

## GENERAL INFORMATION ON ASIA CEMENT

### Introduction

Asia Cement was established in Taiwan in March 1957, and the shares of which are listed on the Taiwan Stock Exchange.

Asia Cement is principally engaged in the production and distribution of cement, clinker and granulated blast-furnace slag. Asia Cement Group focused its principal business in Taiwan with all its operating facilities located in Taiwan. As at the Latest Practicable Date, Asia Cement Group did not have production facilities in Hong Kong, Macau and China. The 10 largest customers of Asia Cement Group for the financial year ended 31 December 2007, representing approximately 49.63% of the total sales of Asia Cement Group during the same year, were different from those of the Group during the Track Record Period. Apart from Taiwan, the cement products produced by Asia Cement Group are principally sold to various markets, such as the United States, Japan, Malaysia, Singapore and Nigeria. According to the 2006 annual report of Asia Cement, its cement products sold in Taiwan accounted for approximately 30.11% and 26.45% of the total sales of cement products and the total cement consumption in Taiwan, respectively, during 2006. As at 31 December 2007, under the generally accepted accounting principles in Taiwan, the total asset and total liabilities of Asia Cement Group (including the Group) were approximately NT\$128.2 billion and NT\$51.9 billion, respectively, and the net sales and net income of Asia Cement Group (including the Group) for the year ended 31 December 2007 were approximately NT\$27.4 billion and NT\$10.1 billion, respectively. For the year ended 31 December 2007, the total operating revenue of Asia Cement Group (including the Group) was approximately NT\$35.9 billion, of which Taiwan market, the PRC market and other foreign area markets accounted for approximately 67%, 31% and 2%, respectively. As far as the Directors are aware, Asia Cement Group and the Group did not have common customers or markets during the Track Record Period.

## RELATIONSHIP WITH ASIA CEMENT

### Positions held in Asia Cement Group and Far Eastern Group by the Directors and senior management of the Company

Name of Directors and senior management of the Company	Relationship with Asia Cement Group	Relationship with Far Eastern Group
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#### *Chairman and Non-Executive Director*

Mr. HSU, Shu-tong <sup>(1)</sup>	the chairman of Asia Cement and a director of various subsidiaries of Asia Cement	the chairman of Far Eastern Textile and Far Eastone Telecommunications Co. Ltd., which are listed in Taiwan, and the director of various private companies which are associates of Far Eastern Textile
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#### *Executive Directors*

Mr. CHANG, Tsai-hsiung <sup>(2)</sup>	a director of Asia Cement and a director of various subsidiaries of Asia Cement	Nil
Madam CHIANG SHAO, Ruey-huey <sup>(3)</sup>	a director of various subsidiaries of Asia Cement	a director of a private company, which is an associate of Far Eastern Textile

Dr. WU, Chung-lih	Nil	Nil
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Mr. CHANG, Chen-kuen	Nil	Nil
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Mr. LIN, Seng-chang	Nil	Nil
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#### *Independent Non-executive Directors*

Mr. LIU, Zhen-tao	Nil	Nil
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Mr. LEI, Qian-zhi	Nil	Nil
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Mr. TSIM, Tak-lung Dominic	Nil	Nil
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Dr. WONG, Ying-ho Kennedy	Nil	Nil
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## RELATIONSHIP WITH ASIA CEMENT

Name of Directors and senior management of the Company	Relationship with Asia Cement Group	Relationship with Far Eastern Group
<i>Senior management</i>		
Mr. FANG, Lu-hsing	Nil	Nil
Mr. WONG, Liang-shih	Nil	Nil
Mr. WU, Chien-hua	Nil	Nil
Mr. LIN, Chiang-hai	Nil	Nil
Mr. LEE, Shaw-shan	Nil	Nil
Mr. KAO, Ming-yu	Nil	Nil
Mr. LO, Wai-kit	Nil	Nil

*Notes:*

- (1) Mr. HSU, Shu-tong is primarily responsible for attending meetings with the boards of the respective companies of Asia Cement Group and Far Eastern Group and attending other activities and duties as a director of the respective companies (including without limitation reviewing and analysing the information of the respective companies, monitoring and evaluating the financial and operational performance of the respective companies, voting and attending to the board matters of the respective companies and advising on expertise areas as required) and is not involved in the daily management of the respective companies. Mr. HSU has entered into a service contract with the Company, which specifies that he will spend approximately 10% of his time in supervising the overall business operations and formulating the overall business strategy of the Group.
  
- (2) Mr. CHANG, Tsai-hsiung is primarily responsible for attending meetings with the boards of the respective companies of Asia Cement Group and attending other activities and duties as a director of the respective companies (including without limitation reviewing and analysing the information of the respective companies, monitoring and evaluating the financial and operational performance of the respective companies, voting and attending to the board matters of the respective companies and advising on expertise areas as required) and is not involved in the daily management of the respective companies. Mr. CHANG has entered into a service contract with the Company, which specifies that he will spend approximately 80% of his time for supervising the Group's overall business operations and formulating the overall business strategy of the Group.
  
- (3) Madam CHIANG SHAO, Ruey-huey is primarily responsible for attending meetings with the boards of the respective companies of Asia Cement Group and Far Eastern Group and attending other activities and duties as a director of the respective companies (including without limitation reviewing and analysing the information of the respective companies, monitoring and evaluating the financial and operational performance of the respective companies, voting and attending to the board matters of the respective companies and advising on expertise areas as required) and is not involved in the daily management of the respective companies. Madam SHAO has entered into a service contract with the Company, which specifies that she will serve the Company on a full-time basis.

## RELATIONSHIP WITH ASIA CEMENT

- (4) Mr. HSU, Shu-tong, Mr. CHANG, Tsai-hsiung and Madam CHIANG SHAO, Ruey-huey maintain their respective directorship in Asia Cement Group and/or Far Eastern Group as (a) they have had several years of relevant industry experience and (b) they have served the Asia Cement Group and/or Far Eastern Group for several years acting as the directors of the respective companies of Asia Cement Group and/or Far Eastern Group and have significant understanding of the business development of the respective companies of Asia Cement Group and/or Far Eastern Group.

According to the Articles, a Director may not attend any meeting of the Board at which any contract or arrangement or any other proposal in which he or any of his associates is materially interested will be considered and if for any reason, such Director was present, such Director shall not vote or be counted in the quorum on any resolution of the Board approving such contract or arrangement or proposal and shall be excluded from all deliberations over such contract, arrangement or proposal. Particulars of the relevant provisions of the Articles are set forth in “Appendix V — Summary of the Constitution of the Company and Cayman Islands Companies Law — Articles of Association” to this prospectus. An example of when a director will be considered to be materially interested in a transaction is where the Company plans to enter into a contract with another company in which one of the Directors or his associates, directly or indirectly, owns five percent or more of the issued shares or voting rights of such company. Three out of the ten Directors serve as directors of Asia Cement Group or Far Eastern Group. For the seven non-overlapping Directors, they all have many years of experience in various areas of the cement industry such as management, sales and marketing and engineering production. The Directors consider that the Board can function effectively in the event that the overlapping Directors cannot attend a Board meeting or vote or be counted in the quorum on any resolution of the Board when they are considered to be materially interested. Save for Mr. HSU, Shu-tong, Mr. CHANG, Tsai-hsiung and Madam CHANG SHAO, Ruey-huey, the management of the Group, Asia Cement Group and Far Eastern Group are carried out by separate independent teams of management.

### **Shareholding structure of Asia Cement**

The largest shareholder of Asia Cement is Far Eastern Textile which controls more than 30% of the voting right at the general meetings of Asia Cement. Far Eastern Textile is principally engaged in the manufacturing and sale of polyester fibers, yarns, fabrics and related products. As at the Latest Practicable Date, Far Eastern Textile held approximately 24.05% of the issued share capital of Asia Cement and together with certain companies which Far Eastern Textile is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than 30% of the issued share capital of Asia Cement.

As at the Latest Practicable Date, Mr. HSU, Shu-tong, a non-executive Director, held approximately 0.94% of the issued shares of Asia Cement which included approximately 0.67% personal interest and approximately 0.27% family interest. Mr. CHANG, Tsai-hsiung, an executive Director, held approximately 0.02% of the issued shares of Asia Cement which included his personal and family interest.

Each of Madam CHIANG SHAO, Ruey-huey, Mr. CHANG, Chen-kuen and Mr. LIN, Seng-chang, who are members of the executive Directors, held less than 0.01% of the issued shares of Asia Cement as at the Latest Practicable Date.

## RELATIONSHIP WITH ASIA CEMENT

As at the Latest Practicable Date, save for the persons mentioned above, all other shareholders of Asia Cement were Independent Third Parties.

As at the Latest Practicable Date, Far Eastern Textile was owned by Asia Cement, being the single largest shareholder, and Mr. HSU, Shu-tong, a non-executive Director, as to approximately 23.77% and 1.13%, respectively. The Directors confirm that all the cement business of Far Eastern Textile is held through Asia Cement and the Group, and there are currently no transactions between Far Eastern Textile and the Group.

As at the Latest Practicable Date, Far Eastern Textile held approximately 24.05% of the issued shares of Asia Cement whereas Asia Cement held approximately 23.77% of the issued shares of Far Eastern Textile. As such, there is a cross-holding of shares between Asia Cement and Far Eastern Textile.

### INDEPENDENT MANAGEMENT AND OPERATIONAL FUNCTIONS

The Board confirms that the Group's senior management team led by Mr. CHANG, Tsai-hsiung, Madam CHIANG SHAO, Ruey-huey, Mr. CHANG, Chen-kuen, Mr. LIN, Seng-chang, Dr. WU, Chung-lih, Mr. FANG, Lu-hsing, Mr. WONG, Liang-shih, Mr. WU, Chien-hua, Mr. LIN, Chiang-hua, Mr. LEE, Shaw-shan, Mr. KAO, Ming-yu and Mr. LO, Wai-kit is responsible for the daily operational and administrative functions. All of them have substantial experience in business operation and administration. Save for Dr. WU, Chung-lih and Mr. LO, Wai-kit, all of the Group's senior management team have over 10 years experience in cement industry. This management team is fully responsible for overseeing the daily operations of the Group's production plants and formulating business strategies and reports to the Board on a regular basis.

The Board is the highest authority in managing the Group's business and formulating the overall business strategies. This clear delineation of responsibilities has been adopted by the Group since the establishment of its business in the PRC.

The Board is comprised of five executive Directors, one non-executive Director and four independent non-executive Directors. Each of the executive Directors has entered into a service contract with the Company confirming that he or she will serve the Company on a full-time basis, save for Mr. CHANG, Tsai-hsiung, who will spend approximately 80% of his time for supervising the Group's business operations and formulating business strategy of the Group.




In light of the above, the Board believes that the Group's senior management is independent from that of Asia Cement and Far Eastern Textile. Save for Mr. CHANG, Tsai-hsiung and Madam CHIANG SHAO, Ruey-huey, none of the members of the Group's senior management team has any position in Asia Cement, Far Eastern Textile or their subsidiaries (excluding the Group). Each of Mr. CHANG and Madam SHAO is not involved in the daily operation of Asia Cement, Far East Textile or their respective subsidiaries (excluding the Group).

### Operational independence






Asia Cement Group and the Group conduct their respective production activities in their production bases in Taiwan and China, respectively. Asia Cement Group owns and operates two production plants in Hsinchu and Hualien in Taiwan whereas the Group operates its production bases in China. Each of Asia Cement Group, Far Eastern Group and the Group carries on their production activities independently.

Apart from having separate and independent production bases, Asia Cement Group, Far Eastern Group and the Group have their respective personnel and capabilities to handle all operational functions including manufacturing, quality assurance, inventory control, sales and marketing, finance and accounting, human resources and information technology. The Group has independent procurement department and sales and marketing department and has independent access to suppliers and customers. In the past, a number of employees of Asia Cement had been seconded to the Group. Such seconded employees worked in various departments of the Group such as production, finance, sales and marketing, maintenance, quality control and research and development, administration, and transportation. These seconded employees were engaged in the Group's operations on a full time basis. During the Track Record Period, the total amount of salaries and benefits of these seconded employees were approximately RMB67.7 million which were paid by Asia Cement for their services provided to the Group. These payments were not recharged to the Group, and are therefore treated as capital contributions from Asia Cement and as expenses in the audited financial statement of the Group. The Directors confirm that the secondment of the employees of Asia Cement to the Group would be discontinued prior to the Listing, and the Company has entered into employment contracts with these employees for a fixed term of two years. Each of these employment contracts may be terminated or extended with the consent of both parties. No adjustment has been made to the salaries, other allowance and benefits in kind of these employees after the Company has entered into employment contracts with these employees. In light of the above, the Directors are of the view that the Group can operate independently from Asia Cement and Far Eastern Textile after the Listing.

In the past, a member of Asia Cement Group has provided engineering services to the Group for the establishment of automation system for new production plant at nil consideration. The Directors confirm that in the event that the Group requires any engineering services from any service providers after Listing, the Group will engage the service providers by open tender.

The Company has entered into a trademark licence agreement dated 27 April 2008 (the "Trademark Licence Agreement") with Asia Cement whereby Asia Cement has granted an exclusive licence to the Company to use the trademark  in the PRC, including the right to grant sub-licences to its subsidiaries, particulars of which are set forth in "Connected transactions" in this prospectus. The Group had applied for the registration of its eight trademarks including the trademark  and , and the registration of which has not been granted yet. Details of the trademarks are set forth in "Appendix VI — Statutory and General Information — Intellectual property rights of the Group" to this prospectus. Since part of these trademarks under application are similar to

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certain part of the trademark , in order to avoid any doubt of potential infringement by the Group relating to the trademark of , Asia Cement has licensed to the Group the use of the trademark  in the PRC. As the Group is using its trademarks under application and does not rely on Asia Cement on this aspect, the Directors consider that, there is no reliance of the Group on the trademark , and the trademark  is not injected into the Group. The Directors are of the view that the current licensing arrangement is in the best interest of the Group.

### Financial independence

The Directors confirm that the Group has the ability to operate independently of Asia Cement and Far Eastern Textile from a financial perspective and the Group has the capability to independently finance its operations. The Group is capable of obtaining financing independently of Asia Cement and Far Eastern Textile, including securing loans from commercial banks. The Group is capable of operating its financial, accounting and treasury functions independently without relying on Asia Cement and Far Eastern Textile. The Group also has its own accounting and treasury department. As at 31 December 2007, the amount due to the immediate holding company (non-trade) of the Company was approximately RMB1,796,000. The non-trade related balances are unsecured, non-interest bearing and repayable on demand. The Directors confirmed that balances will be settled by the Company's internal resources before the Listing. The trade related balances between the Group and each of Asia Cement Group and Far Eastern Group were resulted from transactions under normal commercial terms. As at the Latest Practicable Date, the Group had no outstanding loans owed to, and no outstanding guarantees from, Asia Cement Group and Far Eastern Group. The Directors further confirm that on the Listing Date, the Group will not have any outstanding loans owed to, and no outstanding guarantees from, Asia Cement Group or any member of the Far Eastern Group.

In the past, Asia Cement has executed a number of letters of comfort, letters of undertaking and make well agreements in favour of certain banks for the benefit of certain members of the Group. These letters of comfort, letters of undertaking and make well agreements, which are of the nature of a comfort letter and were used by the Group as the names of relevant documents, were terminated prior to the Listing.

### CEMENT BUSINESS OF ASIA CEMENT

Asia Cement Group and the Group focus their business on two distinct markets. Asia Cement Group's business is focused on the Taiwan market and the overseas market excluding the PRC (excluding Hong Kong and Macau) whereas the Group's business is focused in the PRC (excluding Hong Kong and Macau). The Directors advised that in the agreement between Asia Cement and its Taiwan distributors, there is a term specifying the end market to which the distributors may sell to and breach of such term would result in termination of the agreements. There are no such restrictive provisions in the distribution agreements entered into between Asia Cement and its other overseas distributors. The Directors however consider that the market delineation will be effectively established because (a) cement products are bulky in nature, re-export of the cement products from designated market to other market such as the PRC is not economical; and (b) for Asia

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Cement's sales to distributors of overseas markets (other than the PRC), the cement products would be delivered to loading port by Asia Cement according to the bill of lading which specifies the discharge port. Asia Cement, as a party to the bill of lading, would be aware of any change of the final destination or route. In addition, for Asia Cement's sales to distributors in Taiwan, the cement products are subject to commodity tax (payable on sale, by the seller and included in the selling price), any export of the cement products from Taiwan after paying such commodity tax would not be economical. Moreover, in Taiwan, the cement products are typically delivered to sites where the cement products are used. As such, Asia Cement would have the means to monitor whether the cement products are used in Taiwan. The directors of Asia Cement confirmed that Asia Cement will not renew the distribution agreements with any distributors who export the products of Asia Cement into the PRC.

The Directors confirm that the Group will focus its cement business in the PRC (excluding Hong Kong and Macau) and the Group has no present intention to develop its cement business in any overseas markets. The reasons for the Group to exclude Hong Kong and Macau as its target market are (i) the Group has no production facilities or customer base in Hong Kong and Macau; (ii) the Group has no plan to develop, or set aside any capital expenditure amount for developing its cement business in Hong Kong and Macau; and (iii) despite the geographical proximity of Hong Kong and Macau to China, the operating environment and economic situation of these markets are very different. As such, Hong Kong and Macau are excluded from the Group's cement business. The Directors believe that the measures to ensure the compliance of geographic restriction by the distributors would not be affected by the exclusion of Hong Kong and Macau. Under the distribution agreements entered into between the Group and its distributors, there are provisions restricting the distributors from distributing the Group's products outside specified regions in the PRC, except with the written consent of the Group. The sales staff of the Group will also closely monitor to ensure that the distributors of the Group comply with such restriction and the Group will not renew the distribution agreements with these distributors in the event of the non-compliance on the part of the distributors.

Given that the cement industry is highly localised primarily due to the fact that cement products are very bulky, it would not be economical for the distributors of the Group to export the cement products to end users outside their respective markets because of the additional transportation cost. The Directors believe that if the Group's distributors are to deliver the cement products outside the PRC, they would need to make use of major port facilities in the PRC. Currently, all of the Group's distributors either receive the cement products of the Group at the Group's production facilities which are not in the vicinity of any major port facilities, or they would request the Group to deliver the cement products to the construction site or batching plant where the cement products are consumed. As such, the Group can monitor whether the cement products of the Group are consumed locally. On such basis, the Directors confirm that they are not aware of any of the Group's distributors who are distributing or will distribute the Group's products outside the PRC, in particular, the existing overseas markets of Asia Cement. The Board further confirms that it is the intention of the Directors to expand the Group's market coverage to include the entire China in future. On the other hand, Asia Cement will refrain

from making further investments in cement business in China (excluding Hong Kong and Macau) except making through the Group. This arrangement has been provided in the deed of non-competition dated 27 April 2008, particulars of which are set forth under “—Deed of non-competition” below.

### **Sales of cement products in the PRC**

Asia Cement had in the past supplied cement products to a distributor in Hong Kong for onward sales to end users in Shenzhen. These sales occurred prior to 31 December 2004. Such sales amounted to approximately US\$9.2 million (equivalent to approximately RMB76.0 million), representing approximately 6.8% of the sales of the Group for the year ended 31 December 2004. All the sales to such distributor in Hong Kong have discontinued since 31 December 2004. The directors of Asia Cement confirmed to the Company that save as disclosed in this prospectus, there was no direct contractual or other arrangement between Asia Cement and the end users in Shenzhen during the Track Record Period.

In order to avoid any potential competition or conflicts of interest between the Group, Asia Cement Group and Far Eastern Group, the Group will implement the following measures prior to the Listing:

- (a) Directors who have an ongoing connection with or interest in Asia Cement Group or Far Eastern Group shall excuse themselves from any board meeting whenever any discussion is held regarding Asia Cement Group or Far Eastern Group and abstain from voting on any Board resolution related thereto.
- (b) The Company will fully comply with all requirements under Chapter 14A of the Listing Rules. In addition, the Group will establish a committee (the “Committee”) which will meet regularly every six months. The members of the Committee shall be appointed by the Board from time to time and shall consist of not less than three members. The Committee shall only consist of independent non-executive Directors. The Board considers that the independent non-executive Directors have sufficient knowledge and experience to review and make decisions on transactions between the Group, Asia Cement Group and Far Eastern Group. The Board also considers that the Committee will provide a forum for the review of transactions between the Group, Asia Cement Group and Far Eastern Group.
- (c) The Committee’s duties shall include the following:
  - (i) review all transactions between the Group, Asia Cement Group and Far Eastern Group to ensure that they are conducted on normal commercial terms and in the ordinary and usual course of business of the Group and to recommend to the Board the corrective measures in such transactions if needed or not to proceed with such transactions;

## RELATIONSHIP WITH ASIA CEMENT

- (ii) establish, where applicable, guidelines for management to follow in its ongoing transactions between the Group, Asia Cement Group and Far Eastern Group;
  - (iii) review and assess ongoing relationships between the Group, Asia Cement Group and Far Eastern Group to ensure compliance with the Committee's guidelines established as aforesaid and to ensure the continuation of such relationship remains fair to the Group; and
  - (iv) analyse and assess any potential conflict of interests between the Group, Asia Cement Group and Far Eastern Group.
- (d) The Company will disclose all decisions on matters reviewed by the Committee in its interim and annual reports.

Mr. TSIM, Tak-lung Dominic, Dr. WONG, Ying-ho Kennedy and Mr. LIU, Zhen-tao are the current members of the Committee. The Directors confirm that members of the Committee have the relevant experience and knowledge to serve on the Committee. Specifically, Mr. TSIM, Tak-lung Dominic is a non-executive director of Playmates Holdings Limited, which is a listed company in Hong Kong. Dr. WONG, Ying-ho Kennedy is a director of a number of listed companies in Hong Kong including China Overseas Land & Investment Limited., Goldlion Holdings Limited, Qin Jia Yuan Media Services Company Limited, International Financial Network Holdings Ltd. and Great Wall Technology Company Limited. Mr. LIU, Zhen-tao is a director of Hambell Precise Machinery Co. Ltd., which is a listed company in China. As such, they have substantial experience in the board operation of a listed company. Moreover, Mr. TSIM, Tak-lung Dominic, Dr. WONG, Ying-ho Kennedy and Mr. LIU, Zhen-tao have already been briefed by the Hong Kong legal advisors to the Company in relation to their duties and obligations in being an independent non-executive director under the Listing Rules. In addition, Mr. LIU, Zhen-tao is the vice-president of the China Industrial Overseas Development & Planning Association and obtained a bachelor degree in power mechanical engineering. As such, Mr. LIU, Zhen-tao has substantial experience and knowledge in the manufacturing industry. Mr. TSIM, Tak-lung Dominic has extensive business and financial knowledge. Dr. WONG, Ying-ho Kennedy is a managing partner of a solicitor firm in Hong Kong. Hence, the Directors consider that all the members of the Committee has sufficient knowledge and experience to provide an independent opinion in respect of future connected transactions, if any, between the Group, Asia Cement Group and Far Eastern Group.

### DEED OF NON-COMPETITION

Asia Cement (for itself and all of its subsidiaries other than the Group), Far Eastern Textile (for itself and all of its subsidiaries other than the Asia Cement Group and the Group) and the Company have entered into the deed of non-competition dated 27 April 2008 (“Non-Competition Agreement”), pursuant to which each of Asia Cement and Far Eastern Textile has undertaken that:

- (a) Asia Cement and Far Eastern Textile shall not, and shall procure that its associates (other than the Group) will not, whether acting as assignor, assignee or other capacity, to, either alone or jointly with any other natural person, legal person (enterprise or corporate entity), partnership or organisation (including organisations of both an economic or non-economic nature), directly or indirectly invest, participate, operate and/or manage any businesses involving cement (including cement products, clinker, blast-furnace slag powder and related products) business and concrete business (including RMC) (“Competing Business”) in China, through any means, including but not limited to joint operations, joint venture, cooperation, partnership, agency or share participation;
- (b) Asia Cement and Far Eastern Textile will procure that their distributors will not distribute their cement products to end users in China; and
- (c) effective on the date of the Non-Competition Agreement, neither it nor its associates (other than the Group) has engaged in any Competing Businesses in China, nor does it have any interest in any company that conducts the Competing Business (or may compete) directly or indirectly in China. If any business opportunity is presented, and such business opportunity includes a Competing Business in China (“Opportunity”), it shall immediately notify, or procure that its associate immediately notify, the Company of such business opportunity, and use its best efforts to assist the Company (and/or any of its associated companies (if applicable)) to obtain terms given to it or conditions otherwise acceptable to the Company (and/or any of its associated companies (if applicable)).

A committee (the majority of which will be independent non-executive Directors) will be formed to consider the Opportunity and make recommendation to the Board whether to accept such Opportunity. In assessing an Opportunity, the committee will take into account the business strategy and financial condition of the Group, the potential of the Opportunity and whether the terms of the Opportunity are fair and reasonable. The committee may, at the Company’s cost, engage an independent professional advisor as it considers necessary to advise it on the terms of any such Opportunity.

Each of Asia Cement and Far Eastern Textile has undertaken to the Company that it will comply with the terms and conditions of the Non-Competition Agreement. After receiving a written request from the Company, Asia Cement will make an annual declaration on its compliance with the non-competition undertakings in the annual report of the Company.

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The restrictions mentioned above shall take effect from the Listing Date and shall remain in full force and effect until the Shares cease to be listed on the Stock Exchange (except for temporary suspension of the Shares due to whatever reason) or when Asia Cement ceases to be the controlling shareholder (as such term is defined under the Listing Rules) of the Company.

The independent non-executive Directors will annually review whether Asia Cement and Far Eastern Textile shall have fully complied with the undertakings stipulated in the Non-Competition Agreement. For the purpose of the review by the independent non-executive Directors, each of Asia Cement and Far Eastern Textile has undertaken that it will provide information as requested by any such Director. Each of Asia Cement and Far Eastern Textile has also undertaken that it will notify to the Company if there is any violation of the undertakings as stipulated in the Non-Competition Agreement and provide reasons for such violation, if any. The Company will disclose the results of the annual review of its independent non-executive Directors in the next annual report.

In the event of default of any of the non-competition undertakings stipulated under the Non-Competition Agreement, Asia Cement and Far Eastern Textile shall discuss with the Company in good faith as to appropriate remedy. The independent non-executive Directors will review the appropriateness of such remedy. The results of such review, in case of default of the Non-Competition Agreement, will be disclosed in the next annual report of the Company and the announcement pursuant to the Listing Rules.

For the avoidance of doubt, the following shall not be considered as restrictions as mentioned above:

- (a) holding or being interested in any security in any company which engages or involves in the Competing Business, PROVIDED THAT the amount of such holding does not exceed 10% of the entire share capital of such company or it is not the single largest shareholder of such company or it does not control the board of such company;
- (b) holding any security in the Company or in Asia Cement by Far Eastern Textile;  
or
- (c) engaging in or discharging any duty, service or act for the benefit of the Company or any of its subsidiaries.

## COMPLIANCE AND APPROVAL OF ASIA CEMENT'S INVESTMENT IN THE PRC

### Asia Cement's investment in the Group

Before the Reorganisation, Asia Cement invested in the PRC through, among others, the holding of a majority shareholding interest in the Company. According to the Taiwan/Mainland Investment Regulations, such indirect investments by Asia Cement in the PRC is subject to prior approval of the Taiwan Investment Commission. The Directors confirm that Asia Cement's approved investment in the PRC includes its entire investment in the PRC

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subsidiaries of the Company. The directors of Asia Cement confirmed that, save for the investments in the PRC subsidiaries of the Company, Asia Cement presently does not hold any other investments in the PRC.

In relation to Asia Cement's investment in the PRC and the relevant investment limit set by the Taiwan/Mainland Investment Regulations, the Directors understand from Asia Cement that according to the current provisions promulgated by the Taiwan Investment Commission, the aggregate limit of investments in the PRC by an enterprise with a net asset value of more than NT\$10 billion shall be the sum of: (i) 40% for the first NT\$5 billion; (ii) 30% for the second NT\$5 billion; and (iii) 20% for the amount beyond NT\$10 billion. The net asset value of a company is determined based on its latest published financial statements as audited or reviewed by a certified public accounting firm at the time the investment approval is being sought from the Taiwan Investment Commission.

As advised by the Company's legal advisors as to Taiwan law, all relevant approvals required under the Taiwan/Mainland Investment Regulations in connection with the indirect investments in the PRC subsidiaries of the Company by Asia Cement subject to the aggregate of such investments not exceeding approximately US\$458.5 million ("Approved Investment Amount") were obtained in January 2008. As of 31 December 2007, the total investments made by Asia Cement in the PRC were approximately RMB3.1 billion (equivalent to approximately US\$431 million), which includes the proposed acquisition of a 36.84% stake in Sichuan Yadong for a consideration of approximately US\$40.6 million. The investment amount is equivalent to the sum of all the equity contributions made in respect of the Company's PRC subsidiaries.

Currently, Asia Cement's total investments in the PRC do not exceed the Approved Investment Amount and Asia Cement does not intend to make additional investments in the PRC which would exceed such amounts permitted under the Taiwan/Mainland Investment Regulations. To the extent that Asia Cement's investment in the PRC, being made indirectly through the Company, the limit of which is calculated based on its proportionate shareholding percentage in the Company at the relevant time in the future, as interpreted by the Taiwan Investment Commission, exceeds the limit set by the Taiwan/Mainland Investment Regulations, Asia Cement may need to further reduce its shareholding in the Company in order to allow the Company to make further investments in the PRC without breaching the Taiwan/Mainland Investment Regulations. Based on the current investment amount of Asia Cement approved by the Taiwan Investment Commission, assuming the net proceeds received by the Company are approximately HK\$2,019.8 million (assuming the mid-point of the stated price range of the Offer Price and without taking into account the Over-allotment Option) and assuming the entire amount of the net proceeds is invested in the PRC immediately after the Listing and is deemed as an investment in the PRC by Asia Cement, Asia Cement would need to reduce its direct and indirect shareholding in the Company from approximately 75% to approximately 66.45%. Relevant Taiwan laws and regulations set out penalties for unauthorised PRC investments in the form of a fine not exceeding NT\$25 million and an order to recover such unauthorised investments. Asia Cement has confirmed that its

investments in the PRC, whether directly or indirectly, are made following review and approval by its board. Any additional investment in the PRC will be made only upon receipt of such approval from the Taiwan Investment Commission.

### **The Reorganisation**

The Company's legal advisors as to Taiwan laws confirmed that Asia Cement has obtained the approval from the Taiwan Investment Commission in connection with the Group's acquisition of 36.84% interest in Sichuan Yadong pursuant to the Reorganisation on 7 January 2008.

### **The Listing**

Although there is no specific provision under the Taiwan/Mainland Investment Regulations concerning the Company's investment into the PRC with funding provided by sources other than Asia Cement, such as the net proceeds to be derived from the Global Offering, the Taiwan legal advisors to the Company consider that the Taiwan/Mainland Investment Regulations could be interpreted in such a way that Asia Cement would need to obtain the prior approval of the Taiwan Investment Commission for any investment of the net proceeds from the Global Offering in the PRC. In other words, the Taiwan Investment Commission may consider an investment by the Company in the PRC, without using funding from Asia Cement, as additional investment in the PRC by Asia Cement. Nonetheless, a public announcement and report by Asia Cement at the business day immediately following the date of the Listing or the date of the publication of the event by media is required if the Listing has a significant impact on the shareholders' equity rights or the prices of the securities of Asia Cement or of an affiliated company thereof.

As advised by the Company's legal advisors as to Taiwan laws, assuming that new Shares representing 25% of the enlarged share capital of the Company are issued upon completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised and without taking into account of any options that have been granted under the Share Option Schemes), Asia Cement's interest in the Company will be diluted to 75%, and Asia Cement's deemed investment amount in the PRC will be lowered proportionally to approximately US\$323 million accordingly. The Taiwan legal advisors to the Company advised that there is no specific provision under the Taiwan/Mainland Investment Regulations governing the proportionate adjustment as a result of the introduction of new shareholders to the PRC subsidiaries or its holding company, or whether the net proceeds from a public offering received by an offshore subsidiary will be treated as PRC investment by a Taiwan company. The Taiwan legal advisors however advised that such proportionate adjustment is consistent with the provisions of the Taiwan/Mainland Investment Regulations. Hence, prior to any application to raise the Approved Investment Amount, Asia Cement's unused surplus for further investment in the PRC will become approximately RMB977.1 million (equivalent to approximately US\$135 million). Based on Asia Cement's 75% interest in the Company, the Company's further investment in the PRC may amount to approximately RMB1.4 billion (equivalent to approximately US\$180 million), which represents approximately 69.5% of net proceeds of approximately HK\$2,019.8 million (equivalent to US\$259 million) (based on the mid-point of the stated

## RELATIONSHIP WITH ASIA CEMENT

range of the Offer Price of between HK\$4.85 and HK\$6.45 per Share) without exceeding the Approved Investment Amount. Based on the current capital expenditure plan provided by the Company, the Directors expect that such 69.5% of the net proceeds would be sufficient to fund the planned capital expenditure of the Group up to the third quarter of 2009. Under the Company's current investment plan, approximately US\$126 million and US\$75 million are required in 2008 and 2009, respectively.

The Directors understand from Asia Cement that it will apply for an increase in investment limit following the publication of its latest financial statements on 28 April 2008, which showed an increase in its net asset value. Until such increase is approved, the current Approved Investment Amount of Asia Cement will remain effective.

The Directors of Asia Cement confirmed to the Company that if Asia Cement fails to obtain the approvals from the Taiwan Investment Commission for its further PRC investments through the Company, Asia Cement will reduce its shareholding in the Company in order to comply with the Taiwan/Mainland Investment Regulations. The Company's legal advisors as to Taiwan law confirmed that the above reduction in the PRC investment will not be subject to approvals from the Taiwan Investment Commission.

The Directors confirm that even if Asia Cement reduces its shareholding in the Company for the purpose of complying with the investment limit, the Company's operations and financial position will not be affected due to the fact that:

- (i) The Group is not relying on Asia Cement financially. No shareholder loan is expected after the Listing;
- (ii) The Company will also have independent access to the capital markets after the Listing and as allowed under the Listing Rules;
- (iii) All the references to Asia Cement's shareholding in the Group in the existing loan agreements of the Group will be removed before the Listing;
- (iv) All employees will have a direct employment relationship with the Group and not through Asia Cement; and
- (v) The Group maintains its own financial, operating and other functions independently from Asia Cement.