                 | 73,070                 |
| Proceeds from other borrowing                                      |                           | 10,000                 | 15,000                 | 15,000                 |
| Repayment of bank borrowings                                       |                           | (20,000)               | (45,000)               | (54,000)               |
| Repayments of other borrowings                                     |                           | (1,033)                | (3,490)                | (18,669)               |
| Repayment to a related party                                       |                           | (17,780)               | (10,000)               | (12,220)               |
| Proceeds from capital contribution                                 |                           | 37,560                 | 16,628                 | —                      |
| Increase in restricted deposit in relation to financing activities |                           | —                      | —                      | (5,000)                |
| Dividends paid to the then equity holder                           | 28                        | <u>—</u>               | <u>—</u>               | <u>(121,642)</u>       |
|                                                                    |                           | <u>          </u>      | <u>          </u>      | <u>          </u>      |
| Net cash generated from/(used in) financing activities             |                           | <u>43,747</u>          | <u>37,138</u>          | <u>(123,461)</u>       |
| <b>Net (decrease)/increase in cash and cash equivalents</b>        |                           | <u>(234)</u>           | <u>8,014</u>           | <u>23,182</u>          |
| Cash and cash equivalents at beginning of the year                 | 15                        | <u>10,440</u>          | <u>10,206</u>          | <u>18,220</u>          |
| <b>Cash and cash equivalents at end of the year</b>                | 15                        | <u><u>10,206</u></u>   | <u><u>18,220</u></u>   | <u><u>41,402</u></u>   |

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### II. NOTES TO THE FINANCIAL INFORMATION

#### 1. GENERAL INFORMATION

Dongwu Cement International Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands on 29 November 2011. The address of its registered office is at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is Fenu Economic Development Zone, Wujiang, Jiangsu Province, the People’s Republic of China (the “PRC”).

The Company is an investing holding company. The Company and its subsidiaries are collectively referred to as the “Group”. The Group is principally engaged in the production and sales of cement (the “Cement Business”).

#### 1.1 Group reorganization

In preparation of the [•••] of the Company’s shares on the [•••], the Group underwent the reorganization (the “Reorganization”) which principally involved:

- (a) On 29 November 2011, the Company was incorporated in the Cayman Islands with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. At the time of its incorporation, the total number of issued shares of the Company was 100 shares, of which 70 shares were held by Goldview Development Limited (“Goldview”), a limited liability company which is wholly-owned by Mr. Tseung Hok Ming (the “Controlling Shareholder”), and the remaining 30 shares were held by Concord Ocean Limited (“Concord”), a limited liability company which is wholly-owned by Mr. Jin Chungen.
- (b) On 29 November 2011, Dongwu International Investment Limited (“Dongwu Investment”) was incorporated as a wholly-owned subsidiary of the Company.
- (c) On 16 December 2011, Dongwu Cement (Hong Kong) Limited (“Dongwu HK”) was incorporated as a wholly-owned subsidiary of Dongwu Investment.
- (d) Immediately before the Reorganization, 蘇州東吳水泥有限公司 (Suzhou Cement Co., Ltd.\*, “Dongwu Cement”), a company incorporated on 5 June 2003, was a wholly-owned subsidiary of Far East International Investment Company Limited (“Far East International”), which was incorporated in Samoa and owned as to 70% and 30% by Goldview and Concord. On 26 December 2011, Dongwu HK and Far East International entered into an equity transfer agreement (the “Equity Transfer Agreement”), pursuant to which Far East International transferred its 100% equity interest in Dongwu Cement to Dongwu HK at a consideration of USD33,000,000 (equivalent to RMB207,930,000). Such equity transfer was completed on 28 December 2011 and Dongwu Cement became a wholly-owned subsidiary of Dongwu HK thereafter.
- (e) To settle the consideration of USD33,000,000 for the transfer of 100% equity interest in Dongwu Cement (the “Dongwu Cement Transfer”) from Far East International to Dongwu HK under the Equity Transfer Agreement, Goldview and Concord have agreed to assume Dongwu HK’s payment obligations under the Equity Transfer Agreement by way of novation. In this regard, Far East International, Dongwu HK and the Company entered into a novation deed (the “Dongwu HK Novation Deed”) on 27 December 2011, pursuant to which the Company have agreed to pay the consideration of USD33,000,000 for the Dongwu Cement Transfer payable under the Equity Transfer Agreement for and on behalf of Dongwu HK to Far East International whilst Far East International has agreed to discharge Dongwu HK’s payment obligations under the Equity Transfer

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Agreement. Meanwhile, Far East International, the Company, Goldview and Concord entered into another novation deed (the “Company Novation Deed”) on 27 December 2011, pursuant to which Goldview and Concord have agreed to pay, on behalf of the Company, the consideration of USD33,000,000 for the Dongwu Cement Transfer payable by the Company under the Dongwu HK Novation Deed to Far East International in proportion to their then respective shareholdings in the Company whilst Far East International has agreed to discharge the Company’s payment obligations under the Dongwu HK Novation Deed. On the same date, Goldview and Concord have given written confirmations in relation to their unconditional and irrevocable waiver as to the Company’s repayment obligation of USD33,000,000 to Goldview and Concord under the Company Novation Deed.

Upon completion of the Reorganization, the Company became the holding company of the Group. As at the date of this report, the Company has direct or indirect interests in the subsidiaries as set out below:

| Name              | Place and date of incorporation                    | Principal activities and type of entity                        | Particulars of issued/<br>paid-in capital | Equity interest held |          | Notes |
|-------------------|----------------------------------------------------|----------------------------------------------------------------|-------------------------------------------|----------------------|----------|-------|
|                   |                                                    |                                                                |                                           | Direct               | Indirect |       |
| Dongwu Investment | British Virgin Islands<br>("BVI") 29 November 2011 | Investment holding,<br>a limited liability company             | USD50,000                                 | 100%                 | –        | (i)   |
| Dongwu HK         | Hong Kong<br>16 December 2011                      | Investment holding,<br>a limited liability company             | HK\$10,000                                | –                    | 100%     | (ii)  |
| Dongwu Cement     | PRC<br>5 June 2003                                 | Production and sales of cement,<br>a limited liability company | USD25,000,000**                           | –                    | 100%     | (iii) |

\* The English translation of the entity name is for reference only. The official name of this entity is in Chinese.

\*\* During the Relevant Periods, the registered capital of Dongwu Cement was USD25,000,000. The paid-in capital of Dongwu Cement contributed from its then equity holder was USD17,000,000 (equivalent to RMB137,823,000) as at 1 January 2009, USD22,500,000 (equivalent to RMB175,383,000) as at 31 December 2009, and USD25,000,000 (equivalent to RMB192,011,000) as at 31 December 2010 and 2011.

(i) No audited financial statements have been prepared for the Company and Dongwu Investment since their dates of incorporation as there are no statutory audit requirements in the Cayman Islands and the BVI.

(ii) Dongwu HK is not required to prepare audited financial statements as it was newly incorporated on 16 December 2011.

(iii) The statutory financial statements of Dongwu Cement for the years ended 31 December 2009, 2010 and 2011 were audited by 蘇州中達聯合會計師事務所 (Suzhou Zhongda United Certified Public Accountants Co., Ltd.).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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### 2.1 Basis of preparation

The Controlling Shareholder owned and controlled the companies now comprising the Group before the Reorganization and continues to own and control these companies after the Reorganization. Pursuant to the Reorganization, the Cement Business was transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganization and does not meet the definition of a business. The Reorganization is merely a reorganization of the Cement Business with no change in management of such business and the ultimate owners of the Cement Business remain the same. Accordingly, the consolidated financial information of the companies now comprising the Group is presented using the carrying values of the Cement Business for all periods presented.

The consolidated statements of financial position, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the Relevant Periods have been prepared as if the current group structure had been in existence throughout the Relevant Periods.

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of the Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

All companies comprising the Group have adopted 31 December as their financial year end date.

The Financial Information is presented in thousands of Renminbi (“RMB”), unless otherwise stated.

Up to the date of issuance of this report, the HKICPA has issued the following new standards, amendments and interpretations which are relevant to the Group’s operation but not yet effective for the annual accounting period beginning 1 January 2012 and which have not been early adopted:

|                        |                                                                                               |  | <b>Effective for annual periods beginning on or after</b> |
|------------------------|-----------------------------------------------------------------------------------------------|--|-----------------------------------------------------------|
| HKFRS 9 (Amendment)    | ‘Financial instruments’                                                                       |  | 1 January 2015                                            |
| HKAS 12 (Amendment)    | ‘Income taxes’                                                                                |  | 1 January 2012                                            |
| HKFRS 7 (Amendment)    | ‘Disclosures-transfers of financial assets’                                                   |  | 1 July 2011                                               |
| HKAS 1 (Amendment)     | ‘Presentation of financial statements’                                                        |  | 1 July 2012                                               |
| HKFRS 9                | ‘Financial instruments’                                                                       |  | 1 January 2015                                            |
| HKFRS 10               | ‘Consolidated financial statements’                                                           |  | 1 January 2013                                            |
| HKFRS 11               | ‘Joint arrangements’                                                                          |  | 1 January 2013                                            |
| HKFRS 12               | ‘Disclosure of interest in other entities’                                                    |  | 1 January 2013                                            |
| HKFRS 13               | ‘Fair value measurements’                                                                     |  | 1 January 2013                                            |
| HKAS 19                | ‘Employee benefits’                                                                           |  | 1 January 2013                                            |
| HKAS 27 (Revised 2011) | ‘Separate financial statements’                                                               |  | 1 January 2013                                            |
| HKAS 28 (Revised 2011) | ‘Associates and joint ventures’                                                               |  | 1 January 2013                                            |
| HKAS 32 (Amendment)    | ‘Financial instruments: Presentation – Offsetting financial assets and financial liabilities’ |  | 1 January 2014                                            |
| HKFRS 7 (Amendment)    | ‘Financial instruments: Disclosures – Offsetting financial assets and financial liabilities’  |  | 1 January 2013                                            |

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The management is in the process of assessing of the impact of these standards, amendments and interpretations on the Financial Information of the Group. The adoption of the above is not expected to have a material impact on Financial Information of the Group.

### 2.2 Subsidiaries

#### 2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### (a) Business combinations

Except for the Reorganization which has been described in note 1.1 above, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the recognized amounts of acquiree’s identifiable net assets.

Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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### *(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### *(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

### **2.2.2 Separate financial statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

### **2.3 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors (the “Board”) that makes strategic decisions.

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### 2.4 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the Financial Information of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The Financial Information is presented in RMB, which is the Company’s functional and the Group’s presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within “finance income” or “finance cost”.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

#### (c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of each reporting period;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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### 2.5 Property, plant and equipment

Construction-in-progress represents properties under construction and is carried at cost, which includes development and construction expenditure incurred, less any accumulated impairment losses. Construction-in-progress is not depreciated until such time as the assets are completed and available for use. When the assets concerned are available for use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated below.

All other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

|                                   | Useful lives |
|-----------------------------------|--------------|
| Properties and plant              | 20 years     |
| Machinery                         | 10 years     |
| Motor vehicles                    | 5 years      |
| Furniture, fittings and equipment | 5 years      |

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within “other gains/(losses)” in the statement of comprehensive income.

### 2.6 Land use rights

Land use rights represents prepaid operating lease payments. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the lease period of 50 years.

### 2.7 Impairment of non-financial assets

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

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### 2.8 Financial assets

#### 2.8.1 Classification

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### (a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of each reporting period, which in such case they are classified as non-current assets. The Group’s loans and receivables comprise “trade and other receivables”, “restricted bank deposits” and “cash and cash equivalents” in the consolidated statements of financial position (Notes 2.10 and 2.11).

##### (b) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

#### 2.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Changes in the fair value of financial assets classified as available-for-sale financial assets are recognized in other comprehensive income. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

#### 2.8.3 Impairment of financial assets

##### (a) *Assets carried at amortized cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

*(b) Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in the consolidated statements of comprehensive income on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

### **2.9 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### **2.10 Trade and other receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

### **2.11 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### **2.12 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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### 2.13 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### 2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. All other borrowing costs are recognized as an expense in the period in which they are incurred.

### 2.15 Current and deferred income tax

The tax expense comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

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

### 2.16 Employee benefits

The group company registered in PRC contributes based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and medical benefit plan organized by relevant municipal and provincial government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

### 2.17 Provisions and contingencies

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability is not recognized in the Financial Information, but is to be disclosed by the Group, unless the possibility of an outflow of resources embodying economic benefits is remote.

### 2.18 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure borrowings.

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Financial guarantees are initially recognized in the Financial Information at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm’s length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognized. Subsequent to initial recognition, the Group’s liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management’s judgment. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated statements of comprehensive income within “other gains/(losses)”.

### 2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group’s activities. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### (i) Sales of goods

The Group produces and sells cement products to customers in the Jiangsu province, Zhejiang province and Shanghai city of the PRC. Sales of goods are recognized when a group entity has delivered products to the customers, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer’s acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the relevant sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

#### (ii) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

### 2.20 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized as income in profit or loss of the period in which it becomes receivable.

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Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

### 2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### 2.22 Dividend distribution

Dividend distribution to the Company’s equity holders is recognized as a liability in the Company’s Financial Information in the period in which the dividends are approved by the Company’s equity holders.

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk, and commodity price risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance.

Risk management is carried out under the policies approved by the Board, which provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing of excess liquidity.

#### (a) Market risk

##### (i) Foreign exchange risk

The Group mainly operates in the PRC and all of the Group’s transactions, assets and liabilities are denominated in RMB. The Group has a few foreign currency denominated monetary assets and monetary liabilities, therefore, the Group is not exposed to significant foreign exchange risk.

##### (ii) Commodity price risk

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

##### (iii) Cash flow and fair value interest rate risk

Other than deposits held in banks, the Group does not have significant interest-bearing assets. Fluctuation of deposit interest rates to financial assets does not have a significant impact to the Group’s performance.

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The Group’s interest rate risk arises from short-term and long-term borrowings. Borrowings with variable floating rates expose the Group to cash flow interest rate risk. Borrowings with fixed rates expose the Group to fair value interest rate risk. The Group does not have formal policies on interest rate risk. During the Relevant Periods, the Group’s borrowings were all denominated in RMB.

At 31 December 2009, 2010 and 2011, if interest rates on borrowings had been 60 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB45,000, RMB288,000 and RMB579,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

### (b) Credit risk

The carrying amounts of the restricted bank deposits, bank deposits, trade and other receivables included in the Financial Information represent the Group’s maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2009 and 2010, all the Group’s bank deposits were placed in the commercial banks of the PRC, among which 91.3% and 73.9% have external credit rating over BBB+ (whose rating was sourced from the rating provided by Standard & Poor’s). As at 31 December 2011, 83.1% of the Group’s bank deposits were placed in a rural commercial bank located in Wujiang City. Management considers that the risk of non-performance by this rural commercial bank is low.

The Group has adopted a policy of only dealing with creditworthy counterparties. The credit risk on trade receivable is low. Based on past experience, the customer payment default rate is low. The Group has a significant concentration of credit risk in trade receivables, which is accounted for by amounts due from the Group’s top five customers as follows:

|                                                 | As at 31 December |               |               |
|-------------------------------------------------|-------------------|---------------|---------------|
|                                                 | 2009              | 2010          | 2011          |
|                                                 | RMB’000           | RMB’000       | RMB’000       |
| Balance of trade receivables                    |                   |               |               |
| from top five customers                         | 19,893            | 28,649        | 43,258        |
| Balance of trade receivables ( <i>Note 12</i> ) | 52,833            | 50,247        | 59,178        |
| Percentage                                      | <u>37.65%</u>     | <u>57.02%</u> | <u>73.10%</u> |

It is the Group’s policy to receive settlement from customers in the form of cash, cheques or endorsed bank accepted bills. Credit sales are made only to selected customers with long-term business trading history. The issuing banks of these bank acceptance bills are either state-owned banks with investment grade ratings or local banks with good reputation. The Group considered the default risk from these bank acceptance bills is low. Therefore the Directors consider the Group’s bank acceptance bills and trade receivables have no significant exposure to credit risk.

There were also financial guarantees provided by the Group during the Relevant Periods, which were the guarantees given to the banks and financial institutions to secure borrowings. The maximum exposure to credit risk is the balance of the borrowings before accounting for collaterals held or other credit enhancements.

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|                                                 | <b>Maximum exposure<br/>As at 31 December</b> |                |                |
|-------------------------------------------------|-----------------------------------------------|----------------|----------------|
|                                                 | <b>2009</b>                                   | <b>2010</b>    | <b>2011</b>    |
|                                                 | <i>RMB'000</i>                                | <i>RMB'000</i> | <i>RMB'000</i> |
| Credit risk exposure to off-balance sheet items | <u>–</u>                                      | <u>115,000</u> | <u>–</u>       |

### (c) Liquidity risk

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations, short-term bank borrowings and the financial support provided by the equity holders.

The table below analyses the Group’s financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

|                                    | <b>Less than<br/>1 year</b> | <b>Between<br/>1 and 2 years</b> | <b>Between<br/>2 and 5 years</b> | <b>Over 5 years</b> |
|------------------------------------|-----------------------------|----------------------------------|----------------------------------|---------------------|
|                                    | <i>RMB'000</i>              | <i>RMB'000</i>                   | <i>RMB'000</i>                   | <i>RMB'000</i>      |
| <b>At 31 December 2009</b>         |                             |                                  |                                  |                     |
| Borrowings                         |                             |                                  |                                  |                     |
| (including interest payment)*      | 41,042                      | 3,990                            | 2,450                            | –                   |
| Trade and other payables**         | <u>149,507</u>              | <u>1,535</u>                     | <u>560</u>                       | <u>–</u>            |
|                                    | <u>190,549</u>              | <u>5,525</u>                     | <u>3,010</u>                     | <u>–</u>            |
| <b>At 31 December 2010</b>         |                             |                                  |                                  |                     |
| Borrowings                         |                             |                                  |                                  |                     |
| (including interest payment)*      | 76,030                      | 2,450                            | –                                | –                   |
| Trade and other payables**         | <u>64,051</u>               | <u>26,286</u>                    | <u>833</u>                       | <u>–</u>            |
|                                    | <u>140,081</u>              | <u>28,736</u>                    | <u>833</u>                       | <u>–</u>            |
| <b>Financial guarantees issued</b> |                             |                                  |                                  |                     |
| Maximum amount guaranteed          | <u>115,000</u>              | <u>–</u>                         | <u>–</u>                         | <u>–</u>            |
| <b>At 31 December 2011</b>         |                             |                                  |                                  |                     |
| Borrowings                         |                             |                                  |                                  |                     |
| (including interest payment)*      | 92,427                      | –                                | –                                | –                   |
| Trade and other payables**         | <u>62,283</u>               | <u>1,178</u>                     | <u>646</u>                       | <u>–</u>            |
|                                    | <u>154,710</u>              | <u>1,178</u>                     | <u>646</u>                       | <u>–</u>            |

\* Interest on borrowings is calculated based on borrowings held as at 31 December 2009, 2010 and 2011.

\*\* Excluding advances from customers, other taxes payable and salary payable.

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### 3.2 Capital risk management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio equals total borrowings divided by total equity.

The debt-to-equity ratios at 31 December 2009, 2010 and 2011 are as follows:

|                                     | As at 31 December |         |         |
|-------------------------------------|-------------------|---------|---------|
|                                     | 2009              | 2010    | 2011    |
|                                     | RMB’000           | RMB’000 | RMB’000 |
| Total borrowings ( <i>Note 20</i> ) | 44,467            | 74,977  | 90,378  |
| Total equity                        | 228,910           | 278,978 | 239,942 |
| Debt-to-equity ratio                | 19.43%            | 26.88%  | 37.67%  |

Increase of debt-to-equity ratio since 31 December 2009 was mainly due to the increase in borrowings to meet the working capital requirement and to finance the increase in trade and other receivables.

### 3.3 Fair value estimation

The table below analyses available-for-sale financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group’s assets that are measured at fair value at 31 December 2009.

|                                     | Level 1 | Level 2 | Level 3 | Total   |
|-------------------------------------|---------|---------|---------|---------|
|                                     | RMB’000 | RMB’000 | RMB’000 | RMB’000 |
| <b>Assets</b>                       |         |         |         |         |
| Available-for-sale financial assets |         |         |         |         |
| – Equity securities                 | –       | –       | 23,068  | 23,068  |

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The following table presents the Group’s assets that are measured at fair value at 31 December 2010.

|                                     | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>   |
|-------------------------------------|----------------|----------------|----------------|----------------|
|                                     | <i>RMB’000</i> | <i>RMB’000</i> | <i>RMB’000</i> | <i>RMB’000</i> |
| <b>Assets</b>                       |                |                |                |                |
| Available-for-sale financial assets |                |                |                |                |
| – Equity securities                 | <u>–</u>       | <u>–</u>       | <u>27,054</u>  | <u>27,054</u>  |

None of the Group’s assets are measured at fair value at 31 December 2011.

If one or more of the significant inputs is not based on observable market data, the financial instrument is included in Level 3. The valuation technique used to determine the fair value for the available-for-sale financial assets is discounted cash flow analysis.

The following table presents the changes in Level 3 financial instruments during the Relevant Periods.

|                                                               | <b>Year ended 31 December</b> |                |                 |
|---------------------------------------------------------------|-------------------------------|----------------|-----------------|
|                                                               | <b>2009</b>                   | <b>2010</b>    | <b>2011</b>     |
|                                                               | <i>RMB’000</i>                | <i>RMB’000</i> | <i>RMB’000</i>  |
| Opening balance                                               | 20,000                        | 23,068         | 27,054          |
| Additions                                                     | –                             | 2,096          | –               |
| Fair value gains recognized in other comprehensive income     | 3,068                         | 1,890          | 2,580           |
| Recycling of fair value gains to profit or loss upon disposal | –                             | –              | (7,538)         |
| Disposal                                                      | <u>–</u>                      | <u>–</u>       | <u>(22,096)</u> |
| Closing balance                                               | <u>23,068</u>                 | <u>27,054</u>  | <u>–</u>        |

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The management of the Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

##### (a) Carrying value of non-current assets

Non-current assets, including property, plant and equipment and land use rights are carried at cost less accumulated depreciation/amortization. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which an asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts are revised, and this may have an impact on the Group’s results of operations or financial position.

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### (b) Useful lives of machinery

The directors determine the estimated useful lives and related depreciation charges for its machinery. This estimate is based on the historical experience of the actual useful lives of machinery of similar nature and functions. These estimates may change in the future as a result of technical innovations and competitor actions. The directors will increase depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

If the actual useful lives of the manufacturing machinery differ by 10% from the directors’ estimate, the estimated depreciation expenses of the machinery charged for the years ended 31 December 2009, 2010 and 2011 would be RMB1,660,000, RMB1,897,000 and RMB1,905,000 higher or RMB1,358,000, RMB1,552,000 and RMB1,559,000 lower, respectively.

### (c) Estimated impairment of trade and other receivables

The Group maintains a provision for impairment of trade and other receivables arising from the inability of its customers to make the required payments. The Group makes its estimates based on the aging of its trade receivable balances, customers’ creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the impairment.

### (d) Estimated impairment of inventories

The Group writes down inventories to net realizable value based on an assessment of the realisability of inventories. The assessment of write-downs requires the directors’ judgment and estimates. Where expectation is different from an original estimate, the difference will impact the carrying values of inventories and may result in write-downs of inventories in the period in which such estimates have been changed.

### (e) Fair value of available-for-sale financial assets

The fair value of available-for-sale financial assets that are not traded in an active market is determined using valuation techniques. The Group engaged an independent valuer and applied an income approach and discounted cash flow analysis to determine the fair value based on market conditions existing at the end of each reporting period. The fair value estimates are based on the assumed discount rate, revenue growth rate as well as the assumed gross profit margin of the asset company.

The fair value amount is most sensitive to the key assumption of discount rate, and much less sensitive to the other key assumptions. The fair value estimates were based on the assumed discount rate of 12.09% and 12.04% as at 31 December 2009 and 2010. Should the discount rate decrease/increase 1% compared to the assumptions used by management, the fair value of available-for-sale financial assets for the years ended 31 December 2009 and 2010 would be RMB2,187,000 and RMB2,223,000 higher or RMB1,850,000 and RMB1,881,000 lower, respectively.

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### (f) Income taxes and deferred tax

The Group is mainly subject to income taxes in the PRC. Judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognized liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

### 5. SEGMENT INFORMATION

The Group operates as a single operating segment. The single operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board that makes strategic decisions.

The Group is principally engaged in the production and sales of cement and 100% of its sales are derived in the PRC during the Relevant Periods.

None of the revenue derived from any single external customer amounted to more than 10% of the Group’s revenue during the Relevant Periods.

### 6. REVENUE

Revenue of the Group during the Relevant Periods is analyzed as follows:

|                                                  | Year ended 31 December |                |                |
|--------------------------------------------------|------------------------|----------------|----------------|
|                                                  | 2009                   | 2010           | 2011           |
|                                                  | RMB'000                | RMB'000        | RMB'000        |
| Ordinary Portland cement strength<br>class 42.5  | 107,623                | 160,603        | 224,551        |
| Composite Portland cement strength<br>class 32.5 | 155,284                | 184,088        | 236,185        |
| Clinker                                          | 28,715                 | 10,259         | 3,309          |
|                                                  | <u>291,622</u>         | <u>354,950</u> | <u>464,045</u> |

The Group aims to maintain long-term relationship with reputable customers in the expansion of its business. Revenue from the top five customers is as follows:

|                                     | Year ended 31 December |               |               |
|-------------------------------------|------------------------|---------------|---------------|
|                                     | 2009                   | 2010          | 2011          |
|                                     | RMB'000                | RMB'000       | RMB'000       |
| Revenue from the top five customers | 68,616                 | 103,048       | 155,057       |
| Total revenue                       | 291,622                | 354,950       | 464,045       |
| Percentage                          | <u>23.53%</u>          | <u>29.03%</u> | <u>33.41%</u> |

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### 7. PROPERTY, PLANT AND EQUIPMENT – GROUP

|                                    | Properties<br>and plant<br><i>RMB'000</i> | Machinery<br><i>RMB'000</i> | Motor<br>vehicles<br><i>RMB'000</i> | Furniture,<br>fittings and<br>equipment<br><i>RMB'000</i> | Construction-<br>in-progress<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|------------------------------------|-------------------------------------------|-----------------------------|-------------------------------------|-----------------------------------------------------------|------------------------------------------------|-------------------------|
| <b>At 1 January 2009</b>           |                                           |                             |                                     |                                                           |                                                |                         |
| Cost                               | 140,188                                   | 147,364                     | 4,509                               | 8,332                                                     | –                                              | 300,393                 |
| Accumulated depreciation           | (26,447)                                  | (53,298)                    | (2,571)                             | (5,563)                                                   | –                                              | (87,879)                |
| Net book amount                    | 113,741                                   | 94,066                      | 1,938                               | 2,769                                                     | –                                              | 212,514                 |
| <b>Year ended 31 December 2009</b> |                                           |                             |                                     |                                                           |                                                |                         |
| Opening net book amount            | 113,741                                   | 94,066                      | 1,938                               | 2,769                                                     | –                                              | 212,514                 |
| Additions                          | 850                                       | 58                          | –                                   | 565                                                       | 34,163                                         | 35,636                  |
| Transfers                          | –                                         | 33,608                      | –                                   | –                                                         | (33,608)                                       | –                       |
| Disposals                          | –                                         | –                           | (129)                               | –                                                         | –                                              | (129)                   |
| Depreciation                       | (6,728)                                   | (14,943)                    | (938)                               | (1,670)                                                   | –                                              | (24,279)                |
| Closing net book amount            | 107,863                                   | 112,789                     | 871                                 | 1,664                                                     | 555                                            | 223,742                 |
| <b>At 31 December 2009</b>         |                                           |                             |                                     |                                                           |                                                |                         |
| Cost                               | 141,038                                   | 181,030                     | 4,380                               | 8,897                                                     | 555                                            | 335,900                 |
| Accumulated depreciation           | (33,175)                                  | (68,241)                    | (3,509)                             | (7,233)                                                   | –                                              | (112,158)               |
| Net book amount                    | 107,863                                   | 112,789                     | 871                                 | 1,664                                                     | 555                                            | 223,742                 |
| <b>Year ended 31 December 2010</b> |                                           |                             |                                     |                                                           |                                                |                         |
| Opening net book amount            | 107,863                                   | 112,789                     | 871                                 | 1,664                                                     | 555                                            | 223,742                 |
| Additions                          | 830                                       | 236                         | –                                   | 2,006                                                     | 208                                            | 3,280                   |
| Transfers                          | –                                         | 763                         | –                                   | –                                                         | (763)                                          | –                       |
| Depreciation                       | (6,790)                                   | (17,075)                    | (306)                               | (871)                                                     | –                                              | (25,042)                |
| Closing net book amount            | 101,903                                   | 96,713                      | 565                                 | 2,799                                                     | –                                              | 201,980                 |
| <b>At 31 December 2010</b>         |                                           |                             |                                     |                                                           |                                                |                         |
| Cost                               | 141,868                                   | 182,029                     | 4,380                               | 10,903                                                    | –                                              | 339,180                 |
| Accumulated depreciation           | (39,965)                                  | (85,316)                    | (3,815)                             | (8,104)                                                   | –                                              | (137,200)               |
| Net book amount                    | 101,903                                   | 96,713                      | 565                                 | 2,799                                                     | –                                              | 201,980                 |
| <b>Year ended 31 December 2011</b> |                                           |                             |                                     |                                                           |                                                |                         |
| Opening net book amount            | 101,903                                   | 96,713                      | 565                                 | 2,799                                                     | –                                              | 201,980                 |
| Additions                          | –                                         | 268                         | 150                                 | 271                                                       | –                                              | 689                     |
| Disposals                          | (1,834)                                   | (167)                       | (31)                                | (1,659)                                                   | –                                              | (3,691)                 |
| Depreciation                       | (6,814)                                   | (17,147)                    | (272)                               | (589)                                                     | –                                              | (24,822)                |
| Closing net book amount            | 93,255                                    | 79,667                      | 412                                 | 822                                                       | –                                              | 174,156                 |
| <b>At 31 December 2011</b>         |                                           |                             |                                     |                                                           |                                                |                         |
| Cost                               | 140,034                                   | 182,130                     | 4,499                               | 9,515                                                     | –                                              | 336,178                 |
| Accumulated depreciation           | (46,779)                                  | (102,463)                   | (4,087)                             | (8,693)                                                   | –                                              | (162,022)               |
| Net book amount                    | 93,255                                    | 79,667                      | 412                                 | 822                                                       | –                                              | 174,156                 |

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- (a) Depreciation expense has been charged to the consolidated statements of comprehensive income as follows:

|                         | Year ended 31 December |               |               |
|-------------------------|------------------------|---------------|---------------|
|                         | 2009                   | 2010          | 2011          |
|                         | RMB'000                | RMB'000       | RMB'000       |
| Cost of sales           | 22,620                 | 24,215        | 23,321        |
| Administrative expenses | 1,659                  | 827           | 1,501         |
|                         | <u>24,279</u>          | <u>25,042</u> | <u>24,822</u> |

- (b) As at 31 December 2009, 2010 and 2011, property, plant and equipment with net book value of approximately RMB49,689,000, RMB46,569,000 and RMB43,449,000 respectively, were mortgaged for bank borrowings of the Group (Note 20(ii)).
- (c) On 31 July 2009, Dongwu Cement and Chailease International Finance Corporation entered into a sales and leaseback contract for certain machinery. This arrangement is treated as a collateralized borrowing to the Group. The carrying amounts of the machinery deemed as collateralized for other borrowing from financing arrangement approximated RMB13,528,000, RMB11,254,000 and RMB8,980,000 respectively, as at 31 December 2009, 2010 and 2011 (Note 20).

### 8. LAND USE RIGHTS – GROUP

Land use rights represent prepaid operating lease payments. All land use rights of the Group are located in the PRC and are held on leases of 50 years. Movements in land use rights are as follows:

|                                                                                                          | Year ended 31 December |               |               |
|----------------------------------------------------------------------------------------------------------|------------------------|---------------|---------------|
|                                                                                                          | 2009                   | 2010          | 2011          |
|                                                                                                          | RMB'000                | RMB'000       | RMB'000       |
| Beginning of year                                                                                        | 12,800                 | 14,257        | 13,942        |
| Transfer from trade and other receivable –<br>prepayment for acquisition<br>of land use rights (Note 12) | –                      | –             | 2,449         |
| Additions                                                                                                | 1,760                  | –             | 1,888         |
| Amortization (Note 23)                                                                                   | <u>(303)</u>           | <u>(315)</u>  | <u>(322)</u>  |
| End of year                                                                                              | <u>14,257</u>          | <u>13,942</u> | <u>17,957</u> |

Amortization of land use rights is included in administrative expenses in the consolidated statements of comprehensive income. As at 31 December 2009, 2010 and 2011, land use rights with net book value of approximately RMB12,521,000, RMB12,241,000 and RMB11,962,000 respectively, were pledged for the borrowings of the Group (Note 20(ii)).

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### 9. INVESTMENT IN AND AMOUNT DUE TO SUBSIDIARY – COMPANY

|                                                     | As at 31 December<br>2011<br>RMB'000 |
|-----------------------------------------------------|--------------------------------------|
| 29 November 2011                                    | –                                    |
| Investment in Dongwu Investment ( <i>Note (a)</i> ) | 315                                  |
| Deemed investment ( <i>Note 17(c)</i> )             | 207,930                              |
|                                                     | <u>208,245</u>                       |
| Amount due to Dongwu Investment                     | <u>315</u>                           |

The amount due to Dongwu Investment is denominated in US dollars, which is payable on demand.

- (a) On 29 November 2011, the Company set up its subsidiary - Dongwu Investment with a registered capital of USD50,000 (equivalent to RMB315,000).

A list of the subsidiaries of the Company is set out in Note 1.1.

### 10. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

|                                                                                     | Year ended 31 December |                 |                 |
|-------------------------------------------------------------------------------------|------------------------|-----------------|-----------------|
|                                                                                     | 2009<br>RMB'000        | 2010<br>RMB'000 | 2011<br>RMB'000 |
| <b>Beginning of year</b>                                                            | 20,000                 | 23,068          | 27,054          |
| Additions                                                                           | –                      | 2,096           | –               |
| Fair value gains ( <i>Note 17</i> )                                                 | 3,068                  | 1,890           | 2,580           |
| Recycling of fair value gains to profit or<br>loss upon disposal ( <i>Note 17</i> ) | –                      | –               | (7,538)         |
| Disposal ( <i>Note (d)</i> )                                                        | –                      | –               | (22,096)        |
|                                                                                     | <u>23,068</u>          | <u>27,054</u>   | <u>–</u>        |
| <b>End of the year</b>                                                              | 23,068                 | 27,054          | –               |
| Less: non-current portion                                                           | <u>(23,068)</u>        | <u>(27,054)</u> | <u>–</u>        |
| <b>Current portion</b>                                                              | <u>–</u>               | <u>–</u>        | <u>–</u>        |
| <b>Unlisted equity investments:</b>                                                 |                        |                 |                 |
| – 6.7% equity interests in Wujiang Luxiang Rural<br>Small-loan Co., Ltd.            | 23,068                 | 24,958          | –               |
| – 4.8% equity interests in Suzhou Rongshengda<br>Investment Co., Ltd.               | –                      | 2,096           | –               |
|                                                                                     | <u>23,068</u>          | <u>27,054</u>   | <u>–</u>        |

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- (a) Available-for-sale financial assets are all denominated in RMB.
- (b) Wujiang Luxiang Rural Small-loan Co., Ltd. is principally engaged in provision of financing services to agricultural entities and rural individuals. Suzhou Rongshengda Investment Co., Ltd. is principally engaged in investment, provision of corporate services and consultancy to small-to-medium enterprises.
- (c) The fair values of unlisted equity investments were appraised by an independent qualified valuer using income approach and discounted cash flow analysis to determine the fair value (Note 4(e)).

None of these available-for-sale financial assets was impaired.

During the Relevant Periods, none of the carrying amounts of interests in invested companies exceeded 10% of total assets of the Group.

- (d) Pursuant to a resolution of Dongwu Cement’s board of directors dated 22 December 2011, the Group sold the available-for-sale financial assets to Orient Hengxin Capital Holdings Limited (“Orient Hengxin”), a related party, at a total consideration of RMB22,096,000. No resulting gain/loss was recognized in the consolidated statement of comprehensive income for the year ended 31 December 2011 in connection with the disposal. As at 31 December 2011, the Group received a cash payment of RMB8,400,000 from Orient Hengxin and recorded the outstanding balance of RMB13,696,000 as an amount due from a related party (Notes 12 and 33(c)).
- (e) For the years ended 31 December 2010 and 2011, the dividend income received from Wujiang Luxiang Rural Small-loan Co., Ltd. was RMB1,400,000 and RMB2,400,000 respectively (Note 21).

### 11. INVENTORIES – GROUP

|                  | As at 31 December |               |               |
|------------------|-------------------|---------------|---------------|
|                  | 2009              | 2010          | 2011          |
|                  | RMB'000           | RMB'000       | RMB'000       |
| Raw materials    | 4,652             | 13,888        | 10,776        |
| Work-in-progress | 2,112             | 2,137         | 7,002         |
| Finished goods   | 7,682             | 4,900         | 4,575         |
|                  | <u>14,446</u>     | <u>20,925</u> | <u>22,353</u> |

The cost of inventories recognized as an expense and included in “cost of sales” amounted to approximately RMB268,592,000, RMB305,619,000 and RMB341,923,000 respectively for the Relevant Periods. No inventory write-down was made during the Relevant Periods.

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### 12. TRADE AND OTHER RECEIVABLES – GROUP

|                                                              | As at 31 December     |                       |                       |
|--------------------------------------------------------------|-----------------------|-----------------------|-----------------------|
|                                                              | 2009                  | 2010                  | 2011                  |
|                                                              | RMB'000               | RMB'000               | RMB'000               |
| <b>Current portion:</b>                                      |                       |                       |                       |
| Trade receivables due from third parties                     | 52,833                | 50,247                | 59,178                |
| Trade receivable due from a related party<br>(Note 33(c)(i)) | 6,369                 | 3,024                 | 2,450                 |
| Bills receivable                                             | 5,674                 | 18,679                | 59,088                |
|                                                              | <u>64,876</u>         | <u>71,950</u>         | <u>120,716</u>        |
| Prepayments for                                              |                       |                       |                       |
| – acquisition of materials                                   | 29,960                | 9,794                 | 14,032                |
| – others                                                     | –                     | –                     | 2,890                 |
| Due from related parties (Note 33(c))                        | 34,020                | 101,686               | 13,696                |
| Other receivables                                            | 11,559                | 3,439                 | 995                   |
|                                                              | <u>75,539</u>         | <u>114,919</u>        | <u>31,613</u>         |
| Less: provision for impairment of trade receivables          | <u>(5,053)</u>        | <u>(5,992)</u>        | <u>(6,071)</u>        |
| <b>Sub-total of current portion</b>                          | <u><b>135,362</b></u> | <u><b>180,877</b></u> | <u><b>146,258</b></u> |
| <b>Non-current portion:</b>                                  |                       |                       |                       |
| Prepayments for                                              |                       |                       |                       |
| – acquisition of land use rights* (Note 8)                   | 2,449                 | 2,449                 | –                     |
|                                                              | <u><b>137,811</b></u> | <u><b>183,326</b></u> | <u><b>146,258</b></u> |

\* Balances represented the prepayment for acquisition of land use rights of a piece of land of 19,387.7 square meters. In December 2011, the Group paid the remaining consideration of RMB1,888,000 to government authorities (Note 8) and obtained the land use right certificate in February 2012.

As at 31 December 2009, 2010 and 2011, bills receivable of nil, RMB6,000,000 and RMB10,600,000, respectively, were pledged for the borrowings (Note 20(ii)).

The credit terms for most of the customers range from 30 to 90 days. One of the top five customers is granted a credit term of 180 days. For ready-mixed concrete stations customers, depending on their business relationships with the Group and their creditworthiness, the Group may grant them the following credit terms: (i) a revolving credit limit of between RMB1 million and RMB3.5 million with a credit period of up to 365 days, and (ii) any outstanding payables in excess of the said revolving credit limit with a credit period of between 0 to 30 days.

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The aging of trade receivables of third parties is determined from the date when the corresponding revenue was recognized whereas bills receivable is determined from the issuance date of the relevant bank acceptance bills. Aging analysis of trade receivables due from third parties at the end of each reporting period is as follows:

|                          | As at 31 December |               |               |
|--------------------------|-------------------|---------------|---------------|
|                          | 2009              | 2010          | 2011          |
|                          | RMB'000           | RMB'000       | RMB'000       |
| Below 90 days            | 23,405            | 38,582        | 33,181        |
| From 91 days to 180 days | 22,523            | 4,498         | 16,871        |
| From 181 days to 1 year  | 1,572             | 1,163         | 2,924         |
| From 1 year to 2 years   | 998               | 1,045         | 542           |
| Over 2 years             | 4,335             | 4,959         | 5,660         |
|                          | <u>52,833</u>     | <u>50,247</u> | <u>59,178</u> |

As at 31 December 2009, 2010 and 2011, trade receivables of RMB5,053,000, RMB5,992,000 and RMB6,071,000 respectively had been impaired and were fully provided for. All of these receivables were aged over 181 days and are not expected to be recoverable.

As at 31 December 2009, 2010 and 2011, trade receivables of RMB21,232,000, RMB2,475,000 and RMB4,163,000 respectively, were past due but not impaired. These related to a number of customers for whom there was no history of credit default. The aging analysis of these trade receivables is as follows:

|                            | As at 31 December |              |              |
|----------------------------|-------------------|--------------|--------------|
|                            | 2009              | 2010         | 2011         |
|                            | RMB'000           | RMB'000      | RMB'000      |
| Overdue for 1 to 90 days   | 19,380            | 1,275        | 1,108        |
| Overdue for 91 to 180 days | 1,503             | 1,060        | 2,767        |
| Overdue for 181 to 1 years | 349               | 140          | 288          |
|                            | <u>21,232</u>     | <u>2,475</u> | <u>4,163</u> |

Other receivables were all expected to be recoverable and therefore no provision was made. Aging analysis of other receivable at the end of each reporting period is as follows:

|                        | As at 31 December |              |            |
|------------------------|-------------------|--------------|------------|
|                        | 2009              | 2010         | 2011       |
|                        | RMB'000           | RMB'000      | RMB'000    |
| Below 1 year           | 5,559             | 726          | 984        |
| From 1 year to 2 years | 6,000             | 2,713        | 11         |
|                        | <u>11,559</u>     | <u>3,439</u> | <u>995</u> |

The Group’s trade and other receivables are all denominated in RMB.

The carrying values of the Group’s trade and other receivable approximate to their fair values.

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Movements of the provision for impairment of trade receivables are as follows:

|                                  | Year ended 31 December |         |         |
|----------------------------------|------------------------|---------|---------|
|                                  | 2009                   | 2010    | 2011    |
|                                  | RMB'000                | RMB'000 | RMB'000 |
| Beginning of year                | (4,267)                | (5,053) | (5,992) |
| Provision for the year (Note 23) | (786)                  | (939)   | (79)    |
| End of year                      | (5,053)                | (5,992) | (6,071) |

The origination of provision for impairment of trade receivables and other receivables has been included in administrative expenses in the consolidated statements of comprehensive income (Note 23). Amounts charged to the impairment account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk as at the date of this report is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

### 13. FINANCIAL INSTRUMENTS BY CATEGORY

#### Group

#### (a) 31 December 2009

|                                                      | Loans and<br>receivables | Available-<br>for-sale<br>financial assets | Total          |
|------------------------------------------------------|--------------------------|--------------------------------------------|----------------|
|                                                      | RMB'000                  | RMB'000                                    | RMB'000        |
| <b>Financial assets:</b>                             |                          |                                            |                |
| Available-for-sale financial assets                  | –                        | 23,068                                     | 23,068         |
| Trade and other receivables excluding<br>prepayments | 105,402                  | –                                          | 105,402        |
| Restricted bank deposits                             | 15,000                   | –                                          | 15,000         |
| Cash and cash equivalents                            | 10,206                   | –                                          | 10,206         |
| <b>Total</b>                                         | <b>130,608</b>           | <b>23,068</b>                              | <b>153,676</b> |

|                                                                 | Other<br>financial<br>liabilities<br>at amortized cost |
|-----------------------------------------------------------------|--------------------------------------------------------|
|                                                                 | RMB'000                                                |
| <b>Financial liabilities:</b>                                   |                                                        |
| Borrowings                                                      | 44,467                                                 |
| Trade and other payables excluding<br>non-financial liabilities | 151,602                                                |
| <b>Total</b>                                                    | <b>196,069</b>                                         |

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31 December 2010

|                                                              | Loans and<br>receivables<br><i>RMB'000</i> | Available-<br>for-sale<br>financial assets<br><i>RMB'000</i> | Total<br><i>RMB'000</i>                                                             |
|--------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------------------------|
| <b>Financial assets :</b>                                    |                                            |                                                              |                                                                                     |
| Available-for-sale financial assets                          | –                                          | 27,054                                                       | 27,054                                                                              |
| Trade and other receivables excluding<br>prepayments         | 171,083                                    | –                                                            | 171,083                                                                             |
| Cash and cash equivalents                                    | 18,220                                     | –                                                            | 18,220                                                                              |
| <b>Total</b>                                                 | <b>189,303</b>                             | <b>27,054</b>                                                | <b>216,357</b>                                                                      |
|                                                              |                                            |                                                              | <b>Other<br/>financial<br/>liabilities at<br/>amortized cost<br/><i>RMB'000</i></b> |
| <b>Financial liabilities :</b>                               |                                            |                                                              |                                                                                     |
| Borrowings                                                   |                                            |                                                              | 74,977                                                                              |
| Trade and other payables excluding non-financial liabilities |                                            |                                                              | 91,170                                                                              |
| <b>Total</b>                                                 |                                            |                                                              | <b>166,147</b>                                                                      |

31 December 2011

|                                                      | Loans and<br>receivables<br><i>RMB'000</i> | Available-<br>for-sale<br>financial assets<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|------------------------------------------------------|--------------------------------------------|--------------------------------------------------------------|-------------------------|
| <b>Financial assets :</b>                            |                                            |                                                              |                         |
| Trade and other receivables excluding<br>prepayments | 129,336                                    | –                                                            | 129,336                 |
| Restricted bank deposits                             | 5,000                                      | –                                                            | 5,000                   |
| Cash and cash equivalents                            | 41,402                                     | –                                                            | 41,402                  |
| <b>Total</b>                                         | <b>175,738</b>                             | <b>–</b>                                                     | <b>175,738</b>          |

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**Other  
financial  
liabilities at  
amortized cost**  
*RMB’000*

**Financial liabilities :**

|                                                              |        |
|--------------------------------------------------------------|--------|
| Borrowings                                                   | 90,378 |
| Trade and other payables excluding non-financial liabilities | 64,107 |

|              |                |
|--------------|----------------|
| <b>Total</b> | <b>154,485</b> |
|--------------|----------------|

**Company**

**31 December 2011**

**Other  
financial  
liabilities at  
amortized cost**  
*RMB’000*

**Financial liabilities :**

|                            |     |
|----------------------------|-----|
| Amount due to a subsidiary | 315 |
|----------------------------|-----|

**(b) Credit quality of financial assets**

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The credit risk exposure of the Group’s trade receivables which are not impaired and bank deposits have been disclosed in the Note 12 and Note 3.1(b).

### 14. RESTRICTED BANK DEPOSITS – GROUP

|                                         | <b>As at 31 December</b> |                |                |
|-----------------------------------------|--------------------------|----------------|----------------|
|                                         | <b>2009</b>              | <b>2010</b>    | <b>2011</b>    |
|                                         | <i>RMB’000</i>           | <i>RMB’000</i> | <i>RMB’000</i> |
| Restricted bank deposits in respect of: |                          |                |                |
| – Bills payable                         | 15,000                   | –              | –              |
| – Borrowing                             | –                        | –              | 5,000          |
|                                         | <u>15,000</u>            | <u>–</u>       | <u>5,000</u>   |

The Group’s restricted bank deposits balances are all denominated in RMB.

The Group’s restricted bank deposits mainly represent bank deposits pledged as security for bills payable or borrowing of the Group.

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### 15. CASH AND CASH EQUIVALENTS – GROUP

|                          | As at 31 December |               |               |
|--------------------------|-------------------|---------------|---------------|
|                          | 2009              | 2010          | 2011          |
|                          | RMB'000           | RMB'000       | RMB'000       |
| Cash at bank and in hand | <u>10,206</u>     | <u>18,220</u> | <u>41,402</u> |

All the Group’s cash and cash equivalents are denominated in RMB.

### 16. SHARE CAPITAL – COMPANY

|                                                                                                   |      | Number of<br>ordinary<br>shares | Nominal value<br>of ordinary<br>shares | Equivalent<br>nominal value<br>of ordinary<br>shares |
|---------------------------------------------------------------------------------------------------|------|---------------------------------|----------------------------------------|------------------------------------------------------|
|                                                                                                   | Note |                                 | HK\$                                   | RMB                                                  |
| Authorized:                                                                                       |      |                                 |                                        |                                                      |
| Ordinary shares of HK\$1.00 each                                                                  | (a)  | <u>10,000</u>                   | <u>10,000</u>                          | <u>8,107</u>                                         |
| Issued but not paid:                                                                              |      |                                 |                                        |                                                      |
| Ordinary shares of HK\$1.00 each issued<br>and allotted upon incorporation on 29<br>November 2011 | (a)  | <u>100</u>                      | <u>100</u>                             | <u>81</u>                                            |
| Ordinary shares as at 31 December 2011                                                            |      | <u>100</u>                      | <u>100</u>                             | <u>81</u>                                            |

- (a) The Company was incorporated in the Cayman Islands on 29 November 2011 with an authorized share capital of HK\$10,000 divided into 10,000 shares of a par value of HK\$1.00 each. Since the Company had not been legally incorporated as at 31 December 2009 and 2010, no share capital was presented at the respective dates.

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### 17. OTHER RESERVES

#### Group

|                                                                                                                                 | Available-for-sale<br>financial<br>assets | Statutory<br>reserve<br>(Note (a)) | Merger<br>reserve<br>(Note (b)) | Capital<br>reserve<br>(Note (c)) | Total     |
|---------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------|---------------------------------|----------------------------------|-----------|
|                                                                                                                                 | RMB'000                                   | RMB'000                            | RMB'000                         | RMB'000                          | RMB'000   |
| At 1 January 2009                                                                                                               | –                                         | 3,508                              | 137,823                         | –                                | 141,331   |
| Fair value gains of available-for-sale<br>financial assets (Note 10)                                                            | 3,068                                     | –                                  | –                               | –                                | 3,068     |
| Tax effect on fair value gains of available-for-<br>sale financial assets (Note 18)                                             | (384)                                     | –                                  | –                               | –                                | (384)     |
| Appropriation to statutory reserves                                                                                             | –                                         | 1,466                              | –                               | –                                | 1,466     |
| Contribution to a subsidiary by its<br>then equity owners                                                                       | –                                         | –                                  | 37,560                          | –                                | 37,560    |
| At 31 December 2009                                                                                                             | 2,684                                     | 4,974                              | 175,383                         | –                                | 183,041   |
| Fair value gains of available-for-sale<br>financial assets (Note 10)                                                            | 1,890                                     | –                                  | –                               | –                                | 1,890     |
| Tax effect on fair value gains of available-for-<br>sale financial assets (Note 18)                                             | (236)                                     | –                                  | –                               | –                                | (236)     |
| Appropriation to statutory reserves                                                                                             | –                                         | 3,653                              | –                               | –                                | 3,653     |
| Contribution to a subsidiary by its<br>then equity owners                                                                       | –                                         | –                                  | 16,628                          | –                                | 16,628    |
| At 31 December 2010                                                                                                             | 4,338                                     | 8,627                              | 192,011                         | –                                | 204,976   |
| Fair value gains of available-for-sale<br>financial assets (Note 10)                                                            | 2,580                                     | –                                  | –                               | –                                | 2,580     |
| Tax effect on fair value gains of available-for-<br>sale financial assets (Note 18)                                             | (323)                                     | –                                  | –                               | –                                | (323)     |
| Recycling of fair value gains of<br>available-for-sale financial assets<br>to profit or loss upon disposal (Note 10)            | (7,538)                                   | –                                  | –                               | –                                | (7,538)   |
| Recycling of tax effect on fair value gains of<br>available-for-sale financial assets<br>profit or loss upon disposal (Note 18) | 943                                       | –                                  | –                               | –                                | 943       |
| Deemed distribution arising from<br>Reorganization (Note 1.1(d))                                                                | –                                         | –                                  | –                               | (207,930)                        | (207,930) |
| Deemed contribution from<br>shareholders (Note 1.1(e))                                                                          | –                                         | –                                  | –                               | 207,930                          | 207,930   |
| Appropriation to statutory reserves                                                                                             | –                                         | 9,555                              | –                               | –                                | 9,555     |
| At 31 December 2011                                                                                                             | –                                         | 18,182                             | 192,011                         | –                                | 210,193   |

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### Company

### Capital reserve (Note (c)) RMB’000

|                                       |             |
|---------------------------------------|-------------|
| At 29 November 2011                   | –           |
| Deemed contribution from shareholders | 207,930     |
|                                       | <hr/>       |
| At 31 December 2011                   | 207,930     |
|                                       | <hr/> <hr/> |

#### (a) Statutory reserve

The Company’s subsidiary in the PRC is required to transfer 10% of their profit after income tax calculated in accordance with the PRC accounting standards and systems to the statutory reserve until the balance reaches 50% of the their respective registered capital, where further transfers will be at their directors’ discretion. The statutory reserve fund can be used to offset prior years’ losses, if any and may be converted into share capital by issuing new shares to equity holders of the PRC subsidiary in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory reserve fund after such issue is no less than 25% of share capital for the PRC subsidiary.

#### (b) Merger reserve

The Company was incorporated on 29 November 2011 and the Reorganization was completed prior to 31 December 2011. For the purpose of the Financial Information, the merger reserve in the consolidated statements of financial position as at 31 December 2009, 2010 and 2011 primarily represented the aggregate amount of share capital of the companies now comprising the Group, after elimination of investments in subsidiaries.

#### (c) Capital reserve

On 26 December 2011, Dongwu HK acquired the entire equity interest in Dongwu Cement from Far East International, at a consideration of US\$33,000,000 (equivalent to RMB207,930,000). The consideration payable to Far East International was regarded as a deemed distribution to equity holders of the Company. As described in note 1.1, the consideration payable was novated to Goldview and Concord in proportion to their then respective shareholdings in the Company and subsequently Goldview and Concord gave written confirmations in relation to their unconditional and irrevocable waiver as to the Company’s repayment obligation of US\$33,000,000 (equivalent to RMB207,930,000). As such, the waived payable was regarded as deemed contribution from shareholders.

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### 18. DEFERRED INCOME TAX LIABILITIES – GROUP

The analysis of deferred tax assets and deferred tax liabilities is as follows:

|                                                         | As at 31 December   |                     |                     |
|---------------------------------------------------------|---------------------|---------------------|---------------------|
|                                                         | 2009                | 2010                | 2011                |
|                                                         | RMB'000             | RMB'000             | RMB'000             |
| Deferred tax assets:                                    |                     |                     |                     |
| – deferred tax asset to be recovered after 12 months    | (632)               | (749)               | (759)               |
| – deferred tax asset to be recovered within 12 months   | –                   | –                   | –                   |
|                                                         | <u>(632)</u>        | <u>(749)</u>        | <u>(759)</u>        |
| Deferred tax liabilities:                               |                     |                     |                     |
| – deferred tax liability to be settled after 12 months  | 4,632               | 620                 | 3,456               |
| – deferred tax liability to be settled within 12 months | –                   | 7,374               | –                   |
|                                                         | <u>4,632</u>        | <u>7,994</u>        | <u>3,456</u>        |
| <b>Deferred tax liabilities, net</b>                    | <u><u>4,000</u></u> | <u><u>7,245</u></u> | <u><u>2,697</u></u> |

The gross movement on the deferred income tax account is as follows:

|                                                                     | Year ended 31 December |                     |                     |
|---------------------------------------------------------------------|------------------------|---------------------|---------------------|
|                                                                     | 2009                   | 2010                | 2011                |
|                                                                     | RMB'000                | RMB'000             | RMB'000             |
| Beginning of year                                                   | 2,340                  | 4,000               | 7,245               |
| Charged/(Credited) to profit or loss ( <i>Note 26</i> )             | 1,276                  | 3,009               | (3,928)             |
| Charged/(Credited) to other comprehensive income ( <i>Note 17</i> ) | 384                    | 236                 | (620)               |
| <b>End of year</b>                                                  | <u><u>4,000</u></u>    | <u><u>7,245</u></u> | <u><u>2,697</u></u> |

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The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| <b>Deferred tax liabilities</b>                                                                                  | <b>Fair value changes related to available-for-sale financial assets</b><br><i>RMB'000</i> | <b>Withholding tax for attributable profit relating to equity holder</b><br><i>(Note (a))</i><br><i>RMB'000</i> | <b>Total</b><br><i>RMB'000</i>      |
|------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|-------------------------------------|
| At 1 January 2009                                                                                                | –                                                                                          | 3,100                                                                                                           | 3,100                               |
| Charged to profit or loss                                                                                        | –                                                                                          | 1,148                                                                                                           | 1,148                               |
| Charged to other comprehensive income ( <i>Note 17</i> )                                                         | 384                                                                                        | –                                                                                                               | 384                                 |
| <b>At 31 December 2009</b>                                                                                       | <b>384</b>                                                                                 | <b>4,248</b>                                                                                                    | <b>4,632</b>                        |
| At 1 January 2010                                                                                                | 384                                                                                        | 4,248                                                                                                           | 4,632                               |
| Charged to profit or loss                                                                                        | –                                                                                          | 3,126                                                                                                           | 3,126                               |
| Charged to other comprehensive income ( <i>Note 17</i> )                                                         | 236                                                                                        | –                                                                                                               | 236                                 |
| <b>At 31 December 2010</b>                                                                                       | <b>620</b>                                                                                 | <b>7,374</b>                                                                                                    | <b>7,994</b>                        |
| At 1 January 2011                                                                                                | 620                                                                                        | 7,374                                                                                                           | 7,994                               |
| Charged to profit or loss                                                                                        | –                                                                                          | 8,598                                                                                                           | 8,598                               |
| Credited to profit or loss – dividends in the year ( <i>Note (a)</i> )                                           | –                                                                                          | (12,516)                                                                                                        | (12,516)                            |
| Charged to other comprehensive income ( <i>Note 17</i> )                                                         | 323                                                                                        | –                                                                                                               | 323                                 |
| Credited to other comprehensive income – upon disposal of available-for-sale financial assets ( <i>Note 17</i> ) | (943)                                                                                      | –                                                                                                               | (943)                               |
| <b>At 31 December 2011</b>                                                                                       | <b>–</b>                                                                                   | <b>3,456</b>                                                                                                    | <b>3,456</b>                        |
| <b>Deferred tax assets</b>                                                                                       |                                                                                            |                                                                                                                 | <b>Provisions</b><br><i>RMB'000</i> |
| At 1 January 2009                                                                                                |                                                                                            |                                                                                                                 | (760)                               |
| Charged to profit or loss                                                                                        |                                                                                            |                                                                                                                 | 128                                 |
| <b>At 31 December 2009</b>                                                                                       |                                                                                            |                                                                                                                 | <b>(632)</b>                        |
| At 1 January 2010                                                                                                |                                                                                            |                                                                                                                 | (632)                               |
| Credited to profit or loss                                                                                       |                                                                                            |                                                                                                                 | (117)                               |
| <b>At 31 December 2010</b>                                                                                       |                                                                                            |                                                                                                                 | <b>(749)</b>                        |
| At 1 January 2011                                                                                                |                                                                                            |                                                                                                                 | (749)                               |
| Credited to profit or loss                                                                                       |                                                                                            |                                                                                                                 | (10)                                |
| <b>At 31 December 2011</b>                                                                                       |                                                                                            |                                                                                                                 | <b>(759)</b>                        |

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- (a) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% upon the PRC tax bureau’s approval at the time of dividend claim. The Group is therefore liable to withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of their earnings generated from 1 January 2008.

### 19. TRADE AND OTHER PAYABLES – GROUP

|                                                   | As at 31 December |                |               |
|---------------------------------------------------|-------------------|----------------|---------------|
|                                                   | 2009              | 2010           | 2011          |
|                                                   | RMB’000           | RMB’000        | RMB’000       |
| Trade payables                                    | 57,678            | 56,423         | 48,232        |
| Bills payable                                     | 30,000            | –              | –             |
| Advances from customers                           | 4,839             | 4,296          | 1,265         |
| Salary payable                                    | 2,201             | 2,815          | 3,218         |
| Other tax payables ( <i>Note (a)</i> )            | 1,219             | 4,572          | 3,119         |
| Other payables                                    | 41,704            | 22,527         | 12,979        |
| Due to a related party ( <i>Note 33(c) (iv)</i> ) | 22,220            | 12,220         | 2,896         |
|                                                   | <u>159,861</u>    | <u>102,853</u> | <u>71,709</u> |

The credit period granted by the Group’s principal suppliers is 30 to 90 days.

The Group’s trade and other payables are all denominated in RMB.

The carrying value of the Group’s trade and other payables approximate to their fair values.

Aging analysis of trade and bills payables is as follows:

|                          | As at 31 December |               |               |
|--------------------------|-------------------|---------------|---------------|
|                          | 2009              | 2010          | 2011          |
|                          | RMB’000           | RMB’000       | RMB’000       |
| Below 30 days            | 44,233            | 44,754        | 23,475        |
| From 31 to 90 days       | 28,834            | 7,159         | 19,719        |
| From 91 days to 180 days | 12,179            | 907           | 1,932         |
| From 181 days to 1 year  | 392               | 1,509         | 2,000         |
| From 1 year to 2 year    | 1,480             | 1,260         | 690           |
| Over 2 years             | 560               | 834           | 416           |
|                          | <u>87,678</u>     | <u>56,423</u> | <u>48,232</u> |

- (a) Other tax payable mainly represented the value added tax (“VAT”). The sales of self-manufactured products of the PRC subsidiary are subject to VAT. The applicable tax rate for domestic sales is 17%.

Input VAT on purchases of raw materials, fuel, utilities and other production materials can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT. Effective from 1 January 2009, the input VAT on purchased equipment can be offset against the output VAT.

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### 20. BORROWINGS – GROUP

|                                        | As at 31 December |               |               |
|----------------------------------------|-------------------|---------------|---------------|
|                                        | 2009              | 2010          | 2011          |
|                                        | RMB'000           | RMB'000       | RMB'000       |
| Current:                               |                   |               |               |
| Bank borrowings                        | 35,000            | 54,000        | 73,070        |
| Other borrowings                       |                   |               |               |
| – from non-bank financial institutions | 500               | 15,300        | 15,000        |
| – from financing arrangement*          | 3,290             | 3,369         | 2,308         |
|                                        | <u>38,790</u>     | <u>72,669</u> | <u>90,378</u> |
| Non-current:                           |                   |               |               |
| Other borrowings                       |                   |               |               |
| – from financing arrangement*          | <u>5,677</u>      | <u>2,308</u>  | <u>–</u>      |
| Representing:                          |                   |               |               |
| Unsecured                              | 500               | 300           | –             |
| Secured                                | <u>43,967</u>     | <u>74,677</u> | <u>90,378</u> |
|                                        | <u>44,467</u>     | <u>74,977</u> | <u>90,378</u> |

\* These other borrowings represented a financing arrangement entered by the Group in the form of a sale and leaseback transaction for certain machinery with repurchase option. As the repurchase price is nil and the Group will definitely exercise its repurchase option, this arrangement is treated as a collateralized borrowing of the Group.

(i) The weighted average effective interest rates during the Relevant Periods are as follows:

|                  | Year ended 31 December |               |               |
|------------------|------------------------|---------------|---------------|
|                  | 2009                   | 2010          | 2011          |
|                  | RMB'000                | RMB'000       | RMB'000       |
| Bank borrowings  | 6.53%                  | 5.25%         | 6.97%         |
| Other borrowings | <u>16.80%</u>          | <u>12.63%</u> | <u>14.68%</u> |

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- (ii) The Group’s secured borrowings are analyzed as follows:

|                                                                                          | As at 31 December |               |               |
|------------------------------------------------------------------------------------------|-------------------|---------------|---------------|
|                                                                                          | 2009              | 2010          | 2011          |
|                                                                                          | RMB’000           | RMB’000       | RMB’000       |
| Bank and other borrowings:                                                               |                   |               |               |
| Secured by:                                                                              |                   |               |               |
| – Property, plant and equipment ( <i>Note 7</i> )                                        | 19,171            | 18,677        | 15,308        |
| – Land use rights ( <i>Note 8</i> )                                                      | 14,796            | 17,300        | 17,300        |
| Pledged by:                                                                              |                   |               |               |
| – Bills receivables ( <i>Note 12</i> )                                                   | –                 | 5,700         | 10,000        |
| – Restricted bank deposits ( <i>Note 14</i> )                                            | –                 | –             | 4,770         |
| Corporate guarantees by related or<br>unrelated parties ( <i>Note 33(b)(ii)</i> )        | 35,000            | 63,300        | 43,000        |
|                                                                                          | 68,967            | 104,977       | 90,378        |
| Less: Borrowings jointly secured and guaranteed,<br>which are separately disclosed above | (25,000)          | (30,300)      | –             |
|                                                                                          | <u>43,967</u>     | <u>74,677</u> | <u>90,378</u> |

- (iii) The exposure of the Group’s borrowings to interest rate changes and the contractual repricing dates or maturity dates whichever is the earlier are as follows:

|                  | 6 months<br>or less | 6-12<br>months | 1-5<br>years | Total         |
|------------------|---------------------|----------------|--------------|---------------|
|                  | RMB’000             | RMB’000        | RMB’000      | RMB’000       |
| 31 December 2009 | 38,790              | –              | 5,677        | 44,467        |
| 31 December 2010 | 72,669              | –              | 2,308        | 74,977        |
| 31 December 2011 | <u>90,378</u>       | <u>–</u>       | <u>–</u>     | <u>90,378</u> |

- (iv) The carrying amounts of the Group’s borrowings approximated to their fair values as at 31 December 2009, 2010 and 2011.

- (v) The Group’s borrowings are denominated in RMB.

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### 21. OTHER INCOME

|                                                                 | Year ended 31 December |               |               |
|-----------------------------------------------------------------|------------------------|---------------|---------------|
|                                                                 | 2009                   | 2010          | 2011          |
|                                                                 | RMB'000                | RMB'000       | RMB'000       |
| Dividend income from unlisted investments ( <i>Note 10(e)</i> ) | –                      | 1,400         | 2,400         |
| Tax refund ( <i>Note (a)</i> )                                  | 8,877                  | 8,656         | 13,354        |
| Government grants                                               | 509                    | 1,229         | 578           |
|                                                                 | <u>9,386</u>           | <u>11,285</u> | <u>16,332</u> |

- (a) Tax refund mainly represented the refund of VAT. Pursuant to the Notice regarding Policies relating to Value-Added Tax on Products Made through Comprehensive Utilization of Resources and Certain Other Products issued by the Ministry of Finance and the State Administration of Taxation (財政部國家稅務總局關於部分資源綜合利用及其他產品增值稅政策問題的通知) promulgated on 9 December 2008, the Group's PRC subsidiary, Dongwu Cement, is eligible for VAT refunds for utilizing recycled materials as raw materials for producing cement. VAT refund is recognized when there is a reasonable assurance that the VAT refund will be received and the Group will comply with all the relevant conditions. In practice, the Group recognized it as other income upon the receipt of tax refund approval from tax bureau.

### 22. OTHER GAINS/(LOSSES) – NET

|                                                                              | Year ended 31 December |             |                |
|------------------------------------------------------------------------------|------------------------|-------------|----------------|
|                                                                              | 2009                   | 2010        | 2011           |
|                                                                              | RMB'000                | RMB'000     | RMB'000        |
| Sales of scrap materials                                                     | 366                    | 194         | –              |
| Gain/(loss) on disposal of property, plant and equipment ( <i>Note (a)</i> ) | 112                    | –           | (3,095)        |
| Others                                                                       | –                      | (226)       | (92)           |
|                                                                              | <u>478</u>             | <u>(32)</u> | <u>(3,187)</u> |

- (a) The gain/(loss) on disposal of property, plant and equipment was derived from:

|                                                                    | Year ended 31 December |          |                |
|--------------------------------------------------------------------|------------------------|----------|----------------|
|                                                                    | 2009                   | 2010     | 2011           |
|                                                                    | RMB'000                | RMB'000  | RMB'000        |
| Proceeds from disposal of property, plant and equipment            | 241                    | –        | 596            |
| Net book amount of property, plant and equipment ( <i>Note 7</i> ) | (129)                  | –        | (3,691)        |
|                                                                    | <u>112</u>             | <u>–</u> | <u>(3,095)</u> |

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### 23. EXPENSES BY NATURE

Expenses included in cost of sales, distribution costs and administrative expenses are analyzed as follows:

|                                                                     | Year ended 31 December |                |                |
|---------------------------------------------------------------------|------------------------|----------------|----------------|
|                                                                     | 2009                   | 2010           | 2011           |
|                                                                     | RMB'000                | RMB'000        | RMB'000        |
| Changes in inventories of finished goods and work in progress       | (356)                  | 1,612          | (2,814)        |
| Raw materials and consumables used                                  | 188,882                | 220,206        | 252,928        |
| Utilities and energy costs                                          | 48,600                 | 49,802         | 55,973         |
| Depreciation and amortization expenses ( <i>Notes 7,8</i> )         | 24,582                 | 25,357         | 25,144         |
| Employee benefit expenses ( <i>Note 24</i> )                        | 11,107                 | 12,138         | 13,389         |
| Transportation expenses                                             | 4,361                  | 2,722          | 3,173          |
| Advertising expenses                                                | 999                    | 1,064          | 692            |
| Taxes and levies                                                    | 931                    | 927            | 3,516          |
| Entertainment expenses                                              | 928                    | 740            | 1,056          |
| Pollution discharge expenses                                        | 623                    | 554            | 554            |
| Vehicle expenses                                                    | 750                    | 576            | 681            |
| Repair and maintenance expenses                                     | 128                    | 1,320          | 1,178          |
| Consultancy, legal and professional fees                            | 111                    | 1,215          | 558            |
| Provision for impairment of trade receivables ( <i>Note 12</i> )    | 786                    | 939            | 79             |
| Traveling expenses                                                  | 72                     | 170            | 262            |
| Auditors’ remuneration                                              | 35                     | 25             | 1,368          |
| Operating lease payments                                            | –                      | 450            | 800            |
| Other expenses                                                      | 2,097                  | 2,022          | 2,086          |
|                                                                     | <u>284,636</u>         | <u>321,839</u> | <u>360,623</u> |
| Total cost of sales, distribution costs and administrative expenses | <u>284,636</u>         | <u>321,839</u> | <u>360,623</u> |

### 24. EMPLOYEE BENEFIT EXPENSES

|                                                               | Year ended 31 December |               |               |
|---------------------------------------------------------------|------------------------|---------------|---------------|
|                                                               | 2009                   | 2010          | 2011          |
|                                                               | RMB'000                | RMB'000       | RMB'000       |
| Wages, salaries and bonuses                                   | 9,680                  | 9,919         | 12,005        |
| Welfare benefits                                              | 916                    | 1,526         | 761           |
| Pension costs – defined contribution plans ( <i>Note(a)</i> ) | 511                    | 693           | 623           |
|                                                               | <u>11,107</u>          | <u>12,138</u> | <u>13,389</u> |

#### (a) Pensions scheme – defined contribution plans

The employees of the Group in the PRC participate in defined contribution retirement schemes based on laws and regulations in the PRC. The local government authorities of the PRC are responsible for the pension liabilities to these retired employees. For the years ended 31 December 2009, 2010 and 2011, the Group made monthly contributions to the retirement schemes at rates of 19%, 19% and 20%, respectively, of the basic salaries of employees.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments above.

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### 25. FINANCE INCOME AND COSTS

|                                                   | Year ended 31 December |              |              |
|---------------------------------------------------|------------------------|--------------|--------------|
|                                                   | 2009                   | 2010         | 2011         |
|                                                   | RMB'000                | RMB'000      | RMB'000      |
| Interest expense:                                 |                        |              |              |
| – Borrowings wholly repayable within 5 years      | 1,920                  | 4,256        | 6,819        |
| – Discounting of bills receivable                 | 108                    | 217          | 473          |
| – Others                                          | 66                     | 41           | 31           |
|                                                   | <u>2,094</u>           | <u>4,514</u> | <u>7,323</u> |
| Finance costs                                     | 2,094                  | 4,514        | 7,323        |
| Finance income – interest income on bank deposits | <u>(78)</u>            | <u>(59)</u>  | <u>(134)</u> |
| Net finance costs                                 | <u>2,016</u>           | <u>4,455</u> | <u>7,189</u> |

### 26. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising on or derived from the jurisdictions in which members of the Group are domiciled and operate.

|                                                                                      | Year ended 31 December |              |                |
|--------------------------------------------------------------------------------------|------------------------|--------------|----------------|
|                                                                                      | 2009                   | 2010         | 2011           |
|                                                                                      | RMB'000                | RMB'000      | RMB'000        |
| Current tax on profit for the year                                                   | 1,758                  | 5,114        | 26,362         |
| Deferred tax on origination and reversal of temporary differences ( <i>Note 18</i> ) | <u>1,276</u>           | <u>3,009</u> | <u>(3,928)</u> |
| Income tax expense                                                                   | <u>3,034</u>           | <u>8,123</u> | <u>22,434</u>  |

Pursuant to the rules and regulations of Cayman Islands and the BVI, the Company and Dongwu Investment are not subject to any income tax in those jurisdictions.

Hong Kong profits tax rate is 16.5% for the Relevant Periods. The Group is not subject to Hong Kong profits tax as it has no assessable income arising in and derived from Hong Kong during the Relevant Periods.

Under the PRC Corporate Income Tax Law, which became effective from 1 January 2008, enterprises are subject to corporate income tax at a rate of 25%. The Group's sole PRC subsidiary – Dongwu Cement is subject to a full corporate income tax exemption for two years and a 50% deduction in the succeeding three years, commencing from the first profitable year after a five-year losses carrying forward. The year 2007 was the first profitable year of Dongwu Cement; hence, the applicable income tax rates for the years ended 31 December 2009, 2010 and 2011 were 12.5%, 12.5% and 12.5%, respectively.

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The tax on the Group’s profit before tax differs from the theoretical amount that would arise using the income tax rate applicable to profit of the consolidated entities for the Relevant Periods as follows:

|                                                                  | Year ended 31 December |         |          |
|------------------------------------------------------------------|------------------------|---------|----------|
|                                                                  | 2009                   | 2010    | 2011     |
|                                                                  | RMB’000                | RMB’000 | RMB’000  |
| Profit before tax                                                | 14,834                 | 39,909  | 109,378  |
| Tax calculated at domestic tax rates applicable to profit in PRC | 3,709                  | 9,977   | 27,345   |
| Effect of tax holidays                                           | (1,855)                | (4,989) | (13,672) |
| Tax effects of:                                                  |                        |         |          |
| – Expenses not deductible for tax purposes                       | 32                     | 184     | 163      |
| – Withholding tax on attributable profit                         | 1,148                  | 3,126   | 8,598    |
| – Income not subject to tax                                      | –                      | (175)   | –        |
| Tax charge                                                       | 3,034                  | 8,123   | 22,434   |

### 27. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods. In determining the weighted average number of ordinary shares in issue during the Relevant Periods, 10,000 shares of the Company, which were resulted from the issue and allotment of 100 shares by the Company in connection with the Reorganization and the subsequent sub-division of shares on 28 May 2012, had been treated as if those shares were in issue since 1 January 2009.

|                                                                     | Year ended 31 December |        |        |
|---------------------------------------------------------------------|------------------------|--------|--------|
|                                                                     | 2009                   | 2010   | 2011   |
| Profit attributable to equity shareholders of the Company (RMB’000) | 11,800                 | 31,786 | 86,944 |
| Weighted average number of ordinary shares in issue                 | 10,000                 | 10,000 | 10,000 |
| Basic earnings per share (RMB)                                      | 1,180                  | 3,180  | 8,694  |

The Company did not have any potential ordinary shares outstanding during the Relevant Periods. Diluted earnings per share is therefore equal to basic earnings per share.

The basic and diluted earnings per share as presented on the consolidated statements of comprehensive income have not taken into account the proposed [••] issue as described in Note 34(c).

### 28. CASH DIVIDENDS

Cash dividends of RMB49,268,000 (RMB4,927 per share\*), RMB29,444,000 (RMB2,944 per share\*) and RMB42,930,000 (RMB4,293 per share\*), totally RMB121,642,000 were declared by the board of directors of Dongwu Cement to the then equity holder on 12 May 2011, 12 September 2011 and 21 December 2011 respectively. All these dividends were paid to the then equity holder of Dongwu Cement on 17 May 2011, 28 September 2011 and 21 December 2011 respectively.

\* In determining the number of ordinary shares in issue during the Relevant Periods, 10,000 shares of the Company, which were resulted from the issue and allotment of 100 shares by the Company in connection with the Reorganization and the subsequent sub-division of shares on 28 May 2012, had been treated as if those shares were in issue since 1 January 2009.

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### 29. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

#### (a) Directors’ emoluments

| Name                                       | Salary<br>RMB’000 | Housing<br>allowances, other<br>allowances and<br>benefit in kind<br>RMB’000 | Total<br>RMB’000 |
|--------------------------------------------|-------------------|------------------------------------------------------------------------------|------------------|
| <b>For the year ended 31 December 2009</b> |                   |                                                                              |                  |
| <i>Executive directors</i>                 |                   |                                                                              |                  |
| Mr. Jin Chungen (金春根) (Note (i))           | —                 | —                                                                            | —                |
| Ms. Xie Yingxia (謝鶯霞) (Note (i))           | —                 | —                                                                            | —                |
| Mr. Yang Bin (楊斌) (Note (i))               | —                 | —                                                                            | —                |
| <i>Non-executive director</i>              |                   |                                                                              |                  |
| Mr. Tseung Hok Ming (蔣學明) (Note (i))       | —                 | —                                                                            | —                |
| <i>Independent non-executive directors</i> |                   |                                                                              |                  |
| Lee Ho Yiu Thomas (李浩堯) (Note (ii))        | —                 | —                                                                            | —                |
| Cao Kuangyu (曹貺予) (Note (ii))              | —                 | —                                                                            | —                |
| Cao Guoqi (曹國琪) (Note (ii))                | —                 | —                                                                            | —                |
|                                            | <u>—</u>          | <u>—</u>                                                                     | <u>—</u>         |
|                                            | <u>—</u>          | <u>—</u>                                                                     | <u>—</u>         |
| <b>For the year ended 31 December 2010</b> |                   |                                                                              |                  |
| <i>Executive directors</i>                 |                   |                                                                              |                  |
| Mr. Jin Chungen (金春根)                      | —                 | —                                                                            | —                |
| Ms. Xie Yingxia (謝鶯霞)                      | —                 | —                                                                            | —                |
| Mr. Yang Bin (楊斌)                          | —                 | —                                                                            | —                |
| <i>Non-executive director</i>              |                   |                                                                              |                  |
| Mr. Tseung Hok Ming (蔣學明)                  | —                 | —                                                                            | —                |
| <i>Independent non-executive directors</i> |                   |                                                                              |                  |
| Lee Ho Yiu Thomas (李浩堯)                    | —                 | —                                                                            | —                |
| Cao Kuangyu (曹貺予)                          | —                 | —                                                                            | —                |
| Cao Guoqi (曹國琪)                            | —                 | —                                                                            | —                |
|                                            | <u>—</u>          | <u>—</u>                                                                     | <u>—</u>         |
|                                            | <u>—</u>          | <u>—</u>                                                                     | <u>—</u>         |

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| Name                                       | Salary<br>RMB'000 | Housing<br>allowances, other<br>allowances and<br>benefit in kind<br>RMB'000 | Total<br>RMB'000 |
|--------------------------------------------|-------------------|------------------------------------------------------------------------------|------------------|
| <b>For the year ended 31 December 2011</b> |                   |                                                                              |                  |
| <i>Executive directors</i>                 |                   |                                                                              |                  |
| Mr. Jin Chungen (金春根)                      | —                 | —                                                                            | —                |
| Ms. Xie Yingxia (謝鶯霞)                      | —                 | —                                                                            | —                |
| Mr. Yang Bin (楊斌)                          | —                 | —                                                                            | —                |
| <i>Non-executive director</i>              |                   |                                                                              |                  |
| Mr. Tseung Hok Ming (蔣學明)                  | —                 | —                                                                            | —                |
| <i>Independent non-executive directors</i> |                   |                                                                              |                  |
| Lee Ho Yiu Thomas (李浩堯)                    | —                 | —                                                                            | —                |
| Cao Kuangyu (曹貺予)                          | —                 | —                                                                            | —                |
| Cao Guoqi (曹國琪)                            | —                 | —                                                                            | —                |
|                                            | <u>—</u>          | <u>—</u>                                                                     | <u>—</u>         |
|                                            | <u>—</u>          | <u>—</u>                                                                     | <u>—</u>         |

These directors without payment from the Company received emoluments from Far East International and certain related parties of the Group for the Relevant Periods, part of which were in relation to their services to the Company. No apportionment has been made as the directors consider it is impractical to apportion the amount between their services to the Company and their services to Far East International and certain related parties of the Group.

*Notes:*

- (i) Appointed at 29 November 2011.
- (ii) Appointed at 28 May 2012.

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Company during the Relevant Periods included none of the directors of the Company.

The emoluments paid and payable to these five individuals for the Relevant Periods are as follows:

|                                     | <b>Year ended 31 December</b> |                        |                        |
|-------------------------------------|-------------------------------|------------------------|------------------------|
|                                     | <b>2009</b><br>RMB'000        | <b>2010</b><br>RMB'000 | <b>2011</b><br>RMB'000 |
| Basic salaries and benefits in kind | <u>668</u>                    | <u>541</u>             | <u>577</u>             |

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## ACCOUNTANT’S REPORT

The emoluments fell within the following bands:

| Emolument band      | Number of individuals<br>Year ended 31 December |          |          |
|---------------------|-------------------------------------------------|----------|----------|
|                     | 2009                                            | 2010     | 2011     |
| Nil – HK\$1,000,000 | <u>5</u>                                        | <u>5</u> | <u>5</u> |

### 30. CASH (USED IN) / GENERATED FROM OPERATIONS

#### (a) Reconciliation of profit for the year to cash (used in) /generated from operations:

|                                                                                  | Year ended 31 December |                 |                 |
|----------------------------------------------------------------------------------|------------------------|-----------------|-----------------|
|                                                                                  | 2009<br>RMB'000        | 2010<br>RMB'000 | 2011<br>RMB'000 |
| Profit for the year                                                              | 11,800                 | 31,786          | 86,944          |
| Adjustments for:                                                                 |                        |                 |                 |
| – Income tax expense ( <i>Note 26</i> )                                          | 3,034                  | 8,123           | 22,434          |
| – Depreciation ( <i>Note 7</i> )                                                 | 24,279                 | 25,042          | 24,822          |
| – Amortization ( <i>Note 8</i> )                                                 | 303                    | 315             | 322             |
| – Provision for impairment for trade<br>receivables ( <i>Note 12</i> )           | 786                    | 939             | 79              |
| – (Gain)/loss on disposal of property, plant<br>and equipment ( <i>Note 22</i> ) | (112)                  | –               | 3,095           |
| – Interest income ( <i>Note 25</i> )                                             | (78)                   | (59)            | (134)           |
| – Finance costs ( <i>Note 25</i> )                                               | 2,094                  | 4,514           | 7,323           |
| – Dividend income on available-for-sale<br>financial assets ( <i>Note 21</i> )   | –                      | (1,400)         | (2,400)         |
| Changes in working capital                                                       |                        |                 |                 |
| – Inventories                                                                    | 11,582                 | (6,479)         | (1,428)         |
| – Restricted cash                                                                | (15,000)               | 15,000          | –               |
| – Trade and other receivables                                                    | (36,962)               | 21,212          | (50,555)        |
| – Trade and other payables                                                       | <u>(12,516)</u>        | <u>(50,456)</u> | <u>(18,442)</u> |
| Cash (used in)/generated from operations                                         | <u>(10,790)</u>        | <u>48,537</u>   | <u>72,060</u>   |

### 31. FINANCIAL GUARANTEE CONTRACTS

The Group has guaranteed borrowings for independent third parties at no charge. Under the terms of the financial guarantee contracts, the Group must make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when due. The financial guarantee contracts had not been recognized in the Financial Information as the Group considered that the fair value of the guarantee contracts was immaterial.

## APPENDIX I

## ACCOUNTANT’S REPORT

Terms and face values of the liabilities guaranteed were as follows:

|                                    | As at 31 December |                       |                 |
|------------------------------------|-------------------|-----------------------|-----------------|
|                                    | 2009              | 2010                  | 2011            |
|                                    | Face value        | Face value            | Face value      |
|                                    | RMB'000           | RMB'000               | RMB'000         |
| Borrowing matured in November 2011 | –                 | 100,000               | –               |
| Borrowing matured in June 2012     | –                 | 15,000                | –               |
|                                    | <u>–</u>          | <u>115,000</u>        | <u>–</u>        |
|                                    | <u><u>–</u></u>   | <u><u>115,000</u></u> | <u><u>–</u></u> |

All financial guarantees granted by the Group were released in December 2011.

### 32. COMMITMENTS

#### Group

##### (a) Capital commitments

The Group has the following capital commitments not provided for in respect of land use rights at the respective balance sheet dates:

|                                   | As at 31 December   |                     |                 |
|-----------------------------------|---------------------|---------------------|-----------------|
|                                   | 2009                | 2010                | 2011            |
|                                   | RMB'000             | RMB'000             | RMB'000         |
| Authorized but not contracted for |                     |                     |                 |
| – Land use rights                 | 5,584               | 5,584               | –               |
|                                   | <u>5,584</u>        | <u>5,584</u>        | <u>–</u>        |
|                                   | <u><u>5,584</u></u> | <u><u>5,584</u></u> | <u><u>–</u></u> |

##### (b) Operating lease commitments

The Group’s future aggregate minimum lease payments under non-cancellable operating leases are as follows:

|                                              | As at 31 December |                   |                   |
|----------------------------------------------|-------------------|-------------------|-------------------|
|                                              | 2009              | 2010              | 2011              |
|                                              | RMB'000           | RMB'000           | RMB'000           |
| Not later than 1 year                        | 180               | 329               | 150               |
| Later than 1 year and not later than 5 years | 45                | –                 | –                 |
|                                              | <u>225</u>        | <u>329</u>        | <u>150</u>        |
|                                              | <u><u>225</u></u> | <u><u>329</u></u> | <u><u>150</u></u> |

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## ACCOUNTANT’S REPORT

### 33. SIGNIFICANT RELATED PARTY TRANSACTIONS

- (a) The following companies are related parties of the Group that had balances and/or transactions with the Group during the Relevant Periods:

| Company                                                                                   | Relationship with the Group                             |
|-------------------------------------------------------------------------------------------|---------------------------------------------------------|
| Suzhou Tailong Real Estate Development Company Limited                                    | Controlled by the same ultimate individual shareholders |
| Orient Holdings Group Limited (“Orient Holdings”)                                         | Controlled by the same ultimate individual shareholders |
| Far East International                                                                    | Controlled by the same ultimate individual shareholders |
| Shanghai Orient Control Investment Management Company Limited (“Shanghai Orient Control”) | Controlled by the same ultimate individual shareholders |
| Orient Huaxia Venture Investment Company Limited (“Orient Huaxia”)                        | Controlled by the same ultimate individual shareholders |
| Orient Hengxin                                                                            | Controlled by the same ultimate individual shareholders |
| Orient Hengye Holdings Company Limited (“Orient Hengye”)                                  | Controlled by the same ultimate individual shareholders |
| Wujiang Orient Import and Export Co., Ltd. (“Wujiang Orient”)                             | Controlled by the same ultimate individual shareholders |
| Mr. Jin Chungen                                                                           | Director of the Company                                 |

(b) **Related party transactions**

During the Relevant Periods, the following transactions were carried out:

|                                                                                     | Year ended 31 December |          |          |
|-------------------------------------------------------------------------------------|------------------------|----------|----------|
|                                                                                     | 2009                   | 2010     | 2011     |
|                                                                                     | RMB'000                | RMB'000  | RMB'000  |
| <b>Continuing transactions</b>                                                      |                        |          |          |
| (i) Sales of goods                                                                  |                        |          |          |
| – Suzhou Tailong Real Estate Development Company Limited                            | 370                    | 1,244    | 239      |
| <b>Discontinuing transactions</b>                                                   |                        |          |          |
| (ii) Guarantee provided by related parties for the Group’s borrowings (Note 20(ii)) |                        |          |          |
| – Controlling Shareholder                                                           | 25,000                 | 30,300   | 28,000   |
| – Mr. Jin Chungen                                                                   | –                      | 15,000   | 15,000   |
| – Suzhou Tailong Real Estate Development Company Limited                            | 10,000                 | 18,000   | 28,000   |
| – Wujiang Orient                                                                    | –                      | 15,000   | 15,000   |
| Less: jointly guaranteed by the above related parties                               | –                      | (15,000) | (43,000) |
|                                                                                     | 35,000                 | 63,300   | 43,000   |

## APPENDIX I

## ACCOUNTANT’S REPORT

|                                                                           | Year ended 31 December |                 |                 |
|---------------------------------------------------------------------------|------------------------|-----------------|-----------------|
|                                                                           | 2009<br>RMB'000        | 2010<br>RMB'000 | 2011<br>RMB'000 |
| (iii) Funding transactions with related parties                           |                        |                 |                 |
| (a) Advances to related parties                                           |                        |                 |                 |
| – Suzhou Tailong Real Estate Development Company Limited                  | –                      | 22,300          | 26,002          |
| – Orient Holdings                                                         | –                      | 70,000          | –               |
| – Shanghai Orient Control                                                 | 22,220                 | 30,000          | 44,530          |
| – Orient Huaxia                                                           | –                      | 2,000           | –               |
| – Orient Hengxin                                                          | 3,000                  | 35,166          | 5,000           |
|                                                                           | <u>25,220</u>          | <u>159,466</u>  | <u>75,532</u>   |
| (b) Repayments from related parties                                       |                        |                 |                 |
| – Suzhou Tailong Real Estate Development Company Limited                  | 20,000                 | 14,300          | 49,002          |
| – Orient Holdings                                                         | –                      | –               | 75,000          |
| – Shanghai Orient Control                                                 | 11,200                 | 40,000          | 45,550          |
| – Orient Huaxia                                                           | –                      | –               | 2,000           |
| – Orient Hengxin                                                          | –                      | 37,500          | 5,666           |
|                                                                           | <u>31,200</u>          | <u>91,800</u>   | <u>177,218</u>  |
| (c) Repayment to a related party                                          |                        |                 |                 |
| – Far East International                                                  | <u>17,780</u>          | <u>10,000</u>   | <u>12,220</u>   |
| (d) Expenses paid by a related party on behalf of the Group               |                        |                 |                 |
| – Far East International                                                  | <u>–</u>               | <u>–</u>        | <u>2,896</u>    |
| (iv) Consultancy fees paid to a related party                             |                        |                 |                 |
| – Orient Hengye                                                           | <u>–</u>               | <u>600</u>      | <u>–</u>        |
| (v) Disposal of available-for-sale financial assets ( <i>Note 10(d)</i> ) |                        |                 |                 |
| – Orient Hengxin                                                          | <u>–</u>               | <u>–</u>        | <u>22,096</u>   |

The guarantees provided by related parties for the Group’s borrowings will be released upon [•••].

### (c) Balances with related parties

#### (i) Trade receivables

|                                                          | As at 31 December |                 |                 |
|----------------------------------------------------------|-------------------|-----------------|-----------------|
|                                                          | 2009<br>RMB'000   | 2010<br>RMB'000 | 2011<br>RMB'000 |
| – Suzhou Tailong Real Estate Development Company Limited | <u>6,369</u>      | <u>3,024</u>    | <u>2,450</u>    |

## APPENDIX I

## ACCOUNTANT’S REPORT

The maximum outstanding balance during the Relevant Periods was as follows:

|                                                          | Year ended 31 December |         |         |
|----------------------------------------------------------|------------------------|---------|---------|
|                                                          | 2009                   | 2010    | 2011    |
|                                                          | RMB'000                | RMB'000 | RMB'000 |
| Maximum outstanding balance due from:                    |                        |         |         |
| – Suzhou Tailong Real Estate Development Company Limited | 7,249                  | 6,369   | 3,304   |

(ii) *Other receivables*

|                                                          | As at 31 December |         |         |
|----------------------------------------------------------|-------------------|---------|---------|
|                                                          | 2009              | 2010    | 2011    |
|                                                          | RMB'000           | RMB'000 | RMB'000 |
| – Orient Holdings                                        | 5,000             | 75,000  | –       |
| – Suzhou Tailong Real Estate Development Company Limited | 15,000            | 23,000  | –       |
| – Shanghai Orient Control                                | 11,020            | 1,020   | –       |
| – Orient Huaxia                                          | –                 | 2,000   | –       |
| – Orient Hengxin                                         | 3,000             | 666     | –       |
| – Far East International                                 | –                 | –       | –       |
|                                                          | 34,020            | 101,686 | –       |

Other receivables from related parties mainly represent cash provided to these related parties for their short-term fund needs.

(iii) *Amount due from a related party resulting from disposal of available-for-sale financial assets*

|                  | As at 31 December |         |         |
|------------------|-------------------|---------|---------|
|                  | 2009              | 2010    | 2011    |
|                  | RMB'000           | RMB'000 | RMB'000 |
| – Orient Hengxin | –                 | –       | 13,696  |

## APPENDIX I

## ACCOUNTANT’S REPORT

The maximum outstanding balances during the Relevant Periods were as follows:

|                                                          | Year ended 31 December |         |         |
|----------------------------------------------------------|------------------------|---------|---------|
|                                                          | 2009                   | 2010    | 2011    |
|                                                          | RMB'000                | RMB'000 | RMB'000 |
| Maximum outstanding balance due from:                    |                        |         |         |
| – Orient Holdings                                        | 5,000                  | 75,000  | 75,000  |
| – Suzhou Tailong Real Estate Development Company Limited | 35,000                 | 25,000  | 43,000  |
| – Shanghai Orient Control                                | 11,020                 | 41,020  | 40,000  |
| – Orient Huaxia                                          | –                      | 2,000   | 2,000   |
| – Orient Hengxin                                         | 3,000                  | 30,666  | 22,096  |

(iv) *Other payables*

|                        | As at 31 December |         |         |
|------------------------|-------------------|---------|---------|
|                        | 2009              | 2010    | 2011    |
|                        | RMB'000           | RMB'000 | RMB'000 |
| Far East International | 22,220            | 12,220  | 2,896   |

Other payables to the related party mainly represents cash received from the related party for short-term fund needs.

Balances with related parties were unsecured, interest-free and repayable on demand. All non-trade balances with related parties will be fully settled upon [••].

### 34. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the report, the following significant events took place:

Pursuant to the written resolutions passed by the shareholders on 28 May 2012, the following resolutions, among other resolutions, were duly passed:

- sub-divide each authorized issued and unissued share of a par value of HK\$1.00 each in the share capital of the Company into 100 shares of a par value of HK\$0.01 each. The number of issued shares of the Company was increased from 100 shares to 10,000 shares as a result of sub-division;
- the authorized share capital of the Company was increased from HK\$10,000 to HK\$100,000,000 by the creation of an additional 9,999,000,000 shares of a par value of HK\$0.01 each; and
- conditional on the share premium account of the Company having sufficient balance, or otherwise being credited as a result of the [••], the directors were authorized to capitalize HK\$4,249,900 standing to the credit of the share premium account of the Company by applying such sum to pay up in full at par a total of 424,990,000 shares for allotment and issue to the shareholders in proportion to their respective shareholdings.

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2011 up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2011.

## **APPENDIX III**

## **PROPERTY VALUATION**

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[DRAFT]

**The Board of Directors**  
**Dongwu Cement International Limited**

Dear Sirs,

**Re: Valuation of property interests situated in the People’s Republic of China**

In accordance with the instructions from **Dongwu Cement International Limited** (referred to as the “Company”) to value the property interests (referred to as the “properties”) held by the Company or its subsidiaries (the Company and its subsidiaries are altogether referred to as the “Group”) situated in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections of the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at **30 April 2012** (the “date of valuation”).

### **BASIS OF VALUATION**

Our valuation of the properties represents the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

### **VALUATION METHODOLOGY**

Due to the nature of the buildings and structures erected thereon, the property numbered 1 have been valued on the basis of depreciated replacement cost (DRC). The assessment of the DRC requires an estimate of the market value of the land in existing use and an estimate of the new replacement (reproduction) cost of the buildings and structures and other site works as at the date of valuation, from which deductions are then made to allow for age, condition, functional obsolescence, etc.. In valuing the market value of the land portions of the properties, the comparison method has been adopted.

We have ascribed no commercial value to the property rented by the Group under short term lease due to the non-assignable nature of the leasehold interest or the lack of substantial profit rent.

### **ASSUMPTIONS**

Save for the property rented by the Group, our valuation has been made on the assumption that owners sell the properties on the market in their existing states without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the properties.

For those properties held by the owners by means of long term Land Use Rights granted by the Government, we have assumed that the owner has free and uninterrupted rights to use the properties for the whole of the unexpired term of the respective land use rights. We have also assumed that they can be freely transferred on the market free from any land premium or expenses of substantial amount payable to the Government.

## **APPENDIX III**

## **PROPERTY VALUATION**

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Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

### **TITLESHIP**

We have been provided with copies of legal documents regarding the properties. However, we have not verified ownership of the properties and the existence of any encumbrances that would affect ownership of them.

We have also relied upon the legal opinion provided by our PRC Legal Advisors, namely Deheng Law Firm, to the Company on the relevant laws and regulations in the PRC, on the nature of land use rights or leasehold interests in the properties.

### **LIMITING CONDITIONS**

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value. Our valuation have been made on the assumption that the seller sells the property on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the properties.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have carried out inspections of the properties. However, no structural survey has been made. In the course of our inspection, we did not note any serious defects. We are unable to report whether the buildings and structures of the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services of the buildings and structures of the properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB).

Our summary of valuation and valuation certificate are attached herewith.

## APPENDIX III

## PROPERTY VALUATION

### SUMMARY OF VALUATION

| Property                                                                                                                                    | Market value in<br>existing state<br>as at<br>30 April 2012<br>RMB | Interest attributable<br>to the Group<br>as at<br>30 April 2012<br>% | Value of property<br>interest attributable<br>to the Group as at<br>30 April 2012<br>RMB |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| <b>Group I – Property interests held and occupied by the Group</b>                                                                          |                                                                    |                                                                      |                                                                                          |
| 1. Land, various buildings and structures located in southeastern side of Dong Da Qiao, Lili Town, Wujiang City, Jiangsu Province, the PRC. | 136,500,000                                                        | 100%                                                                 | 136,500,000                                                                              |
| <b>Sub-total:</b>                                                                                                                           | <u>136,500,000</u>                                                 |                                                                      | <u>136,500,000</u>                                                                       |
| <b>Group II – Property rented by the Group</b>                                                                                              |                                                                    |                                                                      |                                                                                          |
| 2. Unit 2801, No. 319 Xianxia Road, Changning District, Shanghai City, the PRC.                                                             | No commercial value                                                | –                                                                    | No commercial value                                                                      |
| <b>Grand-total:</b>                                                                                                                         | <u>136,500,000</u>                                                 |                                                                      | <u>136,500,000</u>                                                                       |

## APPENDIX III

## PROPERTY VALUATION

### VALUATION CERTIFICATE

#### Group I – Property interests held and occupied by the Group

| Property                                                                                                                                                                                          | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Particulars of occupancy                                                                  | Market Value in existing state as at 30 April 2012<br>RMB                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| 1. Land, various buildings and structures located in southeastern side of Dong Da Qiao, Lili Town, Wujiang City, Jiangsu Province, the PRC.<br><br>(中國江蘇省<br>吳江市黎里鎮<br>東大橋南東側<br>之土地、建築物<br>及構築物) | <p>The property comprises three parcels of industrial land with a total area of approximately 181,945.4 square metres abutting onto the Taipu River (太浦河). Currently, there are a total of 45 blocks of single to 4-storey buildings and ancillary structures are erected on the land. Those buildings and structures include dormitory, office buildings, warehouses, workshop, ancillary rooms, boiler room, canteen, chemical treatment plant, communication room, delivery room, distribution room, transformer room, generator room, guard room, laboratory, measuring room, pump room, shed and treatment room. Wharf and mooring facilities are for raw material and product transport are erected along the riverside of the property.</p> <p>The total gross floor area of the aforesaid buildings is approximately 32,667.42 square metres.</p> <p>The above buildings and ancillary structures were completed in between 2004 and 2011.</p> <p>The land use rights of a portion of the subject land with an area of 118,183.7 square metres have been granted for a term expiring on 30 November 2054 and 19 May 2059 for industrial use. The land use rights of another portion of the subject land with an area 19,387.7 square metres have been granted for a term of 50 years commencing on 1 December 2011 for industrial use.</p> | <p>The property is currently occupied by the Group for cement manufacturing purposes.</p> | <p>136,500,000</p> <p>(100% interest attributable to the Group: 136,500,000)</p> |

#### Notes:

- As revealed from a State-owned Land Use Rights Contract dated 1 December 2004, the land use rights in a portion of the subject land with an area of 107,553.6 square metres were granted by the Wujiang Municipal Bureau of Land and Resources of Wujiang (吳江市國土資源局) to Suzhou Dongwu Cement Co., Ltd. (蘇州東吳水泥有限公司), an indirect wholly-owned subsidiary of the Company, for a land use right term of 50 years for industrial use. As confirmed by the Company, the land premium for the land grant has been settled in full by Suzhou Dongwu Cement Co., Ltd..
- Subsequently, a State-owned Land Use Rights Certificate (Ref: Wu Guo Yong (2004) Di No. 1004225 (吳國用(2004)第1004225號)) in relation to the aforesaid land portion with an area of 107,553.6 square metres was issued in the name of Suzhou Dongwu Cement Co., Ltd. on 3 December 2004. As mentioned in the Land Use Right Certificate, the land use rights have been granted for a term expiring on 30 November 2054 for industrial use.

## APPENDIX III

## PROPERTY VALUATION

3. As revealed from another State-owned Land Use Rights Contract dated 8 May 2009, the land use rights in another portion of the subject land with an area of 10,630.1 square metres were granted by the Wujiang Municipal Bureau of Land and Resources to Suzhou Dongwu Cement Co., Ltd. for a land use right term of 50 years for industrial use. As confirmed by the Company, the land premium of RMB2,678,760 for the land grant has been settled in full by Suzhou Dongwu Cement Co., Ltd..
4. Subsequently, a State-owned Land Use Rights Certificate (Ref: Wu Guo Yong (2010) Di No. 1007033 (吳國用(2010)第1007033號)) in relation to the aforesaid land portion with an area of 10,630.1 square metres was issued in the name of Suzhou Dongwu Cement Co., Ltd. on 17 December 2010. As mentioned in the Land Use Right Certificate, the land use rights have been granted for a term expiring on 19 May 2059 for industrial use.
5. As revealed from another State-owned Land Use Rights Contract dated 1 December 2011, the land use rights in relation to another portion (known as Lot No. WJ-G-2011-251) of the subject land with an area of 19,387.7 square metres were granted by the Wujiang Municipal Bureau of Land and Resources to Suzhou Dongwu Cement Co., Ltd. for a land use right of 50 years commencing from the date of the Land Use Rights Contract for industrial (non-metal product processing) use. As confirmed by the Company, the land premium of RMB5,583,658 for the land grant has been settled in full by Suzhou Dongwu Cement Co., Ltd..
6. Subsequently, a State-owned Land Use Rights Certificate (Ref: Wu Guo Yong (2012) Di No. 1007376 (吳國用(2012)第1007376號)) in relation to the aforesaid land portion with an area of 19,387.7 square metres was issued in the name of Suzhou Dongwu Cement Co., Ltd. on 17 February 2012. As mentioned in the Land Use Right Certificate, the land use rights have been granted for a term expiring on 31 December 2061 for industrial use.
7. As revealed from a Taipu River Waterway Construction Works Occupation Agreement (太浦河河道工程佔用合同) dated 11 February 2004, Suzhou Dongwu Cement Co., Ltd. has been granted by the Wujiang City Taipu River Work Administration Office (吳江市太浦河工程管理所) the rights to occupy and carry out operations on a strip of river bank land abutting to the Taipu River (太浦河) with an area of 44,374 square metres and a coastal line of approximately 730 metres for an unspecified term. The current land use fee payable by Suzhou Dongwu Cement Co., Ltd. is RMB180,000.
8. A Construction Works Occupation Agreement (河道工程佔用證) (Ref: Wu Shui (2011) Zhan Zhi No. 056 (吳水2011佔字第056號)) in relation to the aforesaid river bank land parcel was issued in the name of Suzhou Dongwu Cement Co., Ltd. by the Wujiang City Water Work Bureau (吳江市水利局) on 28 October 2011. The permit is valid for a period commencing on 12 March 2011 and expiring on 28 October 2012. As confirmed by the Company, such permit shall be renewed upon expiry when Suzhou Dongwu Cement Co., Ltd. passes the corporate evaluation.
9. As revealed by the Planning Permit on Land for Construction Use (建設用地規劃許可證) (Ref: Wu Cheng Qui (2003)030693 (吳城規(2003)030693)) on 29 September 2003, the permitted town planning use of the subject land parcel is manufacturing.
10. As revealed by the Planning Permit on Construction Works (建設工程規劃許可證) (Ref: Wu Cheng Qui (2003)030404 (吳城規(2003)030404)) dated 29 September 2003, the construction works of property with planned gross floor area of 44,400 square metres are in compliance with the construction work requirements and have been approved.
11. As revealed by the Working Permit on Construction Works (建築工程施工許可證) (Ref: 320525200411020301) issued by the Wujiang Construction Bureau (吳江市建設局) on 2 November 2004, the construction of the subject buildings has been allowed.
12. A Building Ownership Certificate (Ref: Wu Fang Quan Zheng Li Li Zi Di No. 05003082 (吳房權證黎里字第05003082號)) was issued in the name of Suzhou Dongwu Cement Co., Ltd. by the Municipal Government of Wujiang City in connection with 35 subject buildings of the property with a total gross floor area of 22,509.60 square metres.
13. Another Building Ownership Certificate (Ref: Wu Fang Quan Zheng Fen Hu Zi Di No. 06011569 (吳房權證汾湖字第06011569號)) dated 29 November 2011 was issued by the Wujiang City Housing and Construction Bureau (吳江市住房和城鄉建設局) in the name of Suzhou Dongwu Cement Co., Ltd. in connection with 2 subject buildings of the property with a total gross floor area of 976.25 square metres.

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14. The Building Ownership Certificate of the remaining buildings with a total gross floor area of approximately 9,181.57 square metres has not yet been issued. In the course of our valuation, we have assumed that these buildings has been duly examined and approved by the relevant government authorities as safe for use and in compliance with all the relevant requirements for industrial use. In addition, we have assumed that Suzhou Dongwu Cement Co., Ltd. shall have no legal impediment and subject to no substantial costs for obtaining Building Ownership Certificates for these buildings.
15. In accordance with the information provided by the Group, the status of title and grant of major approvals and licences are as follows:

|                                         |     |                                                                                                              |
|-----------------------------------------|-----|--------------------------------------------------------------------------------------------------------------|
| State-owned Land Use Rights Contract    | Yes |                                                                                                              |
| State-owned Land Use Rights Certificate | Yes |                                                                                                              |
| River Work Occupation Permit            | Yes | (regarding the river bank land parcel with an area of 44,374 square metres and a coastal line of 730 metres) |
| Construction Land Use Planning Permit   | Yes |                                                                                                              |
| Planning Permit for Construction Works  | Yes |                                                                                                              |
| Construction Works Commencement Permits | Yes |                                                                                                              |
| Building Ownership Certificate          | Yes | (regarding 37 subject buildings of the property with a total 23,485.85 square metres)                        |
16. The land use rights of one of the subject land parcels with an area of 107,553.6 square metres and building ownership rights 35 subject buildings of the property with a total gross floor area of 22,509.60 square metres are subject to a mortgage in favour of China Merchants Bank – Mudu Sub-Branch (招商銀行木渎支行) for a maximum loan amount of RMB30,300,000 for a term commencing from 30 August 2010 to 30 August 2012.
17. We have ascribed no commercial value to the river bank land parcel with an area of 44,374 square metres on the ground that the land use rights held by Suzhou Dongwu Cement Co., Ltd. on the land parcel are non-assignable in nature.
18. The opinion from the PRC Legal Advisors of the Company on the property is as follows:
  - i. Pursuant to a State-owned Land Use Rights Contract dated 1 December 2004, the land use rights in the subject land with an area of 107,553.6 square metres were granted by Wujiang Municipal Bureau of Land Resources to Suzhou Dongwu Cement Co., Ltd. for a land use right term of 50 years for industrial use. As confirmed by the Company, the land premium for the land grant has been settled in full by Suzhou Dongwu Cement Co., Ltd..
  - ii. Pursuant to a State-owned Land Use Rights Contract dated 8 May 2009, the land use rights in the subject land with an area of 10,630.1 square metres were granted by Wujiang Municipal Bureau of Land Resources to Suzhou Dongwu Cement Co., Ltd. for a land use right term of 50 years for industrial use. As confirmed by the Company, the land premium for the land grant has been settled in full by Suzhou Dongwu Cement Co., Ltd..
  - iii. Pursuant to a State-owned Land Use Rights Contract dated 1 December 2011, the land use rights in a portion of the subject land with an area of 19,387.7 square metres were granted by Wujiang Municipal Bureau of Land and Resources of Wujiang to Suzhou Dongwu Cement Co., Ltd. for a land use right term of 50 years for industrial use. As confirmed by the Company, the land premium for the land grant has been settled in full by Suzhou Dongwu Cement Co., Ltd..
  - iv. Suzhou Dongwu Cement Co., Ltd. has been issued with a State-owned Land Use Right Certificate (Ref: Wu Guo Yong (2004) Di No. 1004225 (吳國用(2004)第1004225號)) on 3 December 2004 of a portion of the subject land of the property with a site area of 107,553.6 square metres and holds the land use rights of the property for a term expiring on 30 November 2054 for industrial use.

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- v. Suzhou Dongwu Cement Co., Ltd. has been issued with a State-owned Land Use Right Certificate (Ref: Wu Guo Yong (2010) Di No. 1007033 (吳國用(2010)第1007033號)) on 17 December 2010 of a portion of the subject land of the property with a site area of 10,630.1 square metres and holds the land use rights of the property for a term expiring on 19 May 2059 for industrial use.
- vi. Suzhou Dongwu Cement Co., Ltd. has been issued with a State-owned Land Use Right Certificate (Ref: Wu Guo Yong (2012) Di No. 1007376 (吳國用(2012)第1007376號)) on 17 February 2012 of a portion of the subject land of the property with a site area of 19,387.7 square metres and holds the land use rights of the property for a term expiring on 31 December 2061 for industrial use.
- vii. Suzhou Dongwu Cement Co., Ltd. has been issued with a Building Ownership Certificate (Ref: Wu Fang Quan Zheng Li Li Zi Di No. 05003082 (吳房權證黎里字第05003082號)) in connection with 35 subject buildings of the property with a total gross floor area of 22,509.60 square metres.
- viii. Suzhou Dongwu Cement Co., Ltd. has been issued with a Building Ownership Certificate (Ref: Wu Fang Quan Zheng Fen Hu Zi Di No. 06011569 (吳房權證汾湖字第06011569號)) on 29 November 2011 in connection with 2 subject buildings of the property with a total gross floor area of 976.25 square metres.
- ix. Pursuant to a maximum loan contract (Ref: 2010 Nian Su Yin Di Zi No. 6401100807 (2010年蘇招銀抵字第6401100807)) dated 10 August 2010, the land use rights of a portion of the subject land the property (as granted under the Land Use Rights Certificate Ref: Wu Guo Yong (2004) Di No. 1004225 (吳國用(2004)第1004225號)) with an area of 107,553.6 square metres and building ownership rights of 35 subject buildings of the property (as granted under the Building Ownership Right Certificates Ref: Wu Fang Quan Zheng Li Li Zi Di No. 05003082 (吳房權證黎里字第05003082號)) with a total gross floor area of 22,509.60 square metres are subject to a mortgage in favour of China Merchants Bank – Mudu Sub-Branch (招商銀行木瀆支行) for a maximum loan amount of RMB30,300,000 for a term commencing from 30 August 2010 to 30 August 2012. Suzhou Dongwu Cement Co., Ltd. is not entitled to transfer, lease, re-mortgage or by other means disposal of the mortgaged property without written consent form the mortgagee.
- x. The land use rights and the building ownership rights of the property are not subject to lawsuit, dispute, third party interests or any circumstance causing material adverse effect on them.
- xi. Suzhou Dongwu Cement Co., Ltd. is the sole legal owner of the land use rights of the 3 subject land parcels and building ownership rights of the 37 subject buildings of the property and has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of the land use rights and building ownership rights of them throughout the valid term stipulated in the State-owned Land Use Right Certificates.
- xii. Suzhou Dongwu Cement Co., Ltd. is not entitled to transfer, lease, re-mortgage or by other means disposal of the mortgaged property without written consent form the mortgagee within the mortgage period.
- xiii. For the portion of the subject land parcel with an area of 19,387.7 square metres of which land use right certificate has not yet been issued, Suzhou Dongwu Cement Co., Ltd. entered the Land Use Right Grant Contract with the Wujiang Municipal Bureau of Land Resources and applying for land use rights certificate. As confirmed by the Group, Suzhou Dongwu Cement Co., Ltd. has already paid off the land premium of the land grant and shall have no legal impediment for completing the land grant procedures and obtaining land use right certificate for the land parcel.
- xiv. The 3 subject land parcels of the property as mentioned above were originally transferred to Suzhou Dongwu Cement Co., Ltd. by Wujiang Lili Town Collectively-owned Asset Company (吳江市黎里鎮集體資產經營公司) in 2003. As Wujiang Municipal Government was not authorized to act as the grantor to grant the land use rights of the Property to Suzhou Dongwu Cement Co., Ltd., Suzhou Dongwu Cement Co., Ltd. was required to go through such formal land grant procedures as Land Use Right Grant Contract execution, settlement of land

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premium and application of Land Use Right Certificate in order to secure the land use rights of the subject land parcels. Due to the maximum limit of land grant quota of the Government, the land grant procedures for the 3 subject land parcels could not be completed in one go but have to be processed in 3 phases of which the first and second phases covering a total land area of 118,183.7 square metres have been completed and the third phase (being Lot No. WJ-G-2011-251) covering a land area of 19,387.7 square metres have been completed subsequently. In this regard, the occupation of Lot No. WJ-G-2011-251 by Suzhou Dongwu Cement Co., Ltd. does not constitute illegal and unauthorized use of land and shall not subject to any punishments from the Government.

- xv. For the 5 out of 8 buildings of the property with a total gross floor area of 7,833.66 square metres of which the Building Ownership Certificate has not yet been issued on the ground that the relevant filing and registration procedures for their construction work completion have not yet been completed, Suzhou Dongwu Cement Co., Ltd. may be subject to penalty imposed under the Building Structure and Urban Facility Work Completion Examination Filing Administration Rules (房屋建築和市政基礎設施工程竣工驗收備案管理辦法). Pursuant to a Letter of Commitment issued by TSEUNG HOK MING (the controlling shareholder of Suzhou Dongwu Cement Co., Ltd.) has committed to indemnify the Company from any penalty and consequential loss arising from the aforesaid inconformity. As Suzhou Dongwu Cement Co., Ltd. has already obtained Planning Permit on Land for Construction Use (建設用地規劃許可證) (Ref: Wu Cheng Qui (2003)030693 (吳城規(2003)030693)), Planning Permit on Construction Work (建設工程規劃許可證) (Ref: Wu Cheng Qui (2003)030404 (吳城規(2003)030404)), Working Permit on Construction Works (建築工程施工許可證) (Ref: 320525200411020301) for the construction of the property with a planned land area and a planned gross floor area of 188,200 square metres and 44,400 square metres respectively and also own the land use rights of the land portion on which the aforesaid buildings are erected. In this regard, Suzhou Dongwu Cement Co., Ltd. has the rights to use the 5 subject buildings in the absence of Building Ownership Certificate. Even though Suzhou Dongwu Cement Co., Ltd. is penalized by the Government due to the failure to undergo work completion registration procedures, it shall not cause material impact on the business operations of Suzhou Dongwu Cement Co., Ltd..
- xvi. The remaining 3 buildings with a total gross floor area of 1,347.91 square metres which are erected on the river bank land of the property are not eligible to obtain Building Ownership Certificate. As long as Suzhou Dongwu Cement Co., Ltd. can renew the Construction Works Occupation Agreement (河道工程佔用證) by passing annual evaluation of the Government authorities, it is eligible to use the 3 aforesaid buildings. Further, the absence of the aforesaid 3 buildings, which are not being used for core production operations of Suzhou Dongwu Cement Co., Ltd., shall have no material impact on its business operations.
- xvii. The existing use of the property by Suzhou Dongwu Cement Co., Ltd. does not violate the permitted uses of the property.
- xviii. As revealed from a Taipu River Waterway Construction Works Occupation Agreement (太浦河河道工程佔用合同) dated 11 February 2004, Suzhou Dongwu Cement Co., Ltd. is entitled to occupy and carry out operations over a parcel of coastal land with an area of 44,374 square metres for an unspecified term at a current annual fee payment of RMB180,000.
- xix. As revealed from a Construction Works Occupation Agreement (河道工程佔用證) (Ref: Wu Shui (2011) Zhan Zi Di No. 056 (吳水(2011)佔字第056號)) dated 28 October 2011, Suzhou Dongwu Cement Co., Ltd. can occupy and manage the aforesaid river bank land parcel with an area of 44,374 square metres. The permit is valid for a period spanning between 12 March 2011 and 28 October 2012.

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- xx. Suzhou Dongwu Cement Co., Ltd. has obtained a valid Construction Works Occupation Agreement (河道工程佔用證) and has paid annual fee for occupying the river bank land parcel and has successfully passed all annual evaluations to renew the river occupation permit since 2003. Its occupation of the river bank land does not violate the relevant PRC laws, regulations and directives governing occupation of river bank land. However, if the land parcel is required by the Government for river work, flood or drought prevention measures, Suzhou Dongwu Cement Co., Ltd. is required to vacate, clear and handover the river bank land parcel to the Government.
- xxi. the possibility of the river bank land parcel being resumed by the Government shall cause no operational risk to Suzhou Dongwu Cement Co., Ltd. as those facilities erected thereon can be relocated elsewhere of the property.

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### VALUATION CERTIFICATE

#### Group II – Property rented by the Group

| Property                                                                                                                      | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                       | Particulars of occupancy                                   | Market Value in existing state as at 30 April 2012<br>RMB |
|-------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------|
| 2. Unit 2801,<br>No. 319 Xianxia Road,<br>Changning District,<br>Shanghai City,<br>the PRC.<br><br>(中國上海市長寧區<br>仙霞路319號2801室) | <p>The property comprises an office unit on Level 28 of a 31-storey office building which was completed in about 1999.</p> <p>The gross floor area of the property is approximately 200.51 square metres.</p> <p>The property is held by the Group under a tenancy for a term commencing on 1 January 2012 and expiring on 31 December 2012 at a annual rental of RMB800,000 inclusive of management fee, water and electricity charges.</p> | The property is currently occupied by the Group as office. | No Commercial Value                                       |

*Notes:*

1. Pursuant to a tenancy agreement dated 30 December 2011, Suzhou Dongwu Cement Co., Ltd. (蘇州東吳水泥有限公司) rented the property from Shanghai Zhongze International Trading Co., Ltd. (上海中澤國際貿易有限公司) which is an independent third party for a term commencing on 1 January 2012 and expiring on 31 December 2012 at a annual rental of RMB800,000 inclusive of management fee, water and electricity charges.
2. The opinion from the PRC Legal Advisors of the Company on the property is as follows:
  - i. Shanghai Zhongze International Trading Co., Ltd. has been issued the Building Ownership Certificate of the property;
  - ii. Shanghai Zhongze International Trading Co., Ltd. as the sole legal owner of the property has the rights to enter into the tenancy agreement with Suzhou Dongwu Cement Co., Ltd., a wholly-owned subsidiary of the Company;
  - iii. The tenancy agreement of the property is legal, valid and enforceable between both parties. The tenancy agreement is currently still in force and the use of the property by Suzhou Dongwu Cement Co., Ltd. does not contravene any PRC laws and regulations;
  - iv. As at the date of the PRC legal opinion, the tenancy agreement has been registered in the relevant authority.

## **APPENDIX IV                      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 November, 2011 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

### **1.        MEMORANDUM OF ASSOCIATION**

- (a)    The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b)    The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

### **2.        ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on 28 May 2012. The following is a summary of certain provisions of the Articles:

#### **(a)       Directors**

##### ***(i)       Power to allot and issue shares and warrants***

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

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The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(ii) Power to dispose of the assets of the Company or any subsidiary***

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

***(iii) Compensation or payments for loss of office***

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

***(iv) Loans and provision of security for loans to Directors***

There are provisions in the Articles prohibiting the making of loans to Directors.

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**(v)    *Disclosure of interests in contracts with the Company or any of its subsidiaries.***

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

## **APPENDIX IV                      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the [•••] or [•••] of the [•••];
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

### **(vi)    *Remuneration***

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

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Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

### ***(vii) Retirement, appointment and removal***

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last reelected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

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The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

### ***(viii) Borrowing powers***

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

### ***(ix) Proceedings of the Board***

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

### ***(x) Register of Directors and Officers***

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

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### **(b)    Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

### **(c)    Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i)    increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii)   consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii)   divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv)   sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v)    cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

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### **(d)      Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### **(e)      Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

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### **(f)      Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company, it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

### **(g)      Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

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### **(h)     Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

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### **(i)     Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition, notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i)    in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii)   in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa)   the declaration and sanctioning of dividends;
- (bb)   the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc)   the election of directors in place of those retiring;
- (dd)   the appointment of auditors and other officers;
- (ee)   the fixing of the remuneration of the directors and of the auditors;

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(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

### **(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

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The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

### **(k)    Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

### **(l)    Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

### **(m)   Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

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The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared, the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

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All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

### **(n)     Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

### **(o)     Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of nonpayment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

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If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

### **(p)      Inspection of register of members**

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

### **(q)      Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles, the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights, the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed, for the purpose of the Articles, to be present in person if represented by its duly authorized representative, being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

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### **(r)      Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

### **(s)      Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

### **(t)      Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules

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of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

### **(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

### **3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

#### **(a) Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

#### **(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus

## **APPENDIX IV                      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

### **(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

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### **(d)      Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

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### **(e)      Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

### **(f)      Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

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### **(g)      Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### **(h)      Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

### **(i)      Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

### **(j)      Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1)    that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2)    that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 20 December 2011.

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The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

### **(k)      Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

### **(l)      Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

### **(m)      Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

### **(n)      Winding up**

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved,

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or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

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### **(o)     Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

### **(p)     Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

### **(q)     Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

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## **APPENDIX V**

## **STATUTORY AND GENERAL INFORMATION**

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### **A. FURTHER INFORMATION ABOUT OUR GROUP**

#### **1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 29 November 2011. Our Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 29 February 2012 and our Company’s principal place of business in Hong Kong is at Unit 4308, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong. Li & Partners has been appointed as the authorized representative of our Company for the acceptance of services of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant laws of the Cayman Islands and its constitution which comprises a memorandum of association and articles of association. A summary of the relevant aspects of the company law in the Cayman Islands and certain provisions of the Articles of Association is set out in Appendix V to this document.

#### **2. Changes in share capital of our Company**

Our Company was incorporated with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

On 29 November 2011, 1 share of HK\$1.00 was allotted and issued to our Company’s initial subscriber at par value, which was then transferred to Goldview on the same date. On 29 November 2011, an additional fully paid 69 shares of HK\$1.00 each and 30 shares of HK\$1.00 each were allotted and issued to Goldview and Concord at par value respectively.

On 28 May 2012, the Shareholders have resolved, among other things, to (i) sub-divide each authorized issued and unissued Share of a par value of HK\$1.00 each in the share capital of the Company into 100 Shares of a par value of HK\$0.01 each, and (ii) increase the authorized share capital from HK\$10,000 to HK\$100,000,000 divided into 10,000,000,000 Shares of a par value of HK\$0.01 each by the creation of an additional 9,999,000,000 Shares.

Immediately following completion of the [•••] and the [•••], the authorized share capital of our Company will be HK\$100,000,000 divided into 10,000,000,000 Shares, of which 500,000,000 Shares will be issued fully paid or credited as fully paid, and 9,500,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “Written resolutions of our Shareholders passed on 28 May 2012” in this Appendix, our Directors do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Saved as disclosed in this Appendix, there has been no alternation in the share capital of our Company since the date of our incorporation.

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### **3. Change in share capital of our subsidiaries**

The alternations in the share capital (or registered capital, as the case might be) of our subsidiaries which have taken place within two years preceding the date of this document are set out as follows:

#### ***Dongwu Cement***

At the time of establishment, Jiangsu Orient and Orient Expressway (HK) held 75% and 25% equity interests, respectively, in Dongwu Cement.

Accordingly, on 20 April 2006, Jiangsu Orient and Orient Expressway (HK) entered into an equity transfer agreement pursuant to which Jiangsu Orient transferred its 75% equity interest in Dongwu Cement to Orient Expressway (HK) at a consideration of RMB40,748,000, being the bidding price at the public auction held on 24 January 2006. The above equity transfer was approved by Wujiang Municipal Bureau of Foreign Trade and Economic Cooperation (吳江市對外貿易經濟合作局) on 24 April 2006. An updated business licence was granted to Dongwu Cement on 26 April 2006. Upon completion of this equity transfer, Jiangsu Orient ceased to hold any equity interest in Dongwu Cement and Dongwu Cement has since then become a wholly-owned subsidiary of Orient Expressway (HK).

On 1 December 2008, Dongwu Cement resolved to increase its registered capital from US\$15 million to US\$25 million. In connection with this capital increase, Far East International had contributed US\$2 million, US\$3 million, US\$2.5 million and US\$2.5 million to Dongwu Cement on 24 December 2008, 28 April 2009, 3 July 2009 and 6 December 2010 as its increased share capital, respectively.

On 26 December 2011, Far East International and Dongwu HK entered into the Reorganization Equity Transfer Agreement pursuant to which Far East International transferred its 100% equity interest in Dongwu Cement to Dongwu HK at a consideration of US\$33 million. The above equity transfer was approved by Wujiang Municipal Bureau of Commerce (吳江市商務局) on 27 December 2011. An updated business licence was granted to Dongwu Cement on 28 December 2011. Upon completion of this equity transfer, Dongwu Cement became a wholly-owned subsidiary of Dongwu HK.

Save as described above and in the section headed “Company History and Reorganization” in this document, there has been no other alteration in the share capital of the subsidiaries of our Company within the two years preceding the date of this document.

### **4. Written resolutions of our Shareholders passed on 28 May 2012**

Pursuant to the written resolutions passed by all our Shareholders on 28 May 2012, the following resolutions, among other resolutions, were duly passed:

- (a) our Company conditionally approved and adopted the Articles of Association;

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## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

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- (b) sub-divide each authorized issued and unissued Share of a par value of HK\$1.00 each in the share capital of the Company into 100 Shares of a par value of HK\$0.01 each;
- (c) the authorized share capital of our Company was increased from HK\$10,000 to HK\$100,000,000 by the creation of an additional 9,999,000,000 Shares;

### 5. Particulars of our PRC subsidiary

Our Company has the following subsidiary established in the PRC, the basic information of which as at the Latest Practicable Date is set out as follows:

#### *Dongwu Cement*

|                        |                                                                                                |
|------------------------|------------------------------------------------------------------------------------------------|
| Date of Incorporation: | 5 June 2003                                                                                    |
| Term:                  | 5 June 2003 – 4 June 2053                                                                      |
| Nature:                | limited liability company (wholly foreign owned)                                               |
| Registered capital:    | US\$25,000,000                                                                                 |
| Attributable interest: | 100%                                                                                           |
| Scope of business:     | manufacture of clinker, cement and related products as well as sales of self-produced products |

### B. FURTHER INFORMATION ABOUT OUR BUSINESS

#### 1. Summary of the Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this document and are or may be material:

- (a) the Reorganization Equity Transfer Agreement dated 26 December 2011 entered into between Far East International and Dongwu HK, pursuant to which Far East International transferred 100% equity interest in Dongwu Cement to Dongwu HK at a consideration of US\$33 million;
- (b) the Dongwu HK Novation Deed dated 27 December 2011 entered into among Far East International, Dongwu HK and our Company, pursuant to which our Company has agreed to pay, on behalf of Dongwu HK, the consideration of US\$33 million payable under the Reorganization Equity Transfer Agreement to Far East International whilst Far East International has agreed to discharge Dongwu HK’s payment obligations under the Reorganization Equity Transfer Agreement;

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- (c) the Company Novation Deed dated 27 December 2011 entered into among Far East International, our Company, Goldview and Concord, pursuant to which Goldview and Concord have agreed to pay, on behalf of our Company, the consideration of US\$33 million payable under the Dongwu HK Novation Deed to Far East International in proportion to their then respective shareholdings in our Company whilst Far East International has agreed to discharge our Company’s payment obligations under the Dongwu HK Novation Deed;
- (d) an equity transfer agreement dated 27 December 2011 entered into between Dongwu Cement and Orient Hengxin Capital Holding Group Company Limited (東方恒信資本控股集團有限公司, “Orient Hengxin”), pursuant to which Dongwu Cement has agreed to transfer 6.667% equity interest in Wujiang Luxiang Rural Small Loan Co., Ltd. (吳江市鱸鄉農村小額貸款股份有限公司) to Orient Hengxin at a consideration of RMB20 million;
- (e) an equity transfer agreement (the “Rongshengda Equity Transfer Agreement”) dated 27 December 2011 entered into between Dongwu Cement and Orient Hengxin, pursuant to which Dongwu Cement has agreed to transfer 4.789% equity interest in Suzhou Rongshengda Investment Holdings Co., Ltd. (蘇州融盛達投資控股有限公司) to Orient Hengxin at a consideration (the “Consideration”) of RMB2 million;
- (f) a supplementary agreement to the Rongshengda Equity Transfer Agreement dated 31 December 2011 entered into between Dongwu Cement and Orient Hengxin, pursuant to which Orient Hengxin has agreed to increase the Consideration from RMB2 million to RMB2.096 million;
- (g) the Deed of Non-competition dated 28 May 2012 entered into among the Covenantors and our Company, details of which are disclosed in the section headed “Relationship with Controlling Shareholders” in this document;
- (h) a deed of indemnity dated 28 May 2012 entered into among the Indemnifiers and our Company, pursuant to which the Indemnifiers have agreed to give certain indemnities in favour of our Company for itself and as trustee for its subsidiaries.

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### 2. Intellectual properties rights of our Group

#### (a) Trademarks

As of the Latest Practicable Date, our Group has registered the following trademarks in the PRC:

| Trademark                                                                         | Place of Registration | Class | Registration Number | Registration Date | Expiry Date   |
|-----------------------------------------------------------------------------------|-----------------------|-------|---------------------|-------------------|---------------|
|  | PRC                   | 19    | 3753953             | 14 April 2006     | 13 April 2016 |

As of the Latest Practicable Date, our Group has registered the following trademarks in Hong Kong:

| Trademark                                                                              | Place of Application | Class(es) | Registration Number | Registration Date |
|----------------------------------------------------------------------------------------|----------------------|-----------|---------------------|-------------------|
| A.   | Hong Kong            | 19, 35    | 30207222            | 31 October 2011   |
| B.  |                      |           |                     |                   |
|     | Hong Kong            | 19, 35    | 302072204           | 31 October 2011   |
| A.  | Hong Kong            | 19, 35    | 302074392           | 2 November 2011   |
| B.  |                      |           |                     |                   |

#### (b) Domain name

As of the Latest Practicable Date, our Group had registered the following domain names:

| Domain Name          | Registered Owner | Expiry Date     |
|----------------------|------------------|-----------------|
| WWW.DONGWUCEMENT.COM | Dongwu Cement    | 3 February 2015 |
| WWW.DONGWUCEMENT.CN  | Dongwu Cement    | 3 February 2015 |

## APPENDIX V

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### 3. Particulars of service contracts

#### *(a) Executive Directors*

Each of the executive Directors has entered into a service contract with our Company for an initial term of three years with effect from their respective dates of appointment unless terminated by not less than three months’ notice in writing served by either the executive Director or our Company.

Under their respective service contracts, the executive Director is entitled to a fixed basic salary. In other certain circumstances, the agreement can also be terminated by our Company, including but not limited to certain breaches of the Directors’ obligations under the agreement or certain misconducts. The appointments of the executive Directors are also subject to the provisions of retirement and rotation of Directors under the Articles of Association. The executive Directors are officially stationed in the PRC, but may be required to work in Hong Kong or in other places, as may be determined by the Board of Directors from time to time.

The service contracts further provide that during the term of the service contract and within one year upon the termination of service, each executive Director cannot engage in any business which is competing or is likely to compete, either directly or indirectly, with the business of our Group unless otherwise approved by our Company in general meeting.

#### *(b) Non-executive Director and independent non-executive Directors*

The non-executive Director and each of the independent non-executive Directors has signed an appointment letter with our Company for a term of three years with effect from their respective dates of appointment.

Under their respective appointment letters, the non-executive Director and each of the independent non-executive Directors is entitled to a monthly salary. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

#### *(c) Others*

- (i) Save as disclosed above, none of the Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).
- (ii) For the three years ended 31 December 2009, 2010 and 2011, the aggregate of the remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and discretionary bonuses) paid and benefits granted to our Directors was nil, nil and nil. Details of the Directors’ remuneration are also set out in note 29 to the Accountant’s Report set out in Appendix I to this document.

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- (iii) Under the arrangements currently in force, the aggregate of the remuneration and benefits in kind payable to the Directors for the year ending 31 December 2012 is estimated to be approximately RMB825,000.
- (iv) None of the directors or any past directors of any member of our Group has been paid any sum of money for the three years ended 31 December 2009, 2010 and 2011 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (v) There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind for the three years ended 31 December 2009, 2010 and 2011.