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### BUSINESS

#### Overview

We are a leading cement and concrete producer in Southern China. We are the largest NSP cement and clinker producer in Southern China by production capacity according to the China Cement Net (中國水泥網)<sup>(1)</sup> and the second largest concrete producer in China by sales volume according to the China Concrete Website (中國混凝土網)<sup>(2)</sup>. Our operations range from the excavation of limestone, to the production, sale and distribution of cement and cement products, clinker and concrete. We distribute our products through a well-established waterway, railway and road logistics network. Our cement products are mainly sold in Guangdong, Guangxi and Fujian under the trademarks “華潤” (Huarun) and “紅水河” (Hongshuihe). The trademark “紅水河” (Hongshuihe) is mainly used for our products sold in Guangxi and was already being used by Hongshuihe Cement before it was acquired by our Company in 2003. We use the trademark “華潤” (Huarun) through a non-exclusive license granted by China Resources National Corporation, which we further sub-license to our subsidiaries in the PRC so as to enable our Group to use such trademark in the sale and production of our products in China, mainly in Guangdong, Guangxi and Fujian.

As at June 30, 2009, we had a total of 11 clinker production lines and 31 cement grinding lines. We believe we are one of the few cement producers in China to equip all of their clinker production lines with advanced NSP technology and residual heat recovery generators that recycle the heat generated during the clinker production process. Our clinker plants and cement grinding plants are located in Binyang, Pingnan, Guigang, Nanning and Fangchenggang in Guangxi, and Dongguan and Zhanjiang in Guangdong. Our clinker production facilities are strategically located close to our limestone quarries, which supply most of the limestone required for our clinker production. We also have 20 concrete batching plants currently in operation in Guangxi, Guangdong, Fujian and Hong Kong. After we re-acquired Redland Concrete on December 31, 2008, we added three concrete batching plants located in Hong Kong. One of the three batching plants is presently leased to an Independent Third Party. As at June 30, 2009, we had an annual production capacity of 22.5 million tons of cement, 15.7 million tons of clinker and 12.3 million cubic meters of concrete. We expect that our annual production capacity will reach 30.0 million tons of cement, 21.9 million tons of clinker and 15.9 million cubic meters of concrete by the first quarter of 2010.

Our principal products are cement, clinker and concrete. Our products are primarily used in the construction of high-rise buildings and infrastructure projects such as hydroelectric power stations, dams, bridges, ports, airports and roads. Our customers include infrastructure construction companies, PRC and Hong Kong Government entities and property developers in China and Hong Kong. Our products have been used in a number of high-profile and large scale projects in China, including the Guangzhou-Shenzhen-Hong Kong Express Railway (廣深港高速鐵路), Guanghe Expressway (廣賀高速公路), Guiwu Expressway (桂梧高速公路), Guangwu Expressway (廣梧高速公路), Guangzhu Railway (廣珠城際軌道) and Wuguang Express Railway (武廣高速鐵路).

We sell most of our products directly to end users through our extensive sales network, and the remainder of our products through distributors. As at the Latest Practicable Date, we have 18 regional sales offices covering 31 cities in Southern China.

In 2008, we sold 13.2 million tons of cement, 1.3 million tons of clinker and 5.6 million cubic meters of concrete. Our turnover from continuing operations was HK\$2,111.7 million, HK\$3,743.2 million and HK\$5,781.3 million in 2006, 2007 and 2008, respectively, representing a CAGR of 65.5%. Our net profit from continuing operations for the same periods was HK\$82.6 million, HK\$358.8 million and HK\$783.7 million, respectively, representing a CAGR of 208.0%. Our turnover and net profit from continuing operations for the six months ended June 30, 2009 was HK\$2,738.7 million and HK\$369.6 million, respectively.

<sup>(1)</sup> According to a report by the China Cement Net issued on July 28, 2009. China Cement Net is an independent website that provides cement industry information.

<sup>(2)</sup> China Concrete Website is an independent website that provides concrete industry information.

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Our principal production facilities, limestone quarries, concrete batching plants and regional sales offices are located in the following locations:



<sup>(1)</sup> Our principal production facilities are located in Pingnan, Binyang, Guigang and Nanning where there are five clinker production lines and nine cement grinding lines in Pingnan, two clinker production lines and six cement grinding lines in Binyang, two clinker production lines and four cement grinding lines in Guigang, two clinker production lines and four cement grinding lines in Nanning. In addition, we have three cement grinding lines in Dongguan, three cement grinding lines in Zhanjiang and two cement grinding lines in Fangchenggang.

<sup>(2)</sup> In terms of our 20 concrete batching plants, we have two in Dongguan, two in Foshan, two in Jiangmen, four in Nanning, one in each of Beihai, Fangchenggang, Fengkai, Fuzhou, Heyuan, Qinzhou and Shenzhen and three in Hong Kong.

### Our Competitive Strengths

***We have a strong market position as a leading cement and concrete producer in Southern China.***

We are a leading cement and concrete producer in Southern China. We are the largest NSP cement and clinker producer in Southern China by production capacity according to the China Cement Net (中國水泥網) and the second largest concrete producer in China by sales volume according to the China Concrete Website (中國混凝土網). Our products have been used in a number of high-profile construction and infrastructure projects, including the Guangzhou-Shenzhen-Hong Kong Express Railway (廣深港高速鐵路), Guanghe Expressway (廣賀高速公路), Guiwu Expressway (桂梧高速公路), Guangwu Expressway (廣梧高速公路), Guangzhu Railway (廣珠城際軌道) and Wuguang Express Railway (武廣高速鐵路). Our cement is mainly sold under the trademarks of “華潤” (Huarun) and “紅水河” (Hongshuihe), both of which are well known within the building and construction industry in China. According to the *Notice of Publishing the List of Large Enterprises (Group) for Cement Industry Structure Regulation Emphatically Supported by the State* (關於公佈國家重點支持水泥工業結構調整大型企業(集團)名單的通知) issued by the NDRC, the Ministry of Land

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and Resources and the PBOC in December 2006<sup>(1)</sup>, we are one of 60 enterprises which would receive government support in the form of priority with respect to project approval, land use rights and financing. Our leading market position and well-established brand name are mainly attributable to strong customer loyalty and cost advantages derived from the strategic locations of our production facilities.

***We are well positioned to capture growth opportunities in the construction industry in Southern China.***

Our target markets are Guangdong, Guangxi, Fujian and Hainan, which are among the fastest growing economic areas in China. Driven by rapid industrialization and urbanization, GDP growth in these provinces for 2008 was well above the national average of 9.0%. In 2008, GDP in Guangdong, Guangxi and Fujian increased by 10.1%, 12.8% and 13.0%, respectively, compared to 2007. For the first six months of 2009, Guangdong's GDP<sup>(2)</sup> was RMB1.65 trillion, an increase of 7.1% over the same period of 2008. For the first six months of 2009, Guangxi's GDP was RMB330 billion, an increase of 13.0% over the same period of 2008. For the first six months of 2009, the GDP of Fujian was RMB473.9 billion, an increase of 19.8% over the same period of 2008. There was also a significant increase in the fixed asset investment, or FAI, in our target markets in 2008. In 2008, FAI in Guangdong, Guangxi and Fujian increased by 16.5%, 27.2% and 22.3%, respectively, compared to 2007. For the first six months of 2009, Guangdong's FAI increased 15.5% over the same period of 2008. For the first six months of 2009, Guangxi's FAI increased 57.7% over the same period of 2008. For the first six months of 2009, Fujian's FAI increased 19.8% over the same period of 2008. In 2008, the aggregate production volume of cement in Guangdong and Guangxi accounted for approximately 10.5% of the total production volume of cement in China. As one of the market leaders with an extensive sales network covering Dongguan, Jiangmen, Foshan, Zhuhai, Zhongshan, Zhaoqing, Shantou, Shanwei, Chaozhou, Jiayang, Zhanjiang, Maoming, Yangjiang, Huizhou, Guangzhou, Shenzhen and Yunfu in Guangdong, Guigang, Yulin, Wuzhou, Nanning, Laibin, Liuzhou, Qinzhou, Beihai and Fangchenggang in Guangxi, Xiamen, Fuzhou, Quanzhou and Putian in Fujian and Haikou in Hainan, we believe we are well-positioned to capture growth opportunities in Southern China.

The PRC concrete market is also developing rapidly. In 2008, the annual concrete production volume in Guangdong and Guangxi increased by 7.1% and 28.8%, respectively, compared to 2007. Due to the rapid development of cities in Southern China, our Directors believe that concrete consumption will continue to increase, having regard to the GDP and FAI of Guangdong, Guangxi and Fujian from 2006 to 2008 and our Group's turnover attributable to its concrete business. The PRC Government has implemented policies which aim to prohibit on-site batching. Increasing demand for high quality concrete products and industry consolidation have created many opportunities for large-scale concrete producers like us. We develop our concrete business through our extensive distribution channels to take advantage of our established transportation network and we believe that we are well-positioned to capture opportunities in the fast growing concrete market in Southern China.

***We benefit from convenient access to limestone quarries and transportation channels as well as an extensive sales network.***

Our clinker production facilities are strategically located near our limestone quarries with convenient access to waterways and public roadways. The strategic location of our principal production facilities allows us to utilize waterway transportation such as the Xijiang River, which is more cost effective than road or railway transport for delivery of raw materials and finished products. We have established silo terminals for storing cement in transit. To improve navigation on the Xijiang River, the PRC Government expanded the waterway

<sup>(1)</sup> According to this notice, the 60 enterprises were selected mainly because they are major enterprises (or groups) that conform with the national industrial policy and planning for the development of the cement industry; they mainly adopt the new dry process in their production, and possess a relatively large scale and a strong capability to adapt themselves to regional markets; in addition, they have recorded good operating results, are expected to develop well in the future, operate in accordance with the law and have a strong sense of social responsibility.

<sup>(2)</sup> For the purpose of this paragraph, the growth rate represents the nominal GDP growth rate.

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between Guigang and Wuzhou and between Wuzhou and Zhaoqing. This project was completed in June 2009 and vessels with a capacity of up to 2,000 dwt are now able to pass through these parts of the Xijiang River. In addition, the PRC Government has approved the construction of an express railway connecting Nanning and Guangzhou, which commenced in November 2008 and is expected to be completed by May 2013. We believe that completion of these projects will significantly improve the efficiency of our logistics network and enable us to transport raw materials and finished products more efficiently and cost effectively.

We sell a majority of our cement products directly to end users through our extensive sales network and the remainder through distributors. As of the Latest Practicable Date, we have 18 regional sales offices covering 31 cities in Southern China. Our extensive sales network enables us to provide our customers with convenient access to our products and to maintain a close relationship with our customers.

***We believe we are one of the few cement producers in China to equip all of their clinker production lines with advanced NSP technology and residual heat recovery generators that recycle the heat generated during the clinker production process.***

We have equipped all of our clinker production lines with advanced NSP technology and residual heat recovery generators that recycle the heat generated in the clinker production process. The use of advanced technologies enables us to reduce energy costs, achieve high production efficiency, minimize pollution and improve product quality. The PRC Government has voiced strong support for advanced NSP technology and strengthened measures to phase out non-NSP cement production which is less efficient and environmentally friendly. As one of 60 enterprises supported by the PRC Government, we have benefited from favorable government policies on project approval, land use rights and financing. In 2008, cement produced using non-NSP technologies represented approximately 37.1% of the cement produced in China. According to the PRC Government's policy, based on targets published in 2008, cement produced using non-NSP technologies in Guangdong and Guangxi should be approximately 42.9% and 21.6% by 2010, respectively. For 2008, the proportions of cement produced using non-NSP technology in Guangdong and Guangxi were 49.0% and 40.0%, respectively. We believe that the trend towards elimination of non-NSP cement production capacity will create opportunities for us to capture additional customers and increase our market share.

***We have convenient access to high quality limestone resources.***

Limestone is the principal raw material used in the production of clinker. We have obtained the mining rights to limestone quarries which are located near our clinker production facilities in Pingnan, Binyang, Guigang and Nanning. These quarries provide our clinker production facilities with a stable supply of high quality limestone (i.e., limestone with a relatively high level of calcium oxide) at low transportation costs and sufficient reserves to meet our production requirements. We have plans to apply for additional mining rights in respect of certain quarries in Fengkai and other areas. Please see the section headed "Business — Raw Materials" for more details on our mining rights.

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

Our management team, the majority of whom have worked in our Group for more than six years since the commencement of our operations, have solid industry knowledge, extensive operational experience and have a proven track record of generating rapid growth for our Group. For example, our chairman, Madam Zhou Junqing, has over 20 years' experience in international trade and corporate management as well as cement operations. Madam Zhou has been an executive director of our Company since June 19, 2003. Other members of our senior management team also have significant experience in key aspects of our operations, including production management, sales and distribution, research and development and delivery logistics.

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### Our Strategies

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

We intend to strengthen our leading position in Southern China and achieve better economies of scale through organic growth by constructing additional production facilities or through acquisitions. We have commenced or are planning the construction of additional clinker and cement production lines in Fengkai, Fuchuan, Shantou, Tianyang and Wuxuan. One clinker production line in Nanning has commenced production in January 2009 and two clinker production lines in Pingnan have commenced production in March and June 2009 respectively, which increased our production capacities by 4.7 million tons of clinker and 6.1 million tons of cement. We expect to complete another four clinker production lines in Fengkai, Shangsi and Fuchuan by the first quarter of 2010, which will increase our production capacities further by 6.2 million tons of clinker and 5.7 million tons of cement. Furthermore, we expect to construct one cement grinding plant in Shantou, by the third quarter of 2009, which will increase the annual production capacity by approximately 1.8 million tons. We also plan to construct up to six additional cement production lines with a total annual production capacity of 5.7 million tons and four additional clinker production lines with annual production capacity of 6.1 million tons in Fengkai, Tianyang and Wuxuan. We have also commenced construction of additional concrete batching plants in Beihai, Zhanjiang, Fuzhou (Zhuqi), Fujian (Putian), Zhaoqing (Gaoyao) and Guigang. We expect that those concrete batching plants will commence production by the end of 2009 (of which the batching plant in Guigang has commenced production in September 2009), which will increase our total annual production capacity by 3.6 million cubic meters. As a result, we expect that our annual production capacity for cement, clinker and concrete will reach approximately 30.0 million tons, 21.9 million tons and 15.9 million cubic meters, respectively, by the first quarter of 2010.

#### *Continue to improve our transportation and logistics network*

Due to the strategic locations of our production facilities, we are able to deliver finished products to our target markets efficiently. For example, the Xijiang River provides us with a large capacity and low cost means of transporting raw materials and finished products to various regions in Guangdong and Guangxi. In addition, we expect to complete the construction of two concrete batching plants, located along the coast of Fujian, by the end of 2009, which will allow us to transport raw materials and finished products to coastal regions of Fujian by sea. As part of our efforts to improve our transportation and logistics network, we may build our own, exclusive fleet of cement bulk carriers in the future. This involves feasibility studies as to the costs and advantages of possessing our own fleet.

#### *Continue to develop our sales and marketing capability for our cement operations and strengthen our distribution network*

We will continue to develop our sales and marketing capability for our cement operations. As of the Latest Practicable Date, we have 18 regional sales offices, all of which are centrally managed by our marketing department at our headquarters in Guangdong. Our sales network currently covers 31 cities in Southern China. We intend to establish an additional sales office in Yangjiang and extend our sales coverage to seven additional cities (Shangsi, Dongxing, Tianyang, Wuxuan, Guilin, Fuchuan and Hezhou) and strengthen our marketing efforts to increase market penetration in Southern China. We intend to strengthen our distribution network by constructing or acquiring more silo terminals and cement grinding plants situated along the Xijiang River and in coastal cities in Southern China. We intend to buy, build or lease silos and cement grinding plants which are or will be located as close as possible to our customers and distributors. We expect that such strategic locations will increase our turnover and enhance the quality of our service to our customers. We intend to finance these expansion plans with bank borrowings. We will continue to develop our concrete operations along our extensive cement distribution channel to take advantage of our established distribution network.

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### *Continue to improve our operational efficiency*

Our clinker production facilities are strategically located in Guangxi, a convenient location for large scale clinker production due to its concentrated reserves of high quality limestone and relatively low cost of labor and power supplies. We believe the locations of our plants enable us to minimize our production and transportation costs and optimize our operational efficiency. We aim to improve further our operational efficiency. We source our coal from Guizhou, Yunnan, Hunan, as well as Shanxi and Inner Mongolia in Northern China. Due to changes in the export policy for coal in Vietnam and coal shortages in Yunnan and Hunan, we plan to increase our purchases of better quality coal from Northern China, which burns more efficiently. Purchasing larger quantities of coal from fewer suppliers enables us to improve our transportation efficiency, and using coal of better quality decreases our coal consumption, which may in turn reduce our production costs. We plan to source gypsum and other raw materials from supply sources of better quality, carry out technology improvement projects, increase our production capacity to achieve economies of scale and install residual heat recovery generators.

### *Continue to source high quality limestone resources*

As our business continues to grow, our demand for limestone will increase. As part of the agreement with the relevant local governments to invest in Fengkai, Shangsi and Fuchuan, we will construct clinker production lines and acquire mining rights in respect of certain quarries in Fengkai and other areas. We are planning to commence the construction of four clinker production lines in Fengkai, Shangsi and Fuchuan. We expect that these production lines will commence production by the first quarter of 2010. We have also applied for mining rights from the Guigang municipal government for the Tiantang Ling Sandstone Quarry and we expect that we will obtain the mining right before the end of 2009. We are in the process of applying for the mining rights in respect of another two limestone mines in Fengkai, Guangdong (namely, Baisha Limestone Quarry and Dawangtang Limestone Quarry) and we expect that the application process will take between six months to one year to complete. We acquired 29.3% of the equity interest of Hainan Cement. The completion of the proposed acquisition remains subject to government approval. We also plan to acquire an additional 34.14% of the equity interest in Hainan Cement. Completion is subject to satisfaction of a number of conditions, including among others, obtaining approvals from SASAC and MOFCOM. Hainan Cement owns mining rights to two limestone quarries with a total reserve capacity of 170 million tons of limestone. These limestone quarries produce high quality limestone containing a relatively high level of calcium oxide and almost no magnesium oxide, and such composition is similar to natural cement stone. We will continue to explore other high quality limestone resources to satisfy our production requirements.

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### Products

Our principal products are cement, clinker and concrete. Our cement is sold under the trademarks “華潤” (Huarun) and “紅水河” (Hongshuihe) and is primarily used in the construction of high-rise buildings and infrastructure projects such as hydroelectric power stations, dams, bridges, ports, airports, railway and roads. We produce different types of cement by mixing different proportions of gypsum, blast furnace slag and other additives to clinker, a semi-finished product produced from limestone through a rotary kiln process.

Set out below are our main products:

<u>Product</u>	<u>Grade</u>	<u>National Standards</u>	<u>Characteristics</u>	<u>Application</u>	<u>Target Customers</u>
Portland Cement	PII42.5, PII52.5	Insoluble≤1.50%; Loss≤3.5%; SO <sub>3</sub> ≤3.5%; MgO≤5.0%; 3-day compressive strength≥22MPa (42.5) and ≥27MPa (52.5); 28-day compressive strength≥42.5MPa (42.5) and ≥52.5MPa (52.5); 3-day fractural load≥4.0MPa (42.5) and ≥5.0MPa (52.5); 28-day fractural load≥6.5MPa (42.5) and 7.0MPa (52.5);	High strength at the initial phase; high hydration heat; high freeze-resistance; low heat-resistance; low corrosion-resistance; low dry shrinkage.	Construction of buildings and infrastructure which require high strength, such as airport runways and bridges	Concrete pile factories and construction companies
Ordinary Portland Cement	PO42.5	Loss≤5.0%; SO <sub>3</sub> ≤3.5%; MgO≤5.0%; 3-day compressive strength≥17MPa; 28-day compressive strength≥42.5MPa; 3-day fractural load≥3.5MPa; 28-day fractural load≥6.5MPa;	High strength at the initial phase; high hydration heat; high freeze-resistance; low heat-resistance; low corrosion-resistance; low dry shrinkage.	Construction of structures which require short construction time, such as roads and bridges. It is also used for the construction of high rise buildings	Concrete batching plants and construction companies
Composite Portland Cement	PC32.5	SO <sub>3</sub> ≤3.5%; MgO≤6.0%; 3-day compressive strength≥10MPa; 28-day compressive strength≥32.5MPa; 3-day fractural load≥2.5MPa; 28-day fractural load≥5.5MPa;	Low strength at the initial phase; low hydration heat; high heat-resistance; low acid-corrosion-resistance; using coal ash powder and coal gangue as composite raw materials; stable strength at the initial stage and late stage.	Construction of structures which do not require high strength, such as low rise buildings	Distributors and retailers
Clinker	—			Production of cement	Cement grinding plants
Concrete	—			Construction of buildings and other structures	Construction companies

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### Production Facilities

Our production plans are driven by demand, which has a direct impact on our utilization rate. Production plans of our plants are coordinated by the production department with regular meetings among department heads.

As at June 30, 2009, we had 11 clinker production lines and 31 cement grinding lines with a total annual production capacity of 15.7 million tons and 22.5 million tons, respectively. All of our clinker production lines employ advanced NSP technology, which is more energy efficient and environmentally friendly than non-NSP technologies. It is the PRC Government's policy to phase out small-scale cement producers which employ less advanced technologies, and to comply with relevant environmental protection requirements and product quality standards. We have 20 concrete batching plants currently in operation in Guangxi, Guangdong, Fujian and Hong Kong. After we re-acquired Redland Concrete on December 31, 2008, we also have three concrete batching plants in Hong Kong. We operate two in Yuen Long and Yau Tong, and we currently lease our third plant in Chai Wan to an Independent Third Party. Our concrete batching plants are strategically located near our target markets to ensure timely delivery of our concrete products to our customers. As at June 30, 2009, our concrete batching plants had a total annual production capacity of approximately 12.3 million cubic meters. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the sales of our clinker, cement and concrete products were as follows:

<u>Turnover</u>	<u>For the year ended December 31,</u>			<u>For the</u> <u>six months</u> <u>ended</u> <u>June 30,</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
		('000 HK\$)		
Cement .....	1,110,480	2,180,921	3,735,796	1,784,777
Clinker .....	208,850	247,060	332,293	220,372
Concrete .....	792,365	1,315,174	1,713,189	733,590
Total .....	<u>2,111,695</u>	<u>3,743,155</u>	<u>5,781,278</u>	<u>2,738,739</u>

<u>Sales volume</u>	<u>For the year ended December 31,</u>			<u>For the</u> <u>six months</u> <u>ended</u> <u>June 30,</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
		('000 tons/'000 m <sup>3</sup> (concrete))		
Cement .....	5,615	9,035	13,206	6,898
Clinker .....	1,266	1,236	1,348	1,078
Concrete .....	2,952	4,708	5,552	2,457
Total .....	<u>9,833</u>	<u>14,979</u>	<u>20,106</u>	<u>10,433</u>

<u>Average unit price<sup>(1)</sup></u>	<u>For the year ended December 31,</u>			<u>For the</u> <u>six months</u> <u>ended</u> <u>June 30,</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	HK\$	HK\$	HK\$	HK\$
Cement .....	197.7	241.4	282.9	258.7
Clinker .....	165.0	199.9	246.5	204.5
Concrete .....	268.4	279.4	308.6	298.6

<sup>(1)</sup> Unit price is our average ex-factory selling price exclusive of value-added tax.



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The table below sets forth the number of production line, pro-rated production capacity and production volume, and utilization rate by product categories for the periods indicated.

	Year ended			Six months ended
	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
<b>Cement</b>				
Number of Cement Production Lines . . . . .	22	23	25	31
Pro-rated Production Capacity ('000 tons) . . . . .	9,274.0	13,153.5	16,374.0	8,782.8
Production Volume ('000 tons) . . . . .	6,303.6	9,673.5	14,070.5	7,456.4
Utilization Rate (%) . . . . .	68.0	73.5	85.9	84.9
<b>Clinker</b>				
Number of Clinker Production Lines . . . . .	6	7	8	11
Pro-rated Production Capacity ('000 tons) . . . . .	6,076.0	8,354.5	10,937.8	6,308.5
Production Volume ('000 tons) . . . . .	6,476.4	9,093.7	12,632.0	7,574.6
Utilization Rate (%) . . . . .	106.6	108.8	115.5	120.1
<b>Concrete</b>				
Number of Batching Plants . . . . .	10	16	19	20
Pro-rated Production Capacity ('000 m <sup>3</sup> ) . . . . .	4,850.0	7,525.0	10,225.0	6,050.0
Production Volume ('000 m <sup>3</sup> ) . . . . .	2,951.7	4,707.8	5,552.2	2,456.5
Utilization Rate (%) . . . . .	60.9	62.6	54.3	40.6

*The pro-rated production capacity does not represent the actual annualized production capacity. For cement and clinker, the pro-rated production capacity is calculated based on the designed production capacity of each production line per day multiplied by 310 days per year or 155 days per six months. For concrete, the pro-rated production capacity is calculated based on the designed production capacity of each production line per load multiplied by operating hours per day (8 hours) divided by the estimated time per load multiplied by 310 days per year or 155 days per six months.*

For the pro-rated production capacity of our batching plants for the year ended December 31, 2008, we have included the January and February 2008 concrete production capacity of Redland Concrete into our calculation as we disposed of Redland Concrete in March 2008 and re-acquired it on December 31, 2008.

We expect our production capacity will reach 30.0 million tons of cement, 21.9 million tons of clinker and 15.9 million cubic meters of concrete by the first quarter of 2010.

In respect of the figures provided in the above table for 2007 and 2008, some of our production lines did not commence production until the fourth quarter of 2007 or during 2008. The pro-rated production capacity for cement, clinker and concrete from the date of commencement of operation in 2007 was approximately 13.2 million tons, 8.4 million tons and 7.5 million cubic meters, respectively. These figures translated into utilization rates of 73.5%, 108.8% and 62.6% for our cement, clinker, and concrete production facilities in 2007, respectively.

Our clinker production facilities were operating at above their designed production capacities from 2006 to June 30, 2009. The utilization rate for our cement production facilities also increased from 68.0% in 2006 to 84.9% in June 2009. During the same period, the utilization rate of concrete production facilities ranged from approximately 40.6% to 60.9%. The utilization rate reveals our corporate strategies and a common practice in concrete industry in the PRC: (1) our strategy is to expand into new markets when we identify suitable opportunities, and develop cement and concrete capacities to capture increasing market demand in various regions. As we establish and develop our presence in the new markets, some of our facilities will not be operating at their optimal capacity. We believe that it is reasonable to continue expanding our business, as the demand for, and the sales of our cement and concrete products has steadily increased during the Track Record Period; (2) in designing the capacity of our cement production lines, we usually include a buffer capacity that enables us to respond to any increase in utilization of our production lines and growth of demand for our cement products; and

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(3) the utilization rate of concrete production facilities is generally low across the industry in the PRC given the nature of the concrete business. The production capacity of a facility is generally calculated on the basis of eight operating hours per day. However, the actual operating hours are less than eight hours per day due to the limitation imposed by local governmental authorities as well as downtime spent for cleaning the facilities. Thus, we are of the opinion that the utilization rates of our cement and concrete production facilities were reasonable during the Track Record Period.

Our Directors have taken into consideration the recent global and PRC financial performance, situation and development, and they are of the view that our expansion plan is justified because:

- our clinker production was operating above capacity and our cement production was operating at a utilization rate of 85.9% in December 2008;
- our Directors believe the demand for our products will continue to rise in the regions where our Group operates due to the factors disclosed in the section headed "Industry Overview" of this document. According to the National Bureau of Statistics of China, the GDP of Guangdong and Guangxi grew at a CAGR of 17.2% and 21.9% from 2006 to 2008, respectively. During the same period, the FAI of Guangdong and Guangxi grew at a CAGR of 17.4% and 29.7%, respectively. Guangdong's GDP in 2008 was RMB3.6 trillion, representing an increase of 16.1% over 2007. Guangdong's FAI was RMB1.1 trillion in 2008, representing a 16.5% increase over 2007. Guangxi's GDP in 2008 was RMB717.2 billion, representing an increase of 20.4% over 2007. In 2008, Guangxi's FAI was approximately RMB377.8 billion, representing an increase of 29.1% over 2007;
- the increase in the size of the cement industry in Guangdong and Guangxi also shows the industry believes that the growing demand warranted expansion. Guangdong's cement industry increased its volume of cement production from 88.5 million tons in 2006 to 97.8 million tons in 2007. For 2008, Guangdong's cement industry produced 94.8 million tons of cement, only a slight decrease from 2007. Guangxi's cement industry increased its volume of cement production from 36.6 million tons in 2006 to 43.5 million tons in 2007. For 2008, Guangxi's cement industry produced 51.9 million tons of cement, representing an increase of 19.3% over 2007;
- our Directors believe the economic growth in China and the markets where we operate will continue to create a number of opportunities for new construction projects which in turn will create greater demand for our products. As at July 2009, the International Monetary Fund's estimate for China's economic growth in 2009 was approximately 7.5% and approximately 8.5% in 2010. In addition, as of the first six months of 2009, property sales rose 53.0% against a year earlier, and real estate investment growth stood at 9.9%. Continued strength in the real estate sector may lead to investment in construction, which would spur demand for cement and concrete;
- according to the China Cement Association, NSP technology accounted for approximately 62.9% of the 1,400 million tons of cement produced in China in 2008. Together with the PRC Government's policies to prohibit the use of vertical kilns, our Directors believe the demand for our NSP products will continue to grow; and
- we believe the PRC Government's Eleventh Five-Year Plan to implement major infrastructure and development projects between 2006 and 2010 will further increase the demand for our products. Moreover, the PRC Government has recently introduced measures aimed at moderating the effects of the global economic downturn which could benefit the real estate and construction sectors. Such measures have included a general RMB4 trillion stimulus plan that includes initiatives to promote the PRC economy infrastructure development, tax breaks for home buyers, lower down-payment requirements for home purchases and a RMB400 billion package to build affordable homes.

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### Production Process<sup>(1)</sup>

#### *Clinker*

Raw materials such as limestone are fed through primary and secondary crushers or hammer mills. The raw materials are ground and transferred into a kiln. A kiln is a large, cylindrical steel tube which acts as an oven and heats the above mixtures at temperatures of up to 1,450°C. Rotary kilns are placed horizontally at a slight angle. The raw materials are fed into the higher end of the rotary kiln, and as they approach the lower end, a blast flame heats and chemically alters them. As the raw materials move through the kiln, they release certain elements in gas form, while the remaining material solidifies into small, marble-sized pieces called clinker.

#### *Cement*

Clinker is crushed into fine powder. Gypsum and other materials such as volcanic ash and fly ash are added to the ground clinker, resulting in a powder that is Portland Cement. Gypsum is a key addition which adjusts the setting time of the cement, when cement is eventually used in the production of concrete. The production process of cement contains a series of chemical and physical tests, and specification analyses to ensure the quality of the cement. Coagulation times vary slightly depending on the type of cement produced. Our Portland Cement, Ordinary Portland Cement and Composite Portland Cement products each have initial coagulation times of equal to or more than 45 minutes. Portland Cement has a final coagulation time of less than or equal to 390 minutes, while Ordinary Portland Cement and Composite Portland Cement each have final coagulation times of less than or equal to 600 minutes.

#### *Concrete*

Concrete is a mixture of paste and aggregates. The paste, composed of Portland Cement and water, coats the surface of the fine and coarse aggregates. Through a chemical reaction called hydration, the paste hardens and gains strength to form concrete. The key to achieving strong and durable concrete is the careful proportioning and mixing of the ingredients. A properly designed concrete mixture will possess the desired workability for the fresh concrete and the required durability and strength for the hardened concrete. Typically, a mixture is about 10 to 15 percent cement, 60 to 75 percent aggregate and 15 to 20 percent water.

### Raw Materials

#### *Limestone*

The principal raw material used in the production of clinker is limestone. Most of the limestone that we use for cement production is sourced from our own quarries. We carry out limestone excavation activities to meet the internal demand of limestone and we have made no external sales of limestone excavated during the Track Record Period.

We have obtained the mining rights in respect of certain quarries in Pingnan, Guigang, Binyang and Nanning, which are located near our clinker production lines. The limestone excavated from these quarries is transported to the crushing mill at our plants for further processing and then transported to storage facilities by conveyer belt.

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<sup>(1)</sup> For more detailed information, please see the sections headed "Industry Overview — Cement Production" and "Industry Overview — Concrete Production" in this document.

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The table below sets forth certain information regarding our limestone quarries in the locations indicated<sup>(1)</sup>:

Location	Quarries	Available limestone reserves (in million tons)	Date extraction activities commenced
Binyang, Guangxi	Fenghuangshan Limestone Quarry (鳳凰山石灰石礦)		
	Longling Limestone Quarry (龍嶺石灰石礦)	70	December 2002
Pingnan, Guangxi	Hejing Limestone Quarry (河景石灰石礦)	80	October 2004
Guigang, Guangxi	Dingxiangshan (North) Limestone Quarry (定祥山石灰石礦北區)		
	Dingxiangshan (South) Limestone Quarry (定祥山石灰石礦南區)	160	December 2005
Nanning, Guangxi	Goutoushan Limestone Quarry (狗頭山灰岩礦)	80	December 2007

<sup>(1)</sup> We have not commenced extraction of the Dawangtang Limestone Quarry and Shuangfeng Limestone Quarry as the mining rights were only obtained in May 2009.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we excavated 8.2 million tons, 11.8 million tons, 17.3 million tons and 10.3 million tons of limestone, respectively.

The mining rights obtained by us in relation to our limestone quarries are as follows:

Name of Quarry	Mining Right Owner	Period of Validity	Area (km <sup>2</sup> )	Annual Production Scale (‘000 tons)
Hejing Limestone Quarry (河景石灰石礦)	Pingnan Cement	June 27, 2006 to October 27, 2024	0.7760	2,090
Dingxiangshan (North) Limestone Quarry (定祥山石灰石礦北區)	Guigang Cement	July 2004 to July 2024	0.4017	2,031
Dingxiangshan (South) Limestone Quarry (定祥山石灰石礦南區)	Guigang Cement	June 2005 to June 2025	0.5776	2,007
Fenghuangshan Limestone Quarry (鳳凰山石灰石礦)	Hongshuihe Cement	May 2003 to May 2013	1.2002	1,500
Longling Limestone Quarry (龍嶺石灰石礦)	Hongshuihe Cement	May 2003 to May 2011	0.5413	900
Goutoushan Limestone Quarry (狗頭山灰岩礦)	Nanning Cement	June 1, 2007 to June 1, 2037	0.4064	2,270
Dawangtang Limestone Quarry (大旺塘石灰岩礦)	Fengkai Quarry	May 2009 to June 2012	0.3344	60
Shuangfeng Limestone Quarry (雙峰石灰石礦)	Fengkai Quarry	May 2009 to May 2011	0.2116	80

We have applied or are planning to apply for the mining rights in respect of the following quarries:

Name of Quarry	Location	Area (km <sup>2</sup> )	Annual Production Scale (‘000 tons)	Mining Rights Applicant	Application Date	Expected Time for Obtaining Mining Rights
Tiantang Ling Sandstone Quarry	Guigang, Guangxi	0.2	95	Guigang Cement	July 2008	Before the end of 2009
Baisha Limestone Quarry	Fengkai, Guangdong	3.3	N/A	Fengkai Cement	August 2009	Before August 2010
Dawangtang Limestone Quarry	Fengkai, Guangdong	1.5	N/A	Fengkai Cement	August 2009	Before August 2010

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We have obtained the land use right certificates in respect of land occupied by the following quarries:

Name of Quarry	Area (km <sup>2</sup> )	Type of Land	Land Use Right Certificate		
			Number	Grant Date	Expiry Date
Hejing Limestone Quarry (河景石灰石礦) .....	2.9552	Granted	Ping Guo Yong (2008) No. 260015046-1	June 17, 2008	September 20, 2054
	0.6443	Granted	Ping Guo Yong (2008) No. 260015049-1	June 17, 2008	September 20, 2054
Fenghuangshan Limestone Quarry (鳳凰山石灰石礦) .....	0.0006	Granted	Bin Guo Yong (2003) No. 534	May 21, 2003	April 15, 2053
	0.0007	Granted	Bin Guo Yong (2003) No. 535	May 21, 2003	April 15, 2053
	0.0020	Granted	Bin Guo Yong (2003) No. 536	May 21, 2003	April 15, 2053
	0.6836	Granted	Bin Guo Yong (2003) No. 537	May 21, 2003	April 15, 2053
	0.0114	Granted	Bin Guo Yong (2003) No. 538	May 21, 2003	April 15, 2053
Longling Limestone Quarry (龍嶺石灰石礦) .....	0.8132	Granted	Bin Guo Yong (2002) No. 09	January 2002	January 23, 2052

We have confirmed with the local state-owned land and resources departments of Guangxi and Fengkai that the land occupied by the limestone quarries used by Nanning Cement at Goutoushan (狗頭山), the limestone quarries used by Guigang Cement at Dingxiangshan (定祥山) and the limestone quarries used by Fengkai Quarry at Dawangtang (大旺塘) and Shuangfeng (雙峰) are State-owned land and that, at the moment, we are not required to undergo formal land use right procedures in respect of our mining activities within those areas.

### *Other raw materials*

Other raw materials that we use primarily include cement, clinker purchased from third parties, sand, aggregate, gypsum, clay and fly ash. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, in respect of our continuing operations, the costs of raw materials as a percentage of turnover was 28.4%, 28.0%, 25.5% and 23.5%, respectively.

Most of the cement and clinker used in our production is sourced within our Group. Our Directors believe that there is adequate supply of sand, aggregate, gypsum, limestone, fly ash, clay and other raw materials we use on the market and do not foresee any difficulty in obtaining such raw materials for our production requirements in the near future. Please see the sub-section headed "— Suppliers" in this section.

### **Energy Supply**

#### *Coal*

Coal is primarily used as fuel in our clinker production. We obtain our supply of coal mainly from coal intermediaries in Vietnam, and in Guizhou, Hunan and Qinhuangdao, Hebei in China. Our Directors understand that these PRC intermediaries possess valid operation certificates for buying and selling coal. The purchase price is determined by reference to the prevailing market price. We usually enter into annual supply contracts with our coal suppliers and purchases of coal are generally made on a 30-day credit term. Coal is primarily delivered to our production facilities by means of water and road transportation.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we incurred costs of approximately HK\$404.6 million, HK\$687.2 million, HK\$1,655.5 million and HK\$690.6 million on coal, respectively, representing 19.2%, 18.4%, 28.6% and 25.2% of our turnover from continuing

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operations for the respective periods. We experienced significant increases in coal prices in 2007 and 2008 due to a surge in coal demand coupled with supply shortages in the market. However, we did not experience any coal shortages in our operations during the Track Record Period. The average purchase price of coal used in our production increased from HK\$424 per ton in 2006 to HK\$464 per ton in 2007, to HK\$769 per ton in 2008 but dropped to HK\$578 per ton in the first six months of 2009.

### *Electricity*

We obtain our electricity supply from the Southern China Power Grid. Payment for electricity is made at the beginning of each month based on the estimated expenses for that month. We have not experienced any difficulty in obtaining adequate electricity during the Track Record Period and our Directors do not foresee any problem in obtaining electricity for our production facilities in the foreseeable future. We have also installed residual heat recovery generators with a total installed capacity of 75,000 kW at our clinker production facilities in Pingnan, Guigang, Binyang and Nanning. These residual heat recovery generators collect residual heat from the clinker production process to generate power that can be re-utilized.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our total electricity costs were HK\$322.5 million, HK\$474.2 million, HK\$651.0 million and HK\$327.3 million, respectively and accounted for approximately 15.3%, 12.7%, 11.3% and 12.0% of our turnover from continuing operations for the respective periods. The decrease in our electricity cost as a percentage of our turnover was due to economies of scale arising from our increased total production. We did not experience any electricity shortages in our operations during the Track Record Period.

### **Suppliers**

Our procurement department is responsible for the centralized procurement of raw materials such as coal, sand, aggregate, gypsum, clay and fly ash from independent third-party suppliers. Our procurement department will order the relevant raw materials according to our monthly production plans. We are required typically to make full payments for our raw materials within three months after delivery. Our payments are made by direct bank transfer, telegraphic transfer, cheque and bank draft.

The quality of the raw materials is then checked by our quality control department to ensure that the raw materials comply with our production requirements. In addition, our procurement department monitors the quality, the timing of delivery and the pricing of raw materials.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, purchases from our five largest suppliers accounted for approximately 26.8%, 30.0%, 46.5% and 39.7% of our total cost of sales, respectively. During the same periods, purchases from our largest supplier accounted for approximately 11.4%, 16.2%, 24.2% and 17.3% of our cost of sales, respectively. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we sourced HK\$146.7 million, HK\$213.3 million, HK\$340.2 million and HK\$231.0 million of cement within our Group, respectively, and we sourced HK\$855.9 million, HK\$1,314.8 million, HK\$2,556.2 million and HK\$1,208.9 million of clinker within our Group, respectively. During the same periods, we have purchased from third parties HK\$64.9 million, HK\$165.3 million, HK\$210.4 million and HK\$423.5 million of cement, respectively. For the years ended December 31, 2006, 2007 and 2008 we have purchased from third parties HK\$14.3 million, HK\$40.1 million and nil of clinker, respectively. We have maintained business relationships with our top five suppliers for up to five years, and we also have maintained long-term relationship with independent third-party suppliers for our raw materials during the Track Record Period.

As at the Latest Practicable Date, none of our Directors, their respective associates or any of the Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) had any interest in any of the top five suppliers of our Group.

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### Sales and Marketing

#### Sales

Our core markets are Guangdong and Guangxi.

The following table sets out our sales volume and turnover from continuing operations by geographical location of our customers during the Track Record Period:

	Sales Volume ('000 tons/'000 m <sup>3</sup> (concrete))				Turnover ('000 HK\$)			
	For the year ended December 31,			For the six months ended June 30,	For the year ended December 31,			For the six months ended June 30,
	2006	2007	2008	2009	2006	2007	2008	2009
<b>Guangdong</b>								
Cement	3,689.3	5,492.3	7,510.9	3,593.1	747,371	1,403,670	2,141,756	894,101
Clinker	595.1	235.2	342.8	286.6	96,890	50,601	87,390	57,383
Concrete	1,791.5	3,178.3	3,283.4	1,182.9	393,727	749,497	918,965	315,371
Subtotal	6,075.9	8,905.8	11,137.1	5,062.6	1,237,988	2,203,768	3,148,111	1,266,855
<b>Guangxi</b>								
Cement	1,912.4	3,454.1	5,562.4	3,173.6	358,255	749,686	1,542,759	846,075
Clinker	660.4	920.5	899.7	741.7	109,548	177,799	210,518	146,127
Concrete	682.9	1,009.9	1,634.4	883.7	140,632	244,924	437,268	229,069
Subtotal	3,255.7	5,384.5	8,096.5	4,799.0	608,435	1,172,409	2,190,545	1,221,271
<b>Fujian</b>								
Cement	—	—	—	69.9	—	—	—	19,432
Concrete	—	0.7	143.8	166.4	—	141	40,775	41,449
Subtotal	—	0.7	143.8	236.3	—	141	40,775	60,881
<b>Hong Kong</b>								
Cement	13.9	89.0	132.9	61.5	4,854	27,565	51,281	25,169
Clinker	10.3	80.3	105.4	49.6	2,412	18,660	34,385	16,862
Concrete	477.3	518.9	490.5	223.5	258,006	320,612	316,181	147,701
Subtotal	501.5	688.2	728.8	334.6	265,272	366,837	401,847	189,732
<b>Total</b>	<b>9,833.1</b>	<b>14,979.2</b>	<b>20,106.2</b>	<b>10,432.5</b>	<b>2,111,695</b>	<b>3,743,155</b>	<b>5,781,278</b>	<b>2,738,739</b>

Most of our cement is sold under the “華潤” (Huarun) and “紅水河” (Hongshuihe) trademarks. Products sold under these trademarks are well recognized and are well known brands within the construction industry in China.

We sell a majority of our cement directly to end users through our extensive sales network and the remainder through distributors. We have 18 regional sales offices covering Dongguan (東莞), Jiangmen (江門), Foshan (佛山), Zhuhai (珠海), Zhongshan (中山), Zhaoqing (肇慶), Shantou (汕頭), Shanwei (汕尾), Chaozhou (潮州), Jieyang (揭陽), Zhanjiang (湛江), Maoming (茂名), Yangjiang (陽江), Huizhou (惠州), Guangzhou (廣州), Shenzhen (深圳) and Yunfu (雲浮) in Guangdong, and Guigang (貴港), Yulin (玉林), Wuzhou (梧州), Nanning (南寧), Laibin (來賓), Liuzhou (柳州), Qinzhou (欽州), Beihai (北海) and Fangchenggang (防城港) in Guangxi, Xiamen (廈門), Fuzhou (福州), Quanzhou (泉州) and Putian (莆田) in Fujian and Haikou (海口) in Hainan with some of our regional sales offices covering more than one city.

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The following table sets forth our regional sales offices and the cities covered by their regional sales offices.

<u>Regional Sales Office</u>	<u>Cities Covered by the Regional Office</u>
1. Shenzhen Office . . . . .	Shenzhen (深圳)
2. Dongguan (North) Office . . . . .	Northern Dongguan (北部東莞)
3. Dongguan (South) Office . . . . .	Southern Dongguan (南部東莞)
4. Jiangmen Office . . . . .	Jiangmen (江門)
5. Foshan Office . . . . .	Foshan (佛山)
6. Guangzhou Office . . . . .	Guangzhou (廣州)
7. Zhongshan Office . . . . .	Zhongshan (中山)
8. Zhuhai Office . . . . .	Zhuhai (珠海)
9. Zhaoqing Office . . . . .	Zhaoqing (肇慶)
10. Guigang & Yulin Office . . . . .	Guigang (貴港)
11. Wuzhou Office . . . . .	Wuzhou (梧州), Yulin (玉林) and Yunfu (雲浮)
12. Hongshuihe Office . . . . .	Haikou (海口), Liuzhou (柳州) and Laibin (來賓)
13. Nanning Office . . . . .	Nanning (南寧)
14. Guangxi Coastal Office . . . . .	Qinzhou (欽州), Beihai (北海) and Fangchenggang (防城港)
15. Eastern Guangdong Office . . . . .	Shantou (汕頭), Shanwei (汕尾), Chaozhou (潮州) and Jieyang (揭陽)
16. Zhanjiang Office . . . . .	Zhanjiang (湛江), Maoming (茂名) and Yangjiang (陽江)
17. Huizhou Office . . . . .	Huizhou (惠州)
18. Fujian Office . . . . .	Xiamen (廈門), Fuzhou (福州), Quanzhou (泉州) and Putian (莆田)

As we expand into new regions, we expect to increase our market coverage by establishing more sales offices. We intend to establish five additional sales offices to cover Shangsi (上思), Dongxing (東興), Tianyang (田陽), Wuxuan (武宣), Guilin (桂林), Fuchuan (富川) and Hezhou (賀州). All of our sales offices are centrally managed by our marketing department in Guangdong.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, in respect of our continuing operations, our turnover from our sales network was HK\$753.3 million, HK\$1,287.6 million, HK\$2,010.6 million and HK\$1,151.0 million, respectively, representing 67.8%, 59.0%, 53.8% and 64.5%, respectively, of our total cement sales for the same time periods. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we used 80, 123, 168 and 98 distributors, respectively, to sell our cement products. In respect of our continuing operations, our turnover from these distributors for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, was HK\$357.3 million, HK\$893.4 million, HK\$1,725.2 million and HK\$633.8 million, respectively, representing 32.2%, 41.0%, 46.2% and 35.5%, respectively, of our total cement sales for the same time periods. We treat our distributors as normal customers and do not employ selection criteria when dealing with them. We award different levels of volume discounts to our distributors, depending on the amount of cement purchased. We use standard sales contracts and do not employ distributorship agreements with our distributors.

### ***Marketing***

Our marketing department is responsible for collecting market information and coordinating marketing activities. We place a strong emphasis on maintaining close relationships with our customers. We achieve this by employing several strategies. First, our marketing department operates a customer service center that is responsible for handling complaints and addressing comments from our customers. These complaints and comments as well as competitor information are communicated by our marketing department to our production facilities, which enables us to further improve our product quality and production process. Second, we monitor market developments and consumer preferences through our sales staff's frequent visits to our customers. In



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addition, we send technicians to provide on-site training to our customers regarding the use and application of our products.

### *Customers*

We have a broad and well established customer base in China. Our customers include property developers, government organizations and companies engaged in the construction of major highways, hydroelectric power plants and other infrastructure projects. PO42.5 or higher grade cement is mainly sold in bulk to concrete batching plants, cement products manufacturers, construction and infrastructure project companies. PC32.5 cement is mainly sold to distributors in bags. Our products have been used in a number of large scale projects in China, including the Guangzhou-Shenzhen-Hong Kong Express Railway (廣深港高速鐵路), Guanghe Expressway (廣賀高速公路), Guiwu Expressway (桂梧高速公路), Guangwu Expressway (廣梧高速公路), Guangzhu Railway (廣珠城際軌道) and Wuguang Express Railway (武廣高速鐵路).

In respect of our continuing operations, for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, sales to our five largest customers accounted for approximately 10.2%, 10.0%, 8.9% and 9.3% of the total turnover, respectively. In respect of our continuing operations, for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, sales to our largest single customer accounted for approximately 3.1%, 2.5%, 3.4% and 2.7% of the total turnover, respectively.

As at the Latest Practicable Date, none of our Directors, their respective associates or any of the Shareholders (which to the knowledge of our Directors own more than 5% of the issued share capital of our Company) had any interests in any of the top five customers of our Group.

### *Pricing policy*

Pricing of our products is mainly determined with reference to our sales volume, inventory levels, competitors' prices, logistics costs, credit terms and product type. These factors are assessed by our sales managers on a regular basis. When our sales managers consider that an adjustment to our prices is necessary, they will submit a request to our marketing department. Our marketing department will approve such request if it considers it appropriate after analyzing the above factors. According to customers' requirements, we either sell our products ex factory or arrange for delivery to the sites specified by the customers. Where transportation costs are included in the sales price, our sales department will assist customers in arranging for the transportation of our products to designated sites.

### *Payment terms*

We sell most of our cement products directly to end users through our sales network and the remainder to distributors. We usually enter into a main contract with bulk purchase customers engaged in major construction projects. Key terms are fixed under a master contract. The products are then delivered according to the customers' actual demand. A monthly statement of account is delivered to these customers. Most of our sales are settled through prepayment by our customers in cash and the balance by way of credit. We have a policy of granting a credit period of 0 to 90 days from the issuance of invoices to our cement and concrete customers, depending on their credit history. At the beginning of 2008, we shortened the credit period to 0 to 30 days for cement customers and 0 to 60 days for concrete customers. We shortened these credit periods in order to improve our monthly cash flows and to reduce our risk, interest financing and bad debt expenses. Export sales to Hong Kong are normally prepaid or supported by letters of credit.

### **Competition**

The cement and concrete industry in China is primarily a fragmented and regional industry. According to the China Cement Association, there were more than 600 above-scale cement producers in Southern China in 2008. Our major competitors include companies with a national presence such as Anhui Conch, as well as other cement producers companies with operations in China such as Taiwan Cement Holdings Limited

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(台灣水泥股份有限公司). We also compete with smaller scale regional producers in the markets where we operate. In particular, Taiwan Cement Holdings Limited increased their production capacity significantly in 2008 with the commencement of production of eight new cement production lines located at Yingde, Guangdong (four new production lines) and Guigang (four new production lines). Our Directors believe that under current market conditions, a cement producer’s success depends on whether it is able to maintain a stable supply of high quality products and its efficiency in managing production and transportation costs. The PRC Government has recently raised quality standards and in turn raised barriers of entry into the cement industry. For example, all newly constructed clinker production lines must now have sufficient limestone resources to support operations for at least 30 years, and all newly established cement grinding plants should now have a minimum annual production capacity of 0.6 million tons. One of the competitive fronts our Group is facing is the production capability expansion of other large cement producers in Southern China especially when they mainly target the same high-grade bulk cement as we do. The competition has been further intensified with the cross-expansion of such large cement producers and the entry of foreign cement companies. We believe one of the traits that distinguishes our Group from our major competitors is that we have our principal production facilities in close proximity to limestone quarries and waterway transportation channels (mainly the Xijiang River) and our sales network based on silo terminals covering Southern China. This enables us to have a secure and stable supply of limestone and to produce high quality and low-cost products with extensive sales through an efficient transportation network. As a result, we are still able to maintain a leading position in the market even in the face of production capability expansion of our competitors. We are the largest NSP cement and clinker producer in Southern China by production capacity according to China Cement Net and the second largest concrete producer in China by sales volume according to China Concrete Website.

In the past several years, the PRC Government has encouraged the development of large-scale cement production and the use of advanced NSP technology. As a result of these policies, smaller enterprises will be less viable and we expect that there will be significant consolidation activities within the PRC cement industry. Enterprises within the industry with advanced technologies, abundant and high-quality resources, access to a large customer base and reliable logistics services will likely lead to the consolidation of smaller and less advanced enterprises. We further believe that many small-scale cement companies using less advanced production technologies were forced to close down as a result. For further information on such regulation, please see the sections headed “Industry Overview — Key Industry Trends in China — NSP Technology Application” and “Regulatory Overview — The Cement Industry — Industry Policy” in this document. As a large-scale NSP cement producer, we have been able to benefit from favorable government policies on project approval, land use rights and financing. In 2008, we were among the top 10 NSP cement producers in China by production volume, according to the China Cement Association. We believe that the decrease in non-NSP cement production will create an opportunity for us to expand our customer base and increase market share. As a result of the trends in consolidation, we expect future competition in this industry will be among the top NSP cement producers.

### Intellectual Property

Our cement products are principally sold under the trademarks of “華潤” (Huarun) and “紅水河” (Hongshuihe). The trademark of “紅水河” (Hongshuihe) is registered in the PRC by Hongshuihe Cement with the Trademarks Bureau (商標局) under the SAIC. The trademark of “華潤” (Huarun) is registered in the PRC by China Resources National Corporation. Our Company has obtained a non-exclusive license from China Resources National Corporation to use the trademark “華潤” (Huarun) and our Company further sub-licenses such trademark to its subsidiaries in the PRC so as to enable our Group to use such trademark in the sale and production of cement products in China. In addition, China Resources Holdings has granted us the right to use the logo  which is duly registered in Hong Kong.

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### Quality Control

We impose stringent quality control standards for our production process from the purchase of raw materials to the delivery of finished products.

Each of our production facilities has a quality control department that is responsible for monitoring raw materials quality, our production process and product quality. Our main quality control procedures are as follows:

- *Raw materials quality.* Our quality control teams perform routine inspections and sample testing on raw materials such as limestone, clay, blast furnace slag, gypsum and coal before they are used in the production process to ensure that such materials comply with our required quality standards.
- *Production process.* Our quality control teams carry out intermediate quality control inspections on a sample basis at various stages of our production process in order to ensure that the production process is in order.
- *Product quality.* Our quality control teams perform routine inspection and sample testing on finished products to ensure that they comply with our required quality standards.

During the Track Record Period, we experienced no delays or defective product complaints that resulted in any material effect on our business.

### Logistics

As at June 30, 2009, we had a number of storage facilities capable of storing in the aggregate approximately 1,198,000 tons of clinker and 657,340 tons of cement. The design of our storage capacity has taken into consideration the turnover rate and transportation time. Raw materials such as gypsum and coal are sourced from independent suppliers, which normally require less than a week for transportation.

We have silo terminals in the Pearl River Delta and the coastal regions in Guangdong, Guangxi and Fujian. We are planning to strengthen our distribution network by constructing and/or acquiring more silo terminals situated along the Xijiang River and/or in coastal cities in Southern China.

Most of our production facilities are strategically located near the Xijiang River or the coast of the South China Sea which enables us to transport our products primarily by river or sea. Our clinker production facilities are also located near our limestone quarries, which supply most of the limestone that we require for the production of clinker. We have silo terminals near waterways and railways for storing cement and clinker. All these arrangements and facilities help to enhance our logistics efficiency.

Our concrete batching plants currently in operation are located along our distribution channels in order to take advantage of our transportation network. As concrete usually needs to be delivered to construction sites for use within two hours of production, we built our concrete batching plants at strategic locations with convenient access to an efficient transportation system so that deliveries can be scheduled in time for the concrete to be used upon arrival at sites. As at June 30, 2009, we had more than 450 concrete mixer trucks.

### Repair and Maintenance

Regular repair and maintenance programmes for our plants' equipment are scheduled by our production departments and carried out by our machinery and electrical repair teams to maximize production efficiency and

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avoid unexpected interruption of our operations. The duration of scheduled annual maintenance is usually two weeks. Our machinery and electrical repair teams carry out day-to-day maintenance and repair of the facilities and machinery. Normally, maintenance is only carried out on one production line at each plant at a time to ensure the continuity of our production.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we incurred approximately HK\$27.7 million, HK\$59.2 million, HK\$110.6 million and HK\$56.1 million in repair and maintenance expenses, respectively. There have not been any major disruptions caused by equipment failure during the Track Record Period.

### Safety Procedures

Each of our plants has a safety officer who is responsible for regulating and coordinating safety procedures at the plant with assistance from the supervisors of different production units. The majority of our plant safety officers have passed a safety assessment administered by the local labor and social security bureau and have obtained relevant qualification certificates. We expect the remainder of our plant safety officers, who are staffed at our newly opened plants, to undergo the safety assessment and qualification process as soon as practicable. The supervisor at each production unit is responsible for ensuring compliance with all safety regulations and procedures. New employees are also trained to comply with the relevant safety procedures prior to being assigned to their respective job duties. All of our subsidiaries have implemented a comprehensive system of safety management procedures and regulations. The Operation Department of each plant has a designated safety officer (專職安全員) to monitor the implementation and compliance of our safety protection systems and measures. All plant managers have signed a Safety Production Undertaking (安全生產責任書) with us. Some of our PRC subsidiaries have already been accredited with the OHSAS18000 (職業安全認證) and the OHSAS18000 accreditation process for our remaining subsidiaries is ongoing. We aim to have all our subsidiaries become OHSAS18000 accredited as soon as practicable. Our PRC counsel confirms that OHSAS18000 accreditation is currently not mandatory in China and is conducted on a voluntary basis, as stated in the Notice of the State Economic and Trade Commission Concerning Conduction of Verification Work on Occupational Safety and Health Management System (Guo Jing Mao An Quan [1999] No. 983) 國家經濟貿易委員會關於開展職業安全衛生管理體系認證工作的通知 (國經貿安全[1999]983號). Generally, OHSAS18000 accreditation occurs two to three years after a plant commences operations. Our PRC counsel has also confirmed that we have materially complied with the relevant operation safety laws, regulations and administrative rules and that we have not been subject to any material sanctions or penalties imposed by the relevant regulatory authorities in China. We did not experience any major accidents or casualties at our production facilities during the Track Record Period.

### Insurance

We maintain insurance to cover potential damage to our properties and equipment, and for public liability and employee compensation. The coverage of the insurance in respect of our facilities and equipment includes various risks relating to industrial accidents and certain types of natural disasters. We believe that our current insurance coverage is adequate to cover the replacement costs of the facilities and equipment concerned.

We have not taken out any insurance policies to cover product liability. Since the commencement of our operations and until the Latest Practicable Date, we have not been subject to any material product liability claims. To control our product liability risk, we place significant emphasis on quality control. Since the commencement of our operations and until the Latest Practicable Date, we have not experienced any serious or material industrial accidents at our production facilities.

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### Employees

As at June 30, 2009, we employed a total of 8,928 full time employees. A breakdown of our employees by function is shown below:

Management .....	151
Finance and administration .....	1,257
Production/technical .....	6,263
Quality control .....	1,050
Sales and marketing .....	207
Total .....	<u>8,928</u>

Remuneration of our employees includes basic wages, production unit allowance, bonuses and other staff benefits. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our total labor costs were approximately HK\$209.3 million, HK\$330.8 million, HK\$374.2 million and HK\$234.0 million, respectively.

Under PRC law, we are required to make contributions to pension funds, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing funds and other staff welfare for our employees. Please see section headed "Directors, Senior Management and Employees — Compensation of Employees" for more details on our housing funds.

### Property

As at the Latest Practicable Date, we own 53 parcels of land with an aggregate area of approximately 9,242,799 square meters and 432 buildings and units with an aggregate gross floor area of approximately 456,588 square meters. DTZ Debenham Tie Leung Limited, an independent valuer, has valued our owned attributable property interests as at June 30, 2009 at RMB1,084,255,640. Details of the valuation are set out in Appendix V — "Property Valuation" to this document.

As at the Latest Practicable Date, we have obtained the relevant long-term land use right certificates in respect of 40 parcels of land with an aggregate area of approximately 8,288,173 square meters, which represents approximately 89.7% of our owned land in terms of area. We have also obtained the relevant long-term building ownership certificates in respect of 367 buildings and units with an aggregate gross floor area of 393,947 square meters, which represents approximately 87.3% of our owned building units in terms of area. We have not yet obtained the land use right certificates for 13 parcels of land with an aggregate of approximately 954,626 square meters and the building ownership certificates for 65 buildings and units with a gross floor area of approximately 62,641 square meters, some of which are located on the aforementioned 13 parcels of land. These comprise:

- (i) 12 parcels of land with an aggregate area of 927,076 square meters which are used for industrial and ancillary purposes;
- (ii) 1 parcel of land with an area of 27,550 square meters which is used for residential purposes; and
- (iii) 65 buildings and units with a gross floor area of approximately 62,641 square meters which are used for operation and ancillary purposes, including transformer rooms, electric power rooms, water pump stations, offices, canteens, staff quarters and storage rooms.

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The 13 parcels of land without land use right certificates account for only approximately 10.3% of our owned land in terms of area. The status of the 13 parcels of land without land use right certificates are as follows:

- (i) we are in the process of applying for the land use right certificates in respect of two parcels of land with a total area of approximately 57,399 square meters and expect to obtain them by the first quarter of 2010;
- (ii) we have paid part of the land grant fees and are taking steps to acquire the land grant in respect of five parcels of land with a total area of approximately 445,181 square meters and expect to complete the acquisition by the first quarter of 2010. Our PRC counsel, Concord & Partners, is of the opinion that, upon signing of the land grant contracts and payment of the relevant land grant fees, there would not be any legal impediment for us to obtain the relevant land use right certificates; and
- (iii) in respect of the remaining six parcels of land with a total area of approximately 780,511 square meters, we have not determined a specific timetable for obtaining the relevant land use right certificates. As four parcels of the land are occupied by storage facilities, water pumping facilities and a conveyor belt for the transportation of minerals extracted by us, one parcel of land is for future production facilities and the remaining parcel of land for residential purposes, our Directors believe that the absence of land use right certificates in respect of these parcels of land do not have any material adverse impact on the operations and financial position of our Group.

The 65 buildings and units without building ownership certificates account for approximately 13.5% of our buildings in terms of gross floor area. As at the Latest Practicable Date, we have not been able to obtain the building ownership certificates in respect of the 65 buildings and units. While we do not have a specific timeframe for obtaining the building ownership certificates in respect of such buildings and units, the status of the 65 buildings and units without building ownership certificates are as follows:

- (i) we are applying for the building ownership certificates in respect of nine buildings with a total gross floor area of approximately 27,431 square meters which are located on a parcel of land for which our Group has obtained the land use right certificate; and
- (ii) we will apply for the building ownership certificates in respect of the other 56 buildings and units after it has obtained the land use right certificates in respect of the land on which such buildings and units are located. We expect to obtain the relevant land use right certificates or complete the acquisition of such land by the first quarter of 2010 and will begin to apply for the building ownership certificates thereafter.

Our PRC counsel, Concord & Partners, confirmed that, after we have obtained the land use right certificates for the land on which such buildings are located, there should be no legal impediment in obtaining the relevant building ownership certificates. As at June 30, 2009, the net book value of the properties without title certificates amounted to RMB183.4 million, which accounts for approximately 13.5% of the net book value of our owned properties. Accordingly, these owned properties without title certificates only constituted a relatively small portion of our owned properties, our Directors believe that there are no material financial and operational impact on our Group arising from the absence of title certificates for these owned properties.

We lease 18 parcels of land with an aggregate area of 2,894,390 square meters and 23 buildings with an aggregate gross floor area of 7,756.8 square meters. Of the 18 parcels of leased land, 12 parcels are collective land. We have not been able to obtain from the lessors complete title documents in respect of seven leased buildings with a total gross floor area of approximately 2,815 square meters, representing approximately 0.6% of the total gross floor area of the owned and leased buildings occupied by our Group and 11 parcels of leased collective land with a total area of approximately 2,800,400 square meters (in respect of one such parcel of land,

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the lessor has provided complete title documents), representing approximately 24.1% of total area of the owned and leased land occupied by our Group. Our PRC counsel has advised that the lessors did not provide the relevant land use right certificates for 11 parcels of leased collective land as there are no definitive laws or regulations which require the lessors to provide land use right certificates for temporary use of collective land. In addition, we have not obtained the relevant governmental approval in respect of the short term leases for seven parcels of collective land with an area of approximately 105,948 square meters occupied by our batching plants, representing approximately 0.9% of the total area of the owned and leased land occupied by our Group. For the seven leased buildings, our Directors understand that the lessors did not obtain the relevant building ownership certificates because they were not able to satisfy the conditions for obtaining such certificates. Our PRC counsel has advised that, because of the potential lack of title of the lessors over these leased buildings, our right to use these leased buildings as a lessee is subject to uncertainty. These leased buildings are used as offices and as such, our Directors believe that they can be relocated if necessary without causing any material adverse impact on our business, results of operations or financial condition. For the seven parcels of leased collective land, the local land bureau indicated that it will not issue the relevant approval. Our PRC counsel has advised that the leasing agreements in respect of the seven parcels of leased collective land are not legally binding on or enforceable between the parties. For the other five parcels of leased collective land for which we have obtained the relevant government approval, our PRC counsel has advised that the relevant leasing agreements are legally binding and enforceable between the parties.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the turnover resulting from the production facilities located on such leased buildings and parcels of land accounted for approximately 19.1%, 16.0%, 11.6% and 8.5% of our Group's turnover from continuing operations, respectively, and the profit resulting from such production facilities accounted for approximately 45.4%, 8.4%, 2.3% and 3.6% of our Group's net profit, respectively. Our Directors believe that any outstanding title documents in relation to these leased properties would not have a material adverse impact on our business, results of operations or financial condition. A majority of our leased properties are occupied by our concrete batching plants. As ready mixed concrete must be delivered to customers' construction sites within a short period of time (usually within two hours), our concrete batching plants need to be located close to the end users (usually within approximately 25 kilometers) and therefore may be relocated from time to time, depending on market demand. If the surrounding markets have been saturated and new projects have been developed elsewhere, we will consider relocating our concrete batching plants to fulfill the concrete demand in the markets with new projects. Due to the nature of the concrete business, we believe it is not crucial for our concrete batching plants to be located on land subject to long term leasing arrangements or long term land use rights. Most of our concrete batching plants are therefore under short term leasing arrangements for a maximum period of two years. Details of the leasing period of our concrete batching plants are as follows:

<u>Relevant leasing subsidiary</u>	<u>Leasing Period</u>
China Resources Concrete (Nanning) Limited	January 1, 2009 – January 1, 2010
China Resources Concrete (Nanning Xixiangtang) Limited	January 1, 2009 – January 1, 2010
China Resources Dongguan Concrete Company Limited	July 1, 2009 – June 30, 2011
China Resources Concrete (Jiangmen) Limited	July 1, 2008 – June 30, 2010
China Resources Concrete (Jiangmen Tangxia) Limited	July 1, 2009 – June 30, 2010
China Resources Concrete (Foshan) Company Limited	July 1, 2008 – June 30, 2010
Foshan China Resources Shunan Concrete Limited	July 1, 2009 – June 30, 2011
China Resources Concrete (Shenzhen) Company Limited	July 1, 2009 – December 31, 2009
China Resources Concrete (Fuzhou Development Zone) Limited	July 1, 2008 – December 31, 2009
China Resources Concrete (Dongguan Fengcheng) Limited	July 1, 2008 – August 31, 2026
	July 1, 2008 – November 30, 2027
Heyuan China Resources Pengyuan Concrete Limited	July 1, 2009 – June 30, 2010
China Resources Concrete (Zhanjiang) Limited	February 18, 2009 – February 17, 2010

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We currently do not have a relocation schedule for our concrete batching plants. In determining whether we should relocate a particular concrete batching plant, factors considered by us include (i) whether the PRC Government has requested us to vacate the premises due to absence or incompleteness of title certificates; (ii) whether the surrounding markets have saturated, resulting in a decrease in the plant’s sales and profits; and (iii) whether we are able to renew the relevant leasing agreement upon expiry of its term. Where the PRC Government requires an occupier to vacate a property with defective title, we understand it normally gives the occupier a certain period of time to do so. Our Directors believe that in such an event, we would have sufficient time to plan our relocation such that there will be minimum disruption to our business. In addition, in order to minimize relocation costs, we have designed our concrete batching plants in a way such that they can be dismantled and re-assembled. If we are unable to obtain a renewal of the relevant leasing agreement, we will relocate our concrete batching plants upon expiry of the term. We expect the time for finding suitable alternative site and relocating each concrete batching plant is approximately four to five months. The costs for relocating our concrete batching plants are expected to approximately RMB1.5 million to RMB1.8 million per plant and are approximately RMB19.5 million to RMB23.4 million for all our operating concrete plants.

### **Environmental Compliance and Pollution Controls**

The cement industry is categorized by the PRC Government as a polluting industry. Accordingly, we are subject to a variety of governmental laws and regulations related to environmental protection. There are national and local standards applicable to land rehabilitation, reforestation, emission control, discharge to surface and subsurface water and the generation, handling, storage, transportation, treatment and disposal of waste materials. In addition, we are subject to various state, provincial and municipal environmental laws, regulations and administrative rules. For further information regarding environmental laws and regulations, please see the section headed “Regulatory Overview — Environmental Protection” in this document.

According to the Environmental Protection Law (《中華人民共和國環境保護法》) and other relevant laws and regulations, companies that discharge contaminants must report and register with the MEP or the relevant local environmental protection authorities. Companies discharging contaminants in excess of the discharge limits prescribed by the central or local authorities must pay discharge fees for the excess in accordance with applicable regulations, and are also responsible for the treatment of the excess discharge. Government authorities can impose different penalties on individuals or companies in violation of the Environmental Protection Law (《中華人民共和國環境保護法》), depending on the individual circumstances of each case and the extent of contamination. Such penalties include warnings, fines, impositions of deadlines for remedying the contamination, orders to stop production or use, orders to re-install contamination prevention and treatment facilities which have been removed without permission or left unused, administration actions against relevant responsible persons or companies, or orders to close down those enterprises. Where the violation is serious, the persons or companies responsible for the violation may be required to pay damages to victims of the contamination. Where serious environmental contamination occurs in violation of the provisions of the Environmental Protection Law (《中華人民共和國環境保護法》) which results in serious loss of public and private property, persons or enterprises directly responsible for such contamination may be held criminally liable.

When raw materials are processed through a kiln, they emit various greenhouse gases such as carbon monoxide, nitrogen dioxide and sulphur dioxide. Cement production also produces noise, waste water and industrial waste. Prior to the [●], we will have adopted the following specific measures pursuant to the characteristics of the cement and concrete production businesses and the different sources of pollution in order to comply with the relevant environmental protection laws and regulations:

#### *Cement Production*

Waste water. In our factory areas, we separate water and sewage and rain and sewage for our drainage system. Clean water in the cooling equipment is recycled through pipes, while sewage and rain are recycled upon



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treatment after flowing back to the factory through open ditches. With a recycling rate of over 95%, very little waste water is discharged into the environment.

Dust. All waste gas and smoke containing dust generated from our production lines and procedures are disposed of by electric and bag type dust collectors, both of which are highly efficient and reliable for dust collection. Kiln heads and kiln rears are equipped with electric dust collectors and relevant auxiliary equipment, respectively. All raw materials and fuel in our factory areas are hermetically transmitted through conveyor belts. Storerooms of raw materials and fuel are either closed-ended or hermetic type storerooms built in a cylindrical or rectangular shape. Special vehicles in our factory areas spray water on the raw material storage fields and factory roads on which the fuel and raw materials are transported in order to reduce dust during dry seasons.

Noise. Our raw materials grinding system uses a vertical roll grinding system, which is energy efficient and has a low noise level. Mufflers are installed on the air inlets of root blowers, the air aspiration port of air compressors and discharge ports of various blowers. We have adopted sound dampening measures including shock absorption and sealing enclosure protection on large equipment foundation such as raw mills, coal mills, cement mills and crushers. In respect of ore blasting, we make use of the technology and measures such as charge control, deep-hole differential, zoning blasting and sectional blasting to control the blasting charge, blasting period and frequency and to strictly control blasting noise and vibration. In addition, we take advantage of buildings and green belts to insulate and absorb noise to prevent the spread of noise.

Comprehensive use of solid waste. We recycle dust generated by cement production processes, rather than discharging it into the environment. We burn household waste into the dry process kilns. When we replace broken bricks at the time of the inspection and maintenance of rotary kilns, we recycle the bricks together with raw materials for use in our cement production process.

Others. All of our cement production lines are equipped with low-temperature residual heat power generators. When generating power from the residual heat, the emission of dust, carbon dioxide, smoke and other substances is reduced to create energy savings and environmental protection. Our residual heat power generators reduce emissions of greenhouse gases such as carbon monoxide, nitrogen dioxide and sulphur dioxide by an annual reduction rate of 50,000 tons per production line. Residual heat power generators also reduce overall power consumption from regional power grids that may use fossil fuels to generate power. We have used de-sulfur gypsum from the de-sulfur emission process of coal-burning power plants to replace natural gypsum in our cement production process. Prior to [●] we will have installed an online environmental-protection detection system to effectively supervise the discharge of pollutants. Environmental protection equipment represents approximately 8% of our total equipment cost in our cement production plan. The energy consumption to run environmental protection equipment is approximately 2Kwh per ton of clinker.

### *Concrete Production*

Waste water. Slurry water generated when cleaning the mixers and mixing trucks is separated into sandstone and waste water through a sandstone separator. The sandstone and waste water are recycled for production. Such measures have been implemented in some batching plants and are ready to be implemented in other plants.

Dust. We have adopted the closed-ended mixing station design. We have also adopted a closed-ended feeding funnel and a closed-ended conveyor belt system to deliver production aggregates and use the compression air to blow the production powder into powder tanks. In each powder tank, the most advanced air-filter dust collector, equipped with a filter core (with functions of automatic reverse blowing and explosion proof), has been installed. We have set a speed limit for vehicles driving within the area occupied by us to a maximum speed of 10km/h. Dedicated staff are responsible for spraying water on our roads to ensure that dust is minimized.

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Noise. We have adopted fully closed-ended production lines to reduce noise. When installing the main mixer, we add a rubber shock absorption system to further reduce noise. In addition, we purchase equipment such as forklifts which are in compliance with national standards for noise reduction.

To formulate and implement the abovementioned measures, all of our cement companies have established environmental protection departments and retained full-time environmental protection administrators. Such persons are responsible for matters relating to the environmental protection management under the leadership of the deputy general manager of production, who represents the environmental protection administrators. Various production departments, auxiliary departments and workshop sections are equipped with part-time environmental protection administrators. Employees with over five years of experience manage the batching plants in our concrete companies. Specific inspection and management are also conducted for the relevant equipment and measures to ensure the implementation and ongoing compliance of environmental protection measures.

Our PRC counsel, Concord & Partners, has confirmed that we have materially complied with the relevant environmental laws, regulations and administrative rules. During the Track Record Period, we have not been subject to any material sanctions or penalties imposed by environmental regulatory authorities in China. For international environmental matters, our PRC counsel has informed us that China is classified as a developing country under the Kyoto Protocol. Developing countries are under no obligation to reduce emissions under the Kyoto Protocol. Our PRC counsel also informed us that China is also classified as a developing country under the Montreal Protocol, and is allowed specific delays in compliance under Article 5 of the Montreal Protocol.

### Government Incentives

We were granted the following incentive subsidies by the PRC Government:

- (a) environmental protection subsidies granted to Hongshuihe Cement and Pingnan Cement as development funds to establish environmental friendly manufacturing factories by making use of residual heat power, which is produced during the process of the manufacture of cement. These subsidies were granted to Hongshuihe Cement and Pingnan Cement by the Economic Committee of Guangxi Autonomous Region (廣西自治區經濟委員會) pursuant to the Notice of the NDRC's Investment Plans for the Fourth Batch of State Government Budgeted Specific Funds (National Debt) in 2006 for Energy Saving and Environmental Protection Projects (Gui Jin Zi Yuan (2006) No. 283) (《轉發國家發展改革委員會關於下達2006年第四批資源節約和環境保護專案中央預算內專項資金(國債)投資計畫的通知》(桂經資源[2006]283號)) and Notice of NDRC's Investment Plans for the Fifth Batch of State Government Budgeted Specific Funds in 2007 for Energy Saving and Environmental Protection Projects (Gui Jing Zi Yuan (2007) No. 489) (《轉發國家發展改革委員會關於下達2007年第五批資源節約和環境保護專案中央預算內投資計畫的通知》(桂經資源[2007]489號)) issued by the Economic Committee of Guangxi Autonomous Region (廣西自治區經濟委員會) in 2006 and 2007 respectively;
- (b) business encouragement subsidies granted to Pingnan Cement, Guigang Cement and Hongshuihe Cement to encourage the establishment of cement manufacturing business in the Guangxi Autonomous Region by the Pingnan County Government, the Government of Qintang District, Guigang City and the Binyang County People's Government, respectively. These include incentives granted pursuant to the Notice of Issues relating to Certain Comprehensive Utilisation of Resources and Value Added Tax for Other Products (Cai Shui (2001) No. 198) (《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》(財稅[2001]198號)) issued by the Ministry of Finance and the State Administration of Taxation, the Notice of Adjustment of Applicable Resources Tax for Limestone, Marble and Granite (Cai Shui (2003) No. 119) (《財政部、國家稅務總局關於調整石灰石、大理石和花崗石資源稅適用稅額的通知》(財稅[2003]119號)) issued by the Ministry of Finance and the State Administration of Taxation, and

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the Notice of Issue relating to the First Group of the Autonomous Region's Potential Corporate Capital and Technology Reform Measures in 2006's (Gui Investment (2006) No. 206) (《關於下達自治區2006年第一批企業挖潛改造資金技術措施專案計畫的通知》(桂經投資[2006]206號)) issued by the Economic Committee of Guangxi Autonomous Region on May 26, 2006; and

- (c) advanced technology and other incentives granted to Pingnan Cement and Hongshuihe Cement by the PRC Government mainly for technological improvements.

For details of the government incentives, please refer to note 49 of the Accountants' Report of the Company in Appendix I to this document.

### Litigation

Our PRC subsidiaries are currently involved in 26 active legal proceedings. Among these, 22 have been filed by our PRC subsidiaries as plaintiffs for payments in arrears owed by customers. The remaining four legal proceedings are summarized below. We have made provisions in relation to these four legal proceedings in the amount of HK\$12 million.

In April 2007, CRC Investments was involved in a business commission dispute for a brokerage contract in the amount of approximately RMB1.9 million. Shenzhen Luohu District Court handed down its civil judgment on October 12, 2007, ordering CRC Investments to pay the plaintiffs the liquidate damages and the unpaid business commission. Our PRC counsel is of the opinion that the plaintiffs' claims against CRC Investments are justified to a certain extent, but the parties are in dispute as to the amount of the commission in arrears which will be subject to the court's decision at the second instance. CRC Investments has lodged an appeal against this decision on the ground that the court of first instance's ruling is inconsistent with the facts and that the evidence provided by the plaintiffs should not be admissible according to the requirements of the Civil Procedure Laws in the PRC. The case is currently undergoing a hearing at second instance. Upon perusing the relevant cooperation agreement and considering the requirements of the Civil Procedure Laws in the PRC, our PRC counsel is of the opinion that the appeal lodged by CRC Investments is justified. Concord & Partners confirmed that as the appeal proceeding has commenced, the plaintiff cannot enforce the judgment awarded by the court of first instance against the defendant.

In August 2006, a dispute arose concerning a collapsed dock in the Fuzhou Development Zone with China Resources Cement (Fuzhou) Limited (formerly known as Fuzhou Development Zone Shun Li Building Materials Company Limited) ("Shun Li"). Shun Li has attributed this accident to illegal sand mining activities conducted in water areas around the dock. The claim by Shun Li is against six individuals and one shipment association, namely, Lin Shidi (林拾佛), Lin Bingguang (林炳光), Yang Zhenxing (楊振興), Chen Keju (陳客聚), Chen Yuxin (陳玉新), Zheng Siming (鄭思銘) and Changle Yingqian Shipping Association (長樂營前航運協會). Shun Li is claiming economic loss of RMB23,072,000 and litigation costs. The case is still currently pending trial at the first intermediate court. Our PRC counsel is of the opinion that Shun Li's claim against the defendant is justified with legal basis.

In January 2007, employees of China Resources Concrete (Beihai) Limited were involved in a traffic accident. The plaintiff has filed an action with Nanning Xingning District Court against China Resources Concrete (Beihai) Limited and claimed for compensation, litigation costs and pain and suffering. Our PRC counsel is of the opinion that the plaintiffs' claims against China Resources Concrete (Beihai) Limited are justified to a certain extent and the court has adjudged that China Resources Concrete (Beihai) Limited shall indemnify the plaintiffs in an aggregate amount of RMB80,278 for the funeral expenses, death compensation, loss of income and psychological damages. The adjudicated amount was less than the plaintiffs' claimed amount. China Resources Concrete (Beihai) Limited has accepted the judgment and confirms that it is ready to pay the said damages to the plaintiffs. As the other defendants are appealing against the decision by the court of first instance, China Resources Concrete (Beihai) Limited will pay the damages after the court has adjudged the case.

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## BUSINESS

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In May 2007, Hongshuihe Cement became involved in an equipment transfer dispute with a Mr. Li Hanwei. Hongshuihe Cement claimed against the defendant for equipment purchase price of RMB14,650,000, agreed liquidated damages of RMB1,747,200, confiscation of down payment of RMB3,000,000 and litigation costs. Mr. Li has been ordered by the Nanning Intermediate Court (南寧中階民法院) to pay Hongshuihe Cement the unpaid purchase price of the equipment of RMB11,560,000 and the agreed liquidated damages, to remove such equipment, to surrender his down payment, and to pay Hongshuihe Cement's litigation costs of RMB142,643. Our PRC counsel is of the opinion that Hongshuihe Cement's claim against the defendant is justified and is supported by the court's civil judgment in favor of Hongshuihe Cement. To ensure that the judgment is properly executed, Hongshuihe Cement applied for enforcement of the judgment on July 22, 2008 due to Mr. Li's non-compliance. The court has seized from the defendant a private vehicle, cash of RMB145,000 and old equipment stored with Hongshuihe Cement. Hongshuihe Cement is currently waiting for the court to undertake the next step in the distraint proceedings.

As at the Latest Practicable Date, no member of our Group was involved in any litigation, arbitration or administrative proceedings pending or threatened against us or any of our Directors that could have a material adverse effect on our business, results of operations or financial condition.