



中國西部水泥有限公司
WEST CHINA CEMENT LIMITED

(Incorporated in Jersey with limited liability with registered number 94796)

Stock code: 2233

Global Offering



Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and Joint Sponsors



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IMPORTANT

If you are in any doubt about this prospectus, you should obtain independent professional advice.



西部水泥

WEST CHINA CEMENT LIMITED

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(Incorporated in Jersey with limited liability with registered number 94796)

GLOBAL OFFERING

Number of Offer Shares	: 823,120,000 Shares (subject to Over-allotment Option)
Number of Hong Kong Offer Shares	: 82,312,000 Shares (subject to adjustment)
Number of International Placing Shares	: 740,808,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$1.69 per Offer Share (payable in full on application in Hong Kong dollars, plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, subject to refund on final pricing)
Nominal value	: £0.002 each
Stock code	: 2233

Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and Joint Sponsors



工銀國際
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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this document has been delivered to the registrar of companies in Jersey in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and the registrar has given, and has not withdrawn, consent to its circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 2 of the Control of Borrowing (Jersey) Order 1958 to the issue of securities in the Company. It must be distinctly understood that, in giving these consents, neither the registrar of companies in Jersey nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of our Company or for the correctness of any statements made, or opinions expressed, with regard to it.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before August 13, 2010 or such later date as may be agreed by our Company and the Joint Global Coordinators, but in any event not later than August 15, 2010. The Offer Price will be not more than HK\$1.69 per Offer Share and is currently expected to be not less than HK\$1.21 per Offer Share unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum offer price of HK\$1.69 for each Offer Share together with a brokerage of 1%, a SFC transaction levy of 0.004% and a Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$1.69. The Joint Global Coordinators (on behalf of the Underwriters), with our consent, may reduce the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, a notice of the reduction of the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offer.

If, for any reason, the Offer Price is not agreed between us and the Joint Global Coordinators (on behalf of the Underwriters) on or before August 15, 2010, the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that the Offer Shares may be offered, sold or delivered (i) within the United States in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144a under the U.S. Securities Act or another exemption from registration under the U.S. Securities Act; and (ii) in offshore transactions outside the United States in reliance on Regulation S under the U.S. Securities Act.

This prospectus has been prepared on the basis that the Global Offering will be made pursuant to an exemption under the Prospectus Directive, as implemented in each Member State (each, a "Relevant Member State") of the European Economic Area ("EEA"), from the requirement to produce a prospectus for the Global Offering. Accordingly any person making or intending to make any offer within the EEA of Offer Shares should only do so in circumstances in which no obligation arises for our Company or any of the Underwriters to produce a prospectus for such offer. Neither our Company nor the Underwriters have authorized, nor do they authorize, the making of any offer of Offer Shares through any financial intermediary, other than offers made by the Underwriters by way of the Global Offering as contemplated in this prospectus. The expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each of the Underwriters has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the United Kingdom Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of the Offer Shares in circumstances in which Section 21(1) of the FSMA does not apply to our Company. This prospectus and any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the Offer Shares is only directed at, and may only be communicated to, persons in the United Kingdom who fall within Article 49(2) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

Pursuant to the certain provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Joint Global Coordinators, on behalf of the Underwriters, has the right in certain circumstances, subject to the sole opinion of the Joint Global Coordinators, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the day on which dealings in the Shares first commence on the Stock Exchange. Further details of the terms of such provisions are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

August 10, 2010

EXPECTED TIMETABLE⁽¹⁾

Application Lists open ⁽²⁾	11:45 a.m. on August 13, 2010
Latest time to lodge WHITE and YELLOW Application Forms ⁽³⁾	12:00 noon on August 13, 2010
Latest time to give Electronic Application Instructions to HKSCC ⁽²⁾⁽³⁾	12:00 noon on August 13, 2010
Latest time to complete electronic applications under the White Form eIPO service through the designated website www.eipo.com.hk ⁽⁴⁾	11:30 a.m. on August 13, 2010
Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on August 13, 2010
Application Lists close	12:00 noon on August 13, 2010
Expected Price Determination Date	August 13, 2010
Announcement of the final Offer Price, the level of the applications in the Hong Kong Public Offer, the level of indication of interest in the International Placing and the basis of allotment of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	August 20, 2010
Results of allocations (with successful applicants’ identification document numbers or Hong Kong business registration numbers) of the Hong Kong Public Offer will be available through a variety of channels as described in the section headed “How to apply for Hong Kong Offer Shares” in this prospectus from	August 20, 2010
Results of allocations in the Hong Kong Public Offer will be available at www.iporesults.com.hk with a “search by ID” function	August 20, 2010
Dispatch of White Form e-Refund payment instructions/refund cheques in respect of wholly successful (if applicable) and wholly or partially unsuccessful applications under the Hong Kong Public Offer on or before ^{(6) & (7)}	August 20, 2010
Dispatch of Share certificates of the Offer Shares or deposit of Share certificates of Offer Shares into CCASS in respect of wholly or partially successful applications under the Hong Kong Public Offer on or before ^{(5) & (7)}	August 20, 2010
Dealings in Shares on the Stock Exchange expected to commence on	August 23, 2010

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All times refer to Hong Kong local time.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on August 13, 2010, the application lists will not open or close on that day. Please refer to the section headed “How to apply for Hong Kong Offer Shares — When may applications be made — Effect of bad weather on the opening of the application lists” in this prospectus.
If the application lists do not open and close on August 13, 2010, the dates mentioned in this section headed “Expected Timetable” may be affected. A press announcement will be made by us in such event.
- (3) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to apply for Hong Kong Offer Shares — Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
- (4) You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications under the Hong Kong Public Offer. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications under the Hong Kong Public Offer, when the application lists close.
- (5) Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on August 23, 2010 provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements have been terminated in accordance with its terms.
- (6) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.
- (7) Applicants who have applied on **WHITE** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offer and have indicated in their applications that they wish to collect any refund cheques and share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, may do so between 9:00 a.m. to 1:00 p.m. on August 20, 2010. Applicants being individuals who opt for personal collection may not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporation stamped with the corporation’s chop. Both individuals and authorized representatives of corporations must produce, at the time of collection, identification and (where applicable) authorization documents acceptable to Computershare Hong Kong Investor Services Limited. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offer may collect their refund cheques, if any, in person but may not elect to collect their share certificates as such share certificates will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Applicants who have applied through the **White Form eIPO** service for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offer can collect their share certificates (if any) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong between 9:00 a.m. to 1:00 p.m. on August 20, 2010. For applicants who apply through the **White Form eIPO** service and paid the application monies from a single bank account, e-Refund payment instructions(if any) will be dispatched to their application payment bank account on or before August 20, 2010; for applicants who apply through the **White Form eIPO** service and used multi-bank accounts to pay the application monies, refund cheque (if any) will be dispatched to the address specified in their electronic application instruction to the White Form eIPO Service Provider on or before August 20, 2010. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — Publication of results, dispatch/collection of Share certificates and refunds of application monies” in this prospectus for details. Uncollected share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants’ own risk to the addresses specified in the relevant applications. Further information is set out in the section headed “How to apply for Hong Kong Offer Shares — Publication of results, dispatch/collection of Share certificates and refunds of application monies” in this prospectus.

Particulars of the structure of the Global Offering, including the conditions thereto, are set out in the section headed “Structure and conditions of the Global Offering” in this prospectus.

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You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, any of the Underwriters, any of their respective directors, or any other person involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a cement producer in Shaanxi province in the PRC. Our cement is sold under the trademarks “尧柏” (Yao Bai) and “尧柏水泥” (Yaobaishuini) and is primarily used in the construction of infrastructure projects such as highways, bridges, railways and roads, as well as residential buildings. Our cement can be categorized into high grade cement and low grade cement. High grade cement is a category of cement that generally has a 28-day compressive strength of 42.5 MPa, or 425 kg/cm², or above and is primarily used for government infrastructure projects. Low grade cement is a category of cement that generally has a 28-day compressive strength of 32.5 MPa, or 325 kg/cm², or below and is primarily used for residential buildings.

As of the Latest Practicable Date, we had eight cement production lines located in Shaanxi province, with a total annual production capacity of 9.6 million tons. According to Digital Cement Net, a website operated by the China Cement Association, we were the second largest cement producer in Shaanxi province by production capacity as of December 31, 2009. All of our production lines employ the NSP technology, which requires less energy to produce cement and is more environmentally friendly than non-NSP technologies. According to Digital Cement Net, 61% of the total cement output in Shaanxi province in 2008 was produced by production lines that employed the NSP technology and were operated by cement producers with over RMB5.0 million in revenue for 2008. For the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2009 and 2010, our production lines that employed the NSP technology produced 2.4 million, 3.5 million, 5.1 million, 1.2 million and 2.2 million tons of cement, respectively. In order to meet the fast-growing market demand for cement products in Shaanxi province, we are constructing a new production line each in Pucheng county and Xixiang county in Weinan and Hanzhong regions, respectively, in Shaanxi province with a total annual production capacity of 2.2 million tons. We are also installing a new cement grinding mill in our Lantian production facility, which is expected to increase our annual production capacity by 0.7 million tons. These additional production facilities are expected to increase our annual production capacity to 12.5 million tons upon their completion by February 2011. We intend to further increase our production capacity through acquisitions of suitable target companies or assets.

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

SUMMARY

included limestone, gypsum, clay, flyash, pyrite cinder and slag, represented approximately 34.0%, 26.0%, 32.4% and 24.5% of our cost of sales, respectively; coal represented approximately 21.4%, 36.0%, 31.2% and 37.9% of our cost of sales, respectively; and electricity represented approximately 24.8%, 22.0%, 20.7% and 18.6% of our cost of sales, respectively.

Our advanced technology enables us to recycle and use industrial by-products, industrial waste and construction waste in our production process, which lowers our cost of production and also entitles us to VAT refunds from the PRC government. During the Track Record Period, these VAT refunds amounted to approximately RMB30.5 million, RMB39.2 million, RMB65.0 million and RMB25.2 million, respectively. We also enjoy other government incentives such as industrial development subsidies and “clean” project investment incentives, which together amounted to approximately RMB5.2 million, RMB1.5 million, RMB6.5 million and RMB3.2 million, respectively, during the Track Record Period.

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

We primarily sell our cement either directly to government infrastructure projects and ready-mixed concrete stations or to distributors, which then resell our cement to retail purchasers. The table below sets forth our revenue by customer type for the periods indicated.

Type of Customer	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
	(RMB in millions)			(RMB in millions)	
Government infrastructure projects ⁽¹⁾	104.6	136.4	657.7	72.0	77.5
Ready-mixed concrete stations	60.4	165.1	113.3	23.8	43.8
Distributors (both entities and individuals)	273.7	406.4	595.1	205.6	416.4
Others ⁽²⁾	<u>87.2</u>	<u>158.2</u>	<u>150.7</u>	<u>48.0</u>	<u>137.6</u>
Total	<u>525.9</u>	<u>866.1</u>	<u>1,516.8</u>	<u>349.4</u>	<u>675.3</u>

Notes:

- (1) Include infrastructure projects funded by various levels of the PRC government or state-owned enterprises, including telecommunication network, railway and expressways.
- (2) Include sales to other customers who do not fall into the categories of government infrastructure projects, ready-mixed concrete stations and distributors. These customers were primarily individuals or entities located near our production facilities and purchased our products for use in small construction projects. Such sales also included direct cash sales to individual retail customers which amounted to approximately RMB0.9 million, RMB1.8 million, RMB5.5 million, RMB0.6 million and RMB6.8 million during the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2009 and 2010, respectively.

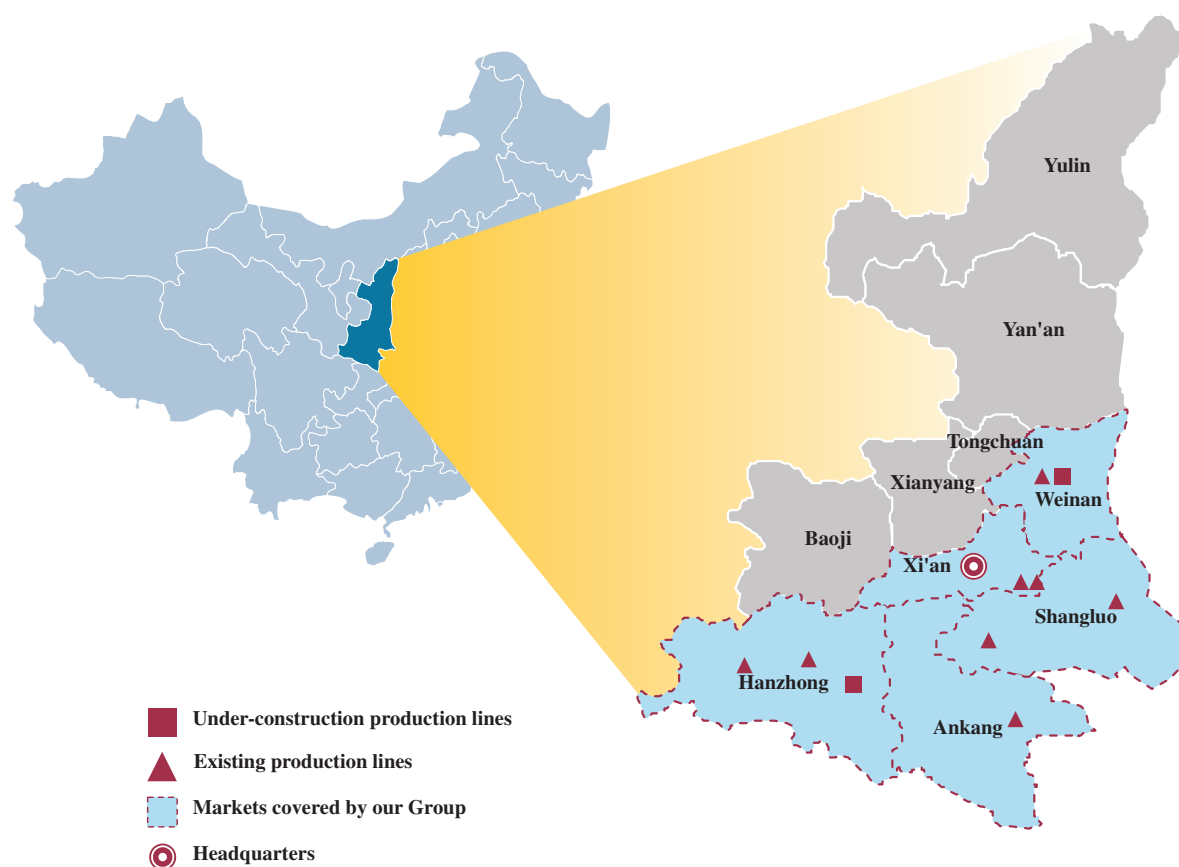
SUMMARY

The percentages of our revenue represented by the types of customers set forth in the table above fluctuated during the Track Record Period. The percentage of our revenue represented by sales to government infrastructure projects decreased and the percentage of our revenue represented by sales to ready-mixed concrete stations increased in 2008 compared with 2007, because our Lantian production facility, which ramped up to full operations in 2008, mainly served the Xi'an market where there was substantial demand from ready-mixed concrete stations. Our sales to government infrastructure projects as a percentage of our revenue increased significantly in 2009 as the PRC government's fixed asset investment in southern Shaanxi province increased, which led to increased demand for cement by government infrastructure projects in our target markets. Our sales to government infrastructure projects as a percentage of our revenue decreased for the four months ended April 30, 2010 compared with the same period in 2009 because government infrastructure projects usually stop during the winter season and the Chinese New Year holidays early in the year and such down time in the first four months of 2010 was longer than that in the first four months of 2009. The percentage of our revenue derived from sales of high grade cement increased and the percentage of our revenue derived from sales of low grade cement decreased from 2007 to 2009 and between the four months ended April 2009 and 2010.

We achieved significant growth in revenue, operating profit and net profit during the Track Record Period. Our revenue increased from approximately RMB525.9 million for the year ended December 31, 2007 to approximately RMB866.1 million for the year ended December 31, 2008 and to approximately RMB1,516.8 million for the year ended December 31, 2009, representing a CAGR of 69.8% from 2007 to 2009. Our operating profit increased from approximately RMB174.9 million for the year ended December 31, 2007 to approximately RMB283.2 million for the year ended December 31, 2008 and to approximately RMB616.2 million for the year ended December 31, 2009, representing a CAGR of 87.7% from 2007 to 2009. Our net profit increased from approximately RMB150.3 million for the year ended December 31, 2007 to approximately RMB246.2 million for the year ended December 31, 2008 and to approximately RMB330.5 million for the year ended December 31, 2009, representing a CAGR of 48.3% from 2007 to 2009. For the four months ended April 30, 2010, our revenue, operating profit and net profit were RMB675.3 million, RMB242.5 million and RMB154.3 million, which increased by 93.3%, 75.8% and 69.9%, respectively, compared with the same period in 2009.

SUMMARY

The map below indicates the locations of our production facilities in Shaanxi province as of the Latest Practicable Date:



The tables below set out the details of our existing eight cement production lines:

Production Lines	Location	Owned By	Commencement of Operations	NSP Technology	Residual Heat Recovery Systems as of April 30, 2010	Capital Investment/	Investment
						Cost as of April 30, 2010	Cost per Ton of Cement as of April 30, 2010 ⁽¹⁾
						(RMB million)	(RMB)
Pucheng	Pucheng county	Shaanxi Yaobai	February 2004	Yes	No ⁽²⁾	448.0	320.0
Lantian — Line 1.	Lantian county	Lantian Yaobai	May 2007	Yes	Yes	646.1	293.7 ⁽³⁾
Lantian — Line 2.	Lantian county	Lantian Yaobai	August 2007	Yes	Yes		
Xunyang	Xunyang county	Ankang Yaobai	January 2009	Yes	Yes	807.8	448.8 ⁽⁴⁾
Zhen'an	Zhen'an county	Xiushan Yaobai	April 2005 ⁽⁵⁾	Yes	No ⁽²⁾	153.8	219.7
Danfeng	Danfeng county	Longqiao Yaobai	September 2007 ⁽⁵⁾	Yes	No ⁽²⁾	365.4	332.2
Yangxian	Yangxian county	Hanzhong Yaobai	December 2009	Yes	No ⁽²⁾	405.0	368.2 ⁽⁶⁾
Mianxian.	Mianxian county	Mianxian Yaobai	July 2010	Yes	No ⁽²⁾	242.4	220.4 ⁽⁷⁾

SUMMARY

Notes:

- (1) The investment cost per ton of cement is arrived at by dividing the capital investment/acquisition cost of each production line(s) by its production capacity.
- (2) We currently intend to install the residual heat recovery system at our Pucheng, Zhen'an, Danfeng and Yangxian production lines in the fourth quarter of 2010 and at our Mianxian production line in the second quarter of 2011.
- (3) The investment cost per ton of cement of our Lantian production lines does not take into consideration the 0.7 million tons of production capacity increase as a result of the installation of a cement grinding mill as this grinding mill was not funded by the original capital investment.
- (4) The investment cost per ton of cement does not take into consideration the 0.2 million tons of production capacity increase as a result of the installation of an additive grinding mill at our Xunyang production line as this grinding mill was not funded by the original capital investment. The investment cost per ton of cement of our Xunyang production line is comparatively higher because it included the cost of construction of a 7-km conveyor belt, part of which is over a mountainous area, for transportation of limestone to our production facility.
- (5) We acquired our Zhen'an and Danfeng production lines in August 2009 and December 2009, respectively.
- (6) The capital investment cost per ton of cement of our Yangxian production line does not take into consideration approximately RMB80 million to be paid in 2010 and 2011. This amount primarily consists of a portion of the total contractual amount payable by us for the construction of our Yangxian production line. We and our contractors agreed that we would withhold this amount as a form of guarantee of quality for various parts of the construction, and that we would pay a part of this amount at the end of the corresponding warranty period, except as may be offset by any warranty claims. This amount will have been paid back in full in 2011 when all relevant warranty periods expire. Taking this amount into account, the investment cost per ton of cement of our Yangxian production line will increase to approximately RMB440.9.
- (7) The total estimated capital investment cost of our Mianxian production line is between RMB350 million and RMB400 million and the corresponding total estimated investment cost per ton is between RMB318.2 and RMB363.6.

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

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

Notes:

- (1) The annual cement production capacity figures are calculated on the basis of a 310-day year at a clinker/cement ratio of 0.7. Each type of cement has its specific chemical features and therefore a different clinker/cement ratio ranging from 0.25 to 0.9. The commonly used industrial benchmark average ratio is 0.7, and we have been using 0.7 clinker/cement ratio to derive at our cement production capacity.

SUMMARY

- (2) The utilization rate is derived on the basis of actual production volume divided by pro-rata production capacity of each production line for the actual number of months in a year during which the production line was in operation.
- (3) The production capacity of Pucheng production line includes 300,000 tons of production capacity of an additive grinding mill. An additive grinding mill is a standalone process through which materials such as industrial by-products and waste are grounded and mixed to form cement.
- (4) Our Lantian — Line 1 and Line 2 production lines commenced operations in May 2007 and August 2007, respectively. Their actual production volume for the year ended December 31, 2007 represents the amount of cement they produced between May 1, 2007 to December 31, 2007 and August 1, 2007 to December 31, 2007, respectively.
- (5) The production capacity of Xunyang production line includes 200,000 tons of production capacity of an additive grinding mill effective as of December 31, 2009.
- (6) The production capacity of Zhen'an production line includes 248,000 tons of production capacity of an additive grinding mill.
- (7) Our Xunyang production line began trial production in January 2009 and commenced full operation in March 2009. Its actual production volume for the year ended December 31, 2009 represents the amount of cement it produced between March 1, 2009 and December 31, 2009.
- (8) We acquired our Zhen'an production line in August 2009. The actual production volume of our Zhen'an production line represents the amount of cement it produced between August 1, 2009 and December 31, 2009.
- (9) Our Yangxian production line commenced operations on December 31, 2009.
- (10) We acquired our Danfeng production line on December 31, 2009.
- (11) We completed the construction of a production line in Mianxian county in July 2010, which has an annual production capacity of 1.1 million tons. We are installing a new cement grinding mill in our Lantian production facility, which is expected to increase our total annual production capacity by 0.7 million tons upon its scheduled commencement of operations in August 2010.

The table below sets forth the details of our two production lines currently in construction:

Production Lines Under Construction	Location	Owned By	Planned Annual Production Capacity	Target Production Commencement Date	Total Budgeted Capital Expenditure	Actual Capital Expenditure Incurred as of April 30, 2010	Estimated Capital Expenditure in Future
			(in million tons)		(RMB in millions)	(RMB in millions)	(RMB in millions)
Pucheng . . .	Pucheng county	Shaanxi Yaobai	1.1	August/September 2010	330-380	164	166-216
Xixiang . . .	Xixiang county	Xixiang Yaobai	1.1	January/February 2011	370-420	57	313-363

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

Name of Quarry	Location	Mining Right Owner	Period of Validity ⁽¹⁾	Area (km ²)	Maximum Annual Production Volume Per Mining License	Reserve ⁽²⁾
					('000 tons)	('000 tons)
Yaoshan (堯山) ⁽³⁾	Pucheng county	Shaanxi Yaobai	June 18, 2008 – November 18, 2013	1.3	1,078	85,300
Jinsushan (金粟山) ⁽³⁾	Pucheng county	Shaanxi Yaobai	August 1, 2009 – August 1, 2010 ⁽⁴⁾	0.2	80	7,007
Xiaozhai (小寨)	Lantian county	Lantian Yaobai	December 17, 2007 – December 17, 2022	1.3	2,120	59,360
Qingshanzhai (青山寨)	Xunyang county	Ankang Yaobai	December 30, 2008 – December 30, 2013	0.4	1,754	69,500
Chujiashai (褚家寨)	Zhen'an county	Xiushan Yaobai	May 8, 2008 – May 8, 2016	0.1	400	154,970
Longtanzi (龍潭子)	Zhen'an county	Xiushan Yaobai	December 3, 2009 – December 3, 2012	0.1	450	8,635
Liu Xianping West Mountain (留仙坪西大山)	Danfeng county	Longqiao Yaobai	January 26, 2010 – January 26, 2020	0.3	1,200	13,542
Liu Xianping East Mountain (留仙坪東大山)	Danfeng county	Longqiao Yaobai	January 26, 2010 – January 26, 2020	0.2	1,200	27,937
Dalingliang (大嶺梁)	Hanzhong region	Hanzhong Yaobai	January 25, 2010 – January 25, 2020	0.6	2,219	110,180

Notes:

- (1) According to *Procedures for Registration of Mining of Mineral Resources* (礦產資源開採登記管理辦法) issued by the State Council on February 12, 1998, the mining license period will be based on the scale of the quarry: large-scale or above quarry can have a maximum of 30-year mining license period, medium-scale quarry can have a maximum of 20-year mining license period and small-scale quarry can have a maximum of 10-year mining license period. The bases for classifying into “large-scale”, “medium-scale” and “small-scale” quarries are specified in the *Notice Regarding the Standard for Sizes of Natural Resources and Reserves* (礦產資源儲量規模劃分標準的通知) issued by the Ministry of Land and Resources in the PRC on April 24, 2000. According to such notice, “large-scale” quarry has a reserve of over 80 million tons, “medium-scale” quarry has a reserve between 15 to 80 million tons, and “small-scale” quarry has a reserve of less than 15 million tons.
- (2) The limestone reserve figures are extracted from data compiled, and project approval documents issued, by relevant government authorities, as well as appraisals issued by government appointed surveyors and asset appraisal firms engaged by us.
- (3) As at January 1, 2007, we had mining rights at Yaoshan and Jinsushan limestone quarries for supplying limestone to our production facility at Pucheng county. The mining right of Yaoshan was renewed in June 2008 while the mining right of Jinsushan was renewed annually.
- (4) Our Directors understand that the period of validity for quarries with mining volume of less than 100,000 tons per year is subject to the approval of the Ministry of Land and Resources in the PRC and such authority limits the period of validity for such quarry to one year subject to renewal. We are in the process of renewing our mining right for Jinsushan (金粟山) quarry and do not foresee any legal impediment to such renewal.

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OUR STRENGTHS

We believe that our competitive strengths include the following:

- We are a leading cement producer in Shaanxi province and are well positioned to capture the growth opportunities in its fast-growing construction industry;
- We have a dominant market position in our core markets due to the strategic locations of our production facilities;
- We have convenient access to coal supply and limestone reserves;
- Our technology allows us to lower our total cost of sales;
- Our sales to distributors and cement end users such as government infrastructure projects enables us to reach a broad customer base; and
- We have a stable and experienced management team.

OUR STRATEGY

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

- Strengthen our leading market position through capacity expansion in selected markets;
- Further strengthen our sales and marketing capabilities;
- Continue to lower our costs through technological improvement; and
- Continue to build a strong management team with qualified personnel.

FUTURE PLANS

In order to meet the increasing demand for our products and to capture growth opportunities in the fast-growing construction industry in Shaanxi province, we plan to further expand our production capacity through construction of new production facilities and acquisitions. We completed the construction of a production line in Mianxian county in Hanzhong region in July 2010 with an annual production capacity of 1.1 million tons and are currently constructing two production lines in Pucheng and Xixiang counties in Weinan and Hanzhong regions, respectively, with a total annual production capacity of 2.2 million tons. We expect the construction of the Pucheng production line to be completed by the end of September 2010 and the Xixiang production line by the end of February 2011. It normally takes 12 to 18 months to construct a cement production line and a trial run of three months to ramp up to full operation. We intend to actively pursue acquisition opportunities that will enable us to penetrate other markets adjacent to our current core markets, such as selected markets in other parts of southern Shaanxi province, Gansu province or Sichuan province.

For our production lines in Danfeng, Mianxian and Yangxian counties which have commenced operations and our production lines in construction at Pucheng and Xixiang counties, our sales personnel are already conducting marketing activities including visiting potential customers. We also plan to utilize our new production capacities to produce cement products for a number of government infrastructure projects

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which we have been contracted to supply cements including Shiyao-Tianshui Expressway (十堰 — 天水高速) which our Mianxian production line is expected to supply approximately 0.25 million tons of cement and Datong-Xi'an Railway (大同 — 西安鐵路) which our new Pucheng production line is expected to supply 0.6 million tons of cement. We have appointed a general manager in charge of the overall operation for each of our new production line in Mianxian and Xixiang counties, and these general managers will report to our Board and senior management. Our new production line at Pucheng county will be managed by the same management personnel of current Pucheng production line. The financial reporting of our subsidiaries for the new production lines will adopt the same system and procedures we have currently adopted in our other subsidiaries and accounting personnel from our headquarter will assist the personnel of our respective subsidiaries in establishing the required financial reporting systems and procedures and supervise its operation. Our current centralized procurement of raw materials and sales management will also cover the operation of our new production lines in Pucheng, Mianxian and Xixiang counties. We have set up local sales office in Hanzhong region to handle our local sales activities in Mianxian and Xixiang counties.

Our expansion plan described above is based on the following considerations:

- the “Western Development Plan” (西部大開發) implemented by the PRC government and the RMB4 trillion economic stimulus package will continue to attract investment in infrastructure projects in Shaanxi province. It is important for us to maintain our leading position and expand our market coverage in Shaanxi province to benefit from these new opportunities;
- our new production lines in Mianxian, Pucheng, Xixiang and Yangxian counties are strategically located to ensure our further coverage of the southern Shaanxi markets. We expect the utilization rates of our Xunyang and Zhen'an production lines to increase in view of the completion of construction of our conveyor belt for delivery of limestone excavated from our limestone quarry to our Xunyang production line and upgrade of our Zhen'an production facilities. The commencement of operation of our new productions lines in Mianxian, Pucheng, Xixiang and Yangxian counties are not expected to affect the utilization rates of our Xunyang and Zhen'an production lines as they target different markets. The cement industry is highly localized because cement is expensive to transport due to its weight. Our Board had conducted detailed analysis for each new production line including analyzing the economic growth of the region where the new production lines will be located, the competition we will face from the existing cement producers and the potential market demand of cement.

As a result of the “Western Development Plan” (西部大開發) implemented by the PRC government and the RMB4 trillion economic stimulus package, we expect that the fixed asset investment will continue to grow rapidly in Shaanxi province and the demand for cement will remain high in view of the substantial number of major government-led infrastructure projects that will commence in Shaanxi province, including Baoji Hanzhong Bazhong Railway (寶雞 — 漢中 — 巴中鐵路), Hanzhong Yangpingguan Double Track Railway (漢中 — 陽平關鐵路複線) and Hanzhong Airport (漢中機場). We believe such opportunity is important for us to capture the substantial growth in cement consumption and to establish seamless market coverage in southern Shaanxi province where we believe has significant potential for future growth.

Our new production lines in Mianxian, Xixiang and Yangxian counties are all located in Hanzhong region in southern Shaanxi province which was a new market to us prior to the commencement of our new aforesaid production lines and where we believe that the demand for cement products will continue to grow in view of the government-led infrastructure projects

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mentioned above. According to Digital Cement Net, it is expected that the demand of cement from governmental infrastructure projects in Hanzhong region between 2010 and 2012 will amount to approximately 4.5 million tons while new production lines with approximately 2.2 million tons NSP technology cement production capacity which represents the production capacity of our Mianxian and Yangxian production lines have been added in Hanzhong region in 2010. Notwithstanding the substantial increase of new capacity, according to Digital Cement Net, Hanzhong region has approximately 0.8 million tons of obsolete clinker production capacities to be phased out between 2009 and 2010. Our Directors believe that the future demand of cement products in Hanzhong region is able to consume the additional capacity. Based on our analysis, raw materials, coal and electricity supplies are readily available and our central procurement arrangement would ensure a stable and low-cost supply of raw materials for our cement production.

Our new production line in Pucheng county is located in Weinan region in eastern Shaanxi province where a number of government-led infrastructure projects will commence, including Xi'an — Hefei Double Track Railway (Shaanxi section) (西安至合肥鐵路復線(陝西境)), Huangling — Houma Railway via Hancheng (黃陵經韓城至候馬線路) and Tongguan — Xi'an Highway Extension Project (潼關至西安高速公路改擴建工程). According to Digital Cement Net, it is expected that the demand for cement from governmental infrastructure projects in Weinan region between 2010 and 2012 will amount to approximately 2.8 million tons while new production lines with approximately 4.0 million tons NSP technology cement production capacity (excluding our Pucheng production line having capacity of 1.1 million tons) will be added in Weinan region in 2010. Notwithstanding the substantial increase of new capacities, according to Digital Cement Net, Weinan region has approximately 3.7 million tons of obsolete clinker production capacities to be phased out between 2009 and 2010, being the highest amount of obsolete clinker production capacities among all regions in which we operate. Accordingly, we expect the new production capacity of our Pucheng production line will be matched with new demand in the Weinan region.

- in addition to building new production lines, we will also consider acquiring local cement producers in our existing markets to strengthen our position or in new markets to establish our presence. Our criteria for acquisition target include the target's compliance with national and industrial policy and its synergy with our current production lines. We target leading cement producers in new or existing markets to strengthen our position, as in the case of our acquisitions of our production lines located at Zhen'an and Danfeng counties. Our production lines in Zhen'an and Danfeng counties are all located in Shangluo region in southern Shaanxi province which was new market to us prior to our acquisition of the aforesaid production lines and where we believe that the demand for cement products will continue to grow in view of the government-led infrastructure projects such as Xi'an — Ankang Railway (second line) (西安 — 安康鐵路(第二線)) and Yulin — Shangzhou Expressway (榆林 — 商州高速公路). According to Digital Cement Net, it is expected that the demand of cement from governmental infrastructure projects in Shangluo region between 2010 and 2012 will amount to approximately 1.4 million tons while no new NSP technology cement production capacity will be added in this region in 2010.

Our PRC legal counsel, Zong Heng Law Firm, has confirmed that we have obtained all necessary approvals from relevant authorities in the PRC relating to the construction of our Mianxian, Pucheng and Xixiang production lines and that these production lines are in compliance with relevant PRC government policies regulating the cement industry.

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We plan to use approximately HK\$499 million in total (equivalent to approximately RMB435 million) from the net proceeds of the Global Offering to install residual heat recovery systems (as to approximately RMB250 million) and to fund any future acquisitions (as to approximately RMB185 million). We plan to use the cash generated from our operation and bank borrowings to pay for the construction of our new production lines in Pucheng and Xixiang counties. Except as disclosed in the section headed “Business — Potential Acquisition” of this prospectus, we have not identified any specific acquisition targets.

NET CURRENT LIABILITIES POSITION

As of December 31, 2007, 2008 and 2009 and April 30, 2010, we recorded net current liabilities of approximately RMB257.4 million, RMB258.4 million, RMB1,074.4 million and RMB1,064.9 million, respectively. The increase of our net current liabilities position was primarily due to our increased short-term borrowings to satisfy our working capital requirements for our new plants and to finance part of our capital expenditures in connection with (i) the construction of new production lines and purchase of production equipment, and (ii) the acquisition and establishment of our new subsidiaries.

For the reasons set out above, our total indebtedness had been increasing during the three years ended December 31, 2009 and our total borrowings were approximately RMB336.2 million, RMB676.3 million and RMB1,648.9 million as of December 31, 2007, 2008 and 2009. Our total borrowings decreased slightly to approximately RMB1,466.0 million as of April 30, 2010, as we repaid some borrowings assumed in connection with the establishment of Longqiao Yaobai during the four-month period ended April 30, 2010.

In order to enable us to meet our liabilities when they become due and to carry on our business in normal course in the foreseeable future, we have obtained extensions for our current borrowings and have obtained new loan facilities. We have entered into (i) an extension agreement dated March 1, 2010 with Superb Miles Limited to extend the maturity date of the ICBCI Facility to July 26, 2011, (ii) the ICBC Facility Agreement with ICBC (Asia) and ICBC Macau for a loan facility in the amount of US\$50 million, which shall be repaid in four installments before February 25, 2012, and (iii) a working capital credit arrangement with a local bank, which we intend to utilize to roll over our outstanding borrowings with this bank for an amount up to RMB300 million, pursuant to which our current borrowings have been reduced. Upon Listing, we will repay the ICBCI Facility in full and half of the ICBC Facility by proceeds from the Global Offering and the remaining portion of the ICBC Facility with cash generated from our operations in four installments before February 25, 2012.

Our Directors are of the opinion that taking into account the estimated net proceeds from the Global Offering, we may still record a net current liabilities position after the Global Offering in view of our planned capital expenditure but the working capital available to us is sufficient for our present requirements and for at least the next 12 months from the date of this prospectus.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

We engaged a reputable external consulting firm as internal control advisor in November 2009 to review selected areas of our internal controls over financial reporting and the findings of such consulting firm indicated deficiencies and weaknesses in our internal controls over financial reporting, including (i) our inadequate IFRS capabilities due to lack of accounting personnel with a good understanding of IFRS reporting requirements, (ii) our lack of a comprehensive set of internal control policies and procedures due to lack of resources, (iii) our lack of an effective corporate governance system in relation to compliance with

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the Listing Rules and (iv) our lack of information technology general controls policies and procedures. In response to the recommendations of the internal control advisor, we have revised and implemented internal control policies and procedures in areas of deficiencies and weaknesses and have planned the monitoring process after the implementation. For details, please see the section headed “Business — Internal Controls over Financial Reporting” of this prospectus.

We have conducted two follow-up reviews with the assistance of our internal control advisor. The first review was performed in April 2010 and the second review was performed from May to June 2010 (with a follow-up on certain matters in July 2010). The reviews were focused on the status of implementation of the recommended remedial actions in the areas where deficiencies and weaknesses were identified. Based on the results of the follow up reviews, the internal control advisor is satisfied that we have implemented new or revised internal control policies and procedures in response to those areas where deficiencies and weaknesses were identified. We are of the view that our implementation of the recommended remedial actions set out above has improved our internal controls in such areas. After considering the above recommended remedial actions, our Directors (including our independent non-executive Directors) are of the view that we have adequate internal control procedures and policies in place and we are able to comply with the internal control requirements under the Listing Rules after Listing.

PLEDGE OF EQUITY INTERESTS IN OUR SUBSIDIARIES AS SECURITY FOR BANK BORROWINGS

We have pledged equity interests in some of our subsidiaries for the performance of our obligations under the ICBC Facility Agreement including, among others, (i) a share charge over our shareholdings in West China BVI, (ii) a share charge over shareholdings of West China BVI in Faithful Alliance, and (iii) an equity pledge over Shaanxi Yaobai provided by Faithful Alliance. If we are unable to perform our obligations under the ICBC Facility Agreement, the relevant share charges over our equity interests in West China BVI, Shaanxi Yaobai and Faithful Alliance may be enforced and our business and assets may be sold to satisfy the outstanding principal and interest payable by us under the ICBC Facility Agreement.

RISK FACTORS

There are certain risks relating to an investment in the Offer Shares. These risks can be categorized into (i) risks relating to our business; (ii) risks relating to the cement industry in China; (iii) risks relating to the PRC; and (iv) risks relating to the Global Offering. These risks are further described in the section headed “Risk factors” in this prospectus and are listed below:

Risks Relating to Our Business

- Our business depends significantly on the level of activity and growth in the construction industry in Shaanxi province;
- We may not be able to continue to grow at rates comparable to our historical growth rates, or we may have difficulty managing our future growth;
- The cement industry is capital intensive, and we may need to seek additional financing to support our growth strategies;

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- We may face difficulties in integrating our acquired businesses. If we fail to realize the anticipated benefits from our acquisitions, our business, financial condition and results of operations may be materially and adversely affected;
- If we fail to identify suitable acquisition targets or complete the acquisitions, our growth may be materially and adversely affected;
- Our significant level of indebtedness and our net current liabilities position expose us to liquidity risks;
- We have substantial amount of bank borrowings and some of our bank loans have floating interest rates and increase in the interest rate may have adverse effect on our financial performance;
- We have pledged all our equity interests in West China BVI, Shaanxi Yaobai and Faithful Alliance as security under the ICBC Facility Agreement;
- We operate in a competitive market and, if we are unable to compete successfully, our business, financial condition and results of operations may be adversely affected;
- Our business, financial condition and results of operations may be adversely affected by increases in coal or electricity prices or shortages of coal and electricity;
- We may not be able to renew our existing mining rights or secure additional mining rights, and the resource tax we pay to local governments may increase;
- We rely on one third-party contractor to excavate limestone from all our limestone quarries and we may be liable for its failure to comply with applicable laws and regulations;
- The prices of raw materials may continue to rise, and we may be unable to pass on some or all of the increases to our customers;
- Our internal controls over financial reporting may have deficiencies and weaknesses;
- Our business operations and construction of new facilities may be disrupted by reasons beyond our control, which could materially and adversely affect our business, financial condition and results of operations;
- The recent global market fluctuations and economic downturn could materially and adversely affect our business, financial condition and results of operations;
- We currently enjoy certain PRC tax incentives, some of which are due to expire at the end of 2010. Expiration of, or changes to, these incentives could materially and adversely affect our results of operations and financial condition;
- The taxation regime in Jersey may be subject to change;
- Our business depends on our ability to manage our working capital successfully;
- Our business depends substantially on the continuing efforts of our executive Directors, senior management, key personnel, and our ability to maintain a skilled labor force;

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- Our Controlling Shareholders will have substantial influence over us and there may be conflicts of interest between our Controlling Shareholders and our other shareholders;
- Our results of operations are subject to seasonal fluctuations;
- Any failure to maintain an effective quality control system at our production facilities could have a material and adverse effect on our business, financial condition and results of operations;
- We may be subject to liabilities in connection with accidents arising from our business and operations. We may not have sufficient insurance coverage for such liabilities;
- Any unauthorized use of our brand names, trademarks and other intellectual property rights may materially and adversely affect our business, financial condition and results of operations;
- We comply with regulations and policies of social insurance funds and housing provident funds only to the extent required by local authorities which have different interpretation and implementation of state laws and policies on the same matters; and
- Product liability claims may be brought against us and, whether or not successful, could harm our business, financial condition and results of operations.

Risks Relating to the Cement Industry in the PRC

- The cement industry is subject to significant regulation by the PRC government;
- Compliance with environmental regulations can be expensive, and any failure to comply with these regulations could result in adverse publicity, significant monetary damages and fines and suspension of our business operations; and
- We are subject to safety and health laws and regulations in the PRC, and any failure to comply could adversely affect our operations.

Risks Relating to the PRC

- Any slowdown in the PRC economy or changes in political and economic policies of the PRC government could have an adverse effect on the overall growth in the PRC, which could reduce the demand for our products and materially and adversely affect our business, financial condition and results of operations;
- Uncertainties with respect to the PRC legal system could have a material adverse effect on us;
- We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income;
- Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax laws;
- We may be subject to fines and penalties under the PRC Labor Contract Law, and our labor costs may increase;

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- Government control over currency conversion may affect the value of your investment in our Shares and limit our ability to utilize our cash effectively;
- You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management; and
- Our results of operations and the trading price of our Shares may be adversely affected by the occurrence of an epidemic.

Risks Relating to the Global Offering

- An active trading market for our Shares may not develop;
- The trading price of our Shares may be volatile, which could result in substantial losses to you;
- Future sales of substantial amounts of our Shares could adversely affect the prevailing market price of our Shares;
- Purchasers of our Shares in the Global Offering will experience immediate dilution, and may experience further dilution if we issue additional Shares in the future;
- Certain facts and other statistics with respect to the PRC, the PRC economy and the PRC cement industry in this prospectus are derived from various official government sources and third party sources and may not be reliable; and
- You should not rely on any information contained in press articles or other media regarding us and the Global Offering.

SUBDIVISION OF SHARES

In order to improve the liquidity in the trading of our Shares and facilitate the issue of Offer Shares in connection with the Global Offering, we passed conditional shareholders' resolutions on July 20, 2010 to approve the subdivision of each existing issued and unissued Shares of £0.10 each in the share capital of our Company into 50 shares of £0.002 each so that the authorized share capital of our Company is 10,000,000,000 Shares of £0.002 each, which is conditional on and with effect from Listing. This subdivision of our Shares will reduce the nominal value and increase the total number of our Shares in issue upon Listing. Upon Listing, our Shares will be delisted from AIM.

Save where the LSE otherwise agrees, the delisting must be conditional on the consent of not less than 75% of votes cast by our Shareholders given in a general meeting. We passed a shareholders' resolution on July 20, 2010 to approve the delisting of our Shares on AIM conditional upon Listing. Delisting shall only take effect until at least five Business Days have passed since the Shareholders' approval has been obtained and a dealing notice has been issued. It is expected that the dealing notice will be issued on or around August 6, 2010 and the Shares in issue will cease to be admitted to AIM with effect from the first day of dealings in the Shares on the Stock Exchange.

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The following table sets forth for the periods indicated the reported high, low, month end, and monthly average of the closing trading prices on AIM for our Shares from May 2009 until the Latest Practicable Date (after adjustment as a result of subdivision of Shares). Historical Share prices are not indicative of the prices at which our Shares will trade following Listing.

	High (as adjusted) (£) <i>(Note)</i>	Low (as adjusted) (£) <i>(Note)</i>	Month End (as adjusted) (£) <i>(Note)</i>	Monthly Average (as adjusted) (£) <i>(Note)</i>
2009				
May	0.0374	0.0347	0.0353	0.0359
June	0.0364	0.0325	0.0357	0.0353
July	0.0529	0.0331	0.0515	0.0397
August	0.0653	0.0487	0.0653	0.0581
September	0.0792	0.0626	0.0694	0.0728
October	0.0960	0.0682	0.0882	0.0855
November	0.0983	0.0865	0.0940	0.0926
December	0.0950	0.0869	0.0893	0.0905
2010				
January	0.0907	0.0790	0.0772	0.0870
February	0.0925	0.0792	0.0914	0.0879
March	0.1285	0.0982	0.1217	0.1196
April	0.1447	0.1200	0.1335	0.1338
May.....	0.1295	0.0900	0.1015	0.1131
June	0.1115	0.0935	0.0980	0.1019
July (up to the Latest Practicable Date) <i>(Note)</i>	0.1385	0.0940	0.1380	0.1147

Note: Pursuant to a resolution passed by our Shareholders on July 20, 2010, each of our Company's issued and unissued shares of £0.10 each were subdivided into 50 shares of £0.002 so that the authorized share capital of our Company would be £20,000,000 divided into 10,000,000,000 shares of £0.002 each, which is conditional on and effective from Listing. For the purpose of computing the high, low, month end and monthly average of the closing trading prices on AIM for our Shares from May 2009 until the Latest Practicable Date, the trading prices of our Shares prior to the subdivision of Shares are divided by 50 for illustrative purpose.

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SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following summary consolidated financial information for the years ended December 31, 2007, 2008 and 2009 and for the four months ended April 30, 2010 has been derived from our audited consolidated financial information included in accountant's report as set out in Appendix I to this prospectus. The summary consolidated financial information for the four months ended April 30, 2009 has been derived from our unaudited financial information included in accountant's report as set out in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS.

The basic and diluted earnings per share for profit attributable to the shareholders of our Company do not take into account the effect of share subdivision because the share subdivision has not become effective as of the date of this prospectus. The share subdivision will become effective upon Listing.

Summary consolidated statements of comprehensive income

	For the year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	525,929	866,126	1,516,766	349,421	675,309
Cost of sales	(350,165)	(556,073)	(878,087)	(198,537)	(429,710)
Gross profit	<u>175,764</u>	<u>310,053</u>	<u>638,679</u>	<u>150,884</u>	<u>245,599</u>
Selling and marketing expenses	(9,796)	(12,018)	(15,064)	(4,745)	(6,082)
Administrative expenses	(29,038)	(55,224)	(77,846)	(16,778)	(24,912)
Other income ⁽¹⁾	35,708	40,617	71,526	8,546	28,444
Other gains/(losses) - net	2,273	(184)	(1,057)	50	(513)
Operating profit	<u>174,911</u>	<u>283,244</u>	<u>616,238</u>	<u>137,957</u>	<u>242,536</u>
Finance income	1,572	2,600	1,190	347	138
Finance costs					
— loss on redemption of warrants	—	—	(168,451)	—	—
— other finance costs	(26,210)	(28,115)	(73,830)	(39,855)	(58,582)
Finance costs - net	<u>(24,638)</u>	<u>(25,515)</u>	<u>(241,091)</u>	<u>(39,508)</u>	<u>(58,444)</u>
Profit before income tax	<u>150,273</u>	<u>257,729</u>	<u>375,147</u>	<u>98,449</u>	<u>184,092</u>
Income tax expense	—	(11,566)	(44,687)	(7,626)	(29,798)
Profit for the year/period	<u>150,273</u>	<u>246,163</u>	<u>330,460</u>	<u>90,823</u>	<u>154,294</u>
Total comprehensive income for the year/period	<u>150,273</u>	<u>246,163</u>	<u>330,460</u>	<u>90,823</u>	<u>154,294</u>
Attributable to					
— Equity holders of our Company	<u>150,273</u>	<u>246,163</u>	<u>330,460</u>	<u>90,823</u>	<u>153,074</u>
— Non-controlling interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,220</u>
Earnings per share for profit attributable to the equity holders of our Company during the year/period (expressed in Renminbi per share)					
Basic earnings per share ⁽²⁾	<u>2.35</u>	<u>3.84</u>	<u>5.12</u>	<u>1.42</u>	<u>2.36</u>
Diluted earnings per share ⁽³⁾	<u>2.33</u>	<u>3.83</u>	<u>5.07</u>	<u>1.42</u>	<u>2.34</u>

SUMMARY

Notes:

- (1) Our other income primarily includes VAT refunds we received from the PRC government for sales of certain types of cement that use industrial by-products, industrial waste and urban construction waste.
- (2) Basic earnings per share is calculated by dividing the profit attributable to equity holders of our Company by the weighted average number of ordinary shares in issue during the Track Record Period.
- (3) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Our Company had share options as well as warrants. For the share options and warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

Summary consolidated balance sheets

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	961,507	1,540,533	2,611,502	3,128,079
Land use rights	17,806	76,521	124,571	178,412
Mining rights	25,500	27,907	46,373	45,681
Other intangible assets	—	—	65,104	64,413
Deferred income tax assets	12,364	798	13,540	13,540
	<u>1,017,177</u>	<u>1,645,759</u>	<u>2,861,090</u>	<u>3,430,125</u>
Current assets				
Inventories	45,653	81,507	128,979	143,633
Trade and other receivables and prepayments	101,454	125,770	317,670	382,194
Cash and cash equivalents	29,997	37,038	346,258	53,724
Restricted cash	24,336	35,999	19,582	9,415
	<u>201,440</u>	<u>280,314</u>	<u>812,489</u>	<u>588,966</u>
Total assets	<u><u>1,218,617</u></u>	<u><u>1,926,073</u></u>	<u><u>3,673,579</u></u>	<u><u>4,019,091</u></u>
EQUITY				
Capital and reserves attributable to equity holders of our Company				
Share capital	96,811	96,811	97,623	98,634
Share premium	662,636	662,636	672,775	687,922
Share options reserve	5,228	6,708	5,439	686
Reverse acquisition reserve	(341,304)	(341,304)	(341,304)	(341,304)
Statutory reserve	36,420	63,163	118,140	118,140
Retained earnings	222,650	442,070	717,553	870,627
	<u>682,441</u>	<u>930,084</u>	<u>1,270,226</u>	<u>1,434,705</u>
Non-controlling interests	—	—	25,000	26,220
Total equity	<u><u>682,441</u></u>	<u><u>930,084</u></u>	<u><u>1,295,226</u></u>	<u><u>1,460,925</u></u>

SUMMARY

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES				
Non-current liabilities				
Borrowings	63,800	407,069	360,058	746,336
Warrants classified as liabilities	—	32,908	—	—
Provisions for other liabilities and charges . .	—	—	6,265	6,389
Deferred income tax liabilities	—	—	8,079	8,079
Other liabilities	13,487	17,317	117,049	143,539
	<u>77,287</u>	<u>457,294</u>	<u>491,451</u>	<u>904,343</u>
Current liabilities				
Trade and other payables	186,536	269,511	559,395	898,450
Current income tax liabilities	—	—	38,639	35,715
Borrowings	272,353	269,184	1,288,868	719,658
	<u>458,889</u>	<u>538,695</u>	<u>1,886,902</u>	<u>1,653,823</u>
Total liabilities	<u>536,176</u>	<u>995,989</u>	<u>2,378,353</u>	<u>2,558,166</u>
Total equity and liabilities	<u>1,218,617</u>	<u>1,926,073</u>	<u>3,673,579</u>	<u>4,019,091</u>
Net current liabilities	<u>(257,449)</u>	<u>(258,381)</u>	<u>(1,074,413)</u>	<u>(1,064,857)</u>
Total assets less current liabilities	<u>759,728</u>	<u>1,387,378</u>	<u>1,786,677</u>	<u>2,365,268</u>

Summary consolidated cash flow statements

	For the year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net cash generated from operating activities	170,969	323,092	619,676	229,236	261,572
Net cash used in investing activities	(355,395)	(667,923)	(847,503)	(250,590)	(373,978)
Net cash generated from/(used in) financing activities	22,034	351,872	537,047	82,460	(180,128)
Net (decrease)/increase in cash and cash equivalents	(162,392)	7,041	309,220	61,106	(292,534)
Cash and cash equivalents at beginning of year/period	<u>192,389</u>	<u>29,997</u>	<u>37,038</u>	<u>37,038</u>	<u>346,258</u>
Cash and cash equivalents at end of year/period . .	<u>29,997</u>	<u>37,038</u>	<u>346,258</u>	<u>98,144</u>	<u>53,724</u>

SUMMARY

PROFIT ESTIMATE FOR THE SIX MONTHS ENDED JUNE 30, 2010

Estimated consolidated profit attributable to our equity holders of our Company ⁽¹⁾	Not less than RMB307.0 million (equivalent to approximately HK\$351.9 million)
Estimated earnings per Share (after subdivision)	
(a) Pro forma ^{(2) (3)}	Not less than RMB0.075 (equivalent to approximately HK\$0.086)
(b) Pro forma fully diluted ^{(2) (4)}	Not less than RMB0.074 (equivalent to approximately HK\$0.085)

Notes:

- (1) The bases and assumptions on which the above profit estimate has been prepared are set out in Appendix III to this prospectus.
- (2) **Please note that all figures are presented on the assumption that the share subdivision (please refer to paragraphs headed “Subdivision of Shares” in the section headed “History, Reorganization and Corporate Structure” for details) shall have been completed.**
- (3) The unaudited pro forma estimated earnings per Share is calculated by dividing the estimate consolidated profit attributable to the equity holders of our Company for the six months ended June 30, 2010, assuming that our Company had been listed since January 1, 2010 and a total of 4,115,531,850 Shares to be in issue immediately upon completion of the Global Offering were issued and outstanding during the entire period. The calculation assumes that the outstanding options granted under the Share Option Scheme, the AS Warrants and the Over-allotment Option will not be exercised.
- (4) The unaudited pro forma fully diluted estimated earnings per Share is based on the estimate consolidated profit attributable to the equity holders of our Company for the six months ended June 30, 2010, assuming that our Company had been listed since January 1, 2010 and a total of 4,139,531,850 Shares (comprising 4,115,531,850 Shares to be in issue immediately upon completion of the Global Offering, 12,500,000 Shares to be issued upon the exercise of all of the outstanding options granted under the Share Option Scheme and 11,500,000 Shares to be issued upon the exercise of all the outstanding AS Warrants). The calculation assumes that the Over-allotment Option will not be exercised and assumes no proceeds from the exercise of any options granted under the Share Option Scheme and AS Warrants.

Pursuant to Rule 11.18 of the Listing Rules, our Company has given an undertaking to the Stock Exchange that the interim financial statements of our Group for the six months ended June 30, 2010 will be audited.

GLOBAL OFFERING STATISTICS⁽¹⁾

	Based on an Offer Price of HK\$1.21	Based on an Offer Price of HK\$1.69
Market capitalization of the Shares ^{(2) (3)}	HK\$4,980 million	HK\$6,955 million
Unaudited pro forma net tangible asset value per Share (after subdivision) ^{(2) (4)}	HK\$0.59	HK\$0.68

Notes:

- (1) All statistics in this table do not take into account any Shares which may be issued upon the exercise of the Over-allotment Option, any options granted under the Share Option Scheme or options that may be granted under the Post-IPO Share Option Scheme or the AS Warrants.
- (2) **Please note that all figures are presented on the assumption that the share subdivision (please refer to paragraphs headed “Subdivision of Shares” in the section headed “History, Reorganization and Corporate Structure” in this prospectus for details) shall have been completed.**

SUMMARY

- (3) The calculation of market capitalization is based on 4,115,531,850 Shares expected to be in issue immediately upon completion of the Global Offering.
- (4) The unaudited pro forma net tangible asset value per Share includes adjustments referred to in the section headed “Financial Information — Unaudited pro forma statement of adjusted net tangible assets” in this prospectus and on the basis of 4,115,531,850 Shares in issue at the respective Offer Price of HK\$1.21 and HK\$1.69 per Share immediately following completion of the Global Offering.

DIVIDEND POLICY

A decision to declare and pay any dividends on our Shares would require the approval of the Board and will be at its discretion. In addition, any final (but not interim) dividend for a financial year will be subject to our Shareholders’ approval. The Board will review our dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid including our results of operations, financial condition and position, and other factors the Board may deem relevant.

PRC law requires that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including IFRS. PRC law also requires foreign-invested enterprises such as some of our subsidiaries in China, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, Jersey law requires that dividends may only be paid if our Directors authorizing the dividend give a solvency statement in the required form, prior to approving the dividend, essentially to the effect that our Company will be able to pay its debts as they fall due for the 12-month period after the payment of the dividend. Please see Appendix V — “Summary of the Constitution of our Company and Jersey Companies Law” for more information.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised and assuming the Offer Price is fixed at HK\$1.45 per Share (being the mid-point of the indicative range of the Offer Price of HK\$1.21 to HK\$1.69 per Share), the net proceeds of the Global Offering, after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, are estimated to be approximately HK\$1,089 million. We intend to use the net proceeds as follows:

- approximately 46% for capacity expansion, including approximately HK\$287 million (equivalent to approximately RMB250 million) to install residual heat recovery systems, half of which is expected to be incurred in 2010 and the remaining half in 2011, and approximately HK\$212 million (equivalent to approximately RMB185 million) to fund any future acquisition (including potential acquisition of Jianghua Cement); and
- approximately 54% for the repayment of our loans and related interests, including the ICBCI Facility of US\$50 million and US\$25 million of the ICBC Facility promptly after Listing.

SUMMARY

The foregoing represents our current intentions with respect to the use of our net proceeds of the Global Offering based upon our present plans and business conditions. Pending use of any net proceeds, we intend to invest such net proceeds in short-term, interest-bearing deposits with commercial banks.

In the event that the Offer Price is finally determined at the highest end of the indicative Offer Price range, being HK\$1.69 per Offer Share, our net proceeds from the Global Offering will increase to approximately HK\$1,280 million, as compared with the above computation which is based on the mid-point of the indicative Offer Price range. We intend to apply such additional net proceeds for capacity expansion each item on a pro rata basis and general working capital purposes but in any event the amount assigned for general working capital would not be more than 10% of the net proceeds.

In the event that the Offer Price is finally determined at the lowest end of the indicative Offer Price range, being HK\$1.21 per Offer Share, our net proceeds from the Global Offering will decrease to approximately HK\$897 million, as compared with the above computation which is based on the mid-point of the indicative Offer Price range. The amount of proceeds assigned for our capacity expansion will be reduced accordingly and we intend to finance the shortfall by operation cash flow and bank borrowings.

The additional net proceeds that we would receive if the Over-allotment Option is exercised in full, are currently estimated to be (i) approximately HK\$145 million assuming an Offer Price of HK\$1.21 per Offer Share, being the lowest end of the indicative Offer Price range; (ii) approximately HK\$174 million assuming an Offer Price of HK\$1.45 per Offer Share, being the mid-point of the proposed Offer Price range; or (iii) approximately HK\$202 million assuming an Offer Price of HK\$1.69 per Offer Share, being the highest end of the indicative Offer Price range. We intend to apply the additional net proceeds for capacity expansion each item on a pro rata basis and general working capital purposes but in any event the amount assigned for general working capital would not be more than 10% of the net proceeds.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“AIM”	the Alternative Investment Market, a market operated by the LSE
“AIM Rules”	the rules applicable to companies whose shares are traded on AIM published by the LSE, as amended from time to time
“Amendment Deed”	a Deed of Amendment relating to the Warrant Instrument dated October 21, 2009 entered into between our Company and West China BVI
“Ankang Yaobai”	安康市堯柏水泥有限公司 (Ankang Yaobai Cement Co., Ltd.*), a limited liability company established in the PRC on April 12, 2007 and our indirect wholly-owned subsidiary
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offer
“Articles of Association” or “Articles”	the articles of association of our Company effective simultaneously with the admission of Shares to trading on the Main Board of the Stock Exchange which was conditionally adopted on March 31, 2010 and as further amended from time to time, a summary of which is set out in Appendix V to this prospectus
“Asia Gain”	Asia Gain Investments Limited (盈亞投資有限公司), a limited liability company incorporated in the BVI on January 11, 2010 and is wholly-owned by Mr. Zhang
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“AS Warrants”	the rights to subscribe Shares of our Company, the details of which are set out in paragraphs headed “Warrants granted to our advisor” in the section headed “History, Reorganization and Corporate Structure” in this prospectus
“Board”	the board of Directors
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

DEFINITIONS

“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Central Glory”	Central Glory Holdings Limited (中耀控股有限公司), a company incorporated in the BVI with limited liability on January 12, 2010 and is wholly-owned by Ms. Zhang Lili, daughter of Mr. Zhang
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of China and Taiwan
“China Cement Association”	中國水泥協會 (China Cement Association), a non-profit industry organization organized by the constituencies of the cement industry of the PRC, which includes over 4,000 cement producers in the PRC with an annual aggregate production volume of 1.2 billion tons
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company” or “Our Company”	West China Cement Limited, a company incorporated with limited liability under the laws of Jersey as a private company on October 16, 2006 and re-registered as a public company on October 27, 2006
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to Mr. Zhang, Asia Gain, Ms. Zhang Lili and Central Glory who, together, will hold a 45.69% equity interest in our Company immediately after completion of the Global Offering (excluding Shares to be issued pursuant to the exercise of the Over-allotment Option or Shares that may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme, the Post-IPO Share Option Scheme and the AS Warrants)

DEFINITIONS

“Credit Suisse Shanghai Branch”	Credit Suisse Shanghai Branch (瑞士信貸銀行股份有限公司上海分行)
“CS Facility Agreement”	the facility agreement dated May 29, 2008 entered into among our Company, Shaanxi Yaobai, West China BVI and Credit Suisse, Singapore Branch, acting as facility agent and security agent for the Facility Lender
“Deed of Non-competition”	a deed of non-competition dated July 29, 2010 entered into by the Controlling Shareholders in favor of our Company, details of which are disclosed in the section headed “Relationship with our Controlling Shareholders” in this prospectus
“Deutsche Bank”	Deutsche Bank AG, Hong Kong Branch, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
“Digital Cement Net”	Digital Cement Net (數字水泥網) (www.dcement.com), a website operated by the China Cement Association, providing information on China’s cement industry
“Director(s)”	the director(s) of our Company
“Employees’ Shareholdings Committee”	the committee of the employees’ union of Pucheng Yaobai (comprising 43 employees of Pucheng Yaobai including, among others, Mr. Zhang, Zhang Zengtao, the son of Mr. Zhang, Zhang Lili, the daughter of Mr. Zhang, Wang Jianli, Tian Zhenjun, Cao Jishun, Fan Jianmin, Wang Rui, Wong Fayin, Li Wenyu, Lei Yongan and the other 32 employees who are Independent Third Parties)
“Facility Lender”	Credit Suisse International
“FAI”	fixed asset investment
“Faithful Alliance”	Faithful Alliance Limited (集誠有限公司), a limited liability company incorporated in Hong Kong on January 14, 2010 and our indirect wholly-owned subsidiary
“GDP”	gross domestic product (all references to GDP growth are to real as opposed to nominal rates of growth)
“Global Offering”	the Hong Kong Public Offer and the International Placing
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider Computershare Hong Kong Investor Services Limited

DEFINITIONS

“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries or, where the context so requires in respect of period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Hanjing Coal Mine”	陝西省蒲城縣罕井煤礦 (Shaanxi Province Pucheng County Hanjing Town Coal Mine*), an Independent Third Party
“Hanzhong Yaobai”	漢中堯柏水泥有限公司 (Hanzhong Yaobai Cement Co., Ltd.*), a limited liability company established in the PRC on July 10, 2008 and our indirect wholly-owned subsidiary
“HK dollars” or “HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 82,312,000 Offer Shares being initially offered by our Company for subscription under the Hong Kong Public Offer at the Offer Price (subject to adjustment as described in the section headed “Structure and conditions of the Global Offering” in this prospectus)
“Hong Kong Public Offer”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and in the Application Forms relating thereto
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the several underwriters of the Hong Kong Public Offer listed in paragraph headed “Hong Kong Underwriters” under the section headed “Underwriting” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement relating to the Hong Kong Public Offer dated August 9, 2010 between, among others, our Company, the Joint Global Coordinators and the Hong Kong Underwriters
“ICBC (Asia)”	Industrial and Commercial Bank of China (Asia) Limited
“ICBC Facility”	a loan facility of US\$50 million granted by ICBC (Asia) and ICBC Macau

DEFINITIONS

“ICBC Facility Agreement”	the facility agreement dated February 26, 2010 entered into among our Company, ICBCI Holdings, ICBC (Asia), acting as a coordinating arranger, the facility agent and security agent for the facility lenders, ICBC Macau, acting as a coordinating arranger, and ICBCI Holdings as guarantor
“ICBC Macau”	Industrial and Commercial Bank of China (Macau) Limited
“ICBCI Facility”	a bridge loan facility of US\$50 million granted by Superb Miles Limited, a fellow subsidiary of ICBCI
“ICBCI”	ICBC International Capital Limited, a corporation licensed under the SFO and permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities (as defined in the SFO)
“ICBCI Holdings”	ICBC International Holdings Limited, the holding company of ICBCI
“ICBCIS”	ICBC International Securities Limited, a corporation licensed under the SFO and permitted to carry on Type 1 (dealing in securities) of the regulated activities (as defined in the SFO)
“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected with (within the meaning of the Listing Rules) any Directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“International Placing”	the conditional placing of the International Placing Shares (a) in the United States to qualified institutional buyers (as such term is defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A under the U.S. Securities Act or another exemption from the registration requirement under the U.S. Securities Act, and (b) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act, including to professional investors in Hong Kong, as further described in the section headed “Structure and conditions of the Global Offering” in this prospectus
“International Placing Shares”	the 740,808,000 Offer Shares being initially offered for subscription under the International Placing together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in the section headed “Structure and conditions of the Global Offering” in this prospectus

DEFINITIONS

“International Underwriters”	the several underwriters of the International Placing who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the underwriting agreement relating to the International Placing expected to be entered into between, among others, our Company, the Joint Global Coordinators and the International Underwriters on or before the Price Determination Date
“Jersey”	The Bailiwick of Jersey, a British Crown Dependency
“Jersey Companies Law”	the Companies (Jersey) Law 1991, as amended
“Joint Lead Managers”	ICBCIS and Deutsche Bank
“Joint Sponsors” or “Joint Global Coordinators” or “Joint Bookrunners”	ICBCI and Deutsche Bank
“Lantian Yaobai”	西安藍田堯柏水泥有限公司 (Xi’an Lantian Yaobai Cement Co., Ltd*), a limited liability company established in the PRC on December 16, 2005 and our indirect wholly-owned subsidiary
“Latest Practicable Date”	July 30, 2010, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication
“LIBOR”	London Inter-Bank Offered Rate
“Listing”	listing of our Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about August 23, 2010, on which dealings in our Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Longqiao Trading”	丹鳳縣龍橋經貿有限責任公司 (Danfeng Longqiao Trading Co., Ltd.*), a limited liability company established in the PRC on September 20, 1997 and a connected person of our Company
“Longqiao Yaobai”	商洛堯柏龍橋水泥有限公司 (Shangluo Yaobai Longqiao Cement Co., Ltd.*), a limited liability company established in the PRC on December 31, 2009 and our indirect non-wholly owned subsidiary

DEFINITIONS

“LSE”	London Stock Exchange plc
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Mianxian Yaobai”	漢中勉縣堯柏水泥有限公司 (Hanzhong Mianxian Yaobai Cement Co., Ltd.*), a limited liability company established in the PRC on December 22, 2008 and our indirect wholly-owned subsidiary
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company
“MOFCOM”	中華人民共和國商務部 (Ministry of Commerce of the People’s Republic of China)
“Mr. Zhang”	Zhang Jimin, a Controlling Shareholder and our Chairman, executive Director and chief executive officer
“NDRC”	中華人民共和國國家發展和改革委員會 (the National Development and Reform Commission of the People’s Republic of China)
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage fee, SFC transaction levy and Stock Exchange trading fee) which will be not more than HK\$1.69 and is expected to be not less than HK\$1.21, such price to be determined in the manner as further described in the section headed “Structure and conditions of the Global Offering” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares, with any Shares which may be issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by our Company to the International Underwriters (exercisable by the Joint Global Coordinators), pursuant to which our Company may be required to allot and issue up to 123,468,000 additional new Shares, representing 15% of the Shares initially available under the Global Offering at the Offer Price to, among other things, cover over-allocations in the International Placing (if any) as further described in the section headed “Structure and conditions of the Global Offering” in this prospectus
“PBOC”	中國人民銀行 (the People’s Bank of China), the central bank of China

DEFINITIONS

“Post-IPO Share Option Scheme”	the share option scheme of our Company conditionally adopted by our Shareholders on March 31, 2010, the principal terms of which are summarized under the paragraph headed “D. Other Information — 2. Post-IPO Share Option Scheme” in Appendix VI to this prospectus
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
“Price Determination Date”	the date, expected to be on or around August 13, 2010 but in any event not later than August 15, 2010, on which the Offer Price is fixed for the purposes of the Global Offering
“Pucheng Guangsha”	陝西省蒲城廣廈建築集團恒鑫有限公司 (Shaanxi Pucheng Guangsha Construction Group Hengxin Co., Ltd.*), an Independent Third Party
“Pucheng Yaobai”	陝西省蒲城堯柏特種水泥有限責任公司 (Shaanxi Pucheng Yaobai Special Cement Co. Ltd.*), a limited liability company established in the PRC on October 20, 1997
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Record Date”	August 10, 2010
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the reorganization of our Group undertaken in preparation for the Listing, details of which are set out in the paragraph headed “Reorganization” under the section headed “History, Reorganization and Corporate Structure” in this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the People’s Republic of China)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Shaanxi Danshui”	陝西丹水建材有限公司 (Shaanxi Danshui Construction Materials Co., Ltd.*), a limited liability company established in the PRC and is owned as to 50.42% by Longqiao Trading, 38.33% by Wei Genquan, 3.33% by Cheng Chonggui, 3.33% by Zhao Zhongqi, 3.33% by Feng Limin, 0.83% by Tian Peijun and 0.42% by Yu Guoqi, each of whom (other than Longqiao Trading) is an Independent Third Party
“Shaanxi Yaobai”	陝西堯柏特種水泥有限公司 (Shaanxi Yaobai Special Cement Co, Ltd.*), formerly known as 陝西堯柏特種水泥股份有限公司 (Shaanxi Yaobai Special Cement Holdings Company Limited*) prior to its conversion from a joint stock company into a limited liability company, a limited liability company established in the PRC on December 21, 2000 and wholly-owned by Faithful Alliance, and our principal subsidiary in the PRC
“Share(s)”	ordinary share(s) with a nominal value of £0.002 each in the capital of our Company, which are to be subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“Share Option Scheme”	the existing share option scheme of our Company, details of which are set out in the section headed “D. Other Information — 1. Share Option Scheme” in Appendix VI to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Shiyang Group”	陝西石羊（集團）股份有限公司 (Shaanxi Shiyang (Group) Holdings Co., Ltd.*), an Independent Third Party
“Stabilizing Manager”	ICBCIS
“Stock Borrowing Agreement”	a stock borrowing agreement expected to be entered into between the Stabilizing Manager and Techno Faith
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Techno Faith”	Techno Faith Investments Limited (科信投資有限公司), a limited liability company incorporated in the BVI on January 4, 2010 and is wholly-owned by Mr. Ma Zhaoyang, a non-executive Director
“Track Record Period”	the period comprising the three financial years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010

DEFINITIONS

“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America within the meaning of Regulation S
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“VAT”	value added tax charged by the government of the PRC
“Warrants”	the warrants which entitled the holders thereof to subscribe the Warrant Shares pursuant to the Warrant Instrument
“Warrantholder”	Credit Suisse International
“Warrant Instrument”	the warrant instrument entered into between our Company and West China BVI
“Warrant Shares”	Shares to be issued upon exercise of the Warrants
“West China BVI”	West China Cement Co., Ltd. (中國西部水泥有限公司), a limited liability company incorporated in the BVI on July 14, 2006 and our wholly-owned subsidiary
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Xi’an Yaobai”	西安市堯柏物資有限公司 (Xi’an Yaobai Material Co., Ltd.*), a limited liability company established in the PRC on July 27, 2009 and our indirect wholly-owned subsidiary
“Xiushan Yaobai”	商洛堯柏秀山水泥有限公司 (Shangluo Yaobai Xiushan Cement Co., Ltd.*), formerly known as 陝西秀山水泥(集團)有限公司 (Shaanxi Xiushan Cement (Group) Co., Ltd.*), a limited liability company established in the PRC on March 25, 2005 and our indirect wholly-owned subsidiary
“Xixiang Yaobai”	漢中西鄉堯柏水泥有限公司 (Hanzhong Xixiang Yaobai Cement Co., Ltd.*), a limited liability company established in the PRC on August 11, 2009 and our indirect wholly-owned subsidiary

DEFINITIONS

“Xunyang Xiushanlong”	旬陽縣秀山龍特種水泥有限責任公司 (Xunyang Xiushanlong Special Cement Co., Ltd.*), a limited liability company established in the PRC on April 19, 2005, which was subsequently dissolved on December 21, 2009
“Yaobai Investment”	陝西堯柏投資有限公司 (Shaanxi Yaobai Investment Co., Ltd.*), a limited liability company established in the PRC on July 18, 2006
“%”	per cent.
“£”	pound sterling, the legal currency of the United Kingdom

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Over-allotment Option.

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars at an exchange rate of RMB0.8724 = HK\$1.00, respectively, for illustration purpose only. Such translations should not be construed as representations that amounts in Renminbi were or may have been converted into HK dollars at such rates or any other exchange rates.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Any discrepancies in the tables between the listed amounts and the totals thereof are due to rounding.

In this prospectus, if there is any inconsistency between the Chinese names of the PRC entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The provision of English translation of company names in Chinese or another language which are marked with “*” is for identification purposes only.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms and definitions used in this prospectus in connection with our Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.

“anhydrite”	anhydrous calcium sulfate, a mineral, which, when exposed to water, becomes gypsum
“annual production capacity”	annual production capacity of cement, which is calculated based on three shifts per day and 310 working days per annum
“average selling price”	average selling price of a category or categories of cement products is calculated by dividing the revenue of such category or categories of cement product by its or their sales volume, which is exclusive of VAT
“cement”	gray powder, made by calcining lime and clay, which hardens when mixed with water and is generally used in producing mortar and concrete
“cement products”	the various cement products, which include high grade cement, low grade cement and clinker
“clinker”	a major semi-finished product in the cement production process
“cm”	centimeter(s)
“Composite Portland Cement”	a mixture comprising Portland Cement and up to 35% of other single constituents
“concrete”	an artificial, stonelike material used for various structural purposes, made by mixing cement and various aggregates, such as sand, pebbles, gravel or shale, with water and allowing the mixture to harden
“Distributed Control System”	a control system, in which the controller elements are not central in location, but are distributed throughout the system
“flyash”	one of the residues generated in the combustion of coal
“gypsum”	a mineral composed of calcium sulphate dihydrate
“GWh”	gigawatt-hour, a unit of energy used in the electric power industry. One gigawatt-hour is the amount of energy that would be produced by a generator producing one billion watts for one hour
“high grade cement”	a category of cement that generally has a 28-day compressive strength of 42.5 MPa (or 425 kg/cm ²) or above

GLOSSARY OF TECHNICAL TERMS

“installed capacity”	the full-load continuous rating of a generator as designated by the manufacturer
“km”	kilometer(s)
“KW”	kilowatts, one thousand watts
“KWh”	kilowatt-hour, the standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
“limestone”	a sedimentary rock composed largely of the mineral calcite
“low grade cement”	a category of cement that generally has a 28-day compressive strength of 32.5 MPa (or 325 kg/cm ²) or below
“MPa”	Megapascals, a customary unit in the International System of Units for measuring compressive strength
“New Dry Process”	new suspension preheater dry process, during which the raw materials of cement are preheated and disintegrated before being fed into a rotary kiln
“NSP technology”	New Suspension Preheater technology, a highly energy efficient technology, in which raw materials are preheated in conical vessels using high temperature gas from the kiln
“Ordinary Portland Cement”	a mixture comprising Portland Cement and up to 5% of minor additional constituents
“Portland Cement”	a fine powder produced by grinding Portland cement clinker (more than 90%), a limited amount of calcium sulfate which controls the set time, and up to 5% minor constituents (as allowed by various standards)
“Ready-mix concrete	a type of concrete that is specifically manufactured for delivery to construction sites in a freshly mixed and plastic or unhardened state
“ton(s)”	metric tons
“t/d”	tons per day

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plan of operation;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- our dividend policy;
- projects under construction or planning;
- our strategies, plans, objectives and goals;
- the regulatory environment of our industry in general;
- capital market developments;
- actions and developments of our competitors;
- future developments, trends and conditions in our industry in China; and
- other statements in this prospectus that are not historical facts.

The words “anticipate”, “believe”, “can”, “could”, “continue”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “potential”, “predict”, “project”, “prospects”, “seek”, “sustain”, “should”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialize, or underlying assumptions may prove incorrect.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

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You should consider carefully all the information set out in this prospectus, including the risks and uncertainties described below, before making an investment in the Offer Shares. Our business, financial condition, results of operations or prospects could be materially and adversely affected by any of these risks. The trading price of the Offer Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

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

As our cement products are sold exclusively in Shaanxi province, the demand for our products is predominantly dependent on the level of activity and growth in the construction industry in Shaanxi province, which in turn depends on factors such as general economic conditions, government policy, GDP growth, FAI, consumer confidence, inflation and demographic trends in Shaanxi province. Our lack of geographical diversity exposes us to risks associated with fluctuations in the political and economic conditions of Shaanxi province.

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

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

We may not be able to continue to grow at rates comparable to our historical growth rates, or we may have difficulty managing our future growth.

Our revenue and net profit have grown significantly during the Track Record Period. For the years ended December 31, 2007, 2008 and 2009, our revenue was approximately RMB525.9 million, RMB866.1 million and RMB1,516.8 million, respectively, representing a CAGR of 69.8%, and our net profit for the same periods was approximately RMB150.3 million, RMB246.2 million and RMB330.5 million, respectively, representing a CAGR of 48.3%. We also recorded revenue and net profit of approximately RMB675.3 million and RMB154.3 million during the four months ended April 30, 2010, respectively,

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representing an increase of approximately 93.3% and 69.9% over the same period in 2009. The significant increases in our revenue and net profit were mainly due to the growth in the demand for our products and the expansion of our production capacity, which in turn were attributable to the growth of the economy in general and the construction industry in Shaanxi province.

We may not be able to grow, either in terms of revenue or net profit, at rates comparable to our historical growth rates, or at all. Our plan to expand capacity in certain markets may involve our construction of additional production lines and acquisitions of other companies, which in turn may strain our managerial, operational, technical support, financial and human resources. As a result, we may not be able to manage such growth in a cost effective manner. Failure to effectively manage our growth could have a material adverse effect on our business, financial condition and results of operations, and could jeopardize our ability to achieve our business strategies and maintain our market position.

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

The cement industry is highly capital intensive. We require a substantial amount of capital to build our production facilities, purchase production equipment and develop and implement new technologies in our new and existing facilities. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our capital expenditures, as represented by cash used for the acquisition of a subsidiary, purchase of property, plant and equipment, land use rights, mining rights and other intangible assets, were approximately RMB359.1 million, RMB669.1 million, RMB750.2 million and RMB374.8 million, respectively, accounting for approximately 68.3%, 77.3%, 49.5% and 55.5% of our revenue for the same periods. We plan to utilize approximately HK\$499 million (equivalent to approximately RMB435 million) of the net proceeds from the Global Offering to install residual heat recovery systems (as to approximately RMB250 million) and funding any future acquisitions (as to approximately RMB185 million). We expect to allocate a significant amount of capital to fund our future growth plan.

If our internally generated capital resources, net proceeds from the Global Offering and available credit facilities are insufficient to finance our capital expenditure and growth plans, we may have to seek additional financing from third parties, including banks, venture capital funds, joint-venture partners and other strategic investors. We may also consider raising funds through issuance of new shares, which would lead to dilution of our existing Shareholders' interests in our Company. If we are unable to obtain financing in a timely manner, at a reasonable cost and on acceptable terms, we may be forced to delay our expansion plans, downsize or abandon such plans, which may materially and adversely affect our business, financial condition and results of operations, as well as our future prospects.

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

In August 2009, we acquired Xiushan Yaobai. In December 2009, we established Longqiao Yaobai, which owns the cement production line of Shaanxi Danshui, together with the previous shareholders of Shaanxi Danshui. We own a 80% interest in Longqiao Yaobai. We may experience difficulties in integrating the acquired businesses and personnel with ours. Our management's time and attention may be diverted from other business concerns and we may experience difficulties in retaining key employees and customers of the acquired businesses. In addition, we may incur higher capital expenditure and integration costs than we initially anticipated. Our acquisitions may also result in the inheritance of debt or other liabilities, which could have a material adverse effect on our business, financial condition and results of operations. We may

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encounter similar difficulties for businesses we may acquire in the future. We cannot assure you that we will be successful in realizing all of the anticipated benefits in the acquisitions that we have made or may make in the future. Failure to realize these anticipated benefits may materially and adversely affect our business, financial condition and results of operations.

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

We have expanded our operations and markets in part through acquisitions and intend to continue to grow through acquisitions. The identification and completion of such acquisitions are dependent upon various factors, including satisfactory completion of due diligence, negotiation of definitive agreements and our ability to compete with other entities to acquire attractive targets. For example, we paid RMB100 million in 2009 as a deposit to secure exclusivity in a proposed acquisition. We may decide not to pursue this acquisition further after our due diligence or we may be unable to reach agreement with the seller on terms of the definitive agreements. There can be no assurance that in the future we will be able to identify and acquire appropriate acquisition targets on commercially acceptable terms, if at all, or that we will have sufficient capital to fund such acquisitions. Failure to identify or acquire suitable acquisition targets in the future could materially and adversely affect our growth.

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

We have relied on cash generated from our operations and bank loans to fund our capital requirements, finance the construction of our production facilities and purchase production equipment. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our net cash used in our investing activities was RMB355.4 million, RMB667.9 million, RMB847.5 million and RMB374.0 million, respectively, while our net cash generated from operating activities was RMB171.0 million, RMB323.1 million, RMB619.7 million and RMB261.6 million, respectively. The net cash used in our investing activities was substantially more than that generated from our operating activities. As of December 31, 2007, 2008 and 2009 and April 30, 2010, our total borrowings were approximately RMB336.2 million, RMB676.3 million, RMB1,648.9 million and RMB1,466.0 million, respectively, and our net current liabilities were approximately RMB257.4 million, RMB258.4 million, RMB1,074.4 million and RMB1,064.9 million, respectively. Our gearing ratios were 29%, 41%, 50% and 49% during the Track Record Period. Our high level of indebtedness could materially and adversely affect our liquidity. For example, it could:

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

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During the Track Record Period and as of the Latest Practicable Date, we had not experienced a reduction or withdrawal of credit or banking facilities by our lenders or any liquidity problems in settling our trade payables in the ordinary course of business when they became due. However, we cannot assure you that we will always be able to continue to refinance our bank loans when they become due, repay our bank loans upon maturity and/or raise the necessary funding to finance our current liabilities and our capital commitments. Certain of our loan agreements contain financial covenants that impose restrictions on our capital expenditures and require us to maintain certain financial ratios. Under the RMB330 million syndicated loan agreement Shaanxi Yaobai entered into on November 30, 2009 with a syndicate of financial institutions led by Credit Suisse, Shanghai Branch, we are required to, among other things, (i) maintain a ratio of total liabilities to total assets of no more than 50% for each six-month period between December 31, 2009 and December 31, 2010 and no more than 40% from January 1, 2011 until the loan is repaid, and (ii) incur no more than RMB200 million in capital expenditures in the six months ended June 30, 2010 and in each of the two years ending December 31, 2011 and 2012 and no more than RMB450 million in capital expenditures in the year ending December 31, 2010. As we increased our capital expenditures in 2010 in connection with the construction of our production facilities, the total amount of capital expenditures we incurred in the four months ended April 30, 2010 was RMB374.8 million, which exceeded the RMB200 million limit prescribed in the syndicated loan agreement for the six months ended June 30, 2010. In addition, based on our unaudited consolidated management accounts as of June 30, 2010, the ratio of total liabilities to total assets exceeded 50%. The facility agent representing the lenders of this syndicated loan had granted us a waiver with respect to these two covenants for the four months and six months ended April 30, 2010 and June 30, 2010, respectively. As a result of the waiver, we were not as of April 30, 2010 and June 30, 2010 and are not in breach of the loan agreement. However, subject to any amendments to the loan agreement, we will remain subject to the covenants under this loan until the loan becomes due in December 2012. We cannot assure you that we will be able to comply with all the requirements under our loan agreements, or that we will be able to obtain waivers if we fail to comply with them. Failure to service our debts or comply with the terms, conditions and covenants of our loan facility agreements could result in penalties, including increases in our interest rates, accelerated repayment of loans and interest, termination of facilities and legal action against us by our creditors, any of which could have a material and adverse effect on our business, financial condition and results of operations. Furthermore, our liquidity depends on the amount of cash we generate from operations and our access to further financial resources to fulfill our short-term payment obligations, which may be affected by our future operating performance, prevailing economic conditions and other factors, many of which are beyond our control.

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

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

As of April 30, 2010, we had total bank loans of approximately RMB1,445.0 million, among which a number of loans have floating interest rates linked to, among others, one to three years benchmark rates of PBOC and LIBOR. As of December 31, 2007, 2008 and 2009 and April 30, 2010, if interest rates on our

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borrowings had been 10% higher/lower with all other variables held constant, our after-tax profit during the respective periods would have been approximately RMB2.2 million, RMB2.6 million, RMB2.6 million and RMB2.0 million lower/higher, mainly as a result of higher/lower interest expense on our floating rate borrowings. If there is a material increase in the reference rates during the term of our relevant loan facilities or when our current loan facilities become due, our finance costs may increase substantially and our results of operations and financial performance may be adversely affected.

We have pledged all our equity interests in West China BVI, Shaanxi Yaobai and Faithful Alliance as security under the ICBC Facility Agreement.

The due performance of our obligations under the ICBC Facility Agreement was secured by, among others, (i) a share charge over West China BVI provided by our Company; (ii) the share charge over Faithful Alliance provided by West China BVI; and (iii) an equity pledge over Shaanxi Yaobai provided by Faithful Alliance. If we are not able to perform our obligations under the ICBC Facility Agreement, the relevant charges over our equity interests in West China BVI, Shaanxi Yaobai and Faithful Alliance may be enforced and our business and assets may be sold to satisfy the outstanding principal and interest under the ICBC Facility Agreement.

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

The cement industry is highly competitive both in Shaanxi province and in China. Our major competitors include Tangshan Jidong Cement Co., Ltd. (唐山冀東水泥股份有限公司), Shengwei Cement Co., Ltd. (聲威水泥建材集團有限公司), Baoji Zhongxi Cement Co., Ltd. (寶雞眾喜水泥有限公司), SINOMA Cement Co. Ltd. (中材水泥有限責任公司), and Shaanxi Fuping Cement Co., Ltd. (陝西富平水泥有限公司), a subsidiary of Italcementi Group (意大利水泥集團). In addition, Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司) has announced that it is constructing cement production facilities in Shaanxi province and as a result may become our competitor in the region.

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

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

We use a substantial amount of coal and electricity in our production, and any shortage or interruption in the supply of coal or electricity could disrupt our operations and increase our costs of sales. The pricing for coal in our supply agreements is directly linked to market prices, so we bear the risk of coal price fluctuations. We experienced significant increases in coal prices in 2008 due to a surge in demand for coal and a supply shortage of coal in the market. In 2009, coal prices declined compared to 2008 due to reduced demand as a result of the global financial crisis. In the first four months of 2010, coal price increased substantially due to our expansion to southern Shaanxi province, where coal price is generally higher due to

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higher transportation costs and due to the recovery of the global economy. For the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our cost of coal as a percentage of our total cost of sales was approximately 21.4%, 36.0%, 31.2% and 37.9%, respectively. Our average purchase prices of coal were approximately RMB290, RMB492, RMB434 and RMB559 per ton for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. We cannot predict future price trends for coal or the degree of any price volatility.

For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our cost of electricity as a percentage of our total cost of sales was approximately 24.8%, 22.0%, 20.7% and 18.6%, respectively. Electricity prices for industrial enterprises are generally regulated by provincial governments in China. Our average electricity purchase price per KWh was approximately RMB0.40, RMB0.40, RMB0.43 and RMB0.48 for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. There was a surge in average electricity cost in 2009 as in November 2009, the Shaanxi Electric Power Company increased the price per KWh by RMB0.0367. We cannot predict future price trends for electricity or the degree of any volatility. Any significant increase in the prices of coal or electricity or any shortage or interruption in their supply could increase our costs of sales and/or cause disruptions to our operations, which in turn could have a material adverse effect on our business, financial condition and results of operations.

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

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

Under the Mineral Resources Law of the PRC (中華人民共和國礦產資源法), all mineral resources in China are owned by the state. We are required to obtain mining rights before undertaking any mining activities, and the mining rights are limited to a specific area during a fixed license period. We are also required to pay a resource tax of RMB2.0 to the local governments where our mining activities are based for every ton of limestone excavated. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, we paid approximately RMB3.9 million, RMB5.4 million, RMB8.0 million and RMB4.2 million in resource tax for the limestone excavated from the quarries for which we have mining rights, respectively. The amount of this resource tax may increase in the future, which could have a negative impact on our profitability and our results of operations.

As of the Latest Practicable Date, we owned mining licenses for the Yaoshan (堯山), Xiaozhai (小寨), Qingshanzhai (青山寨), Chujiashan (褚家寨), Jinsushan (金粟山), Longtanzi (龍潭子), Dalingliang (大嶺梁), Liu Xianping West Mountain (留仙坪西大山) and Liu Xianping East Mountain (留仙坪東大山) limestone quarries, which are due to expire between 2010 and 2022. We cannot assure you that such mining licenses will be renewed upon expiration or that upon expiration, we will be able to renew on terms that are commercially reasonable. If we are unable to renew these licenses, we may have to seek alternative sources of limestone that may be further away from our production facilities which will result in higher transportation costs. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, we paid approximately RMB27.5 million, RMB37.5 million, RMB74.8 million and RMB19.6 million for the limestone excavated from our quarries and purchased from third party supplier, respectively. If we are

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unable to find alternative sources of limestone, the affected production facilities may not be able to continue their operations, in which case our business, financial condition and results of operations will be materially and adversely affected. As part of our growth strategy, we intend to acquire additional limestone reserves and production facilities. However, we cannot assure you that we will be able to acquire suitable limestone reserves in the future and obtain the mining rights for them. If we are unable to secure additional mining rights, our operations and growth prospects may be materially and adversely affected. Our financial performance and results of operations could also be adversely affected if we fail to pass on any increase in the cost of limestone excavation and purchases to our customers.

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

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

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

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

Certain raw materials used in our production, such as gypsum, flyash, pyrite cinder and slag, are subject to price volatility caused by external conditions, including commodity price fluctuations and changes in governmental policies. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our cost of raw materials accounted for approximately 34.0%, 26.0%, 32.4% and 24.5%, of our total costs of sales, respectively.

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

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

We engaged a reputable external consulting firm in November 2009 to review selected areas of our internal controls over financial reporting and the findings of such consulting firm indicated deficiencies and weaknesses in our internal controls over financial reporting, including (i) our inadequate IFRS capabilities due to lack of accounting personnel with a good understanding of IFRS reporting requirements, (ii) our lack of a comprehensive set of internal control policies and procedures due to lack of resources, (iii) our lack of

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an effective corporate governance system in relation to compliance with the Listing Rules and (iv) our lack of information technology general controls policies and procedures. In response to the recommendations of the internal control advisor, we have revised and implemented internal control policies and procedures in areas of deficiencies and weaknesses and have planned the monitoring process after the implementation. For details, please see the section headed “Business — Internal Controls over Financial Reporting” of this prospectus. However, we cannot assure you that any deficiencies or weaknesses in our internal control for financial reporting will not occur in the future. If we fail to (i) continue the implementation of the remediation plan recommended by the internal control advisor or (ii) continue to maintain effective internal controls over our financial reporting, we may not be able to timely and accurately prepare our financial reporting and therefore our results of operation may be adversely affected.

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

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

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

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

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

We currently enjoy certain PRC tax incentives as a result of the status of certain of our PRC subsidiaries as wholly foreign owned enterprises, the locations of all of our PRC subsidiaries in western China and our use of recycled materials in our cement production. Shaanxi Yaobai and Lantian Yaobai are entitled to a two-year exemption from the PRC enterprise income tax from their first profitable year on a cumulative

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basis, and a 50% reduction of their applicable enterprise income tax rate for the succeeding three years. Shaanxi Yaobai is entitled to this preferential treatment because it is a wholly-foreign owned enterprise and Lantian Yaobai is entitled to this preferential treatment pursuant to Article 16 of the Provisional Regulations on the Domestic Re-investment of Foreign-Invested Enterprise (關於外商投資企業境內投資的暫行規定). As enterprises located in western China operating in “encouraged” industries, three of our PRC subsidiaries, namely Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai, are entitled to a preferential enterprise income tax rate of 15% under the “Western Development Plan” (西部大開發) implemented by the PRC government to encourage development in the western region of China, compared with the regular national enterprise income tax rate of 25%. The aggregate profit contributions from Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai for each of the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 amounted to RMB162.9 million, RMB256.3 million, RMB539.0 million and RMB173.6 million, respectively. We also plan to apply for similar preferential enterprise income tax rate for Hanzhong Yaobai. This program is due to expire at the end of 2010. If the PRC government does not extend this program, we will be subject to a tax rate of 25% and our net profit after tax may be lower. The tax exempted under the “Western Development Plan” (西部大開發) accounted for approximately 10% of our profit and our Directors are of the view that the expiration of the program may have an adverse effect on our business, financial condition and results of operation.

In addition, pursuant to the *Notice regarding Policies relating to Value-Added Tax on Products Made Through Comprehensive Utilization of Resources and Certain Other Products* promulgated by the Ministry of Finance and the State Administration of Taxation (財政部國家稅務總局關於部分資源綜合利用及其他產品增值稅政策問題的通知), we enjoy VAT refunds for cement products that utilize recycled materials, such as slag and flyash. In three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, such VAT refunds amounted to approximately RMB30.5 million, RMB39.2 million, RMB65.0 million and RMB25.2 million, respectively, representing 20.3%, 15.9%, 19.7% and 16.3% of our profit during the same periods. This incentive is currently in effect and we are not aware of any intention by the PRC government to discontinue it.

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

The taxation regime in Jersey may be subject to change.

If our Company is deemed to be tax resident in Jersey then it would be subject to Jersey income tax at zero per cent. However, in late 2009 it was reported that concerns had been raised by some members of the ECOFIN Code of Conduct group as to whether the current “Zero/Ten” tax regime for companies in Jersey could be interpreted as being outside the spirit of the EU Code of Conduct for Business Taxation. The Treasury and Resources Minister of the States of Jersey confirmed in his budget speech on December 8, 2009 that the Zero/Ten tax regime in Jersey had not been found to be non-compliant with the Code of Conduct. The Minister has also announced a review of business taxation in Jersey. Although the Minister stated in his budget speech that he understood the fundamental importance of tax neutrality to Jersey’s financial service industry and the requirement that this be maintained, the outcome of this review cannot at this time be predicted. Following the review there is, therefore, the possibility that the current taxation regime applicable in Jersey may be amended and, as a result, certain companies which are currently subject to tax at the zero rate, which may include our Company, could be subject to taxation in Jersey at a rate of more than zero per cent.

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

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

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

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

Furthermore, recruiting and retaining capable personnel, particularly experienced engineers and technicians familiar with our production processes, are vital to maintaining the quality of our products, continuously improving our production processes and supporting the expansion of our production capacity. We also need to recruit personnel with internal control experience to maintain and strengthen our internal control systems and procedures. We may also need to employ and retain more management personnel to support our expansion in the future. There is substantial competition for qualified personnel in the cement industry and we experienced difficulties in recruiting suitable personnel with internal control experience during the Track Record Period, and we cannot assure you that we will be able to attract or retain qualified personnel. If we are unable to attract and retain qualified employees, key personnel and senior management, our business, financial condition and results of operations may be materially and adversely affected.

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

Immediately after the completion of the Global Offering, our Controlling Shareholders, Mr. Zhang, Ms. Zhang Lili, Asia Gain and Central Glory, will, in aggregate, beneficially own 45.69% of our issued share capital (assuming the Over-allotment Option, the outstanding options granted under the Share Option Scheme and the AS Warrants are not exercised and no option has been granted under the Post-IPO Option Scheme). Accordingly, our Controlling Shareholders, through their voting power at Shareholders' meetings and their delegate(s) to our Board, will be in a position to exert significant influence over our management and corporate policies, including our development strategies, capital expenditure, dividend distribution plan, change of control and corporate opportunities. In addition, circumstances may arise in which the Controlling Shareholders' interests may conflict with your interests. Potential conflicts of interest with our Controlling Shareholders may include matters relating to:

- adopting amendments to our Articles of Association that are not in the best interests of our other Shareholders;

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- determining the outcome of most corporate actions, including the enforcement of indemnities against our Controlling Shareholder which, subject to the applicable requirements of the Stock Exchange, can cause us to effect corporate transactions without the approval of our other shareholders;
- approval of potential mergers or acquisitions, asset sales, and other significant corporate transactions, including transactions which may lead to a change of control;
- issuances of securities;
- investment decisions and decisions relating to capital expenditures; and
- payment of dividends and other distributions.

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

Our results of operations are subject to seasonal fluctuations.

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

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

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

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

We face various risks, including the risk of liability for personal injury and loss of life, damage to or destruction of facilities and equipment, transportation damages and delays, environmental pollution, and

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risks posed by natural disasters, in connection with our business and operations which may not be completely eliminated through the implementation of preventive measures. Our business involves the operation of heavy machinery, which, if operated improperly, may result in physical injury or even death. Accidents have happened in the past due to improper operation of machinery, machinery malfunction or employee negligence. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our fatality rate per one thousand employees, which was calculated to only include fatality for which we were responsible, was nil, 0.6, 0.4 and 0.3, respectively, and our injury rate per one thousand employees was 1.9, 2.4, 2.7 and 0.3, respectively, for the same period. A total of 12 accidents, involving 14 employees, occurred at our production facilities during the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, resulting in one fatality and four severe injuries in 2008, one fatality and six severe injuries in 2009 and one fatality and one severe injury during the four months ended April 30, 2010. There can be no assurance that similar accidents will not happen in the future. If accidents resulting in employee injuries or deaths occur, we may be liable for medical and other payments to the employees and their families, in addition to possible fines or penalties. Furthermore, we may be forced to shut down certain equipment or suspend our operations due to government investigation or government requirement to implement additional safety measures. Such business interruptions will result in loss of profit to us. We cannot assure you that all risks have been covered adequately by our existing insurance policy. If we incur substantial liabilities and they are not covered by our insurance policies, our business, financial condition and results of operations could be materially and adversely affected.

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

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

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

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

We are required by the PRC state laws and regulations to participate in various social welfare schemes including pension, medical, unemployment, birth and work-related injury insurances and housing provident fund contributions. The local authorities at the counties where our subsidiaries in the PRC are located, however, have different interpretation and implementation of such state laws and policies and we have been complying with the regulations and policies to the extent required by local authorities. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, we contributed

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approximately RMB0.6 million, RMB1.6 million, RMB2.5 million and RMB1.2 million to the social insurance schemes, respectively. We would need to pay additional amount of RMB0.5 million, nil, RMB1.1 million and RMB0.6 million during the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 if we made the contribution to social insurance fund and housing provident fund for our Group members according to applicable national laws and regulations during the Track Record Period.

Pursuant to policies including the Opinions of the Central Committee of the Communist Party of China and the State Council Regarding Deepening Medical and Hygienic Reform (中共中央、國務院關於深化醫藥衛生體制改革的意見), the Report of the Agricultural and Rural Affairs Committee of the National People's Congress on Follow-up and Inspection of Construction of Social Security System in Rural Areas (全國人民代表大會農業與農村委員會關於農村社會保障體系建設情況跟蹤檢查報告) and the Guiding Opinions of the State Council Regarding Development of New Rural Social Old-Age Insurance on an Experimental Basis (國務院關於開展新型農村社會養老保險試點的指導意見), the PRC Government does not request contribution of pension and medical insurance for workers with rural residence on a mandatory basis.

Due to the differences in the local regulations and interpretation and implementation of relevant social insurance policies and laws and regulations by the local social insurance authorities, we have been making payments to selected social welfare schemes in accordance with policies of local social insurance authorities at counties where our PRC subsidiaries are located. As acknowledged by the social insurance authorities in the counties where our subsidiaries in the PRC are located: (1) pursuant to the national and local policies and laws and regulations regarding rural social security system, our subsidiaries in the PRC do not have mandatory obligations to pay social insurance payments for workers with rural residence; (2) other than pension insurance, the relevant counties have different implementation policies regarding medical, unemployment, birth and work-related injury insurances and housing provident funds and our subsidiaries in the PRC have complied with the relevant local policies.

In respect of social insurance, the relevant local authorities have confirmed in writing that (i) we have fully paid social insurance payments and we are in compliance with all applicable social insurance regulations, (ii) we will not be required to make further contributions and (iii) no penalty will be imposed on us. Accordingly, we do not consider it is necessary to make a provision for the difference between social insurance and housing provident fund payments required under state laws and regulations and by the local authorities.

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

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

We are exposed to risks associated with product liability claims if the use of our cement products results in property damage or personal injury. Our cement products are mainly used as construction materials. While we seek to conform our products to meet a variety of contractual specifications and regulatory requirements, we cannot assure you that product liability claims against us will not arise, whether due to product malfunctions, defects, or other causes. We have only maintained product liability insurance for one of our PRC subsidiaries, Shaanxi Yaobai, which operates our Pucheng production line. As a result, our other PRC subsidiaries which operate our other production lines including Lantian, Xunyang, Zhen'an, Danfeng, Yangxian and Mianxian production lines which produced over 70% of our total cement output in 2009, may be exposed to claims for losses and damages regarding the quality of our products. In addition, the product liability insurance for Shaanxi Yaobai may not be sufficient to cover all the losses and damages arising from claims arising as a result of deficiencies in the quality of our products. Any such claims, regardless of whether they are ultimately successful, could cause us to incur litigation costs, harm our business reputation and disrupt our operations. Furthermore, we cannot assure you that we will be able to defend against such claims successfully. If any such claims against us were ultimately successful, we could be required to pay substantial damages, which could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE CEMENT INDUSTRY IN THE PRC

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

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

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

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

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

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

The cement industry is subject to national and local environmental protection laws and regulations. As the production of cement is regarded as one of the major sources of pollution in the PRC, the PRC government has adopted a series of environmental policies to reduce the adverse effects of the cement industry on the environment, such as the requirement to use the more environmentally friendly NSP production technology. Governmental requirements that affect our operations include those relating to noise, soil, air quality, solid waste management, and waste water treatment. Failure to comply with these regulations may result in the assessment of damages or imposition of penalties, fines, administrative sanctions, proceedings and/or suspension of production or cessation of our operations or revocation of our licenses or permits to conduct our business. With the increasing awareness of environmental protection issues, we anticipate that the PRC environmental regulatory framework will become increasingly stringent. The implementation of more stringent laws and regulations or stricter interpretation of the existing laws and regulations may require us to incur additional expenses for compliance purposes. We cannot assure you that we will be able to comply with any additional environmental regulations in the future, or enhanced implementation of existing environmental regulations, on a cost-effective basis, or at all. In such circumstances, our business, financial condition and results of operations could be adversely and materially affected.

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

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

RISKS RELATING TO THE PRC

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

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

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

RISK FACTORS

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

Our business and operations are conducted in the PRC and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes and prior court decisions can only be used as reference. Since the late 1970s, the PRC government has significantly enhanced PRC laws and regulations in relation to economic matters such as foreign investments, corporate organization and governance, commerce, taxation and trade. However, the PRC does not yet have a fully integrated legal system. Due to the limited volume of published cases and the non-binding nature of prior court decisions, the interpretation and enforcement of many recently enacted laws, rules and regulations may be uncertain or inconsistent. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention, which in turn could have a material and adverse effect on our business, financial condition and results of operation.

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

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

Additionally, under the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise* (關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (Circular Guoshuihan [2009] No. 698) issued by the State Administration of Taxation* (國家稅務總局) on

RISK FACTORS

10 December 2009, even if we or our overseas subsidiaries are considered as non-PRC resident enterprises, we cannot provide any assurance that any direct or indirect transfer of our equity interests in our PRC subsidiaries via our overseas holding companies in the future will not be subject to examinations by our PRC subsidiaries' tax authorities and therefore will not be subject to a withholding tax of 10%. See “— Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under PRC tax laws” below.

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

Under the new PRC Enterprise Income Tax Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises” (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Similarly, any gain realized on the transfer of shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

If our Company is considered to be a “resident enterprise,” the dividends it pays with respect to our Shares would be treated as income derived from sources within the PRC and be subject to PRC income tax. Further, in accordance with the “Notice of the State Administration of Taxation on Issues Relating to Enterprise Income Tax Withholding for Dividends Distributed to Overseas H-Share Non-Resident Enterprise Shareholders by PRC Resident Enterprises” (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知), that was issued on November 6, 2008, our Company are required to withhold PRC income tax on our dividends payable to our “non-resident enterprise” Shareholders at the tax rate of 10%. In the event that our Company is considered a “resident enterprise,” it is unclear whether the gain our Shareholders may realize from the transfer of our Shares would be treated as income derived from sources within the PRC and be subject to PRC income tax. If our Shareholders are required to pay PRC income tax on the transfer of their Shares, the value of their investment in our Shares may be materially and adversely affected.

Similarly, Circular Guoshuihan [2009] No. 698 provides that where a foreign investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company (“Indirect Transfer”) located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5%, or (ii) does not tax its residents on their foreign incomes, the foreign investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. The PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the transfer in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company and re-characterize the Indirect Transfer. As a result, gains derived from such Indirect Transfer may be subject to the PRC withholding tax at the rate of 10%. Circular Guoshuihan [2009] No. 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the competent tax authority has the authority to adjust the amount of taxable income pertaining to the transaction.

RISK FACTORS

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

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

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

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

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

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

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

RISK FACTORS

As of December 31, 2008, if the RMB had weakened/strengthened by 1% against the U.S. dollar with all other variables held constant, post-tax profit for the year would have been RMB3,562,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of U.S. dollar-denominated borrowings and related warrants. Profit is more sensitive to movement in RMB/U.S. dollar exchange rates in 2008 than 2007 because of the large amount of U.S. dollar-denominated borrowings incurred in 2008.

At December 31, 2009, if RMB had weakened/strengthened by 1% against US\$ with all other variables held constant, post-tax profit for the year would have been approximately RMB6,634,000 lower/higher, mainly as a result of foreign exchange losses/gains on translation of US\$-denominated borrowings.

At April 30, 2010, if RMB had weakened/strengthened by 1% against US\$ with all other variables held constant, post-tax profit for the period would have been approximately RMB6,742,000 lower/higher mainly as a result of foreign exchange losses/gains on translation of US\$-denominated borrowings.

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

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

Our results of operations and the trading price of our Shares may be adversely affected by the occurrence of an epidemic.

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

RISKS RELATING TO THE GLOBAL OFFERING

An active trading market for our Shares may not develop.

Following the completion of the Global Offering, the Stock Exchange will be the only market on which our Shares are listed. While our Shares were traded on AIM from December 4, 2006 to August 20, 2010, we cannot assure you that an active public trading market for our Shares will develop upon Listing. In addition, after the Global Offering our Shares may trade in the public market below the Offer Price. The Offer Price will be determined by agreement among us and the Joint Global Coordinators on behalf of the Underwriters, and it may differ significantly from the market price of our Shares following the completion of the Global Offering. If an active trading market for our Shares does not develop or is not sustained after the Global Offering, the market price and liquidity of our Shares could be materially and adversely affected.

RISK FACTORS

The trading price of our Shares may be volatile, which could result in substantial losses to you.

You should be aware that the trading price of our Shares may be volatile and could fluctuate significantly in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, the PRC, the United Kingdom and the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in the PRC that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

In addition to market and industry factors, the share price and trading volume for our Shares may be highly volatile for specific business reasons. In particular, factors that may substantially affect the share price and trading volume include, among other things, variations in our revenue, earnings, cash flow and costs, announcements of new investments, the performance of our investments, large purchases or sales of our Shares, the level of liquidity in our Shares, response to announcements and any future fund raisings, currency fluctuations, legislative, regulatory or taxation changes, market sentiment and general economic conditions or the occurrence of any of the risks described elsewhere in this “Risk Factors” section. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

Future sales of substantial amounts of our Shares could adversely affect the prevailing market price of our Shares.

The Shares held by our Controlling Shareholders are subject to certain lock-up periods beginning on the date of the Hong Kong Underwriting Agreement, the details of which are set forth in the section headed “Underwriting” in this prospectus. We cannot assure you that, after such restrictions expire, these shareholders will not dispose of any Shares. Sales of substantial amounts of our Shares, or the perception that these sales may occur, may materially and adversely affect the prevailing market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate.

Purchasers of our Shares in the Global Offering will experience immediate dilution, and may experience further dilution if we issue additional Shares in the future.

The Offer Price of our Shares is higher than the value of the net tangible assets per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in the net tangible book value per Share based on the maximum offer price of HK\$1.69 per Share.

In order to expand our business, we may consider issuing additional Shares in the future. Purchasers of our Shares may experience further dilution in the net tangible asset book value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset book value per Share.

RISK FACTORS

Certain facts and other statistics with respect to the PRC, the PRC economy and the PRC cement industry in this prospectus are derived from various official government sources and third party sources and may not be reliable.

Certain facts and other statistics in this prospectus relating to the PRC, the PRC economy and the PRC cement industry have been derived from various official government publications and third party sources. We cannot guarantee the quality or reliability of such sources. They have not been prepared or independently verified by us or any of our affiliates or advisors and, as a result, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practices and other problems, the statistics contained in this prospectus may be inaccurate or may not be comparable to statistics produced for other economies and may not be reliable.

Furthermore, there is no assurance that such facts or statistics are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere in other countries. As a result, prospective investors should consider carefully how much weight or importance they should attach to or place on such facts or statistics.

You should not rely on any information contained in press articles or other media regarding us and the Global Offering.

Prior to the publication of this prospectus, there has been press and media coverage, including articles published in, among others, Hong Kong Commercial Daily, Hong Kong Economic Times, Ming Pao, Sing Tao Daily and Wen Wei Po, on July 28, 2010, regarding us and the Global Offering which included certain financial information, future plans and other information about us that does not appear in this prospectus. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. We disclaim all responsibilities and liabilities for any information appearing in publications other than this prospectus. Prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to purchase the Shares.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

In preparation for Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

SUBSCRIPTION FOR SHARES BY EXISTING SHAREHOLDERS

Rule 10.04 of the Listing Rules requires that existing shareholders may only subscribe for securities offered by our Company provided no securities will be offered to them on a preferential basis and no preferential treatment will be given to them in the allocation of the securities. We have applied for, and the Stock Exchange has granted, a partial waiver, to the extent necessary to include existing Shareholders in the “book-building” process described in the section headed “Structure and conditions of the Global Offering — Pricing and Allocation” in this prospectus. The waiver is conditional on (i) we and the Joint Sponsors obtaining confirmation from our Directors and all connected persons (as defined under Chapter 1 of the Listing Rules) of our Company that they will not participate directly or indirectly in the International Placing; (ii) existing Shareholders subscribing for Offer Shares in the International Placing confirming to us and the Joint Sponsors that they are not connected persons or persons who will become connected persons immediately upon completion of the Global Offering and that their subscription for Offer Shares is not financed by or being made on instruction of connected persons by providing a list of institutions through which the connected persons hold their Shares in our Company; (iii) we and the Joint Sponsors confirming that no existing Shareholders would have any influence over the Offer Shares allocation process; (iv) we and the Joint Sponsors confirming that existing Shareholders subscribing for Offer Shares under the International Placing will not be given preferential treatment in the allocation process; (v) we confirming to the Stock Exchange that existing Shareholders who are investors independent from us do not participate or have any influences in the management and operation of our Group but may subscribe to Offer Shares under the International Placing; and (vi) we undertake to maintain the minimum public float as required under Rule 8.08(1) of the Listing Rules at all times so long as our Shares are listed on the Stock Exchange. We have also applied for, and the Stock Exchange has granted, consent under paragraph 5(2) of Appendix 6 to the Listing Rules which states that no allocations will be permitted to be made to existing shareholders of a listing applicant or their associates.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, our Company must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. The business and operations of our Group are primarily located, managed and conducted in Shaanxi province. Substantially all customers of our Group are also located in China. None of our executive Directors are ordinarily based in Hong Kong. We do not and, in the foreseeable future, will not have any management presence in Hong Kong.

Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and ourselves:

- (a) We have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that our Company comply with the Listing Rules at all times. The two authorized representatives are Ms. Low Po Ling, our executive Director, and Mr. Sin Lik Man, our company secretary, who is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email (if applicable). Each of the two authorized representatives is authorized to communicate on our behalf with the Stock Exchange. We have been registered as a non-Hong Kong company under the Companies Ordinance and Mr. Sin Lik Man has been also authorized to accept service of legal process and notices in Hong Kong on our behalf.

- (b) Each of the authorized representatives has means to contact all members of our Board (including the independent non-executive Directors) and of the senior management team promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. To enhance the communication between the Stock Exchange, the authorized representatives and our Directors, we will implement a policy that (a) each executive Director and independent non-executive Director will have to provide their respective office phone numbers, mobile phone numbers, residential phone numbers, fax numbers and email addresses (if applicable) to the authorized representatives; (b) in the event that an executive Director or independent non-executive Director expects to travel or is out of office, he/she will have to provide the phone number of the place of his/her accommodation to the authorized representatives; and (c) all the executive Directors, independent non-executive Directors and authorized representatives will provide their office phone numbers, mobile phone numbers, fax numbers and email addresses (if applicable) to the Stock Exchange.
- (c) In addition, all executive Directors, who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet the Stock Exchange within a reasonable period.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (subsidiary legislation 571V of the SFO) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information in this prospectus and confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this prospectus misleading.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the Application Forms. So far as the Global Offering is concerned, no person is authorized to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Lead Managers, the Underwriters, any of their respective directors (where applicable) or any other parties involved in the Global Offering.

DETERMINATION OF THE FINAL OFFER PRICE

The final Offer Price is expected to be determined by agreement among the Joint Global Coordinators (acting on behalf of all the Underwriters) and us on the Price Determination Date which is expected to be on or around August 13, 2010 and in any event not later than August 15, 2010. **If, for whatever reason, the Joint Global Coordinators (acting on behalf of all the Underwriters) and we are unable to agree on the final Offer Price, the Global Offering (including the Hong Kong Public Offer) will not proceed and will lapse.**

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offer, which forms part of the Global Offering. For applicants under the Hong Kong Public Offer, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offer. The Global Offering comprises the International Placing and the Hong Kong Public Offer subject, in each case, to re-allocation described in the section headed "Structure and conditions of the Global Offering" in this prospectus. The number of the Offer Shares under the Global Offering is subject to the Over-allotment Option.

The Listing is jointly sponsored by the Joint Sponsors, and the Global Offering is jointly coordinated by the Joint Global Coordinators. Subject to the terms of the Underwriting Agreements (including the determination of the final Offer Price by agreement between our Company and the Joint Global Coordinators (acting on behalf of the Underwriters) on or around August 13, 2010, being the expected Price Determination Date or such later time as may be agreed by our Company and the Joint Global Coordinators (acting on behalf of all the Underwriters) but in any event no later than August 15, 2010, the Hong Kong Offer Shares are fully underwritten by the Hong Kong Underwriters and the International Placing Shares are expected to be fully underwritten by the International Underwriters. For particulars of the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

No action has been taken to permit a Hong Kong Public Offer of the Offer Shares or the distribution of this prospectus and the Application Forms in any jurisdiction other than Hong Kong.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

The distribution of this prospectus and the Application Forms and the offering or sale of the Offer Shares in certain jurisdictions are restricted by law. Accordingly this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offer will be required to confirm, and is deemed by his acquisition of the Hong Kong Offer Shares to have confirmed, that he is aware of the restriction on offer of the Offer Shares described in this prospectus and the Application Forms and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering as mentioned in this prospectus (including any Shares to be issued pursuant to the exercise of the Over-allotment Option, any options granted under the Share Option Scheme and which may be the Post-IPO Share Option Scheme and the warrants granted to Mr. Anthony Schindler (details of such warrants are set out in the paragraphs headed “Warrants granted to our advisor” in the section headed “History, Reorganization and Corporate Structure” in this prospectus).

Our Shares in issue are currently admitted to trading on AIM. On July 20, 2010, an extraordinary general meeting was held by our Shareholders to approve, among other things, the delisting of our Shares from AIM, which is conditional upon Listing. It is expected that the Shares in issue will cease to be admitted to trading on AIM with effect from the first day of dealings in the Shares on the Stock Exchange.

HONG KONG SHARE REGISTER AND STAMP DUTY

All of the Shares will be registered on our Company’s register of members to be maintained in Hong Kong by the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Only Shares registered on our Company’s register of members maintained in Hong Kong may be traded on the Stock Exchange.

Our Company’s principal register of members will be maintained by its principal share registrar and transfer office, Computershare Investor Services (Channel Islands) Limited.

Dealings in the Shares registered on our Company’s register of members in Hong Kong will be subject to Hong Kong stamp duty. No stamp duty is payable by applicants in the Hong Kong Public Offer.

Shares registered in our Hong Kong register of members constitute Hong Kong property.

Unless determined otherwise by our Company, dividends payable in HK dollars in respect of Shares will be paid to the Shareholders listed on our Company’s register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders’ risk, to the registered address of each Shareholder, or if joint Shareholders, to the first-named therein in accordance with the Articles of Association.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval for the listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date on which Listing commences or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Investors should seek the advice of their stockbrokers or other professional advisors for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Main Board of the Stock Exchange are expected to commence on August 23, 2010. Shares will be traded in board lots of 2,000 Shares each.

The stock code for the Shares is 2233.

Our Company will not issue any temporary documents of title.

Dealings in the Shares on the Stock Exchange will be effected by participants of the Stock Exchange whose bid and offer quotations will be available on the Stock Exchange's teletext page information system. Delivery and payment for Shares dealt on the Stock Exchange will be effected two trading days following the transaction date ("T+2"). Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Only certificates for Shares registered on our Company's register of members in Hong Kong will be valid for delivery in respect of transactions effected on the Stock Exchange. If you are unsure about the procedures for dealings and settlement arrangement on the Stock Exchange on which the Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisors.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Further details of the structure and conditions of the Global Offering, including details of the Over-allotment Option, are set forth in the section headed "Structure and conditions of the Global Offering" in this prospectus.

PROCEDURE FOR APPLICATION FOR THE HONG KONG OFFER SHARES

The procedure for applying for the Hong Kong Offer Shares is set forth in the section headed "How to apply for Hong Kong Offer Shares" in this prospectus and in the Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for or purchasing the Offer Shares or holding, disposing of or dealing in the Offer Shares, you should consult an expert. Our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Lead Managers, the Underwriters, any of their respective directors, agents or advisors or any other parties involved in the Global Offering do not accept responsibility for any tax effects on, or liability of, any person resulting from subscribing for or purchasing or holding or disposing of or dealing in or exercise of any rights in relation to the Offer Shares.

WEBSITES

No website or website contents mentioned in this prospectus form part of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
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Wong Kun Kau (黃灌球)	House A22, Regalia Bay 88 Wong Ma Kok Road Stanley Hong Kong	Chinese
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DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

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CORPORATE INFORMATION

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Hi-Tech Industrial Development Zone
Xi'an
Shaanxi province, PRC

Registered Office 47 Esplanade
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Jersey JE1 0BD

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Company's Website www.westchinacement.com¹

¹ *The contents of this website do not form part of this prospectus.*

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Authorized Representatives Low Po Ling *FCCA*
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Members of the Audit Committee Lee Kong Wai Conway (*Chairman*)
Wong Kun Kau
Tam King Ching Kenny

Members of the Remuneration Committee Zhang Jimin (*Chairman*)
Tam King Ching Kenny
Wong Kun Kau

Members of the Nomination Committee Zhang Jimin (*Chairman*)
Lee Kong Wai Conway
Tam King Ching Kenny

CORPORATE INFORMATION

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and Transfer Office**

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Hong Kong Share Registrar

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Hopewell Centre
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Wanchai
Hong Kong

Compliance Advisor

Taifook Capital Limited
25/F New World Tower
16-18 Queen's Road Central
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Principal Bankers

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Pucheng, Weinan
Shaanxi province, PRC

Bank of China Limited
Pucheng Sub-branch
No. 44 The West of Yan'an Road
Pucheng, Weinan
Shaanxi province, PRC

INDUSTRY OVERVIEW

This industry overview section contains some information and statistics concerning the national and some regional PRC cement industry that we have derived partly from official government and industry sources. The information in these sources may not be consistent with information compiled by other institutions within or outside China. Due to the inherent time-lag involved in collecting any industry and economic data, some or all of the data contained in this section may only present facts and circumstances being described at the time such data was collected. As such, you should also take into account subsequent changes and developments in our industry and the PRC economy when you evaluate the information contained in this section.

We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors, the Underwriters or any of their respective affiliates or advisors, nor have any other parties involved in this Global Offering independently verified such information or statistics. No representation is given as to the accuracy of such information.

INTRODUCTION

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

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

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

Types of Cement

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

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

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

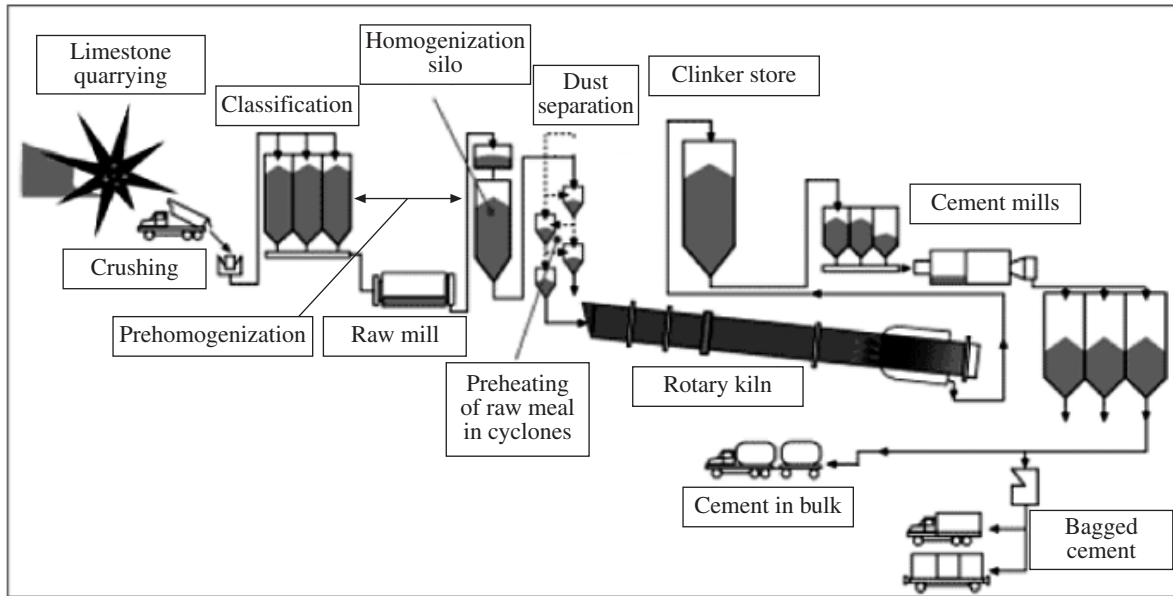
Composite Portland Cement is made of Ordinary Portland Cement along with 15% to 50% of aggregates, such as flyash, which is waste material derived from power stations. Composite Portland Cement is less expensive than Ordinary Portland Cement and Slag Portland Cement. It also has a lower compressive strength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

INDUSTRY OVERVIEW

CEMENT PRODUCTION AND TECHNOLOGY

The Production Process

The diagram below illustrates the cement production process.



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

Crushing of Raw Materials

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

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

Calcining and Blending of Raw Materials

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

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

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Sintering of Clinker

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

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

Grinding and Blending of Clinker to Produce Cement

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

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

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

Comparison between the Wet and Dry Process used in Cement Production

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

Comparison between the Rotary and Vertical Kilns used in Cement Production

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

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

The major characteristic of NSP technology is the pre-heating of raw materials for production of clinker before they are mixed and fed into the rotary kiln. In non-NSP technology production process, the raw materials are crushed and mixed to form a raw meal and fed into the rotary kiln without pre-heating. In contrast, the NSP technology requires pre-heating of the raw materials such that the raw materials are

INDUSTRY OVERVIEW

substantially decomposed prior to their mixing and feeding into the rotary kiln. This pre-heating process greatly enhances the efficiency of calcination and formation of clinker in the rotary kiln and reduces the energy consumption in the production of clinker. To the best knowledge of our Directors, NSP technology is commonly adopted in cement production process in China and other developed countries in the world.

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

	Technology	Product quality	Production efficiency	Pollution
Rotary kilns				
Wet process.	Old	High	High	Low
Semi-dry process.	New	High	High	Low
Dry process - NSP.	Latest	Highest	Highest	Lowest
Vertical kilns	Old	Low	Low	High

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

CEMENT MARKET IN THE PRC

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

Accompanying the strong economic growth is the need for building and construction of infrastructure and other fixed assets. The total FAI grew from approximately RMB10,999.8 billion in 2006 to approximately RMB22,484.6 billion in 2009, representing a CAGR of 26.8%. The massive expansion of the construction industry in turn drove the growth of cement production and consumption. China's total cement production volume amounted to approximately 1,629.0 million tons in 2009 compared with approximately 1,240.0 million tons in 2006, representing a CAGR of 9.5% from 2006. China's total cement consumption volume amounted to approximately 1,620.5 million tons in 2009, representing a CAGR of 9.9% from 2006.

Effect of world financial turmoil

The financial turmoil affected the global economy as well as the economy of the PRC. Year over year real GDP growth in 2008 was approximately 9.6%, which had decreased from the higher growth rates of approximately 10.0% to 13.0% for the years between 2003 and 2007. The PRC government took immediate actions to boost the economy by launching a RMB4 trillion economic stimulus package which provided for investment in infrastructure and expansion of social benefit programs. As a result, many government and infrastructure projects were accelerated and commenced in 2008 and 2009, including railways, highways, rural development projects, subsidized housing and post-disaster reconstructions, accounting for approximately 81.8% of the total stimulus package. In light of the increase in investments by the PRC government, many provincial governments pushed forward their investment plans and began constructing a

INDUSTRY OVERVIEW

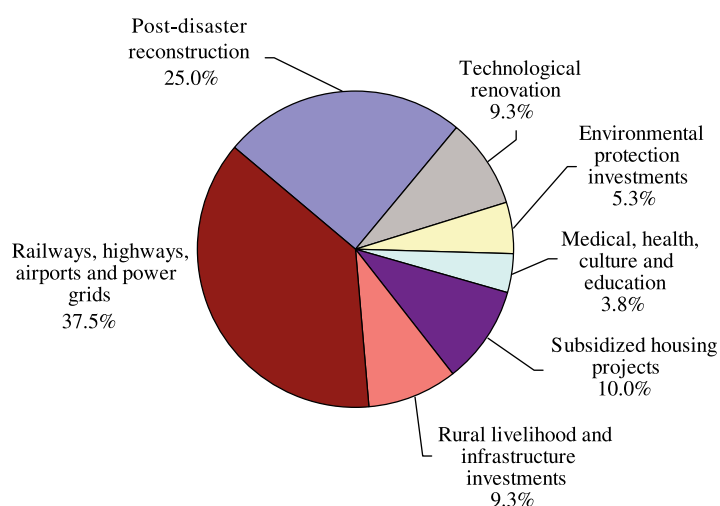
number of major infrastructure projects in the first quarter of 2009, which drove a significant increase in FAI in the first quarter in 2009. Examples of these projects in Shaanxi province include the Zhengzhou-Xi'an Passenger Line (鄭西客運專綫), Baotao-Xi'an Railway (包西鐵路), Xi'an-Chengdu Passenger Line (西安至成都客運專綫), Xi'an-Ankang Railway (西安至安康鐵路複綫) and Shiyao-Tianshui Expressway (十天高速).

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

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

Source: National Bureau of Statistics, Digital Cement Net

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



Source: NDRC

INDUSTRY OVERVIEW

Regionalized Market

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

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

Key industry trends in the PRC

Promotion of NSP technology

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

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

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

Source: China Cement Association (Digital Cement Net)

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

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

INDUSTRY OVERVIEW

Industry consolidation

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

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

Curbing oversupply

Despite the economic recovery plans to boost up investment growth, certain industries, including the cement industry, were over-expanding, which led to the government's launch of policies to limit new capacity growth. Under *State Council's Notice Approving the NDRC's Guidelines on Redundant Construction, Curbing Overcapacity in Certain Industries and the Healthy Development of Industries* (國務院批轉發展改革委等部門關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知) issued by the State Council on September 26, 2009, and the *Criteria for Entry to Cement Industry (for Solicitation of Opinions)* (水泥行業准入條件(徵求意見稿)) issued by the Ministry of Industry and Information Technology on September 7, 2009, the PRC government has set out rules and opinions to increase the entry barriers of new cement production companies, including higher requirements on capital, industry experience and compliance to local development plans. According to the *Criteria for Entry to Cement Industry (for Solicitation of Opinions)*, among others, new cement production lines or expansion of current cement production lines must comply with the cement industrial policy of the province where the production lines are located. For provinces with cement production lines adopting NSP technology exceeding 70% of the total cement production lines in that province, the annual increase in cement production capacity shall be limited to 10%. All applicants for new cement production lines must have at least three years of cement production experience and with limestone resources sufficient to support at least 30 years of excavation for cement production. These efforts are specifically targeted at regions such as eastern and southwestern China. Northwestern China, however, does not suffer from over-capacity problem due to strong investment input from the PRC government to boost up local demand. (Source: China Cement Net — Over-capacity, *The Growth of Cement Industry* (中國水泥網 - 產能過剩 水泥業成長過程中的陣痛))

Increased focus on environmental protection

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

INDUSTRY OVERVIEW

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

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

SHAANXI PROVINCE CEMENT MARKET OVERVIEW

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

Shaanxi province’s GDP growth continued to outpace the national average in the past decade. Despite the global financial crisis in 2008, Shaanxi province maintained double-digit GDP growth of approximately 15.6% in 2008, which was higher than the national GDP growth rate of approximately 9.6%. Accompanying the GDP growth, FAI in Shaanxi province also increased to approximately RMB655.3 billion or by approximately 35.1% in 2009. In contrast, the national total FAI growth for all of China for the same period was approximately 30.1%. The rapid growth of the total FAI in Shaanxi province is underpinned by the PRC government’s investment growth policy to maintain GDP as well as by the increased wealth of the general public of Shaanxi province.

The 2009-2020 Guanzhong-Tianshui Economic Zone Development Plan

In June 2009, the State Council approved the “2009-2020 Guanzhong-Tianshui Economic Zone Development Plan,” (關中—天水經濟區發展規劃) or the Plan, which serves to facilitate regional coordinated development and establish a platform for the “Go West” initiative. The Guanzhong-Tianshui Economic Zone, or the Zone, covers Xi’an, Xianyang, Tongchuan, Weinan, Baoji, certain counties in Shangluo, the Yangling Agricultural High-tech Industry Demonstration Zone in Shaanxi province and the administrative district under Tianshui city in Gansu province. The Zone is targeted to contribute more than one-third of the total GDP in the northwestern region. Planned projects in the Zone include power plant

INDUSTRY OVERVIEW

construction, coal resources exploration, watercourse improvement works, development of 3G mobile communication, the construction of an underground railway in Xi'an-Xianyang and strengthening the functionality of the Xi'an-Xianyang International Airport. We believe that the Plan will further contribute to the future growth of the cement market in Shaanxi province.

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

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

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

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

INDUSTRY OVERVIEW

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

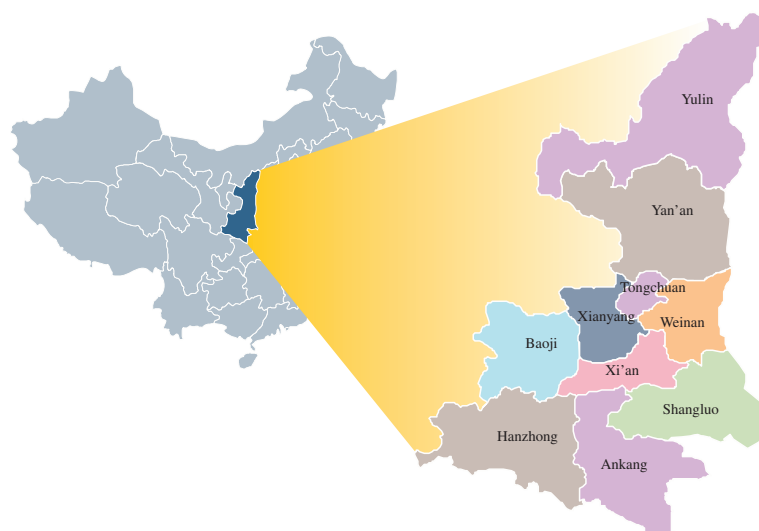
2003-2009 CAGR of Cement Production Volume

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

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

Regional Cement Market Overview within Shaanxi province

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



INDUSTRY OVERVIEW

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

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

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

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

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

Source: China Cement Association (Digital Cement Net)

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

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Competitive landscape

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

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

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

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

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

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

Source: Digital Cement Net

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

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

INDUSTRY OVERVIEW

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

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

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

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

REGULATORY OVERVIEW

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

THE CEMENT INDUSTRY

Industry Policy

Pursuant to the “Interim Provisions on Promoting Industrial Structure Adjustment” (促進產業結構調整暫行規定) promulgated by the State Council and the “Guiding Catalogue of Industrial Structure Adjustment (2005)” (產業結構調整指導目錄 (2005年本)) promulgated by NDRC on December 2, 2005, the following activities belong to the “encouraged” category of business: (i) the production of cement and clinker using NSP technology with a daily production capacity of 4,000 tons or more, or 2,000 tons or more for the western region of the PRC, and the development of the NSP technology, the equipment and ancillary materials, (ii) the construction of cement grinding mills with annual production capacity of 1 million tons or more and (iii) the production of clinker with a daily production capacity of 2,000 tons or above using the new dry process employing residual heat recovery technology. Vertical kilns, dry hollow kilns, Lepol kilns, wet process kilns, and newly-built new dry process clinker production lines with a daily production capacity of 1,500 tons or below belong to the “restricted” category of business. Mechanical vertical kiln cement production lines of 2.2 meters in diameter or less, dry hollow kiln cement production lines of 2.5 meters in diameter or less (except for those that produce special cement), cement grinding equipment of 1.83 meters in diameter or less, earthen (egg-shaped) kilns, ordinary vertical kilns and other outdated kilns belong to the “eliminated” category of business.

New investments in the eliminated category are prohibited. All regions, departments and enterprises concerned are required to adopt strong measures to eliminate the prescribed production technology, equipment and products within a prescribed timeframe. For enterprises which fail to do so, the local governments at all levels and competent authorities shall order suspension or closure in accordance with relevant PRC laws and regulations. If the products of such enterprises are regulated under the production permit system, the competent authorities shall revoke the production permits in accordance with the law. The industry and commerce administration shall supervise and urge the enterprises to undergo procedures for modification or cancellation of their registration in accordance with the law. The environmental protection and management authorities shall revoke the discharge licenses of such enterprises. If the relevant requirement is not fulfilled, the person with direct responsibilities and the related leadership shall be prosecuted and held liable.

Pursuant to the “Policies on the Development of Cement Industry” (水泥工業產業發展政策), promulgated by the NDRC and effective on October 17, 2006, the State encourages local governments and enterprises to eliminate technology that has low production capacity and to promote the development of cement production using the NSP technology. The government supports projects for the construction of cement production plants with a daily clinker production capacity of 4,000 tons or more using the NSP technology in areas with appropriate resources, the construction of large-scale clinker production bases and the construction of large-scale cement grinding mills at locations near the relevant markets. Local governments at all levels should close down and rationalize the production capacity of the enterprise with annual production capacity of less than 200,000 tons or not in compliance with environmental protection requirements or its cement quality not up to the standard in accordance with the law.

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Pursuant to the “Special Plan for the Development of Cement Industry” (水泥工業發展專項規劃), promulgated by the NDRC and effective on October 17, 2006, the State encourages the construction of large-scale production line using NSP technology with daily clinker production capacity of 4,000 tons or above, and those in western region should have a daily production capacity of 2,000 tons or above. Except for special regions restricted by market volume and transportation conditions, the construction of cement project with daily production capacity of less than 2,000 tons is not allowed. The construction of any obsolete cement production capacity and the small-scale cement plant that causes significant pollution to the environment and serious damages to resources should be eliminated in accordance with the law. The State encourages the consolidation of the industry through mergers and reorganizations and actively encourages superior enterprises to enhance competitive capacities; encourages large-scale enterprises to merge with small-scale ones in the consumer market and reconstruct the qualified ones to substituted industry such as cement grinding mills, silo terminals or ready mix concrete; gives efforts to increase the proportion of bulk cement. As the new dry process cement production in western region does not develop well, emphasized support should be given to it on the basis of reducing stress on transportation and satisfying the regional needs to develop and build production lines with daily production capacity of more than 2,000 tons using the NSP technology, speed up the elimination of obsolete production capacity and promote the structural upgrade of the industry in western region. According to this plan, goals of the development of cement industry are: the proportion of new dry process cement will be above 70% and the technical equipment, energy consumption, environmental protection and resource utilization of new dry process cement will reach the level of moderately developed countries by 2010. Cement industry will achieve basic modernization and have stronger international competitive capacity by 2020; new dry process cement and clinker production volume will be controlled at about 700 million tons; the number of enterprises will decrease from current 5,000 to 2,000, the number of enterprise with a production capacity of 30 million tons will amount to 10 and the number of those with production capacity of 5 million will amount to 40.

According to the “Guidance Catalogue of Industries for Foreign Investment” (外商投資產業指導目錄) jointly promulgated by the NDRC and the Ministry of Commerce on October 31, 2007, cement production project is listed in the “permissible” category for foreign investment.

According to the “Guidance Catalogue of Advantageous Industries for Foreign Investment in the Central and West Regions (Amendment 2008)” (中西部地區外商投資優勢產業目錄 (2008年修訂)) effective from January 1, 2009, in respect of Shaanxi province, the production of cement and clinker with a daily production capacity of 4,000 tons or more using NSP technology belongs to the “encouraged” category for foreign investment.

According to the “Opinions regarding Restrain on Overcapacity and Duplicated Construction Leading to Healthy Development of Certain Industries” (關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見) jointly promulgated by the NDRC, the Ministry of Industry and Information Technology, the Ministry of Supervision, the Ministry of Finance, the Ministry of Land and Resources, the Ministry of Environmental Protection, PBOC, the General Administration of Quality Supervision, Inspection and Quarantine, the China Banking Regulatory Commission and the China Securities Regulatory Commission and agreed by the State Council on September 26, 2009, the industrial policies on the cement industry in China are: strictly control the newly added cement capacities and execute the principle of eliminating obsolete capacities equivalently and suspend the construction of projects that have not yet commenced the construction before September 30, 2009 and conduct one-off conscientious liquidation, as well as projects which are not in compliance with above principles are forbidden to commence the construction. Each province, district and city must promptly put in place a schedule to eliminate obsolete capacities thoroughly in three years. Enterprises are encouraged to generate power by using residual heat recovery systems,

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increasing the efficiency of the grinding systems and re-utilizing industrial wastes. Newly constructed projects' heat consumption of cement and clinker burning should be lower than 105 kg of standard coal/ton of clinker and the comprehensive electricity consumption for cement should be lower than 90KWh/ton of cement; the limestone reserve life must be more than 30 years; the density of waste gas and dust content must be lower than 50 mg/standard cubic meter. The provinces should encourage the merger or reorganization of those enterprises with obsolete capacities and promote the elimination of obsolete capacities through the construction of new production lines.

According to the "Notice of the State Council on Further Strengthening the Elimination of Obsolete Production Capacities" (《國務院關於進一步加強淘汰落後產能工作的通知》) issued by the State Council on February 6, 2010, cement, iron and steel and electricity are key industries for the elimination of obsolete capacities in the short term. Obsolete cement production capacities including mechanized shaft kiln cement production lines with a kiln diameter below 3.0 m, dry-process hollow kiln production line (excluding those for producing high alumina cement) with a kiln diameter below 2.5 m and wet-process kiln cement production lines (excluding those mainly used for disposing sludge, carbide slag, etc.) with a kiln diameter below 2.5 m, cement mills with a diameter below 3.0 m (excluding those for producing special cement), cement earth kilns (egg-shape), ordinary shaft kilns, etc. shall be eliminated before 2012. All cement production lines currently operated by us are new dry process kilns. We do not operate mechanical shaft kilns, dry-process hollow kilns or wet-process kilns. Our cement production capacities do not fall into the obsolete production capacities that should be eliminated before 2012 as required by the above policy.

Our cement production lines are required to comply with the above industrial policies. If we intend to invest in new cement production lines in the future, we must obtain an approval from the relevant authorities and abide by the prevailing national industrial policies. If we acquire cement production lines owned by third parties, only the cement production lines which have already been approved by the competent authorities and conform to the prevailing national industrial policies can be considered for acquisition.

Our PRC legal counsel, Zong Heng Law Firm, has advised us that we have obtained all necessary approvals by the authorities in the PRC with respect to our production lines in operation and in construction and the construction and operation of such production lines comply with the current policies applicable to the cement industry in the PRC.

Production License

Pursuant to the "Regulations of the People's Republic of China on the Administration of Production License for Industrial Products (中華人民共和國工業產品生產許可證管理條例)", promulgated by the State Council on July 9, 2005 and became effective on September 1, 2005, and the "Measures for the Implementation of the Regulations of the People's Republic of China on the Administration of Production License for Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法)", revised by the General Administration of Quality Supervision, Inspection and Quarantine on April 21, 2010 and became effective on June 1, 2010, the State adopted a production license system for the administration of major industrial products which affect public safety, human health, life and property. The catalog of industrial products in respect of which the State adopts the production license system shall be formulated by the authorities in charge of industrial product production licenses under the State Council and the relevant authorities of the State Council, and shall be subject to approval by the State Council. Any enterprise without a production license shall not produce any product governed under the production license system, and any

REGULATORY OVERVIEW

unit or individual shall not sell or use such products in operating activities that are within these categories, and any unit or individual shall not sell or use any products in operating activities which are without production licenses. Pursuant to the prevailing “Catalogue of Production Licenses for Industrial Products” (工業產品生產許可證目錄), cement is one of the industrial products which requires a production license.

The General Administration of Quality Supervision, Inspection and Quarantine is responsible for the centralized administration of the production licenses of industrial products across China. Authorities at the county level and above in charge of production licenses for industrial products are responsible for the administration of production licenses for industrial products within their own jurisdictions, and they are empowered to impose penalties pursuant to the relevant provisions for acts that violate the stipulations of production licenses.

The relevant subsidiaries of our Company which are operating existing cement production lines have obtained and will maintain a production license for industrial products for cement production.

Bulk Cement

Pursuant to the “Administrative Measures of Bulk Cement” (散裝水泥管理辦法) jointly promulgated by MOFCOM, the Ministry of Finance, the Ministry of Construction, the Ministry of Railways, the Ministry of Transportation, the General Administration of Quality Supervision, Inspection and Quarantine, and the State Administration for Environmental Protection on March 29, 2004, the State encourages and promotes the development of bulk cement and restricts the development of bagged cement. Authorities designated by the local people’s government at the county level and above are responsible for the supervision and administration of bulk cement production within their own jurisdictions. Cement production enterprises shall produce bulk cement only after obtaining relevant production licenses. Entities and individuals engaged in the production, operation and utilization of bulk cement shall adopt measures to ensure that the facilities and sites for production, loading and unloading, delivery, storage and utilization are in compliance with safety and environmental protection requirements.

Pursuant to the “Administrative Measures of Bulk Cement Special Funds Collection and Use” (散裝水泥專項資金徵收和使用管理辦法) issued by the Ministry of Finance and the State Economic and Trade Commission on April 18, 2004, cement production enterprises selling bagged cement, including paper bag, plastic compound bag, compound bag will need to pay special funds on the basis of maximum RMB 1 per ton and enterprises using bagged cement will need to pay special funds on the basis of maximum RMB 3 per ton. The Ministry of Finance and the State Economic and Trade Commission are responsible for the centralized formulation of the policies in respect of the bulk cement special funds collection, use and management and local financial departments and bulk cement administrative departments are responsible for its organization and implementation.

Residual Heat Recovery System

Pursuant to the “Guiding Catalogue of Industrial Structure Adjustment (2005)” (產業結構調整指導目錄 (2005年本)), the production of clinker with a daily production capacity of 2,000 tons or above using the new dry process employing residual heat recovery system belongs to the “encouraged” category of industries.

REGULATORY OVERVIEW

MINERAL RESOURCES

Acquisition of Mining Rights

Pursuant to the “Mineral Resources Law of the People’s Republic of China” (中華人民共和國礦產資源法) promulgated on March 19, 1986 and amended on August 29, 1996 by the Standing Committee of the National People’s Congress and the “Implementation Rules of the Mineral Resources Law of the People’s Republic of China” (中華人民共和國礦產資源法實施細則) promulgated on March 26, 1994 by the State Council, a licensing system is adopted by the State for the exploration and exploitation mineral resources; for any exploration of mineral resources, an application shall be made for registration in accordance with the law, and mining permits and mining rights shall be obtained. A system whereby the exploration rights and mining rights shall be obtained with compensation has been adopted; however, the State may, in light of specific conditions, prescribe reduction of or exemption from the compensation for acquiring the exploration right and mining right. Any exploitation of mineral resources must pay resource taxes and resource compensation in accordance with relevant regulations of the State. The State has adopted a unified block registration system of mineral resources exploitation.

According to the “Administrative Measures on Registration of Mineral Resources Exploitation” (礦產資源開採登記管理辦法) promulgated and implemented by the State Council on February 12, 1998, the validity period of a mining permit shall be determined according to the scale of the mine. The maximum validity period of a mining permit for a big-scale mine, medium-scale mine and small-scale mine shall be 30 years, 20 years and 10 years, respectively. A holder of mining permit shall go through the renewal registration procedures with registration authorities for its permit within 30 days before its permit expires. If a holder of a mining permit fails to renew its permit within such period, such mining permit shall be automatically annulled.

According to the “Measures for the Administration of Bidding, Auctioning and Listing of Mineral Exploitation Rights and Mining Rights (Trial Implementation)” (探礦權採礦權招標拍賣掛牌管理辦法(試行)) promulgated by the Ministry of Land and Resources on June 11, 2003 and took effect on August 1, 2003, new mineral exploitation rights and mining rights that fall within the categories specified by the law may be granted by the competent authority through bidding, auctioning and listing procedures; the competent administration authorities of land and resources at above county level are in charge of the organization and implementation of bidding, auctioning and listing activities pursuant to the statutory scope of power of exploration permit and mining permit.

According to the “Circular of Further Administration of Grant of Mining Right” (關於進一步規範礦業業權出讓管理的通知) promulgated by the Ministry of Land and Resources on January 24, 2006 and became effective on the same day, exploration rights will no longer be granted for limestone used as construction materials and natural quartz sand used in construction and tile and mining rights for them will be directly granted through bidding, auctioning and listing procedures; the exploration rights for limestone (for other uses) are granted through bidding, auctioning and listing procedures. At the same time, the grant of exploration rights through bidding, auctioning and listing procedure that meets specific circumstances may be granted in the form of agreement upon approval, provided that the purchase price of mineral exploration and mining rights shall not be lower than the market price under similar conditions.

We have obtained mining permits for all our limestone quarries and the purchase price of the mining rights of each of our limestone mines has been settled in full. Please refer to the paragraphs headed “Limestone” in the section headed “Business” in this prospectus for details of our limestone mining rights.

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Mining Safety

Pursuant to the “Mining Safety Law of the People’s Republic of China” (中華人民共和國礦山安全法), promulgated by the Standing Committee of the National People’s Congress and became effective on May 1, 1993, and the “Regulation for the Implementation of the Mining Safety Law of the People’s Republic of China” (中華人民共和國礦山安全法實施條例), promulgated and became effective on October 30, 1996, mining enterprises shall install facilities to ensure safe production, establish and enhance safety management systems, and take effective measures to improve the work conditions of staff and workers and to strengthen the safety administration of mines. The mining enterprises administrations of the people’s governments at the county level and above shall be responsible for the administration of safety measures in mines. The design of mine construction engineering work shall comply with the safety rules for mines and technological standards for the mining industry, and shall be subject to approval by the mining enterprises administration prescribed by the State. Before commencement of operation or use, mine construction engineering work shall go through safety facilities pre-approval inspection in accordance with the provisions of the relevant laws and regulations, and shall not be put into operation or use until the inspection has passed. Any breach of the above provisions may result in fines, revocation of exploitation license or operation license or other penalties.

Pursuant to the “Regulations on Safety Production Licenses” (安全生產許可證條例), promulgated by the State Council and effective on January 13, 2004, the State adopts a safety license system in respect of mining enterprises, and a mining enterprise which fails to obtain a safety license shall not engage in their production activities. In order to obtain a safety production license, mining enterprises shall satisfy certain safety production requirements. The safety production license issuance and administration authorities issue safety production licenses to enterprises that meet the production safety requirements pursuant to the relevant provisions. Safety production licenses are required to be renewed every three years through application to the safety production license issuance and administration authorities no later than three months before the expiration date.

Our PRC counsel, Zong Heng Law Firm, has advised us that all our subsidiaries in the PRC which are operating the existing cement production lines have obtained the relevant safety production licenses.

Usage Fee and Purchase Price of Mineral Exploration and Mining Rights

In accordance with the “Measures for the Administration of the Usage Fee and Purchase Price of Mineral Exploration and Mining Rights” (探礦權採礦權使用費和價款管理辦法) promulgated by the Ministry of Finance and the Ministry of Land and Resources on June 7, 1999, any party which conducts exploration and mining activities of mineral resources in the PRC is required to pay a usage fee and the purchase price of mineral exploration and mining rights. The usage fee for an exploration right is calculated on the basis of the exploration year and the size of the area and is payable annually. The annual rate is RMB100 per square kilometer for the first to third exploration year, with an increment of RMB100 per square kilometer per year from the fourth exploration year onwards up to a maximum of RMB500 per square kilometer. The usage fee for the mining rights, which is RMB1,000 per square kilometer per year, is payable annually based on the size of the mining area. The purchase price for mineral exploration and mining rights is determined by reference to the valuation price confirmed by the Ministry of Land and Resources, and is paid as a lump-sum, or in installments within two years in the case of an exploration right and within six years in the case of a mining right. The usage fee and purchase price of mineral exploration and mining rights are paid by the owners of mineral exploration and mining rights during the registration of the mineral exploration and mining rights or their annual inspection pursuant to criteria determined by registration and administration authorities to “special account of usage fee and purchase price of mineral exploration and mining rights”

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opened by financial authorities at the same level. We are required to pay the usage fee and purchase price of mineral exploration and mining rights for limestone quarries for cement production we own in accordance with these provisions. We are paying usage fee for mining rights of RMB1,000 per square kilometer per year for all our limestone mines.

Provisions on the Administration of Collection of the Mineral Resources Compensation Fee

Pursuant to the “Provisions on the Administration of Collection of the Mineral Resources Compensation Fee” (礦產資源補償費徵收管理規定) promulgated on February 27, 1994 and revised on July 3, 1997 by the State Council, the mineral resources compensation fee is calculated on the basis of a ratio of the sales income from mineral products. The mineral resources compensation fee is treated as an administration cost of the enterprise and is calculated using the following formula:

Resources compensation fee = Sales income of mineral products x Compensation fee rate x Coefficient of mining recovery rate

Any adjustment to the rate of a mineral resources compensation fee is determined by the Ministry of Finance, the Ministry of Land and Resources and the NDRC, and is subject to the approval of the State Council. Mineral resources compensation fees are collected by the departments of land and resources together with the departments of finance. Mineral resources compensation fee for the first half of each year is payable on or before July 31 of the same year, and the fee for the second half of the year is payable on or before January 31 of the following year. Pursuant to the “Reply Letter in respect of problems in collecting mineral resources compensation fee” (October 5, 1998, Guo Tu Zi Han No. 259) (關於徵收礦產資源補償費有關問題的覆函) (一九九八年十月五日國土資函259號) promulgated by the Ministry of Land and Resources, a mineral resources compensation fee with a fee rate of 2% should be paid as required by the State for any mining activities of mineral resources within the territory of the PRC and other territorial waters under its administration, regardless of any purposes.

In specific circumstances, certain parties may be partly or fully exempted from paying mineral resources compensation fees upon joint approval by the department of land and resources and the department of finance at provincial level. Approval from the provincial people’s government is required if the mineral resources compensation fee is reduced by more than 50% of the amount payable. Any approval for the reduction of the mineral resources compensation fee must be reported to both the Ministry of Land and Resources and the Ministry of Finance. We are required to pay the mineral resources compensation fee for limestone used in our cement production. As of the Latest Practicable Date, we are not entitled to the reduction or exemption treatments of the mineral resources compensation fee.

Other Taxes Relating to the Mining Industry

Pursuant to the “Interim Regulations on Resource Tax of the People’s Republic of China” (中華人民共和國資源稅暫行條例), promulgated by the State Council on December 25, 1993 and took effect on January 1, 1994, enterprises and individuals engaging in the mining of mineral resources in the People’s Republic of China shall pay resource taxes. The resource taxes applicable to non-metal ores shall be RMB0.5-20 per ton or square meter.

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Pursuant to the “Notice on Adjustments to the Applicable Resource Tax Rates of Limestone, Marble and Granite” (關於調整石灰石、大理石和花崗石資源適用稅率的通知), promulgated by the Ministry of Finance and the State Administration of Taxation on June 4, 2003 and effective on July 1, 2003, the applicable rate of limestone resource tax has been adjusted from RMB2 per ton to RMB0.5-3.0 per ton. We are required to pay the resource tax for limestone used in our cement production. The uniform resource tax rate of RMB2 per ton is applicable to each of our limestone mines.

Provision on the Geological Environmental Protection of Mines

Pursuant to the “Provision on the Geological Environmental Protection of Mines” (礦山地質環境保護規定) promulgated by the Ministry of Land and Resources of the PRC on March 2, 2009 and took effect on May 1, 2009, the applicant for mining rights, upon applying for a mining permit, is required to work out a plan for geological environmental protection and recovery, and to submit the plan to the administrative departments of state land and resources for approval. For mining resulting in geological environmental damage to mines, a holder of a mining permit shall be responsible for recovery work and the related costs shall be credited to production costs. If a holder fails to fulfill its obligations for mine’s geological environmental recovery, the relevant administrative departments of state land and resources shall order the holder to fulfill its recovery obligations within a specified period. A holder of a mining permit shall fulfill its recovery obligations before the closure of mines. A holder shall pass inspection by and submit documents for acceptance to the administrative departments of state land and resources upon applying for closure formalities. We are required to conform to the above Provision on the Geological Environmental Protection of Mines for our limestone mining projects.

ENVIRONMENTAL PROTECTION

General Regulations

Pursuant to the “Environmental Protection Law of the People’s Republic of China” (中華人民共和國環境保護法), promulgated by the Standing Committee of the National People’s Congress and effective on December 26, 1989, the State Administration for Environmental Protection is empowered to formulate national environmental quality standards. The environmental protection administration of the people’s governments at the county level and above are responsible for monitoring, on a unified basis, the environmental protection work within their jurisdictions. For items which are not governed by any national pollutant discharge standards, the people’s governments of provinces, autonomous regions, and municipalities directly under the Central Government may formulate local standards; for items which are governed by national pollutant discharge standards, the people’s governments of provinces, autonomous regions, and municipalities directly under the Central Government may formulate stricter local standards. Local pollutant discharge standards shall be filed with State Administration for Environmental Protection for the records.

According to the “Law on the Prevention and Control of Water Pollution of the People’s Republic of China” (中華人民共和國水污染防治法) amended on February 28, 2008 and with effect from June 1, 2008, construction projects or other water facilities which are newly constructed, reconstructed and expanded, and which discharge pollutants into the water directly or indirectly, should conduct an environmental impact assessment in accordance with relevant laws. Enterprises which discharge industrial sewage directly or indirectly into water system should obtain pollutant discharge permits. Enterprises which discharge pollutants directly or indirectly into the water system should report to and register with the environmental protection administrative department in charge which is above county level in relation to the facilities which they own

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for discharging and treating water pollutants, as well as the types, quantities and concentrations of water pollutants discharged under normal operating conditions. These enterprises are also required to provide relevant technical information about how to prevent and control water pollution. Enterprises which discharge pollutants directly into the water should pay pollutant discharge fees according to the types and quantities of their water pollutants and the levy standard.

The “Law on Prevention and Control of Air Pollution of the People’s Republic of China” (中華人民共和國大氣污染防治法) which was amended on April 29, 2000 and took effect from September 1, 2000 requires newly constructed, expanded or reconstructed projects which discharge pollutants into the atmosphere to comply with certain regulations relating to environmental protection. Units that discharge pollutants into the atmosphere should report to the local environmental protection administrative department in charge in relation to the facilities which they own for the discharge and treatment of pollutants, as well as the types, quantities and concentrations of the pollutants discharged under normal operating conditions. They are also required to provide relevant technical information about how to prevent and control atmospheric pollution. The PRC government has implemented a system on levying fees for discharging pollutants into the atmosphere based on the type and quantity of pollutants discharged. The standards on levying pollution discharge fees that the government put in place have been based on the requirements for strengthening the prevention and control of atmospheric pollution as well as the national economic and technological conditions.

According to the “Law on Prevention and Control of Environmental Pollution Caused by Solid Waste of the People’s Republic of China” (中華人民共和國固體廢物污染環境防治法) amended on December 29, 2004 and with effect from April 1, 2005, enterprises producing industrial solid wastes should form and improve an accountability system in preventing and controlling environmental pollution, and adopt measures to prevent and control such wastes from polluting the environment. The State has implemented a reporting and registration system for industrial solid pollutants. In accordance with the relevant requirements, units producing industrial solid pollutants must provide relevant information to the local environmental protection administrative department in charge which is above county level, where such information includes the type, quantity, flow, storage and treatment of the industrial solid wastes.

Under the “Law on Prevention and Control of Environmental Noise Pollution of the People’s Republic of China” (中華人民共和國環境噪聲污染防治法), effective from March 1, 1997, industrial enterprises producing environmental noise pollution as a result of using their fixed facilities in industrial production must report to the local environmental protection administrative department in charge in relation to their facilities that produce noise pollution by category, quantity, and noise pollution level under normal operating conditions as well as the conditions of their noise pollution preventive facilities. They should also provide technical information about how to prevent and control noise pollution. Units producing environmental noise pollution should adopt remedial measures and pay discharge fees for exceeding the standards according to the PRC regulations.

According to the “Opinion on the Enforcement of the Environmental Protection Laws and Prevention of Credit Risk” (關於落實環保政策法規防範信貸風險的意見) promulgated by State Administration for Environmental Protection, PBOC, and the China Banking Regulatory Commission (中國銀行業監督管理委員會) on July 12, 2007, the following irregularities will be addressed in accordance with the law: commencement of construction without approval or without approval by an authority at an appropriate level, failure to complete any environmental protection facilities at the same time as the production facility is completed, and commencement of operations without passing environmental examination. The above irregularities will be reported to the local people’s banks, banking regulatory department and financial

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institutions. The financial institutions shall, on the basis of the administrative provisions of the State on environmental protection in respect of construction projects and the information disclosed by the environmental protection authority, conduct their examination and approval, disbursement, and supervision and administration of loans stringently. No credit in whatever form shall be granted to any project which has not passed the environmental assessment examination, or the environmental protection facilities of which have not passed the pre-approval inspection. Environmental authorities at all levels shall sanction enterprises in accordance with the law if they have conducted any of the following: excessive discharge of pollutants, excessive total discharge level, discharge of pollutants without obtaining the necessary permits in accordance with the law, discharges in breach of the levels allowed by the license or failure to restore the damaged environment within a prescribed timeframe. These breaches will be reported to the local people's banks, banking regulatory department and financial institutions. The financial institutions at all levels, when examining enterprises' application for working capital loans, shall act on the information provided by the environmental protection departments, strengthen the management of credit and take measures to control stringently any lending of loans to enterprises which are in violation of the environmental laws, so as to safeguard against credit risks.

Environmental Impact Assessment

Pursuant to the "Administrative Regulations for the Environmental Protection of Construction Projects" (建設項目環境保護管理條例) promulgated by the State Council on November 29, 1998 and took effect on the same day, and the "Administrative Measures for the Examination and Approval of Environmental Protection Facilities of Construction Projects" (建設項目竣工環境保護驗收管理辦法) promulgated by State Administration for Environmental Protection on December 27, 2001 with its effect from February 1, 2002, and the "Environmental Impact Assessment Law of the People's Republic of China" (中華人民共和國環境影響評價法) promulgated by the Standing Committee of the National People's Congress on October 28, 2002 and took effect on September 1, 2003, enterprises are required to engage institutions with corresponding environmental impact assessment qualifications to provide environmental impact assessment services and reports for submission to the competent environmental protection approval administration. Construction work may only be commenced after such an assessment is submitted to and approved by the environmental protection administrative authority. The construction of pollution prevention and control facilities in a construction project must be designed and commenced simultaneously with the main facility. Pollution prevention and control facilities shall not be put to use until the approval, upon inspection, by the original environmental protection authority which had approved the environmental impact assessment report. An enterprise which fails to submit assessment documents on the environmental impact of a construction project in accordance with the law or which commences construction work without permission will be ordered to cease construction and go through formalities retrospectively within a prescribed timeframe. If the enterprise fails to go through the formalities retrospectively, the enterprise and the person with direct responsibilities are subject to fines or administrative penalties.

Pursuant to the "Classification of Construction Project Lists for Environmental Impact Assessments" (建設項目環境影響評價分類管理名錄) promulgated by the Ministry of Environmental Protection on September 2, 2008 and became effective on October 1, 2008, cement manufacturers shall prepare an environmental impact report to fully evaluate the relevant impact their operations have on the environment, as cement manufacturing may cause significant impact to the environment. We are required to conduct an environmental impact assessment on our cement production projects, and obtain approval from the competent environment protection authorities.

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Taxation

Income Tax

Pursuant to the “Enterprise Income Tax Law of the People’s Republic of China” (中華人民共和國企業所得稅法), or the Law, promulgated by the National People’s Congress on March 16, 2007 and took effect on January 1, 2008, a uniform income tax rate of 25% will be applied towards foreign investment enterprises and domestic enterprises. Enterprises established before the promulgation of the law may conform to the tax rates gradually as specified by the law according to the relevant regulations of the State Council; enterprises entitled to regular tax reduction and exemption treatments may continue to enjoy such tax exemptions and reductions after the implementation of the law until it expires.

Pursuant to the “Notice on Implementation Measures on Transitional Policy of Preferential Corporate Income Tax” (關於實施企業所得稅過渡優惠政策的通知) promulgated by the State Council on December 26, 2007 and became effective on the same day, since January 1, 2008, enterprises originally enjoying fixed term preferential tax treatment like “full exemption for two years and 50% exemption for three years” (兩免三減半) and “full exemption for five years and 50% exemption for five years” (五免五減半) will continue to hold the preferential treatment in accordance with the original tax law, administrative regulations and related documents after the implementation of the new tax law until the term expires. However, for enterprises that have not made any profits and thus do not enjoyed such preferential treatments, their preferential term starts from 2008. The enterprises entitled to transitional preferential policies are those established before March 16, 2007 with the approval of registration administrative authorities such as the industrial and commercial bureau, and items and scope of their transitional preferential policies are within the limits stipulated in the “Notice on Implementation Measures on Transitional Policy of Preferential Corporate Income Tax” (關於實施企業所得稅過渡優惠政策的通知).

Pursuant to the “Enterprises Income Tax Law of the People’s Republic of China” (中華人民共和國企業所得稅法) and its implementation regulations, a resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the territory of the PRC. An organization or establishment set up by a non-resident enterprise in the PRC is subject to enterprise income tax for the income derived from such organization or establishment in the PRC and the income derived from outside the PRC but with actual connection with such organization or establishment in the PRC. For a non-resident enterprise which has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, its income derived in the PRC will be subject to enterprise income tax.

A non-resident enterprise without a permanent establishment in the PRC or such non-resident enterprise which has set up a permanent establishment in PRC but its earning income is not connected with the above-mentioned permanent establishment will be subject to tax on their PRC-sourced income. The income shall be taxed at the reduced rate of 10%.

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

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Pursuant to the “Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements” (國家稅務總局關於執行稅收協定股息條款有關問題的通知), residents of counter-parties to any tax treaties who own up to a certain proportion (25% or 10% in general) of capital of a PRC resident company paying dividends are subject to taxation on such dividends at the tax rates as arranged. Any residents of the counterparties qualifying to enjoy such tax benefits should: (1) be an enterprise subject to taxation on dividends in accordance to such tax arrangement; (2) directly own the required percentage in all equity interests and voting rights in such Chinese resident companies; (3) within anytime in the 12 consecutive months prior to receiving such dividends, directly own such percentage in the PRC resident company. The members of our Group within the PRC shall pay taxes to the competent tax authorities in accordance with the Enterprise Income Tax Law of the PRC, and the withholding tax rate with respect to the payment of dividends by our PRC subsidiaries to Faithful Alliance is 5%. Such 5% withholding tax rate is subject to due approval or filing with competent tax authorities.

Income Tax benefits for Opening Up of Western China

Pursuant to the “Notice Concerning the Preferential Tax Policies for Opening Up of Western China” (關於西部大開發稅收優惠政策問題的通知) promulgated by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on December 30, 2001, and became effective on January 1, 2001, a domestic enterprise or foreign investment enterprise established in the western region and engaging in business under the category of the encouraged industry of the State shall be entitled to a reduction of enterprise income tax at a rate of 15% for the period from 2001 to 2010. Foreign Investment Enterprises under the category of encouraged industry of the State shall mean the enterprises which are engaged in the projects under the category of the encouraged industry as stipulated in the Catalogue Guiding Foreign Investment in Industry (外商投資產業指導目錄), and the projects listed in the Catalogue Guiding Foreign Investment in the Dominant Industries of the central and western regions (中西部地區外商投資優勢產業目標) as their principal business and whose revenue from the principal operations account for over 70% of their total revenue. In accordance with the said “Notice on Implementation Measures on Transitional Policy of Preferential Corporate Income Tax” (關於實施企業所得稅過渡優惠政策的通知), the preferential tax policies for opening up of western China will continue in force after the implementation of the new enterprise income tax. Certain of our subsidiaries benefit from the current preferential tax policies for opening up of western China and they are entitled to a preferential tax rate of 15% until 2010. The preferential tax policies for opening up of western China will be terminated by the end of 2010, and it is uncertain if the State would continue its policy of opening up of western China after 2010. If such policy is terminated, our tax burden would increase, which could have an adverse affect on our operating results.

Value Added Tax

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

Value Added Tax Benefits Regarding Comprehensive Utilization of Resources

Pursuant to the “Notice on Value Added Tax Policy Regarding Comprehensive Utilization of Resources and Other Products” (關於資源綜合利用及其他產品增值稅政策的通知) promulgated by the Ministry of Finance and the State Administration of Taxation on December 9, 2008, cement (including cement clinker)

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made from raw materials whose blending proportion of rotary kiln waste is no less than 30%, is entitled to a tax rebate of the VAT levied. The aforesaid notice does not specify the implementation time limit of the VAT refund policy which we understand will continue to be applicable before the promulgation of new policy.

For enterprises which produce cement products through calcining of raw meal and grinding of clinker, the formula for blending proportion of waste is: blending proportion of waste = (quantity of blending of waste at raw meal calcining stage + quantity of blending of waste at clinker grinding stage) ÷ (quantity of raw meal + quantity of blending of waste at stages of raw meal calcining and clinker grinding + quantity of other materials) × 100%.

Tax payers who are entitled to the above value-added tax benefits shall apply for certificates of comprehensive utilization of resources (資源綜合利用認定證書) in accordance with the relevant requirements of the Notice on Distributing the “Administrative Measures on the Recognition of Comprehensive Utilization of Resource Encouraged by the State” by the NDRC, the Ministry of Finance and the State Administration of Taxation (國家發展改革委、財政部、國家稅務總局關於印發<國家鼓勵的資源綜合利用認定管理辦法>的通知). Otherwise, the tax payers are not allowed to apply for preferential value-added tax policies. Enterprises applying for certificates of comprehensive utilization of resources shall meet the following conditions: (1) production process, technology or products conform to the national industrial policies and relevant standards; (2) gains and losses of products that apply comprehensive utilization of resources can be calculated independently; (3) sources of raw materials (fuel) used are stable and reliable, with quantities and qualities in line with the relevant requirements, and the complementary conditions, such as water and electricity, are ascertained; (4) environmental protection requirements are satisfied, without secondary pollution. Certificates of comprehensive utilization of resources have a valid period of 2 years. Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Longqiao Yaobai and Xiushan Yaobai have obtained the certificates of comprehensive utilization of resources, which are valid until December 2011, December 2010, June 2011, December 2010 and December 2010, respectively.

Tax payers who are qualified for the above value-added tax benefits and having obtained the certificate of comprehensive utilization of resources will receive full refund of value-added tax paid for products made from raw materials whose blending proportion of rotary kiln waste is no less than 30%. As long as we are able to obtain the certificates of comprehensive utilization of resources on a continuous basis, we would be able to enjoy the tax benefits.

Labor, Social Insurance and Production Safety

Labor Law and Labor Contract Law

Pursuant to the “Labor Law of the People’s Republic of China” (中華人民共和國勞動法) effective as of January 1, 1995, laborers are entitled to equality in employment and rights to choose occupations, rights to obtain paid remuneration, rights to rest and enjoy holidays, rights to be provided with safety workplace and health protection, rights to receive vocational skill training, rights to enjoy social insurance and social benefits, rights to submit labor disputes for handling as well as other entitlements prescribed by law. Laborers shall fulfill their labor tasks, improve their vocational skills, follow rules on occupational safety and health, and observe labor discipline and professional ethics. Employing units shall set up and perfect regulations and systems according to law and ensure that laborers shall have the right to labor and perform their obligation to labor.

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Pursuant to the “Labor Contract Law of the People’s Republic of China” (中華人民共和國勞動合同法) and its implementation regulations effective as of January 1, 2008, labor contracts shall be entered into if labor relationships are to be established between the units and the laborers. The unit cannot require the laborers to work in excess of the time limit and shall provide the wages which are no lower than local standards on minimum wages to the laborers in time. The unit shall establish and perfect its system for labor safety and sanitation, strictly abide by rules and standards on labor safety and sanitation, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall meet such standards. The unit shall provide laborers with labor safety and sanitation conditions meeting State stipulations and necessary articles of labor protection.

The members of our Group within the PRC are required to protect their employees’ labor rights in accordance with the Labor Law. These members shall enter into labor contracts with their employees, and pay salaries, provide social insurance and safety and healthy labor conditions and guarantee their employees’ rights for holiday in accordance with the contractual commitments. We have complied with applicable Labor Laws in the PRC during the Track Record Period and we do not foresee any material impact to the business operation and financial condition of our Group as a result of our continuous compliance with such laws and regulations.

Social Insurance Regulations

Pursuant to the “Interim Regulations concerning the Levy of Social Insurance” (社會保險費徵繳暫行條例) effective as of January 22, 1999 and the “Interim Measures concerning the Management of the Registration of Social Insurance” (社會保險登記管理暫行辦法) effective as of March 19, 1999, employers in the PRC shall conduct the registration of social insurance with the competent authorities, and make contributions to the basic pension insurance, basic medical insurance and unemployment insurance for their employees. Social insurance premiums shall be collected in a way that three kinds of social insurance premiums are collected centrally and uniformly. The people’s governments of provinces, autonomous regions, and municipalities shall prescribe the collecting agencies. They may collect by taxation departments, or by social insurance agencies established by the administrative department of labor security according to the provisions of the State Council. Employers and employees shall pay their social insurance premiums in cash and in full. The social insurance premiums payable by employees shall be withheld from their wages and paid for them by their employers. Social insurance premiums may not be reduced or exempted.

Pursuant to the “Regulations on Occupational Injury Insurance” (工傷保險條例) effective as of January 1, 2004, employers in the PRC shall pay the occupational injury insurance fees for their employees. The State fixes differential contribution rates for various trades in light of the degree of their risks of work injuries, and grades contribution rates within each trade on the basis of such factors as the use of work injury insurance fund and the incidence of work injuries. The provisions on collection and payment of basic retirement insurance contributions, basic medical insurance contributions and unemployment insurance contributions as set out in the “Interim Regulations on Collection and Payment of Social Insurance Contributions” (社會保險費徵繳暫行條例) are applicable to the collection and payment of work injury insurance contributions.

Pursuant to the “Interim Measures concerning the Maternity Insurance” (企業職工生育保險試行辦法) effective as of January 1, 1995, the employers in the PRC shall pay the maternity insurance fees for their employees. The percentage of the maternity insurance fees shall be determined by the local people’s government based on such factors as the number of persons in planned maternity, maternity allowance, and medical fees of maternity, and can be adjusted in due time in line with its expending status, but in any event

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no more than 1% of the total salary. Women workers are entitled to maternity leave according to the relevant laws and regulations. Maternity allowance during their maternity leave shall be counted based on the monthly average salary of the enterprise over last year and paid out of the maternity insurance fund. The maternity insurance fund will be collected, paid and managed by the social insurance agencies under the department of labor security.

According to the “Regulation Concerning the Administration of Housing Fund” (住房公積金管理條例) implemented since April 3, 1999 and amended on March 24, 2002, employers in the PRC must register with the housing fund management center. Employers will then need to open housing fund accounts with entrusted banks for their employees and contribute to the fund at a rate of not less than 5% of the employee’s average monthly salary in the previous year.

As confirmed by social insurance authorities in the counties where our subsidiaries in the PRC are located, our relevant subsidiaries have complied with the relevant local regulations and policies of social insurance and housing funds. We therefore do not foresee any material impact to the business operation and financial condition of our Group as a result of our continuous compliance with such regulations and policies.

Production Safety

Pursuant to the “Production Safety Law of the People’s Republic of China” (中華人民共和國安全生產法), effective from November 1, 2002, production and operating enterprises should be equipped with the safety conditions for production as set out in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that does not comply with such safety conditions will not be allowed to be engaged in any production or operating activities. Production and operating units should provide education and training programs to their employees regarding production safety. The design, manufacturing, installation, application, checking, maintenance, reforming and abandonment of safety facilities should follow the national standards or industrial standards. In addition, production and operating units should provide employees with protective equipments that meet national standards or industrial standards, and educate and supervise them in strictly complying with the production rules and regulations as well as operation procedures of the relevant units regarding safety.

Foreign Exchange

Pursuant to the “Regulations on the Administration of Foreign Exchange of the People’s Republic of China” (中華人民共和國外匯管理條例) as amended on August 1, 2008 by the State Council and implemented since August 5, 2008, international payment in foreign exchange and transfer of foreign exchange under current accounts shall not be subject to the restrictions of the State. The income of foreign exchange of domestic institutions or individuals can be transferred back into China or deposited overseas. The specific requirements and terms related to the transfer or deposit shall be prescribed by the foreign exchange administration department of the State Council in light of the balance of international payment and the status of foreign exchange administration. Foreign exchange incomes and payments under the current account shall be based on authentic and lawful transactions. The foreign exchange incomes under the current account may be retained or sold to financial institutions operating the foreign exchange sale and settlement business. If offshore institutions or offshore individuals propose to make onshore direct investments, they shall complete registration with the foreign exchange administrative body upon approval of the relevant competent authorities. If onshore institutions or onshore individuals propose to make an offshore direct

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investment or offshore issuance or trading of negotiable securities or derivative products, they shall complete the registration as required by the foreign exchange administrative department under the State Council. The foreign exchange or the settled foreign exchange funds under the capital account can be used if approved by the relevant authorities and the foreign exchange administrative body.

Pursuant to the “Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Roundtrip Investment via Overseas Special Purpose Companies” (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or Notice No. 75, promulgated on October 21, 2005 by the State Administration of Foreign Exchange of the PRC and implemented since November 1, 2005, domestic residents engaged in stock right financing and roundtrip investment via overseas special purpose companies shall apply to the local branch or department of foreign exchange administration for foreign exchange registration of overseas investments. Where a special purpose company experiences a “major capital modification event” such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long term stock rights or credits, provision of guaranty to another party and is not involved in any roundtrip investment, the domestic resident shall, within 30 days as of the major event, apply to the foreign exchange office for going through the procedures of modification or archival filing of the foreign exchange registration of the overseas investments.

The members of our Group within the PRC are required to abide by the relevant regulations on administration of foreign exchange. In addition, Mr. Zhang and Mr. Ma Zhaoyang (馬朝陽), who are domestic residents in the PRC and shareholders of our Company, completed registration with local foreign exchange administration in 2006. Ms. Zhang Lili has completed similar registration in 2010. The members of our Group are not required to make such registration as foreign invested entities.

Others

Law of Wholly Foreign-invested Enterprises

Pursuant to the “Law on Wholly Foreign-invested Enterprises of the People’s Republic of China” (中華人民共和國外資企業法) as amended and implemented by the Standing Committee of the National People’s Congress on October 31, 2000 and the “Rules for the Implementation of the Law on wholly Foreign-invested enterprises of the People’s Republic of China” (中華人民共和國外資企業法實施細則) as amended and implemented by the State Council on April 12, 2001, investments, profits and other legal interests made by foreign investors within China, shall be protected by the PRC law; a wholly foreign-invested enterprise shall retain a certain amount from its profits after income tax has been paid in accordance with PRC tax law as reserve funds, bonus and welfare funds for staff members. The amount retained for the reserve funds shall not be less than 10% of the profits (profits after income tax has been paid), and the withdrawal may stop when the accumulated amount withdrawn reaches 50% of the registered capital of the enterprise. The amount retained for bonus and welfare funds for staff members shall be determined by the foreign-invested enterprise itself. No wholly foreign-invested enterprise may distribute its profits unless and until its deficits for the previous fiscal years have been recovered; undistributed profits for the previous fiscal years may be distributed together with the distributable profits for the current fiscal year. The members of our Group within the PRC which are foreign-invested enterprises or entitled to such treatment are required to comply with the regulations of the Law on Wholly Foreign-invested Enterprises of the People’s Republic of China and its implementation rules.

REGULATORY OVERVIEW

Product Quality Law

Pursuant to the “Product Quality Law of the People’s Republic of China” (中華人民共和國產品質量法) as amended by the Standing Committee of the National People’s Congress on July 8, 2000 and implemented since September 1, 2000, a producer shall establish its own proper internal regulatory system for the management of product quality, strictly implement position-oriented quality standards, quality responsibilities and relevant measures for their assessment. A producer should be responsible for the quality of the products produced by it. The quality of the products is required to pass standard inspections. The State has implemented a supervision and inspection system based on random inspection which aims at testing those products that may cause injury to the health or safety of the human body and properties, important industrial products that significantly affect the national economy and other defective products that have been reported by consumers or relevant organizations as defective in quality. All our products have to comply with national product quality standards and we complied with such standards during the Track Record Period. As such quality check is an integral part of our production process, we do not foresee any material impact to the business operation and financial condition of our Group as a result of our continuous compliance with relevant standards.

Bid and Tender Law

Under the “Bid and Tender Law of the People’s Republic of China” (中華人民共和國招標投標法) promulgated by the Standing Committee of the National People’s Congress dated August 30, 1999 and implemented on January 1, 2000, tender is compulsory with respect to following projects: projects such as large-scale infrastructure facilities and public utilities relating to social public interests and public security, or projects which are, completely or partly, invested by the state-owned funds or funded through state financing. Tender and bid activities for a project subject to tender according to law shall not be restricted by areas or departments. No unit or person may illegally restrict or exclude legal persons or other organizations from other areas or systems to take part in bidding or interfere in tender and bid activities in any form.

Tenders include public tenders and invitational tenders. A public tender means that a tenderer, in the form of tender announcement, invites unspecified legal persons or other unspecified organizations to submit their bids; an invitational tender means that a tenderer, in the form of invitation for submission of bid, invites specified legal persons or other specified organization to submit their bids. A tenderer who adopts the public tender method shall issue a tender announcement. The tender announcements of projects subject to tender according to law must be issued in newspaper, periodicals, information network or other media designated by the state. A tenderer who adopts the invitational tender method shall issue invitations for submission of bids to three more specified legal persons or other specified organizations capable of undertaking the project subject to tender and having a good reputation and creditworthiness. A tender announcement shall clearly contain such particulars as the name and address of the tenderer, nature of the project subject to tender, quantity, place and time of implementation and methods to acquire the tender documents.

Our Group participates in the public tender as well as invitational tender to supply government infrastructure project with cement. Our Company’s bid and tender activities shall comply with the provisions of the “Bid and Tender Law of the People’s Republic of China”, otherwise it may result in legal liabilities such as the result void and invalid and fine, compensation for losses and criminal liability.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

HISTORY AND CORPORATE DEVELOPMENT

Our Company was incorporated in Jersey as a private company on October 16, 2006, re-registered as a public company on October 27, 2006 and admitted to AIM on December 4, 2006. Shaanxi Yaobai is the principal subsidiary of our Company.

Business Development of our Group

Our history can be traced back to 1996 when Pucheng County Hanjing Town Cement Factory (蒲城縣罕井鎮水泥廠), a collectively-owned enterprise established by the Pucheng County Hanjing Town Commune (蒲城縣罕井鎮人民政府), a PRC local-level government, commenced its reorganization. On October 20, 1997, Pucheng County Hanjing Town Commune, Shaanxi Province Pucheng County Hanjing Cement Industrial Company (陝西省蒲城罕井水泥工業公司), which was the successor of Pucheng County Hanjing Town Cement Factory, Mr. Zhang and other 13 individuals together established a limited liability company namely, Pucheng Yaobai.

Pucheng Yaobai was established on October 20, 1997 and as of the date of its establishment, Pucheng Yaobai was owned by the following persons and their respective capital contributions in Pucheng Yaobai are set forth in the table below.

Shareholder	Capital contribution	Approximate equity interest
	(RMB)	
Mr. Zhang	394,000	35.69%
Pucheng County Hanjing Town Commune (蒲城縣罕井鎮人民政府)	238,200	21.58%
Shaanxi Province Pucheng Hanjing Cement Industrial Company (陝西省蒲城罕井水泥工業公司)	110,800	10.03%
Cao Jishun (曹積順)	184,000	16.67%
Fan Qingmei (樊慶梅)	119,000	10.78%
Yan Hongyi (閔紅義)	2,000	0.18%
Wang Zhaolin (王兆林)	2,000	0.18%
He Sanxi (何三喜)	20,000	1.81%
Zhang Jianghu (張江虎)	10,000	0.91%
Zhang Juchi (張菊池)	10,000	0.91%
Wang Xinmin (王新民)	2,000	0.18%
Ren Yongchang (任永昌)	4,000	0.36%
Wang Zhenchuan (王振川)	2,000	0.18%
Fan Jianming (樊建明)	1,000	0.09%
Zhang Jianhong (張建紅)	1,000	0.09%
Zhang Luhan (張錄漢)	4,000	0.36%
Total:	<u>1,104,000</u>	<u>100.00%</u>

Other than Mr. Zhang, all the individual shareholders of Pucheng Yaobai were employees at the relevant time. The capital contributions of Mr. Zhang and the other 13 individual shareholders were determined based on arm's length negotiation between all shareholders of Pucheng Yaobai and were made by way of cash

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

injection with their own funding. The capital contributions made by Pucheng County Hanjing Town Commune and Shaanxi Province Pucheng Hanjing Cement Industrial Company were determined with reference to the valuation of the net asset value of Pucheng County Hanjing Town Cement Factory as of March 31, 1995 of approximately RMB833,550 conducted by Weinan District Audit Firm (渭南地區審計事務所), an Independent Third Party and were made by way of injection of assets owned by Pucheng County Hanjing Town Commune and Shaanxi Province Pucheng County Hanjing Cement Industrial Company, respectively.

Mr. Zhang was appointed as the chairman and the general manager of Pucheng Yaobai at that time. Pucheng Yaobai was principally engaged in the manufacture and sale of cement and cement production machinery.

On December 10, 1997, a resolution was passed by the shareholders of Pucheng Yaobai to approve the followings: (i) Pucheng County Hanjing Town Commune transferred its 21.58% interest in Pucheng Yaobai to Mr. Zhang for a consideration of RMB238,200; (ii) Shaanxi Province Pucheng Hanjing Cement Industrial Company transferred its 10.03% interest in Pucheng Yaobai to Mr. Cao Jishun at nil consideration in recognition of Mr. Cao Jishun's contribution to the development of Pucheng Yaobai; (iii) Mr. Zhang Jianghu transferred his 0.91% interest in Pucheng Yaobai to Mr. Wang Zhongwen for a consideration of RMB10,000; (iv) each of Mr. Wang Zhaolin, Mr. Yan Hongyi and Mr. Wang Xinmin transferred their respective 0.18% interests in Pucheng Yaobai to Mr. Cao Jishun for a consideration of RMB2,000 for each transfer; (v) Mr. He Sanxi transferred his 1.81% interest in Pucheng Yaobai to Mr. Zhang Jicang for a consideration of RMB20,000; and (vi) Mr. Zhang Jimin injected RMB1,861,800 in cash with his own funding to increase the registered capital of Pucheng Yaobai. The consideration of each of the above transfers was paid in cash by the respective transferees with their own funding and were determined with reference to the registered capital of Pucheng Yaobai. Upon completion of the above transfers and the increase of the registered capital, the respective capital contributions in Pucheng Yaobai are set forth in the table below:

Shareholder	Capital contribution	Approximate equity interest
	(RMB)	
Mr. Zhang	2,494,000	84.10%
Cao Jishun (曹積順)	300,800	10.15%
Fan Qingmei (樊慶梅)	119,000	4.01%
Zhang Juchi (張菊池)	10,000	0.34%
Ren Yongchang (任永昌)	4,000	0.13%
Wang Zhenchuan (王振川)	2,000	0.07%
Fan Jianming (樊建明)	1,000	0.03%
Zhang Jianhong (張建紅)	1,000	0.03%
Zhang Luhan (張錄漢)	4,000	0.13%
Wang Zhongwen (王忠文)	10,000	0.34%
Zhang Jicang (張積倉)	20,000	0.67%
Total:	<u>2,965,800</u>	<u>100.00%</u>

With an aim to streamline the business operation and corporate structure of Pucheng Yaobai, on December 21, 2000, Mr. Zhang and other 10 individual shareholders of Pucheng Yaobai, Shiyang Group, Pucheng Guangsha, Hanjing Coal Mine, the Employees' Shareholdings Committee together established a joint stock company namely Shaanxi Yaobai Special Cement Holdings Limited (which subsequently changed

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

its name to Shaanxi Yaobai). The business and assets of Pucheng Yaobai were transferred to Shaanxi Yaobai for a total consideration of RMB18,390,000 which was determined with reference to the valuation of the net asset value of Pucheng Yaobai of RMB18,407,400 as of November 30, 1999 conducted by Shaanxi Tongsheng Asset Valuation Co., Limited (陝西同盛資產評估有限責任公司), an Independent Third Party.

Inherited from Pucheng Yaobai, Shaanxi Yaobai continued the operation of our cement business by establishing our production facilities in Pucheng. In 1996, one cement production line with an annual production capacity of 70,000 tons in Pucheng county was put into operation. We subsequently moved our headquarters to Xi'an City, Shaanxi province. For calculations in relation to annual cement production capacity, please refer to the section headed "Business — Production Facilities". The following is a summary of our key business development milestones:

- Between 1998 and 2002, Shaanxi Yaobai operated a new cement production line and subsequently upgraded its two cement production lines in Pucheng county resulting in an increase in annual clinker production capacity from 70,000 tons to 150,000 tons per production line.
- In 2003, Shaanxi Yaobai set up a new 2,500 t/d clinker production line, which was its third production line of Shaanxi Yaobai, in Pucheng county. Such production line was completed in February 2004, and increased our Group's cement production capacity to 1.4 million tons per annum.
- As part of our strategic expansion plans and with a view to enhancing our production capacity and accommodating the increasing demand for our products, we have expanded our production facilities from Pucheng county to Lantian county. The new production facility in Lantian county comprises two 2,500 t/d clinker production lines, with an annual cement capacity of 2.2 million tons, commenced construction in December 2005. The two production lines were completed in May 2007 and August 2007, respectively.
- Our Company was admitted to AIM on December 4, 2006.
- On completion of the two production lines in Lantian county in 2007, we commenced the construction of the residual heat recovery system. The system was completed and started generating electricity in October 2008.
- In January 2009, a 4,000 t/d clinker production line in Xunyang county was completed. This production line was the largest clinker production line in southern Shaanxi as of July 2010, according to Digital Cement Net. With a view to promoting environmental friendly production, enhancing operational safety and reducing operational costs, we constructed a 7 km-limestone conveyor belt connecting the quarry and the Xunyang production facility. The limestone conveyor belt at the Xunyang production facility was completed in November 2009 and such conveyor belt is the second longest of its type in the world.
- In March 2009, our Board approved the building of two new cement plants, each with a cement production capacity of 1.1 million tons per annum, in Yangxian county and Mianxian county, Hanzhong region, southwest Shaanxi province.
- In August 2009, we acquired Xiushan Yaobai to close the gap in our market coverage between our production facilities in Lantian and Xunyang counties. Xiushan Yaobai has an annual cement production capacity of 700,000 tons.

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- In December 2009, we jointly established Longqiao Yaobai with Shaanxi Danshui which owns a cement production line with cement production capacity of 1.1 million tons per annum. As of December 31, 2009, the total cement production capacity was 8.5 million tons per annum.
- Our new cement production facilities in Yangxian county commenced operations in December 2009 and that in Mianxian county commenced operations in July 2010, respectively.

Our Corporate Development

Shaanxi Yaobai

Shaanxi Yaobai was established on December 21, 2000 with a registered capital of RMB30,000,000 and as of the date of its establishment, Shaanxi Yaobai was owned by the following persons and their respective contributions in Shaanxi Yaobai are set forth in the table below.

Shareholder	Capital contribution	Approximate equity interest
	(RMB)	
Mr. Zhang	15,470,000	51.57%
Cao Jishun (曹積順)	1,861,600	6.21%
Fan Qingmei (樊慶梅)	738,500	2.46%
Zhang Juchi (張菊池)	62,000	0.21%
Ren Yongchang (任永昌)	24,800	0.08%
Wang Zhenchuan (王振川)	12,300	0.04%
Fan Jianming (樊建明)	6,300	0.02%
Zhang Jianhong (張建紅)	6,300	0.02%
Zhang Luhan (張錄漢)	24,800	0.08%
Wang Zhongwen (王忠文)	62,000	0.21%
Zhang Jicang (張積倉)	121,400	0.40%
Zhang Zengtao (張增濤)	1,750,000	5.83%
Wang Zhongke (王忠科)	430,000	1.43%
Shiyang Group	1,000,000	3.33%
Hanjing Coal Mine	500,000	1.67%
Pucheng Guangsha	500,000	1.67%
Employees' Shareholdings Committee	7,430,000	24.77%
Total:	<u>30,000,000</u>	<u>100.00%</u>

The capital contributions of Mr. Zhang, Mr. Cao Jishun, Mr. Fan Qingmei, Mr. Zhang Juchi, Mr. Ren Yongchang, Mr. Wang Zhenchuan, Mr. Fan Jianming, Mr. Zhang Jianhong, Mr. Zhang Luhan, Mr. Wang Zhongwen and Mr. Zhang Jicang of RMB18,390,000 were made by way of injection of the assets of Pucheng Yaobai into Shaanxi Yaobai. Such capital contributions were determined with reference to the valuation of the net asset value of Pucheng Yaobai of approximately RMB18,407,400 as of November 30, 1999 conducted by Shaanxi Tongsheng Asset Valuation Co., Limited. The capital contributions of the other two employees, Mr. Zhang Zhentao, the son of Mr. Zhang, and Mr. Wang Zhongke of RMB2,180,000 were also made by way of injection of their respective assets into Shaanxi Yaobai, which were determined with reference to the valuation of such assets of approximately RMB2,192,300 as of November 30, 1999 conducted by Shaanxi Tongsheng Asset Valuation Co., Limited. Shiyang Group, Hanjing Coal Mine, Pucheng Guangsha and the Employees' Shareholdings Committee made their respective capital contributions by way of cash injection with their own funding.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On February 26, 2003, the registered capital of Shaanxi Yaobai was increased from RMB30,000,000 to RMB60,000,000. Upon completion of such capital increase, Shaanxi Yaobai was owned by the following persons and their respective capital contributions in Shaanxi Yaobai are set forth in the table below.

Shareholder	Capital contribution	Approximate equity interest
	(RMB)	
Mr. Zhang	27,487,700	45.81%
Cao Jishun (曹積順)	3,804,360	6.34%
Fan Qingmei (樊慶梅)	2,289,350	3.81%
Zhang Juchi (張菊池)	230,200	0.38%
Ren Yongchang (任永昌)	52,080	0.09%
Wang Zhenchuan (王振川)	25,830	0.04%
Fan Jianming (樊建明)	63,230	0.11%
Zhang Jianhong (張建紅)	15,930	0.03%
Zhang Luhan (張錄漢)	52,080	0.09%
Wang Zhongwen (王忠文)	230,200	0.38%
Zhang Jicang (張積倉)	354,940	0.59%
Zhang Zengtao (張增濤)	1,925,000	3.21%
Wang Zhongke (王忠科)	973,000	1.62%
Shiyang Group	1,100,000	1.83%
Hanjing Coal Mine	550,000	0.92%
Pucheng Guangsha	550,000	0.92%
Employees' Shareholdings Committee	20,296,100	33.83%
Total:	<u>60,000,000</u>	<u>100.00%</u>

The additional capital contributions to Shaanxi Yaobai were made out of (i) the accrued and undistributed dividend of RMB3,000,000 which was then contributed to the capital injection in accordance with the proportion of their respective shareholdings in the ratio of 10 to 1; (ii) injection of assets owned by Mr. Zhang and the then shareholders of Shaanxi Yaobai set out in the table above excluding Mr. Zhang Zengtao, valued at approximately RMB14,876,900 as of November 30, 2001 by Shaanxi Tongsheng Asset Valuation Co., Limited into Shaanxi Yaobai; and (iii) injection of assets held by the Employees' Shareholdings Committee valued at approximately RMB8,350,000 as of November 11, 2001 by Shaanxi Tongsheng Asset Valuation Co., Limited into Shaanxi Yaobai; and (iv) cash injection of RMB3,773,100 by the Employees' Shareholdings Committee.

As part of the reorganization for the admission to AIM, on May 10, 2005, a resolution was passed by the shareholders of Shaanxi Yaobai to approve the transfer by the Employees' Shareholders Committee of all its interests in Shaanxi Yaobai to 43 employees of Shaanxi Yaobai (including Mr. Zhang) at nil consideration. On December 21, 2005, the registered capital of Shaanxi Yaobai was increased from RMB60,000,000 to RMB105,000,000 by way of injection of the capital reserve of RMB13,800,000 and the undistributed dividend of RMB31,200,000 of Shaanxi Yaobai. On the same date, Mr. Cao Jishun transferred approximately 0.72% interest in Shaanxi Yaobai, to Mr. Zhang Zengtao, the son of Mr. Zhang, for a consideration of RMB753,500 which was determined with reference to the registered capital of Shaanxi Yaobai at the time of such transfer and settled in cash by Mr. Zhang Zengtao with his own funding. Upon completion of the above transfers and capital increase, Shaanxi Yaobai was owned by the following persons and their respective capital contributions in Shaanxi Yaobai are set forth in the table below.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Shareholder	Capital contribution	Approximate equity interest
	(RMB)	
Mr. Zhang	48,558,475	46.24%
Shiyang Group	1,925,000	1.83%
Hanjing Coal Mine	962,500	0.92%
Pucheng Guangsha	962,500	0.92%
Cao Jishun (曹積順)	5,689,775	5.42%
Fan Qingmei (樊慶梅)	4,777,500	4.55%
Zhang Juchi (張菊池)	735,350	0.70%
Ren Yongchang (任永昌)	109,025	0.10%
Wang Zhenchuan (王振川)	46,550	0.04%
Fan Jianming (樊建明)	329,700	0.31%
Zhang Jianhong (張建紅)	50,575	0.05%
Zhang Luhan (張錄漢)	91,525	0.09%
Wang Zhongwen (王忠文)	686,700	0.65%
Zhang Jicang (張積倉)	962,500	0.92%
Zhang Zengtao (張增濤)	8,694,900	8.28%
Wang Zhongke (王忠科)	3,024,875	2.88%
Tian Zhenjun (田振軍)	2,915,500	2.78%
Liu Jinfeng (劉金鳳)	616,875	0.59%
Wan Xinshan (王新善)	506,100	0.48%
Cao Jianshun (曹建順)	581,000	0.55%
Wang Gang (王剛)	100,100	0.10%
He Shuanghu (何雙虎)	235,900	0.22%
He Baiyou (何柏友)	114,625	0.11%
Li Yihai (李義海)	114,625	0.11%
Guo Xinyin (郭新印)	199,325	0.19%
He Xinming (何新明)	184,625	0.18%
Zhao Zengshuan (趙增栓)	192,500	0.18%
Zhang Lili (張莉莉)	8,750,000	8.33%
Tang Zhiyuan (唐志遠)	2,223,900	2.12%
Wang Jianli (王建禮)	1,855,000	1.77%
Luo Xianbo (羅先波)	1,207,500	1.15%
Wang Rui (王蕊)	889,000	0.85%
Dang Liwen (党理文)	388,500	0.37%
Wang Fayin (王發印)	376,250	0.36%
Li Wenyu (李文育)	793,625	0.76%
Lei Yongan (雷永安)	45,500	0.04%
Du Qiang (杜強)	175,000	0.17%
Wang Jiujun (王九軍)	175,000	0.17%
Ma Quanzhang (馬全章)	275,000	0.26%
Song Wei (宋瑋)	275,000	0.26%
Zhang Tianbao (張天寶)	102,100	0.10%
Wang Yunxiang (王雲香)	1,000,000	0.95%
Ma Yunjie (馬雲傑)	70,000	0.07%
Ren Enqian (任恩謙)	2,000,000	1.90%
Jian Yuejin (堅躍進)	1,000,000	0.95%
Wang Lin (王琳)	30,000	0.03%
Total:	<u>105,000,000</u>	<u>100.00%</u>

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On April 27, 2006, (i) each of Shiyang Group, Pucheng Guangsha and Hanjing Coal Mine transferred their respective 1.83%, 0.92% and 0.39% interests in Shaanxi Yaobai to Mr. Zhang Zengtao, the son of Mr. Zhang, at a consideration of RMB1,925,000, RMB962,500 and RMB412,500, respectively; (ii) Mr. Zhang Jianhong, Mr. Zhang Luhan, Mr. Du Qiang and Mr. Wang Zhengchuan, each of whom was one of the 43 employees of Shaanxi Yaobai, transferred their respective 0.05%, 0.03%, 0.17% and 0.04% interests in Shaanxi Yaobai to Mr. Zhang Zengtao for a consideration of RMB50,575, RMB28,525, RMB175,000 and RMB46,500, respectively; (iii) Hanjing Coal Mine transferred its 0.53% interest in Shaanxi Yaobai to Mr. Wang Mouwang for a consideration of RMB550,000; and (iv) Mr. Zhang Luhan transferred its 0.06% interest in Shaanxi Yaobai to Mr. Tang Zhiyuan for a consideration of RMB63,000. The consideration of each of the above transfers was paid in cash by the respective transferees with their own funding and were determined with reference to the registered capital of Shaanxi Yaobai.

Upon completion of such transfers, Shaanxi Yaobai was owned by the following persons and their respective capital contributions in Shaanxi Yaobai are set forth in the table below.

Shareholder	Capital contribution	Approximate equity interest
	(RMB)	
Mr. Zhang	48,558,475	46.24%
Cao Jishun (曹積順)	5,689,775	5.42%
Fan Qingmei (樊慶梅)	4,777,500	4.55%
Zhang Juchi (張菊池)	735,350	0.70%
Ren Yongchang (任永昌)	109,025	0.10%
Fan Jianming (樊建明)	329,700	0.31%
Wang Zhongwen (王忠文)	686,700	0.65%
Zhang Jicang (張積倉)	962,500	0.92%
Zhang Zengtao (張增濤)	12,295,550	11.71%
Wang Zhongke (王忠科)	3,024,875	2.88%
Tian Zhenjun (田振軍)	2,915,500	2.78%
Liu Jinfeng (劉金鳳)	616,875	0.59%
Wan Xinshan (王新善)	506,100	0.48%
Cao Jianshun (曹建順)	581,000	0.55%
Wang Gang (王剛)	100,100	0.10%
He Shuanghu (何雙虎)	235,900	0.22%
He Baiyou (何柏友)	114,625	0.11%
Li Yihai (李義海)	114,625	0.11%
Guo Xinyin (郭新印)	199,325	0.19%
He Xinming (何新明)	184,625	0.18%
Zhao Zengshuan (趙增栓)	192,500	0.18%
Zhang Lili (張莉莉)	8,750,000	8.33%
Tang Zhiyuan (唐志遠)	2,286,900	2.18%
Wang Jianli (王建禮)	1,855,000	1.77%
Luo Xianbo (羅先波)	1,207,500	1.15%
Wang Rui (王蕊)	889,000	0.85%
Dang Liwen (党理文)	388,500	0.37%
Wang Fayin (王發印)	376,250	0.36%
Li Wenyu (李文育)	793,625	0.76%
Lei Yongan (雷永安)	45,500	0.04%
Wang Jiujun (王九軍)	175,000	0.17%

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Shareholder	Capital contribution	Approximate equity interest
	(RMB)	
Ma Quanzhang (馬全章)	275,000	0.26%
Song Wei (宋瑋)	275,000	0.26%
Zhang Tianbao (張天寶)	102,100	0.10%
Wang Yunxiang (王雲香)	1,000,000	0.95%
Ma Yunjie (馬雲傑)	70,000	0.07%
Ren Enqian (任恩謙)	2,000,000	1.90%
Jian Yuejin (堅躍進)	1,000,000	0.95%
Wang Lin (王琳)	30,000	0.03%
Wang Mouwang (王謀旺)	550,000	0.53%
Total:	<u>105,000,000</u>	<u>100.00%</u>

On July 15, 2006, a resolution was passed by the shareholders of Shaanxi Yaobai to approve the conversion of Shaanxi Yaobai from a joint stock company to a limited liability company. On July 18, 2006, Mr. Zhang and the other 39 shareholders of Shaanxi Yaobai as set forth in the table above made their capital contribution in proportion to their respective interests in Shaanxi Yaobai and established Yaobai Investment. On the same date, (i) as part of family arrangement, Mr. Zhang Zengtao, the son of Mr. Zhang, and Ms. Zhang Lili, the daughter of Mr. Zhang, transferred their respective 11.71% and 8.33% interests in Yaobai Investment to Mr. Zhang at nil consideration; and (ii) the other 37 employees of Shaanxi Yaobai transferred their entire 33.72% interests in Yaobai Investment to Mr. Zhang for a total consideration of RMB43,824,300. The consideration of such transfers were determined with reference to the valuation of the assets of Shaanxi Yaobai of approximately RMB127,011,347 conducted by Weinan Xinghe Certified Public Accountants Co., Ltd. at the time of such transfer and were paid in cash by Mr. Zhang with his own funding and subsequently, in consideration of the routine financial consultancy services and the services provided in connection with the admission of our Shares on AIM by Mr. Ma Zhaoyang, our non-executive Director, Mr. Zhang transferred its 10% interest in Yaobai Investment to Mr. Ma Zhaoyang for a consideration of RMB13,000,000 paid in cash by Mr. Ma Zhaoyang with his own funding and such consideration was determined with reference to the net asset value of Shaanxi Yaobai of approximately RMB127,011,347 at the time of such transfer. Upon completion of such transfers, Shaanxi Yaobai was wholly-owned by Yaobai Investment and Yaobai Investment was owned as to 90% and 10% by Mr. Zhang and Mr. Ma Zhaoyang, respectively.

Our PRC legal counsel, Zong Heng Law Firm, has advised that all applicable PRC laws and regulations have been complied with and all necessary approvals from the relevant authorities have been obtained in respect of the capital contributions and the transfers of interests referred to in the paragraph headed “Our Corporate Development — Shaanxi Yaobai” under this section.

On July 18, 2006, Yaobai Investment and West China BVI entered into an equity transfer agreement pursuant to which Yaobai Investment transferred its entire interest in Shaanxi Yaobai to West China BVI. Upon completion of such transfer, Shaanxi Yaobai was wholly-owned by West China BVI. On October 27, 2006, our Company acquired the entire issued share capital of West China BVI in consideration of the allotment to the selling shareholders of West China BVI of an aggregate 42,735,965 Shares paid up at 20 pence per Share and paying up at 20 pence each of the 20 Shares in issue.

Following the capital contribution into Shaanxi Yaobai by West China BVI with an aggregate amount of RMB425,000,000 on January 11, 2007, November 23, 2007 and May 7, 2008, respectively, the registered capital of Shaanxi Yaobai was increased to RMB530,000,000. Our PRC legal counsel, Zong Heng Law Firm, has advised that the registered capital of Shaanxi Yaobai has been fully paid up in the required manner and within the required timeframe.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Lantian Yaobai

In view of the growing demand for cement in the PRC, our subsidiary, Lantian Yaobai was established on December 16, 2005 with a registered capital of RMB10,000,000. At the time of its establishment, it was held as to 90% by Shaanxi Yaobai, 6% by Mr. Wang Jianli and 4% by Ms. Zhang Lili, the daughter of Mr. Zhang. On July 16, 2006, Mr. Wang Jianli and Ms. Zhang Lili transferred their respective 6% and 4% interest in Lantian Yaobai to Shaanxi Yaobai. Following completion of such transfer, Lantian Yaobai became a wholly-owned subsidiary of Shaanxi Yaobai. Our PRC legal counsel, Zong Heng Law Firm, has advised that the registered capital of Lantian Yaobai has been fully paid up in the required manner and within the required timeframe.

Other operating PRC subsidiaries

Establishment of our PRC subsidiaries

Between 2006 and 2009, we established the following new wholly-owned PRC subsidiaries:

- On April 12, 2007, Ankang Yaobai was established by Shaanxi Yaobai with a registered capital of RMB135,000,000. The registered capital of Ankang Yaobai was increased to RMB345,000,000 on November 4, 2008. Our PRC legal counsel, Zong Heng Law Firm, has advised that the registered capital of Ankang Yaobai has been fully paid up in the required manner and within the required timeframe.
- On July 10, 2008, Hanzhong Yaobai was established by Shaanxi Yaobai with a registered capital of RMB135,000,000. Our PRC legal counsel, Zong Heng Law Firm, has advised that the registered capital of Hanzhong Yaobai has been fully paid up in the required manner and within the required timeframe.
- On December 22, 2008, Mianxian Yaobai was established by Shaanxi Yaobai with a registered capital of RMB105,000,000. The registered capital of Mianxian Yaobai was increased to RMB140,000,000 on December 3, 2009. Our PRC legal counsel, Zong Heng Law Firm, has advised that the registered capital of Mianxian Yaobai has been fully paid up in the required manner and within the required timeframe.
- On July 27, 2009, Xi'an Yaobai was established by Shaanxi Yaobai with a registered capital of RMB35,000,000. Our PRC legal counsel, Zong Heng Law Firm, has advised that the registered capital of Xi'an Yaobai has been fully paid up in the required manner and within the required timeframe.
- On August 11, 2009, Xixiang Yaobai was established by Shaanxi Yaobai with a registered capital of RMB105,000,000. Our PRC legal counsel, Zong Heng Law Firm, has advised that the first installment of the registered capital of Xixiang Yaobai of RMB21,000,000 has been fully paid up in the required manner and within the required timeframe. The remaining registered capital of RMB84,000,000 of Xixiang Yaobai shall be fully paid up within two years after the date of its establishment.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On December 31, 2009, Longqiao Yaobai was established with a registered capital of RMB125,000,000 and is owned as to 80% by Shaanxi Yaobai and 20% by Shaanxi Danshui, respectively. Pursuant to the joint venture agreement (the “Joint Venture Agreement”) entered into between Shaanxi Yaobai and Shaanxi Danshui on December 28, 2009 in relation to the establishment of Longqiao Yaobai, Shaanxi Yaobai is required to make a capital contribution of RMB100,000,000 by way of cash injection, out of which RMB50,000,000 shall be paid upon the establishment of Longqiao Yaobai and the remaining balance of RMB50,000,000 shall be paid before June 30, 2010, and Shaanxi Danshui is required to make a capital contribution of RMB25,000,000 by way of injection of assets owned by Shaanxi Danshui upon the establishment of Longqiao Yaobai. The assets of Shaanxi Danshui being injected into Longqiao Yaobai with net asset value of RMB165,320,900 comprising (i) the operational assets of Shaanxi Danshui including a cement production line with a cement production capacity of 1.1 million tons per annum together with the relevant land use rights, property ownership rights and mining rights valued at RMB365,320,900 as of December 24, 2009 by Shaanxi Zhisheng Asset Valuation Co., Limited (陝西智盛資產評估有限公司), an Independent Third Party; and (ii) the operational liabilities of Shaanxi Danshui including bank loans valued at approximately RMB200,000,000 as of December 24, 2009 by Shaanxi Zhisheng Asset Valuation Co., Limited. Out of the RMB165,320,900, being the net asset value of the assets of Shaanxi Danshui being injected into Longqiao Yaobai, RMB25,000,000 shall be used as the capital contribution to the registered capital of Longqiao Yaobai and the remaining portion of approximately RMB140,320,900 shall be treated as a non-interest bearing shareholder’s loan to be repaid by Longqiao Yaobai to Shaanxi Danshui, and such shareholder’s loan constituted a connected transaction for our Company under the Listing Rules. Given that no security over the assets of our Group was granted in respect of the shareholder’s loan, such connected transaction was exempted from reporting, announcement and independent shareholders’ approval requirements under Rule 14A.65(4) of the Listing Rules. Please refer to the section headed “Connected Transaction” in this prospectus. Our PRC legal counsel, Zong Heng Law Firm, has advised that the first installment and the second installment of the registered capital of Longqiao Yaobai of RMB75,000,000 and RMB50,000,000, respectively have been fully paid up in the required manner and within the required timeframe.

As from the date of the establishment of Longqiao Yaobai, Shaanxi Yaobai and Shaanxi Danshui shall share 80% and 20% of the profits and losses of Longqiao Yaobai, respectively according to their respective obligation to contribute to the registered capital of Longqiao Yaobai. Pursuant to the Joint Venture Agreement, the 20% interest in Longqiao Yaobai owned by Shaanxi Danshui is not transferable within one year after the establishment of Longqiao Yaobai, and Shaanxi Yaobai shall have the right to acquire such interest from Shaanxi Danshui for a consideration of RMB25,000,000. Shaanxi Danshui also undertook to complete all pending approvals, filings, registrations and vetting procedures in relation to the assets injected into Longqiao Yaobai by no later than March 31, 2010. Our PRC legal counsel, Zong Heng Law Firm, has advised that all applicable approvals, filings, registrations and vetting procedures in relation to the assets injected into Longqiao Yaobai had been obtained before March 31, 2010. Prior to the signing of the Joint Venture Agreement, Shaanxi Danshui was principally involved in the production and sales of cement in Shaanxi province. Upon signing of the Joint Venture Agreement, Shaanxi Danshui and its subsidiaries, branches or companies controlled by it (excluding Longqiao Yaobai) shall not involve in cement production or sales business in areas where Shaanxi Yaobai and its subsidiaries or branches conduct cement production and sales business (the “Competing Business”). In addition, Shaanxi Danshui shall not form any joint venture or cooperate with any third party for the purpose of conducting the Competing Business.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Acquisition of our new PRC subsidiaries

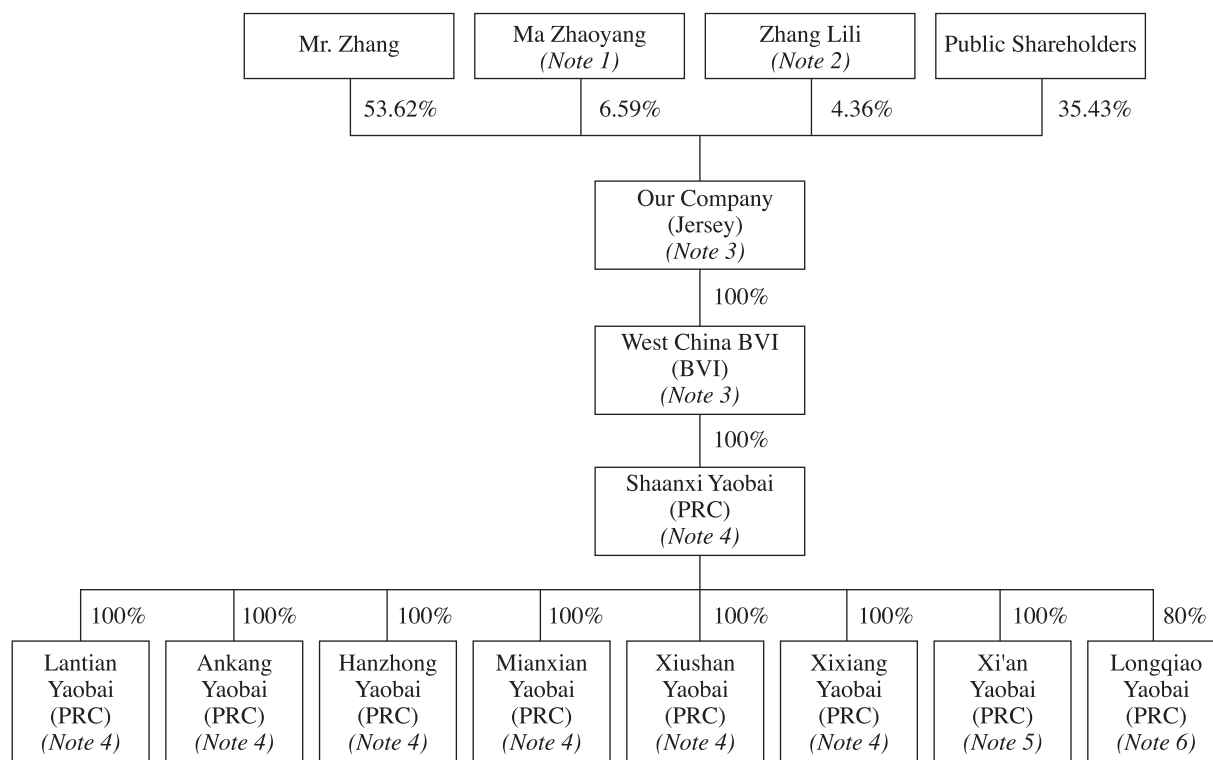
Xiushan Yaobai was established on March 25, 2005 with a registered capital of RMB10,000,000. The registered capital of Xiushan Yaobai was increased to RMB20,000,000 on December 13, 2006. Our PRC legal counsel, Zong Heng Law Firm, has advised that the registered capital of Xiushan Yaobai has been fully paid up in the required manner and within the required timeframe. On August 15, 2009, Shaanxi Yaobai entered into an agreement to acquire the entire equity interest in Xiushan Yaobai from Mr. Zhang Changshui, an Independent Third Party, and 41 other individual shareholders, all of whom are Independent Third Parties, for a total consideration of approximately RMB180,699,527, which was determined after arm's length negotiation among the parties with reference to the net asset value of Xiushan Yaobai as of May 31, 2009. Xiushan Yaobai was established on March 25, 2005 and operated a cement production facility in Zhen'an county with annual cement production capacity of 700,000 tons. Please refer to the section headed "Business" in this prospectus for more information relating to our acquisition of Xiushan Yaobai. Xiushan Yaobai owns a 100% interest in Xunyang Xiushanlong which operated a cement mill in Xunyang county. Each of Xiushan Yaobai and Xunyang Xiushanlong became indirect wholly-owned subsidiaries of our Company following completion of such acquisition. Immediately after such acquisition, the business and assets of Xunyang Xiushanlong were transferred to Ankang Yaobai for ease of management and synergy purposes. Xunyang Xiushanlong was, thereafter, dissolved in December 2009. Our PRC legal counsel, Zong Heng Law Firm, has advised that the dissolution of Xunyang Xiushanlong has not resulted in any liability or obligation imposed against any of the directors and/or senior management of our Group.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REORGANIZATION

In January 2010, we commenced the Reorganization in preparation for the Global Offering.

The following chart sets forth our corporate and shareholding structure immediately before the Reorganization and exercise of the AS Warrants:



Notes:

1. Mr. Ma Zhaoyang is a non-executive Director.
2. Ms. Zhang Lili is the daughter of Mr. Zhang.
3. The principal business activity of each of our Company and West China BVI is investment holding.
4. The principal business activity of each of Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai, Mianxian Yaobai, Xiushan Yaobai and Xixiang Yaobai is production and sales of cement.
5. The principal business activity of Xi'an Yaobai is wholesale of raw materials.
6. Longqiao Yaobai is owned as to 80% by Shaanxi Yaobai and as to 20% by Shaanxi Danshui, a connected person by virtue of its 20% interest in Longqiao Yaobai. As no connected person of our Company (other than at the level of the subsidiary of our Company) held 10% or more of the voting power at the general meeting of Longqiao Yaobai as of the Latest Practicable Date, Longqiao Yaobai was not a connected person of our Company under the Listing Rules. The principal business activity of Longqiao Yaobai is production and sales of cement.

Establishment of holding companies

On January 4, 2010, Techno Faith was incorporated in the British Virgin Islands. The authorized share capital of Techno Faith is US\$50,000 divided into 50,000 shares of US\$1.00 each and 100 shares were allotted and issued to Mr. Ma Zhaoyang, credited as fully-paid. Mr. Ma Zhaoyang is the sole shareholder of Techno Faith.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On January 11, 2010, Asia Gain was incorporated in the British Virgin Islands. The authorized share capital of Asia Gain is US\$50,000 divided into 50,000 shares of US\$1.00 each and 100 shares were allotted and issued to Mr. Zhang, credited as fully-paid. Mr. Zhang is the sole shareholder of Asia Gain.

On January 12, 2010, Central Glory was incorporated in the British Virgin Islands. The authorized share capital of Central Glory is US\$50,000 divided into 50,000 share of US\$1.00 each and 100 shares were allocated and issued to Mr. Zhang Lili, credited as fully-paid. Ms. Zhang Lili is the sole shareholder of Central Glory.

Transfer of Shares to Techno Faith, Central Glory and Asia Gain

As part of the Reorganization, Mr. Ma Zhaoyang transferred his 4,273,599 Shares, representing approximately 6.49% of the then issued share capital of our Company to Techno Faith at a consideration of £1.00. Following completion of such transfer, through Techno Faith, Mr. Ma Zhaoyang holds approximately 6.49% of the then issued share capital of our Company.

As part of the Reorganization, Ms. Zhang Lili transferred her 2,830,189 Shares, representing approximately 4.30% of the then issued share capital of our Company to Central Glory at a consideration of £1.00. Following completion of such transfer, through Central Glory, Ms. Zhang Lili holds approximately 4.30% of the then issued share capital of our Company.

As part of the Reorganization, Mr. Zhang will transfer his 34,777,478 Shares, representing approximately 52.81% of the then issued share capital of our Company to Asia Gain at a consideration of £1.00 on the Listing Date. Following completion of such transfer, through Asia Gain, Mr. Zhang holds approximately 52.81% of the then issued share capital of our Company.

Faithful Alliance as the intermediate holding company

Faithful Alliance was incorporated in Hong Kong on January 14, 2010. As at the date of its incorporation, the authorized share capital of Faithful Alliance was HK\$10,000 divided into 10,000 shares of HK\$1.00 each and one share was allotted and issued to Ready-Made Incorporations Limited, credited as fully-paid, as the subscriber of Faithful Alliance.

On January 25, 2010, Ready-Made Incorporations Limited transferred the one share of Faithful Alliance to West China BVI at a consideration of HK\$1.00. Following completion of such transfer, West China BVI is the sole shareholder of Faithful Alliance.

Transfer of Shaanxi Yaobai to Faithful Alliance

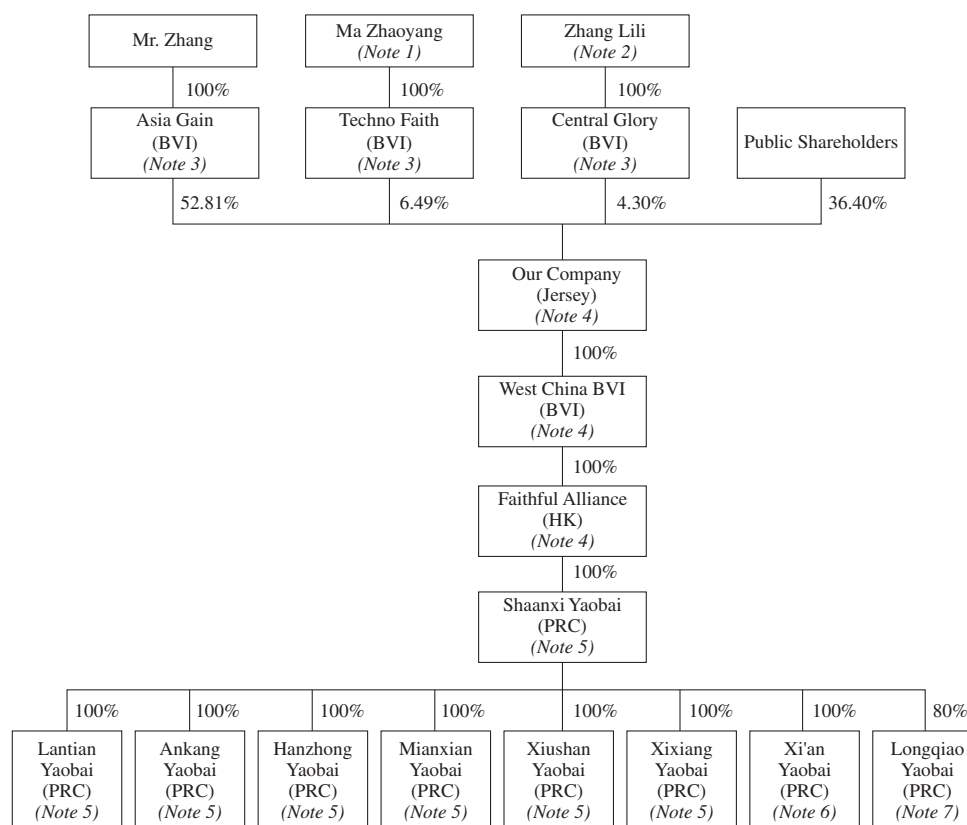
As part of our tax planning arrangement which provides us with favorable tax benefit under “Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income” 《國家稅務總局關於印發內地和香港避免雙重徵稅安排文本並請做好執行準備的通知》 and the “Notice of the State Administration of Taxation on the issues concerning the Application of the Dividend Clause of Tax Arrangements” 《國家稅務總局關於執行稅收協定股息條款有關問題的通知》 (collectively known as the “Tax Notices”) in respect of PRC withholding tax for dividends paid by Shaanxi Yaobai, we undertook the transfer of the entire equity interests of Shaanxi Yaobai held by West China BVI to Faithful Alliance. According to the Tax Notices, if an enterprise established in the PRC meets certain requirements as provided in the Tax Notices, it can enjoy the tax treatment under the tax agreements between the PRC and Hong Kong, pursuant to which the withholding tax rate in respect of the dividend payment of

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

the domestic company to the Hong Kong enterprise will be 5%. Please refer to the section headed “Regulatory Overview — Income Tax” in this prospectus. Our Directors believe that the holding of Shaanxi Yaobai by Faithful Alliance enables us to meet the basic requirements as provided in the Tax Notices and thus we will be entitled to enjoy the 5% withholding tax rate after duly approved by the relevant competent PRC tax authority.

Pursuant to the equity transfer agreement dated March 1, 2010 entered into between West China BVI as vendor and Faithful Alliance as purchaser, West China BVI transferred the entire equity interest held by it in Shaanxi Yaobai to Faithful Alliance for a consideration of RMB530,000,000, which was determined with reference to the registered capital of Shaanxi Yaobai and satisfied by the allotment and issue of 99 shares by Faithful Alliance to West China BVI, credited as fully paid at premium. Following completion of transfer on April 16, 2010, Shaanxi Yaobai was wholly-owned by Faithful Alliance.

The following chart sets forth our corporate and shareholding structure immediately after the Reorganization, and the exercise of part of the AS warrants by Mr. Anthony Schindler and Mr. Simon Waxley as of the Latest Practicable Date, but before the completion of the Global Offering:



Notes:

1. Mr. Ma Zhaoyang is a non-executive Director.
2. Ms. Zhang Lili is the daughter of Mr. Zhang.
3. The principal business activity of each of Asia Gain, Techno Faith and Central Glory is investment holding.
4. The principal business activity of each of our Company, West China BVI and Faithful Alliance is investment holding.

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5. *The principal business activity of each of Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai, Mianxian Yaobai, Xiushan Yaobai and Xixiang Yaobai is production and sales of cement.*
6. *The principal business activity of Xi'an Yaobai is wholesale of raw materials.*
7. *Longqiao Yaobai is owned as to 80% by Shaanxi Yaobai and as to 20% by Shaanxi Danshui, a connected person by virtue of its 20% interest in Longqiao Yaobai. As no connected person of our Company (other than at the level of the subsidiary of our Company) held 10% or more of the voting power at the general meeting of Longqiao Yaobai as of the Latest Practicable Date, Longqiao Yaobai was not a connected person of our Company under the Listing Rules. The principal business activity of Longqiao Yaobai is production and sales of cement.*

DELISTING FROM AIM

As of the Latest Practicable Date, the Shares in issue are admitted to AIM. Since its admission to AIM in December 2006, our Company has grown significantly, both in terms of assets and profitability, and became one of the largest PRC companies by market capitalization admitted to AIM. Our Directors are of the view that we will be better served by listing our Shares on a larger and more liquid stock market, which can better accommodate our significant growth and at the same time increase the liquidity of our Shares, which is expected to be reflected in our medium to long term market valuation. Our Directors believe that a dual-listing of our Shares on the Stock Exchange and AIM simultaneously is likely to result in a division of liquidity between the two markets, which may partly negate the benefit of joining a larger and more liquid stock market and its potential benefits to the valuation of our Shares. In addition, a dual-listing would entail additional compliance costs, as well as management time, as we would have to comply with two sets of regulatory and disclosure requirements. Our Directors believe that the relatively significant compliance costs and administrative burdens of maintaining a listing on AIM are not justified by the limited trading volume of our Shares on AIM, and hence it is no longer in our best interest to maintain our listing status on AIM. Accordingly, a resolution was passed at the extraordinary general meeting held by our Company on July 20, 2010 to approve, among other things, the delisting of our Shares from AIM, which is conditional upon the listing of our Shares on the Stock Exchange within three months of the date of the extraordinary general meeting. The listing of our Shares on the Stock Exchange is not conditional on the delisting of our Shares from AIM.

In accordance with rule 41 of the AIM Rules and the guidance notes published by the LSE, we have issued a regulatory news service announcement and notified the LSE through our nominated advisor of the intended effective date of delisting from AIM at least ten Business Days prior to that date. The announcement sets out, amongst other things, the reasons for delisting, a description of how Shareholders will be able to effect transactions in our Shares once they have been delisted from AIM.

Save where the LSE otherwise agrees, the delisting must be conditional on the consent of not less than 75% of votes cast by our Shareholders given in a general meeting. We passed Shareholders' resolutions on July 20, 2010 to approve the delisting of our Shares on AIM conditional upon the listing of our Shares on the Stock Exchange. Delisting shall only take effect until at least five Business Days have passed since our Shareholders' approval has been obtained and a dealing notice has been issued. It is expected that the dealing notice will be issued on or around August 6, 2010 and our Shares in issue will cease to be admitted to AIM with effect from the first day of dealings in our Shares on the Stock Exchange.

Subject to the granting of the approval for Listing on the Stock Exchange by the Listing Committee, the delisting of our Shares on AIM is expected to take place on or around August 23, 2010 and will, in effect, be simultaneous with the commencement of trading of our Shares on the Stock Exchange. Shareholders will be able to trade our Shares on AIM up until the delisting of our Shares on AIM becomes effective.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Based on the advice we received from our legal advisors on English law, Memery Crystal LLP, and our nominated advisor, our Directors believe that there is no legal impediment to the delisting from AIM taking place, conditional upon the listing of our Shares on the Stock Exchange and provided that the delisting occurs no later than October 19, 2010, being three months following the date on which the shareholders resolution on the delisting was passed.

In order to enable all our Shares in issue to be available for dealings after Listing, we have put in place arrangements and set the Record Date where our Shareholders who hold our Shares as at the Record Date were provided with five options prior to the Record Date as summarized below so as to facilitate the trading of our Shares after Listing:

- ***Option 1 — request the new share certificates in respect of Shares held by a Shareholder to be sent to his/her/its stockbroker in Hong Kong via his/her/its stockbroker in the United Kingdom***

Prior to the Record Date, a Shareholder could through his/her/its stockbroker in the United Kingdom request that the new share certificates in respect of Shares held by him/her/it be sent to the stockbroker in Hong Kong which is able to trade on the Stock Exchange and which his/her/its stockbroker in the United Kingdom has custodial and nominee arrangements (either directly or through a Hong Kong counterparty).

- ***Option 2 — request the new share certificates in respect of Shares held by a Shareholder to be sent to his/her/its new stockbroker in the United Kingdom***

An arrangement has been made by us with certain stockbrokers in the United Kingdom who are able to trade on the Stock Exchange and have agreed, subject to their account opening procedures, to act for Shareholders in his/her/its trading activities on the Stock Exchange. Prior to the Record Date, a Shareholder could request that the new share certificates in respect of Shares held by him/her/it to be sent to such new stockbrokers in the United Kingdom.

- ***Option 3 — request the new share certificates in respect of Shares held by a Shareholder to be sent to a stockbroker in Hong Kong***

If a Shareholder has a Hong Kong broking account and wishes to hold his/her/its Shares through such account following Listing, such Shareholder could request that the new share certificates in respect of Shares held by him/her/it be sent to his/her/its stockbroker in Hong Kong.

- ***Option 4 — request the new share certificates in respect of Shares held by a Shareholder to be sent to such Shareholder directly***

If a Shareholder wishes the new share certificates in respect of Shares held by him/her/it to be sent to him/her/it directly and such Shares are lodged with a stockbroker, such Shareholder could request his/her/its stockbroker to arrange for rematerialization of such Shares and request the new share certificates to be dispatched to his/her/its address. However, as the new share certificates will only be dispatched on the day before the Listing Date, the new share certificates may not arrive in the United Kingdom by the first day of trading on the Stock Exchange due to delivery time.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- *Option 5 — take no action or make no option selection*

If a Shareholder takes no action or makes no option selection, the new share certificates will be issued and sent to the name and address that appears on the share register on the Record Date. However, as the new share certificates will only be dispatched on the day before the Listing Date, the new share certificates may not arrive in the United Kingdom by the first day of trading on the Stock Exchange due to delivery time.

The expected timetable of principal events in respect of the delisting of our Shares on AIM and the Listing is set out below:

Issue of dealing notice to LSE	on or around August 6, 2010
Record Date	on or around August 10, 2010
Last day of trading on AIM of our Shares	on or around August 20, 2010
Cancellation of admission to trading on AIM of our Shares expected to be effective	on or around August 23, 2010
Dealings in Shares on the Stock Exchange expected to commence	on or around August 23, 2010

CHANGES IN BOARD COMPOSITION

Our Directors believe that we will be better served with a board composed of members with strong knowledge of the PRC business environment and the Hong Kong capital markets upon Listing. In view of the foregoing, each of Mr. Robert Sinclair Robertson and Mr. Brett Lance Miller, the former non-executive Directors, resigned from the Board on July 29, 2010, and three new independent non-executive Directors, namely Mr. Lee Kong Wai Conway, Mr. Wong Kun Kau and Mr. Tam King Ching Kenny, who have a strong knowledge of the PRC and Hong Kong business and market environment, were appointed on July 29, 2010 in place of Mr. Robert Sinclair Robertson and Mr. Brett Lance Miller. Given that Mr. Robert Sinclair Robertson and Mr. Brett Lance Miller only assumed non-executive roles in our Company and were not involved in the day-to-day management or affairs and operations of our business prior to their resignations, our Directors are of the view that there will be no adverse impact on our business and operations in respect of the resignations of Mr. Robert Sinclair Robertson and Mr. Brett Lance Miller. In addition, Mr. Tian Zhenjun, who was a former executive Director of our Company and resigned in October 2008, was re-appointed as an executive Director of our Company. Mr. Tian Zhenjun was with our Group throughout the Track Record Period despite his resignation in October 2008 as he remained as a senior management of our Group focusing on the overall management and operation of Lantian Yaobai which had just commenced operation at that relevant time. In view of our rapid expansion in recent years and given that stable operation has been achieved at Lantian Yaobai, our Directors consider that it is in our best interests to re-appoint Mr. Tian as executive Director of our Company to oversee our overall administrative, human resources and operational management. In view of his academic knowledge and extensive experience in strategic planning, Mr. Ma Zhaoyang was appointed a non-executive Director of our Company and will assume an advisory role with us in respect of the overall strategic planning and operation of our business. Mr. Ma Zhaoyang is the chairman and director of Sino Vanadium Inc., a vanadium mining company listed on the TSX Venture Exchange in Canada. Mr. Lee Kong Wai Conway, our independent non-executive Director, is also an independent non-executive director of Sino Vanadium Inc.. Save for the common directorships of Mr. Ma Zhaoyang and Mr. Lee Kong Wai Conway in Sino Vanadium Inc., our Company has no other relationship with Sino Vanadium Inc..

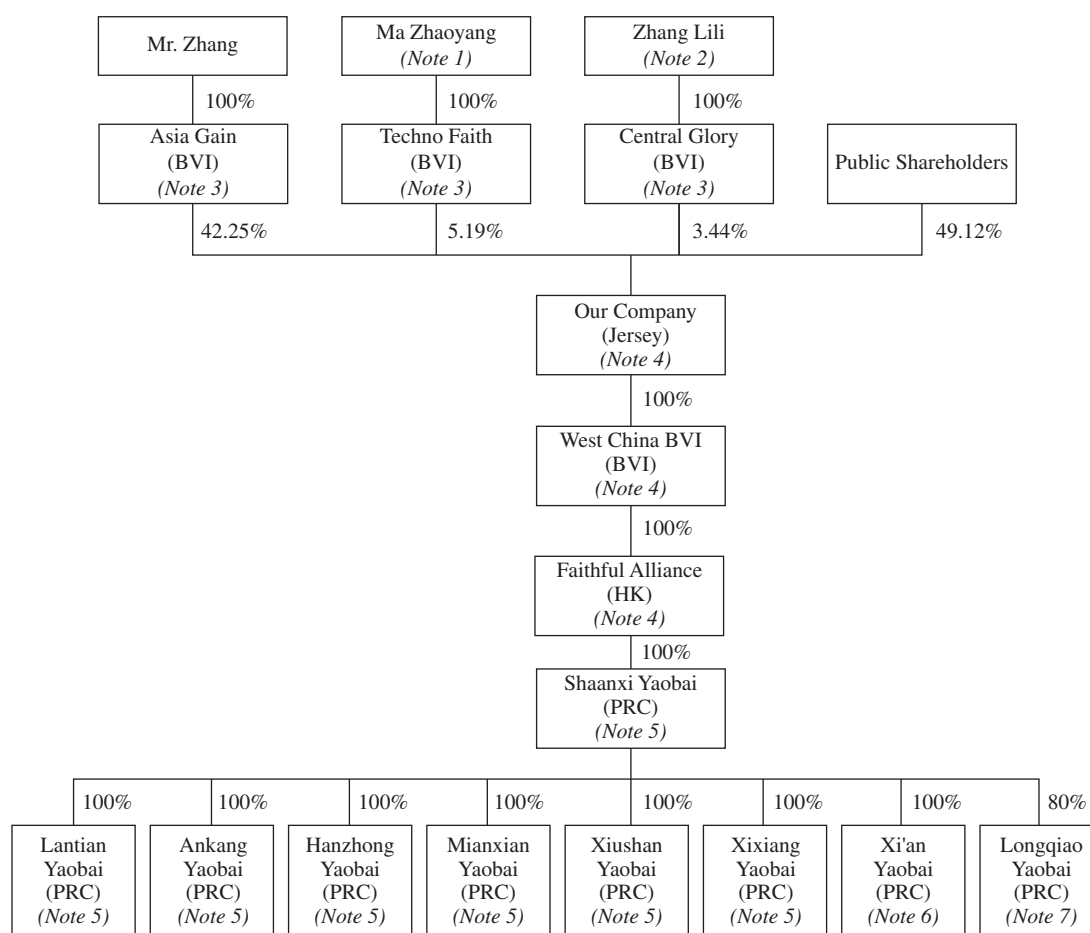
HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

There were no material changes to the management of the companies that made up our Group during the Track Record Period, save for Xiushan Yaobai, which was acquired by us during the Track Record Period.

SUBDIVISION OF SHARES

In order to improve the liquidity in the trading of our Shares and facilitate the issue of Shares in connection with the Global Offering, we passed conditional Shareholders' resolutions on July 20, 2010 to approve the subdivision of each existing issued and unissued Shares of £0.10 each in the share capital of our Company into 50 shares of £0.002 each so that the authorized share capital of our Company is 10,000,000,000 Shares of £0.002 each, which is conditional on and with effect upon Listing. The subdivision of Shares will reduce the nominal value and increase the total number of our Shares in issue upon Listing, and thereby provide greater liquidity in the trading of our Shares.

The following chart sets forth our corporate and shareholding structure upon completion of the Global Offering and delisting from AIM (assuming that (i) the Over-allotment Option is not exercised; and (ii) none of the options granted under the Share Option Scheme has been exercised):



Notes:

1. Mr. Ma Zhaoyang is a non-executive Director.
2. Ms. Zhang Lili is the daughter of Mr. Zhang.

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3. *The principal business activity of each of Asia Gain, Techno Faith and Central Glory is investment holding.*
4. *The principal business activity of each of our Company, West China BVI and Faithful Alliance is investment holding.*
5. *The principal business activity of each of Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai, Mianxian Yaobai, Xiushan Yaobai and Xixiang Yaobai is production and sales of cement.*
6. *The principal business activity of Xi'an Yaobai is wholesale of raw materials.*
7. *Longqiao Yaobai is owned as to 80% by Shaanxi Yaobai and as to 20% by Shaanxi Danshui, a connected person by virtue of its 20% interest in Longqiao Yaobai. As no connected person of our Company (other than at the level of the subsidiary of our Company) held 10% or more of the voting power at the general meeting of Longqiao Yaobai as of the Latest Practicable Date, Longqiao Yaobai was not a connected person of our Company under the Listing Rules. The principal business activity of Longqiao Yaobai is production and sales of cement.*

FACILITY ARRANGEMENTS

(A) *Facility Arrangement with Credit Suisse, Singapore Branch*

CS Facility Agreement

To finance our capital injection in the construction of our Ankang cement plant with an annual production capacity of 2.0 million tons in the southeast Shaanxi province, we entered into the CS Facility Agreement on May 29, 2008 with, among others, Credit Suisse, Singapore Branch, acting as facility agent and security agent, for and on behalf of the Facility Lender. The proceeds of the loan under the CS Facility Agreement have not been utilized for any purpose other than to finance our capital injection in the construction of our Ankang cement plant. The Facility Lender made available to us a US\$60 million term loan facility for three years from the drawdown date (the "Utilization Date"). On June 6, 2008, we drew down US\$60 million under the CS Facility Agreement and the interest is payable at an annual rate of 13.5%. Pursuant to the CS Facility Agreement, (a) if a Qualifying Re-listing (as defined in the CS Facility Agreement to include a listing of our Shares on certain securities exchanges, including the Stock Exchange) occurs, we are required to repay 50% of the aggregate outstanding loan on the date falling 24 months from the Utilization Date and the remaining 50% on the date falling 36 months from the Utilization Date; or (b) if no Qualifying Re-listing occurs on or before the date falling 30 months from the date of the CS Facility Agreement, we are required to repay all the loans on the date falling 30 months from the date of the CS Facility Agreement.

We have the right to repay any part of the loan under the CS Facility Agreement at any time after 24 months from the Utilization Date in any amount not less than US\$5 million and in an integral multiple of US\$1 million thereof. On December 30, 2009, we repaid the principal amount of US\$5 million under the CS Facility Agreement to the Facility Lender by using internal resources. A consent or waiver was sought and obtained from the Facility Lender in respect of the early repayment of such US\$5 million. The repayment was not subject to any penalty for such early repayment. We are also obliged to make (a) partial mandatory repayment of the outstanding loan together with accrued interest and break costs (if any) to the Facility Lender if we receive any net proceeds from any disposal of asset by any member of our Group, the incurrance or assumption of any financial indebtedness by certain members of our Group or issuance of our debt or equity securities by any member of our Group prior to a Qualifying Re-listing; and (b) a prepayment in an amount equivalent to 50% of the outstanding loan together with accrued interest and break costs (if any) upon the issuance of our debt or equity securities upon a Qualifying Re-listing.

On March 9, 2010, we repaid all the outstanding loan under the CS Facility Agreement together with the accrued interest of US\$20,625, break costs of US\$476,922.22 and prepayment fee in the amount of US\$618,750 by using the proceeds from the ICBC Facility and our internal resources. Please refer to the paragraph headed "— (C) Facility Arrangement with ICBC (Asia) and ICBC Macau" under this section. Upon full repayment of the loan under the CS Facility Agreement, all special rights granted to the Facility Lender have lapsed and ceased to have further effect.

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Warrants

As one of the conditions precedent to the provision of the facility under the CS Facility Agreement, and pursuant to the Warrant Instrument, our Company issued Warrants to the Warrantholder who will be entitled to subscribe for the Warrant Shares at a strike price of US\$2.6916 (the “Strike Price”) which represents a 15% premium to the average equivalent closing price over the 20 trading days immediately preceding the date of the Warrant Instrument, subject to certain anti-dilution adjustments and strike price resets under certain circumstances, per Warrant Share. The Warrantholder is not connected to any shareholder, director, senior members of our Company or any of its subsidiaries and their respective associates.

Under the Warrant Instrument, the Warrantholder has, inter alia, the Subscription Rights and the Put Rights (as defined in the Warrant Instrument) as follows:

- **Subscription Rights:** The Warrants may be exercised in whole or in part by the Warrantholder to subscribe up to 7,802,142 Shares at the Strike Price per Warrant Share. The Warrants may be exercised at any time up to 36 months after the issuance. The Warrantholder may, at its option, require us to pay cash to it in lieu of issuing Warrant Shares provided that the Warrantholder elects for such cash settlement in respect of all, but not part only, of the Warrant Shares in respect of which such Subscription Rights are exercised.
- **Put Rights:** Upon the occurrence of certain events, the Warrantholder may request us to purchase from such Warrantholder all or any part of its outstanding Warrants. The put price is made with reference to a 19% per annum rate of return.

Security and Guarantee

The due performance of our obligations under the CS Facility Agreement are secured by the following securities and guarantees: (i) a share charge over West China BVI provided by our Company; (ii) an equity pledge over Shaanxi Yaobai provided by West China BVI; (iii) an assignment of loan entered into between our Company as the assignor and West China BVI as the assignee; (iv) an assignment of loan entered into between West China BVI as the assignor and Shaanxi Yaobai as the assignee; (v) an all assets fixed and floating debenture over the assets of West China BVI; (vi) charges over the accounts of our Company; (vii) charges over the accounts of West China BVI; and (viii) a security trust deed entered into between our Company, the Warrantholder, the Facility Lender and Credit Suisse, Singapore Branch (as facility agent and security agent).

Redemption of Warrants

As the Warrantholder may, under the Warrant Instrument, elect for the issue of up to 7,802,142 Shares, which will result in up to approximately 10.7% dilution effect assuming the Warrants are exercised in whole at the relevant time, or cash settlement, which will result in a significant one-off cash outflow, with a view to reducing our dilution effect or liquidity risk resulting from the exercise of Warrants, our Directors have taken the view that the redemption of Warrants at the pricing level at the relevant time was prudent and in the interests of our Group. We have on October 21, 2009 executed the Amendment Deed. Pursuant to the Amendment Deed, we redeemed all of the outstanding 7,802,142 Warrants issued at a redemption amount of US\$30,187,696, the difference between the settlement price of US\$6.5608, being £4.00, which was determined after arm’s length negotiation with reference to the Share price at the relevant time, at the exchange rate of US\$1.6402 per pound sterling, and the Strike Price of US\$2.6916. An amount equal to 10% of the redemption amount was paid on the date of the Amendment Deed, and the remaining amount together

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with 5% per annum interest calculated from the date of the Amendment Deed, was paid on November 3, 2009, and a loss of approximately RMB168.5 million was incurred for the redemption of the Warrants. We expect that our business will sustain a continuous growth in future years, which we believe will have a positive impact on the performance of our future Share price, and as a result, more loss will be incurred if no redemption was made at the relevant time and when the Warrantholder exercises its rights in the future. In view of the foregoing, we redeemed the Warrants despite having incurred a loss of approximately RMB168.5 million.

The redeemed Warrants were cancelled and will not be available for reissue or resale. As the Warrants have been redeemed in full, the Warrants have lapsed and we have no further obligations with respect to the subscription rights under the Warrants.

Reasons and Benefits for entering into the CS Facility Agreement

In March 2008, the National People's Congress implemented a tightening credit control policy on high energy-consumption industry which comprises cement industry. Such policy has restricted the bank lending to PRC cement companies across the nation and led to the unavailability of bank lending across the nation during such relevant time. Given our financing needs for the investment in the Xunyang production facility and with limited options available to us at the relevant time, we sought financing from offshore financial institutions. Having negotiated with several offshore financial institutions and considered the terms of each of such financial institutions, we considered that the terms of the loan coupled with the Warrants issue offered by Credit Suisse, Singapore Branch as a whole were more favorable than those provided by other offshore financial institutions.

As we were unable to obtain RMB-denominated borrowings due to the restriction on bank lending under the tightening credit control policy and the financial environment continued to deteriorate at the relevant time, we believe that obtaining a US\$-denominated borrowing under the CS Facility Agreement with higher interest rate together with the Warrants issue was the best available offer to us at the relevant time. In addition, the investment in the Xunyang production facility is expected to bring attractive return to us. As such, we believe that the potential return to be received from our investment in the Xunyang production facility outweighs the higher finance costs of the facility arrangement under the CS Facility Agreement.

(B) Facility Arrangement with Superb Miles Limited

In conjunction with the Amendment Deed, we have also entered into a bridging loan facility of US\$50 million with Superb Miles Limited, a fellow subsidiary of ICBCI. We used approximately US\$30.2 million out of the total proceeds of US\$50 million to finance the redemption of the Warrants and the remaining net proceeds were used for general working capital purposes. Interest payable under the ICBCI Facility will be accrued on the principal amount of the ICBCI Facility at an annual rate of LIBOR plus 5%. The ICBCI Facility will be due on the date falling 9 months from the drawdown date or the listing of the Shares on the Stock Exchange, whichever is earlier. The repayment date of the ICBCI Facility was subsequently extended to July 26, 2011 pursuant to an extension agreement entered into on March 1, 2010. From July 27, 2010 onwards, interest payable under the ICBCI Facility will be accrued on the principal amount of the ICBCI Facility at an annual rate of LIBOR plus 7%.

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The ICBCI Facility is secured by a charge over 19,393,776 Shares held by Mr. Zhang, a Controlling Shareholder, which amounted to 29.45% of the total Shares in issue prior to the completion of the Global Offering and a personal guarantee provided by Mr. Zhang. We plan to use a portion of the proceeds from the Global Offering to repay the ICBCI Facility in full, and the share charge and the personal guarantee will be released before or upon the listing of the Shares on the Stock Exchange.

(C) Facility Arrangement with ICBC (Asia) and ICBC Macau

On February 26, 2010, we entered into a loan facility of US\$50 million with ICBC (Asia), ICBC Macau and ICBCI Holdings. ICBC (Asia) acts as a coordinating arranger, the facility agent and security agent for the lenders of the ICBC Facility, and ICBC Macau acts as a coordinating arranger of the ICBC Facility. ICBCI Holdings acts as the guarantor of the ICBC Facility. On March 9, 2010, we drew down US\$50 million under the ICBC Facility Agreement. The proceeds were used to refinance the outstanding loan under the CS Facility Agreement while the remaining portion of the outstanding loan was repaid by internally generated resources. Interest payable under the ICBC Facility will be accrued on the principal amount of the ICBC Facility at LIBOR plus 3%. The amount of accrued interest to be paid by us as of August 23, 2010, being the Listing Date, will be approximately US\$361,521.

Pursuant to the ICBC Facility Agreement, if a Proposed Re-listing (as defined in the ICBC Facility Agreement to include a listing of our Shares on certain approved securities exchanges, including the Stock Exchange) occurs, we are required to repay 50% of the outstanding amount together with an accrued interest within three business days from the date of Listing and the remaining portion of the outstanding facility amount under the ICBC Facility Agreement will be repaid in equal amount payable in arrears semi-annually on each repayment date thereafter. We have the right to repay any part of the loan under the ICBC Facility Agreement at any time after 2 months from the date of the ICBC Facility Agreement in any amount not less than US\$5 million and in an integral multiple of US\$1 million thereof. We intend to repay half of the ICBC Facility by using proceeds from the Global Offering and the remaining portion of the ICBC Facility with cash generated from our operations in four installments before February 25, 2012.

The ICBC Facility is secured by (i) a share charge over West China BVI provided by our Company; (ii) a share charge over Faithful Alliance provided by West China BVI; (iii) an equity pledge over Shaanxi Yaobai provided by Faithful Alliance; (iv) an assignment of shareholders' loan borrowed by West China BVI from our Company; (v) charges over the accounts of our Company; and (vi) corporate guarantee in favor of ICBC (Asia) and ICBC Macau, provided by ICBCI Holdings. ICBCI Holdings also granted to ICBC (Asia) and ICBC Macau a put option, upon the exercise of which ICBCI Holdings is required to purchase the ICBC Facility from ICBC (Asia) and ICBC Macau together with all rights attached thereto. Such put option may only be exercised at any time after the occurrence of an event of default as set out in the ICBC Facility Agreement.

In addition, a second charge over 19,393,776 Shares held by Mr. Zhang, which amounted to 29.45% of the total Shares in issue prior to the completion of the Global Offering, was created and a personal guarantee was provided by Mr. Zhang in favor of ICBCI Holdings, as the guarantor to the ICBC Facility, ranking immediately behind the charge created under the ICBCI Facility. The second charge over the Shares held by Mr. Zhang and the personal guarantee will be released before or upon listing of our Shares on the Stock Exchange.

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The major rights of the lenders and restrictive covenants under the ICBC Facility Agreement are set out below:

(a) *Financial information*

We shall supply to ICBC (Asia) as the facility agent and ICBCI Holdings as the guarantor to the ICBC Facility in sufficient copies for all the lenders our audited consolidated financial statements for each of its annual accounting periods, our audited financial statements for each of our annual accounting periods, our unaudited consolidated financial statements for each of our semi-annual accounting periods, the unaudited financial statements of our Company for each of its semi-annual accounting periods, and a certificate establishing compliance by us of the financial covenants set out in paragraph (m) below. At any time after the Listing Date, we shall comply with the undertakings set out in this paragraph (a) (to the extent permitted by applicable laws and the Listing Rules, as amended from time to time), provided that we shall use our reasonable efforts to explore and take any and all feasible steps and measures to enable us to comply with our undertakings under this paragraph (a) while not breaching applicable laws and the Listing Rules.

(b) *Miscellaneous information right*

We shall supply to ICBC (Asia) as the facility agent sufficient copies for ICBC (Asia), ICBC Macau and any bank, financial institution, trust, fund or other entity which has become a party to the ICBC Facility Agreement (the “Finance Parties”) (i) all documents dispatched by any of our Company, ICBCI Holdings, West China BVI, Faithful Alliance, Shaanxi Yaobai and any party to the ICBC Facility Agreement (the “Obligor”) (other than ICBC Holdings) to its creditors generally at the same time as they are dispatched; (ii) any announcement, notice or other document relating specifically to our Company posted on the website of any stock exchange; (iii) details of any litigation arbitration or administrative proceedings which are current, threatened or pending against any member of our Group, and which might, if adversely determined, have a material adverse effect; (iv) such further information regarding its financial condition, business and operations of any member of our Group or any other Obligor (other than ICBCI Holdings) as any Finance Party (through ICBC (Asia) as the facility agent) may reasonably request; (v) such further information and records regarding the assets from time to time subject to a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect created under any security documents as contemplated under the ICBC Facility Agreement or any part of those assets (the “Charged Assets”) as any Finance Party (through ICBC (Asia) as the facility agent) may reasonably request; (vi) notice of any change in authorized signatories of any Obligor signed by a director or company secretary of such Obligor accompanied by specimen signatures of any new authorized signatories; (vii) any notice being received from any competent authority amending, terminating or suspending or threatening to amend, terminate or suspend any authorization here such action constitutes a material adverse effect; and (viii) upon becoming aware of them, details of any circumstances which may lead to any authorization not being obtained or effected or not remaining in full force and effect (other than in accordance with its terms) or any authorization not being obtained, renewed or effected when required, where failure to obtain and/or maintain the same constitutes a material adverse effect. At any time after the Listing Date, we shall comply with the undertakings set out in this paragraph (b) (to the extent permitted by applicable laws and the Listing Rules, as amended from time to time), provided that we shall use our reasonable efforts to explore and take any and all feasible steps and measures to enable us to comply with our undertakings under this paragraph (b) while not breaching applicable laws and the Listing Rules.

(c) *Negative pledge clause*

We shall not, and shall ensure that no other Obligor (other than ICBCI Holdings) and no other members of our Group will create or permit to subsist any security or quasi-security over any of its assets, except for the permitted security as provided in the ICBC Facility Agreement.

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(d) *Disposals*

We shall not, and shall ensure that no other Obligor (other than ICBCI Holdings) and no other member of our Group will enter into a single transaction or a series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, transfer or otherwise dispose of any asset, except for any permitted disposal as provided in the ICBC Facility Agreement.

(e) *Merger*

Except with the prior written consent of the Majority Lenders, we shall not, and shall ensure that no other Obligor (other than ICBCI Holdings) and no other member of our Group will, enter into any amalgamation, demerger, merger or corporate reconstruction save for the proposed transfer or any permitted acquisition as provided in the ICBC Facility Agreement.

For the purpose of the ICBC Facility Agreement, the term “**Majority Lenders**” means at any time:-

- (a) if the loan made or to be made under the ICBC Facility Agreement or the principal amount outstanding at any time of that loan (the “ICBC Loan”) is then outstanding, ICBC (Asia), ICBC Macau or lenders whose participations in the ICBC Loan then outstanding aggregate more than 51% of the ICBC Loan; or
- (b) if there is no ICBC Loan then outstanding, ICBC (Asia), ICBC Macau or a lender or lenders whose commitments under the ICBC Facility Agreement aggregate more than 51% of the total commitments under the ICBC Facility Agreement (or, if the total commitments under the ICBC Facility Agreement have been reduced to zero, aggregated more than 51% of the total commitments under the ICBC Facility Agreement immediately prior to the reduction).

(f) *Change of business*

We shall procure that no substantial change is made to the general nature of our business or (taken as a whole) from that carried on at the date of the ICBC Facility Agreement.

(g) *Insurance*

We shall, and shall ensure that each other Obligor (other than ICBCI Holdings) and each other member of our Group will maintain insurances on and in relation to its business and assets with reputable underwriters or insurance companies against those risks, and to the extent, usually insured against by prudent companies located in the same or similar location and carrying on a similar business.

(h) *Taxes*

We shall, and shall ensure that each other Obligor (other than ICBCI Holdings) and each other member of our Group will file or cause to be filed all tax returns required to be filed in all jurisdictions in which it is situated or carries on business or otherwise is subject to taxation and pay all taxes shown to be due and payable on such returns or any assessments made against it, except to the extent these are contested in good faith and by appropriate means where such payment may be lawfully withheld and for which adequate reserves have been established by it taking into account the amount of taxes payable.

(i) *Environmental compliance*

We shall, and shall ensure that each other Obligor (other than ICBCI Holdings) and each other member of our Group will comply in all material respects with all environmental laws, obtain and maintain all environmental permits and take all reasonable steps in anticipation of known or expected future changes to or obligations under any environmental law or any environmental permit.

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(j) *Acquisitions*

We shall not, and shall ensure that no other Obligor (other than ICBCI Holdings) and no other member of our Group will acquire any company, business, assets or undertaking or make any investment, except for the permitted acquisition as provided in the ICBC Facility Agreement.

(k) *Loans and guarantees*

We shall not, and shall ensure that no other Obligor (other than ICBCI Holdings) and no other member of our Group will make any loans, grant any credit (save in the ordinary course of business) or give any guarantee or indemnity (except as required under any of the finance document as contemplated under the ICBC Facility Agreement) to or for the benefit of any person or otherwise voluntarily assume any liability, whether actual or contingent, in respect of any obligation of any person, except for any permitted loan or permitted guarantee as provided in the ICBC Facility Agreement.

(l) *Financial Indebtedness*

- (i) We shall not, and shall ensure that no other Obligor (other than ICBCI Holdings) and no other member of our Group will incur any Financial Indebtedness, except for any Permitted Financial Indebtedness.
- (ii) Without limiting the generality of sub-paragraph (i) above, we shall not, and shall ensure that no other member of our Group will incur any Financial Indebtedness that will be in contravention of the power of our Directors to borrow money set out in the previous articles of association of our Company which include without limitation the aggregate amount at any one time owing by our Group (being our Company and all its subsidiary undertakings from time to time) in respect of moneys borrowed, exclusive of moneys borrowed by our Company or any of its subsidiary undertakings from any other of such companies, without the previous sanction of our Company in general meeting, exceed a sum equal to two and a half times the aggregate of (A) the nominal capital of our Company for the time being issued and paid-up or credited as paid up; and (B) the amounts standing to the credit of the consolidated reserves of our Group whether distributable or undistributable and including (without limitation) share premium account, capital redemption reserve and profit and loss account, all as shown in a consolidation of the then latest audited balance sheets of our Company and each of its subsidiary undertakings but after (1) making such adjustments as may be appropriate in respect of any variation in the issued and paid up share capital, share premium account and capital redemption reserve of our Company since the date of its latest audited balance sheet; (2) excluding therefrom (so far as not already excluded) (x) any sums set aside for future taxation; (y) amounts attributable to outside shareholders in subsidiary undertakings; (z) deducting therefrom (I) an amount equal to any distribution by our Company out of profits earned prior to the date of its latest audited balance sheet and which have been declared, recommended or made since that date except so far as provided for in such balance sheet; and (II) any debit balances on profit and loss account.

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For the purpose of the ICBC Facility Agreement, the term “**Financial Indebtedness**” means any indebtedness for or in respect of:-

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);
- (h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

For the purpose of the ICBC Facility Agreement, the term “**Permitted Financial Indebtedness**” means:

- (a) any Financial Indebtedness arising from time to time under any of the finance documents as contemplated under the ICBC Facility Agreement;
- (b) any Financial Indebtedness of any member of our Group that is subsisting as at the date of the ICBC Facility Agreement, provided that the principal amount of such Financial Indebtedness is not increased after the date of the ICBC Facility Agreement;
- (c) any Financial Indebtedness owing by one member of our Group to another member of our Group;
- (d) any Financial Indebtedness of any member of our Group provided that:-
 - (A) as at the incurrence of such Financial Indebtedness (or, to the extent that such Financial Indebtedness is subsisting when such member of our Group first became a member of our Group, as at the date which such member of our Group became a member of our Group),

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all of the financial covenants set out in the ICBC Facility Agreement shall have been complied with in respect of the latest relevant period (for which consolidated financial statements of our Group and the accompanying compliance certificate have been delivered in accordance with the ICBC Facility Agreement;

- (B) the financial conditions set out in the ICBC Facility Agreement in respect of such latest relevant period would have been complied with had such Financial Indebtedness (in the maximum amount thereof) been outstanding during and as at the end of such latest relevant period and our Company shall have delivered to the ICBC (Asia) as the facility agent a certificate in form and substance satisfactory to ICBC (Asia) which sets out (in reasonable detail) computations as to compliance of such financial conditions and such certificate shall be signed by (1) the most senior financial officer or the chief executive officer and (2) a director of the Borrower; and
- (C) no event of default is continuing or would arise as a result of the incurrence of such Financial Indebtedness;
- (e) any Financial Indebtedness constituted by any permitted guarantee or permitted loan under the ICBC Facility Agreement;
- (f) any Financial Indebtedness of any member of our Group (other than our PRC subsidiaries) all of the proceeds of which are applied in accordance with the ICBC Facility Agreement, provided that all of the outstanding amounts under the finance documents as contemplated under the ICBC Facility Agreement will be fully discharged pursuant to such application, and no Finance Party will be under any actual or contingent obligation to make available the ICBC Loan after such application;
- (g) any Financial Indebtedness of our Company owing to any person, after the date of the ICBC Facility Agreement provided that:
 - (A) in each case, all of such Financial Indebtedness shall have been subordinated to the indebtedness of our Company under the finance documents as contemplated under the ICBC Facility Agreement; and
 - (B) no event of default is continuing or would arise as a result of the incurrence of such Financial Indebtedness, provided further that in each case the final maturity of any such Financial Indebtedness shall occur after the final maturity date;
- (h) any Financial Indebtedness under any a foreign exchange transaction for spot or forward delivery entered into by a member of our Group (other than our non-PRC subsidiaries) in connection with protection against fluctuation in currency rates where that foreign exchange exposure arises in the ordinary course of trade of that member of our Group, but not a foreign exchange transaction for investment or speculative purposes permitted trade hedges;
- (i) any other Financial Indebtedness approved in writing by ICBC (Asia) as the facility agent acting reasonably;
- (j) the facility under the CS Facility Agreement;

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- (k) the ICBCI Facility;
- (l) the RMB330,000,000 loan facility made available by a branch of Credit Suisse AG located in PRC to Shaanxi Yaobai; and/or
- (m) any loan, guarantee and indemnity permitted under the ICBC Facility Agreement.

(m) *Financial covenants*

We shall ensure that at all times from the date of the ICBC Facility Agreement and for so long as any liability is outstanding or any commitment is in force, (A) the Consolidated Tangible Net Worth shall not be less than RMB1,125,000,000; (B) the ratio of the Consolidated Borrowings, to the Consolidated Tangible Net Worth shall not be more than 2.00: 1; and (C) the ratio of the Consolidated Borrowings at the end of a Relevant Period to the Consolidated EBITDA of the Relevant Period shall not be more than 5.00:1.

For the purpose of the ICBC Facility Agreement, the term “**Consolidated Tangible Net Worth**” shall mean the aggregate amount paid up or credited as paid up on the issued ordinary share capital of our Company and the amount standing to the credit of the reserves of our Group, including any amount credited to the share premium account, but deducting (i) any debit balance on the consolidated profit and loss account of our Group, (to the extent included) any amount shown in respect of goodwill (including goodwill arising only on consolidation) or other intangible assets of our Group; (ii) any amount in respect of interests of non-Group members in our Group’s subsidiaries; (iii) (to the extent included) any provision for deferred taxation; (iv) (to the extent included) any amounts arising from an upward revaluation of assets made at any time after December 31, 2008; and (v) any amount in respect of any dividend or distribution declared, recommended or made by any member of our Group to the extent payable to a person who is not a member of our Group and to the extent such distribution is not provided for in the most recent financial statements, and so that no amount shall be included or excluded more than once.

For the purpose of the ICBC Facility Agreement, the term “**Consolidated Borrowings**” means the aggregate amount of all our obligations for or in respect of borrowings but excluding any such obligations to any other member of our Group, and so that no amount shall be included or excluded more than once.

For the purpose of the ICBC Facility Agreement, the term “**Relevant Period**” means each period of 12 months ending on the last day of our financial year and each period of 12 months ending on the last day of the first half of our financial year.

For the purpose of the ICBC Facility Agreement, the term “**Consolidated EBITDA**” means for any Relevant Period, the Consolidated EBIT for that Relevant Period before deducting any amount attributable to amortization of goodwill or depreciation of tangible assets.

For the purpose of the ICBC Facility Agreement, the terms “**Consolidated EBIT**” means for any Relevant Period, the consolidated operating profits of our Group for the Relevant Period before taxation (i) before deducting any Consolidated Finance Charges; (ii) before taking into account any items treated as exceptional or extraordinary items; and (iii) after deducting the amount of any profit of any member of our Group which is attributable to non-controlling interests, in each case, to the extent added, deducted or taken into account, as the case may be, for the purposes of determining the profits of our Group from ordinary activities before taxation.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

For the purpose of the ICBC Facility Agreement, the term “**Consolidated Finance Charges**” means for any Relevant Period, the aggregate amount of interest, commission, fees, discounts, prepayment penalties or premiums and other finance payments in respect of borrowings whether accrued, paid or payable and whether or not capitalized by any member of our Group in respect of that Relevant Period (i) excluding any such obligation owed to any other member of our Group; (ii) including the interest element of leasing and hire purchase payments; and (iii) including any amounts paid, payable or accrued by any member of our Group to counterparties under any interest rate hedging instrument.

We are subject to the above restrictive covenants, which imposed restrictions on our operations, including but not limited to, restrictions to acquire and dispose of any of our asset, except for the permitted disposal and permitted acquisition provided in the ICBC Facility Agreement and to make loans and grant credit or give guarantee or indemnity to or for the benefit of any person, except for the permitted loan or permitted guarantee as provided in the ICBC Facility Agreement, unless with the consent of ICBC (Asia) and ICBC Macau. Given that non-compliance of the above non-financial restrictive covenants will not constitute an event of default under the ICBC Facility Agreement if such non-compliance is capable of remedy and is remedied within 15 Business Days of ICBC (Asia) giving notice to us or we becoming aware of the failure to comply, whichever is earlier, we believe such restrictions will not materially affect our daily operations. In the event that the non-compliance of the above non-financial restrictive covenants is not capable of remedy and is not remedied within the stipulated period as set out above, such non-compliance will constitute an event of default under the ICBC Facility Agreement. Upon the occurrence of such event of default, we may be required to repay the loan on demand on and subject to the terms of the ICBC Facility Agreement, which may have material adverse impact on our operations and financial conditions.

The special rights described above will remain in effect after the Listing for so long as any amount remains outstanding under the finance documents as contemplated under the ICBC Facility Agreement or any loan commitment under the ICBC Facility Agreement is in force provided that the special rights in (a) and (b) above will remain in effect after the Listing to the extent permitted by applicable laws and the Listing Rules.

The ICBC Facility is subject to certain customary events of defaults. Any non-compliance with the financial covenants as set out in paragraph (m) above will constitute an event of default under the ICBC Facility Agreement. Upon the occurrence of such events of default, we may be required to repay the loan on demand on and subject to the terms of the ICBC Facility Agreement, which may have material adverse impact on our operations and financial conditions. In particular, we are subject to the following events of cross defaults: (a) any Financial Indebtedness of an Obligor or a member of our Group is not paid when due or within any originally applicable grace period; (b) any Financial Indebtedness of any Obligor or any other member of our Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described); (c) any commitment for any Financial Indebtedness of any Obligor or any other member of our Group is cancelled or suspended by a creditor of any Obligor or any other member of our Group as a result of an event of default (however described); or (d) any creditor of any Obligor or any other member of our Group becomes entitled to declare any Financial Indebtedness of any Obligor or any other member of our Group due and payable prior to its specified maturity as a result of an event of default (however described). No event of default will occur if the aggregate amount of Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (a) to (d) above is less than US\$10,000,000 (or its equivalent in other currencies). In addition, at any time after the Proposed Re-listing, (a) the listing of our Shares is suspended for 15 or more consecutive days on which it is trading; or (b) the listing of our Shares is terminated or otherwise ceases.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

WARRANTS GRANTED TO OUR ADVISOR

Through Eastbank Consulting LLP, an advisory service provider, Mr. Anthony Schindler acted as a consultant to Insinger de Beaufort, our nominated advisor and broker of our AIM initial public offering in December 2006. He is the principal partner of Eastbank Consulting LLP. Throughout the years subsequent to our AIM listing, Mr. Anthony Schindler has held advisory roles with us and advised us on numerous bond fund-raising exercises, and introduced numerous investors, brokers and financial institutions to our Group. Eastbank Consulting LLP is currently contracted to us to provide investor relations services in the United Kingdom. In 2008 and 2009, Eastbank Consulting LLP received a total payment of £13,328 and £6,666, respectively, for services provided to us. As of the Latest Practicable Date, Eastbank Consulting LLP had received a total payment of £46,662 for the services provided to our Group in 2010.

In recognition of his contribution to the success of our AIM listing and the development of our business since our AIM listing in December 2006, on April 14, 2008 and July 15, 2009, our Company granted to Mr. Anthony Schindler, an advisor of our Group, the right to subscribe (the “AS Warrants”) for up to 420,000 ordinary shares of par value £0.10 each in the capital of our Company (“AS Warrant Shares”), representing approximately 0.51% of the enlarged issued share capital of our Company after completion of the Global Offering and subdivision of Shares (assuming exercise of the AS Warrants in full but that the Over-allotment Option is not exercised at all and taking no account of any Shares that may be issued upon exercise of the options to be granted pursuant to the Share Option Scheme and the Post-IPO Share Option Scheme) upon exercise of the AS Warrants in full. Out of the 420,000 AS Warrant Shares, (a) 100,000 AS Warrant Shares were granted to Insinger de Beaufort as part of our AIM initial public offering in December 2006, and as part of Mr. Anthony Schindler’s contractual engagement with Insinger de Beaufort. Such AS Warrant Shares were transferred to Mr. Anthony Schindler on July 15, 2009 and are exercisable at a subscription price of £1.05 per AS Warrant Share (subject to adjustment as a result of share capital reorganization such as capitalization, subdivision and consolidation of Shares) during the period between July 15, 2009 and December 4, 2010; and (b) the remaining 320,000 AS Warrants were granted on April 14, 2008 in recognition of Mr. Anthony Schindler’s advice and contribution to the development of our Group and are exercisable at a subscription price of £1.577 per AS Warrant Shares (subject to adjustment as a result of share capital reorganization such as capitalization, subdivision and consolidation of Shares) during the period between April 14, 2010 and April 14, 2013. In March 2010, Mr. Anthony Schindler exercised 100,000 AS Warrants at a subscription price of £1.05 per AS Warrant. Based on confirmation from Mr. Anthony Schindler, Mr. Anthony Schindler has no present intention to exercise the outstanding AS Warrants on or before Listing. The number and/or nominal value of our Shares to be subscribed on any exercise of the subscription right under the AS Warrants will be increased upon the subdivision of Shares (please refer to the paragraph headed “— Subdivision of Shares” above for further details) take effect. After subdivision of our Shares, (i) the subscription price per AS Warrant Share upon Listing will be adjusted from £1.577 to £0.03154; and (ii) the outstanding 230,000 AS Warrants granted to Mr. Anthony Schindler will be adjusted such that 11,500,000 AS Warrants will be allotted upon the exercise of the AS Warrants by Mr. Anthony Schindler. The listing of our Shares on the Main Board of the Stock Exchange will not affect the AS Warrants.

The full exercise of the AS Warrants would not result in our Controlling Shareholders ceasing to be the controlling shareholders of our Company within the period of time as contemplated under Rule 10.07 of the Listing Rules.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The AS Warrants are freely transferable. In consideration of Mr. Simon Waxley's assistance to Mr. Anthony Schindler in providing advice for the development of our Group, on August 26, 2009, Mr. Anthony Schindler transferred 90,000 AS Warrant Shares from those granted on April 14, 2008 to Mr. Simon Waxley. On April 20, 2010, Mr. Simon Waxley exercised all the AS Warrants granted to him at a subscription price of £1.577 per AS Warrant Share. Mr. Simon Waxley is not connected to Mr. Anthony Schindler, any shareholder, director or senior members of our Company or any of its subsidiaries and their respective associates. The AS Warrants do not grant to Mr. Anthony Schindler any special rights which are not otherwise available to the public Shareholders.

Mr. Anthony Schindler is not connected to any shareholder, director or senior members of our Company or any of its subsidiaries and their respective associates.

M&A RULES

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce of the PRC or MOFCOM and Chinese Securities Regulatory Commission or CSRC, promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), or the M&A Rules, a new regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006. The M&A Rules, among other things, require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of, or equity interests in, the PRC companies in exchange for the shares of offshore companies.

Our PRC legal counsel, Zong Heng Law Firm, has advised that, since the acquisition of Shaanxi Yaobai by West China BVI was completed before the commencement of the M&A Rules and that the acquisition of Shaanxi Yaobai by Faithful Alliance is not an acquisition as defined in the M&A Rules because Shaanxi Yaobai was already a foreign-invested entity prior to the acquisition, the establishment of our foreign-invested PRC subsidiaries and the Reorganization are not subject to the M&A Rules. Accordingly, our Listing does not require the approval of the CSRC. Our PRC legal counsel, Zong Heng Law Firm, has also advised that, pursuant to the Regulations Concerning Share Equity Alteration in Foreign Invested Enterprises (外商投資企業投資者股權變更的若干規定) promulgated on May 28, 1997, the acquisition of Shaanxi Yaobai by Faithful Alliance shall be approved by the competent level of authority in charge of commerce, being Shaanxi division of Ministry of Commerce ("Shaanxi MOC") and with such approval, the acquisition shall be registered with the competent level of Administration of Industry and Commerce ("AIC"), being Xi'an AIC. The acquisition of Shaanxi Yaobai by Faithful Alliance shall be valid and enforceable upon obtaining the approval from Shaanxi MOC and completing the registration of such acquisition with Xi'an AIC. On April 16, 2010, Shaanxi MOC approved the acquisition of Shaanxi Yaobai by Faithful Alliance and such acquisition was registered with Xi'an AIC on April 23, 2010.

We and our Controlling Shareholders have complied with all applicable PRC rules and regulations, and have obtained all relevant approvals from PRC government authorities for the Reorganization and the Listing.

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OVERVIEW

We are a cement producer in Shaanxi province in the PRC. Our cement is sold under the trademarks “堯柏” (Yao Bai) and “堯柏水泥” (Yaobaishuini) and is primarily used in the construction of infrastructure projects such as highways, bridges, railways and roads, as well as residential buildings. Our cement can be categorized into high grade cement and low grade cement. High grade cement is a category of cement that generally has a 28-day compressive strength of 42.5 MPa, or 425 kg/cm², or above and is primarily used for government infrastructure projects. Low grade cement is a category of cement that generally has a 28-day compressive strength of 32.5 MPa, or 325 kg/cm², or below and is primarily used for residential buildings.

As of the Latest Practicable Date, we had eight cement production lines located in Shaanxi province, with a total annual production capacity of 9.6 million tons. According to Digital Cement Net, a website operated by the China Cement Association, we were the second largest cement producer in Shaanxi province by production capacity as of December 31, 2009. All of our production lines employ the NSP technology, which requires less energy to produce cement and is more environmentally friendly than non-NSP technologies. According to Digital Cement Net, 61% of the total cement output in Shaanxi province in 2008 was produced by production lines that employed the NSP technology and were operated by cement producers with over RMB5.0 million in revenue for 2008. For the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2009 and 2010, our production lines that employed the NSP technology produced 2.4 million, 3.5 million, 5.1 million, 1.2 million and 2.2 million tons of cement, respectively. In order to meet the fast-growing market demand for cement products in Shaanxi province, we are constructing a new production line each in Pucheng county and Xixiang county in Weinan and Hanzhong regions, respectively, in Shaanxi province with a total annual production capacity of 2.2 million tons. We are also installing a new cement grinding mill in our Lantian production facility, which is expected to increase our annual production capacity by 0.7 million tons. These additional production facilities are expected to increase our annual production capacity to 12.5 million tons upon their completion by February 2011. We intend to further increase our production capacity through acquisitions of suitable target companies or assets.

Limestone is the principal raw material used in our production of cement. We have obtained mining rights to a number of limestone quarries, most of which are located near our production facilities. Our mining rights are for periods ranging from one to 15 years, with expiration dates between August 2010 and December 2022. Our easy access to limestone reserves provides us with a secure and stable supply of limestone at low transportation costs. We have sufficient reserves of limestone to meet the current production requirements of our existing production facilities for at least 30 years, based on government surveyors' reports on the amounts of our limestone reserves, the annual excavation limits specified in our mining licenses and our current production requirements. We use coal as fuel in our production process, and it represents one of the largest components of our cost of sales. We have convenient access to large coal mines in Shaanxi province, which ensures that we have an abundant supply of coal at low transportation costs. For the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our raw materials, which primarily included limestone, gypsum, clay, flyash, pyrite cinder and slag, represented approximately 34.0%, 26.0%, 32.4% and 24.5% of our cost of sales, respectively; coal represented approximately 21.4%, 36.0%, 31.2% and 37.9% of our cost of sales, respectively; and electricity represented approximately 24.8%, 22.0%, 20.7% and 18.6% of our cost of sales, respectively.

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Our advanced technology enables us to recycle and use industrial by-products, industrial waste and construction waste in our production process, which lowers our cost of production and also entitles us to VAT refunds from the PRC government. During the Track Record Period, these VAT refunds amounted to approximately RMB30.5 million, RMB39.2 million, RMB65.0 million and RMB25.2 million, respectively. We also enjoy other government incentives such as industrial development subsidies and “clean” project investment incentives, which together amounted to approximately RMB5.2 million, RMB1.5 million, RMB6.5 million and RMB3.2 million, respectively, during the Track Record Period.

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

We primarily sell our cement either directly to government infrastructure projects and ready-mixed concrete stations or to distributors, which then resell our cement to retail purchasers. The table below sets forth our revenue by customer type for the periods indicated.

Type of Customer	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
	(RMB in millions)			(RMB in millions)	
Government infrastructure projects ⁽¹⁾	104.6	136.4	657.7	72.0	77.5
Ready-mixed concrete stations	60.4	165.1	113.3	23.8	43.8
Distributors (both entities and individuals)	273.7	406.4	595.1	205.6	416.4
Others ⁽²⁾	87.2	158.2	150.7	48.0	137.6
Total	<u>525.9</u>	<u>866.1</u>	<u>1,516.8</u>	<u>349.4</u>	<u>675.3</u>

Notes:

- (1) Include infrastructure projects funded by various levels of the PRC government or state-owned enterprises, including telecommunication network, railway and expressways.
- (2) Include sales to other customers who do not fall into the categories of government infrastructure projects, ready-mixed concrete stations and distributors. These customers were primarily individuals or entities located near our production facilities and purchased our products for use in small construction projects. Such sales also included direct cash sales to individual retail customers which amounted to approximately RMB0.9 million, RMB1.8 million, RMB5.5 million, RMB0.6 million and RMB6.8 million during the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2009 and 2010, respectively.

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The percentages of our revenue represented by the types of customers set forth in the table above fluctuated during the Track Record Period. The percentage of our revenue represented by sales to government infrastructure projects decreased and the percentage of our revenue represented by sales to ready-mixed concrete stations increased in 2008 compared with 2007, because our Lantian production facility, which ramped up to full operations in 2008, mainly served the Xi'an market where there was substantial demand from ready-mixed concrete stations. Our sales to government infrastructure projects as a percentage of our revenue increased significantly in 2009 as the PRC government's fixed asset investment in southern Shaanxi province increased, which led to increased demand for cement by government infrastructure projects in our target markets. Our sales to government infrastructure projects as a percentage of our revenue decreased for the four months ended April 30, 2010 compared with the same period in 2009 because government infrastructure projects usually stop during the winter season and the Chinese New Year holidays early in the year and such down time in the first four months of 2010 was longer than that in the first four months of 2009. The percentage of our revenue derived from sales of high grade cement increased and the percentage of our revenue derived from sales of low grade cement decreased from 2007 to 2009 and between the four months ended April 2009 and 2010.

We achieved significant growth in revenue, operating profit and net profit during the Track Record Period. Our revenue increased from approximately RMB525.9 million for the year ended December 31, 2007 to approximately RMB866.1 million for the year ended December 31, 2008 and to approximately RMB1,516.8 million for the year ended December 31, 2009, representing a CAGR of 69.8% from 2007 to 2009. Our operating profit increased from approximately RMB174.9 million for the year ended December 31, 2007 to approximately RMB283.2 million for the year ended December 31, 2008 and to approximately RMB616.2 million for the year ended December 31, 2009, representing a CAGR of 87.7% from 2007 to 2009. Our net profit increased from approximately RMB150.3 million for the year ended December 31, 2007 to approximately RMB246.2 million for the year ended December 31, 2008 and to approximately RMB330.5 million for the year ended December 31, 2009, representing a CAGR of 48.3% from 2007 to 2009. For the four months ended April 30, 2010, our revenue, operating profit and net profit were RMB675.3 million, RMB242.5 million and RMB154.3 million, which increased by 93.3%, 75.8% and 69.9%, respectively, compared with the same period in 2009.

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The map below indicates the locations of our production facilities in Shaanxi province as of the Latest Practicable Date:



OUR STRENGTHS

We believe that our competitive strengths include the following:

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

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

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

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

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

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

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

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

We have convenient access to coal supply and limestone reserves

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

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Limestone is the principal raw material used in the production of clinker, which in turn is the base of all cement products. We have obtained mining rights to limestone quarries that are located near our production facilities in Pucheng, Lantian, Xunyang, Zhen'an, Yangxian and Danfeng counties with convenient access to public roadways. These quarries provide our production facilities with a secure and stable supply of high quality limestone at low transportation costs and the reserves are sufficient to meet the current production requirements of our existing production lines for at least 30 years based on the stipulated amount of annual excavation as provided in the mining licenses.

Our technology allows us to lower our total cost of sales

We believe we are among the first cement producers in Shaanxi province to use desulfurization gypsum and construction waste as additives in cement products. In addition, we recycle industrial by-products such as flyash from power stations, slag from steel factories, pyrite cinder from sulfuric acid factories and limestone tailings and use them as raw materials in our production. For the year ended December 31, 2009, we used approximately 1.6 million tons of industrial by-products, industrial waste and urban construction waste as raw materials. These by-products and waste materials are readily available at low costs. Our ability to recycle such materials and use them in our cement production lowers our overall cost of materials, which we believe represents a significant advantage that distinguishes us from our competitors. In addition, pursuant to the *Notice regarding Policies relating to Value-Added Tax on Products Made Through Comprehensive Utilization of Resources and Certain Other Products* promulgated by the Ministry of Finance and the State Administration of Taxation (財政部, 國家稅務總局關於部分資源綜合利用及其他產品增值稅政策問題的通知), we enjoy VAT refunds for cement products that utilize a certain percentage of recycled materials. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, such VAT refunds amounted to approximately RMB30.5 million, RMB39.2 million, RMB65.0 million and RMB25.2 million, respectively.

We have installed the residual heat recovery system at our production facilities in Lantian and Xunyang counties. The residual heat recovery system collects residual heat from the cement production process to generate power that can be used in the production process. We achieved approximately RMB18.4 million in electricity cost savings in 2009 as a result of installing the residual heat recovery system. We plan to install the residual heat recovery systems in our other production facilities as well.

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

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

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

We have a stable and experienced management team

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

OUR STRATEGY

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

Strengthen our leading market position through capacity expansion in selected markets

We intend to strengthen our leading market position in Shaanxi province and achieve better economies of scale by constructing and acquiring additional production facilities. We have recently completed the construction of a production line in Mianxian county and are constructing two additional production lines in Pucheng and Xixiang counties, respectively, which are expected to increase our annual production capacity by 3.3 million tons. We plan to actively pursue acquisitions that will enable us to penetrate other markets adjacent to our current core markets, such as selected markets in other parts of southern Shaanxi province, Gansu province or Sichuan province. In August 2009, we acquired Xiushan Yaobai to close the gap in our market coverage between our production facilities in Lantian and Xunyang counties. In December 2009, we obtained an 80% interest in Longqiao Yaobai, a newly established company that owns the cement production line of Shaanxi Danshui, which is located in Danfeng county in the Shangluo region, one of our core markets. These acquisitions have further strengthened our leading position in these markets. We have applied, and will continue to apply, a well established and value-based method to assess acquisition opportunities presented to us. Based on our experience in assessing and completing acquisitions, we believe that we will be able to seize attractive acquisition opportunities presented to us in the future to further expand our business and market.

Further strengthen our sales and marketing capabilities

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

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

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

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

Continue to lower our costs through technological improvement

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

Continue to build a strong management team with qualified personnel

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

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

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Our Products

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

Our products are set forth in the following table:

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

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Product/Grade	National Standards	Characteristics	Application	Target Customers
Moderate Heat Portland Cement • PMH42.5	$SO_3 \leq 3.5\%$; $MgO \leq 5\%$; 3-day compressive strength $\geq 12MPa$; 7-day compressive strength $\geq 22MPa$; 28-day compressive strength $\geq 42.5MPa$; 3-day fractural load $\geq 3MPa$; 7-day fractural load $\geq 4.5MPa$; 28-day fractural load $\geq 6.5MPa$; 3-day Heat of Hydration ≤ 251 kJ/kg; 7-day Heat of Hydration ≤ 293 kJ/kg	Low hydration heat; relatively high sulphuric acid resistance; good abrasion resistance and freeze-resistance	For large volume concrete structures under complicated environment such as dams, bridges, harbor waterworks construction and underground foundation, etc.	Construction companies
Low Heat Portland Cement • PLH42.5	$SO_3 \leq 3.5\%$; $MgO \leq 5\%$; 7-day compressive strength $\geq 13MPa$; 28-day compressive strength $\geq 42.5MPa$; 7-day fractural load $\geq 42.5MPa$; 28-day fractural load $\geq 6.5MPa$; 3-day Heat of Hydration ≤ 230 kJ/kg; 7-day Heat of Hydration ≤ 260 kJ/kg	Low hydration heat; good abrasion resistance; dry shrinkage resistance and chemical corrosion resistance	For large volume concrete waterworks, water conservancy works, high strength and high performance concrete, and relatively low hydration heat requirement works.	Construction companies
Low Heat Slag Portland Cement • PSLH32.5	$SO_3 \leq 3.5\%$; $MgO \leq 5\%$; 7-day compressive strength $\geq 21MPa$; 28-day compressive strength $\geq 32.5MPa$; 7-day fractural load $\geq 3.0MPa$; 28-day fractural load $\geq 5.5MPa$; 3-day Heat of Hydration ≤ 197 kJ/kg; 7-day Heat of Hydration ≤ 230 kJ/kg	Low hydration heat; good collision resistance; abrasion resistance and freeze-resistance	For relatively low hydration heat requirement dams and large volume concrete.	Construction companies
Highway Portland Cement • PR42.5	$SO_3 \leq 3.5\%$; $MgO \leq 5\%$; 3-day compressive strength $\geq 21MPa$; 28-day compressive strength $\geq 42.5MPa$; 3-day fractural load $\geq 4.0MPa$; 28-day fractural load $\geq 7.0MPa$	High strength (especially flexural strength); High abrasion resistance; Low dry shrinkage; Good impact resistance; Good frost resistance and Good acid-corrosion resistance.	Suitable for surface layer of concrete construction, such as cement concrete pavement, airport runways, railway station platform and public squares.	Construction companies

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Production Facilities

As of the Latest Practicable Date, we had a total of eight cement production lines at our Pucheng, Lantian, Xunyang, Zhen'an, Danfeng, Yangxian and Mianxian production facilities with an aggregate annual production capacity of 9.6 million tons. We carefully select the locations of our production facilities to lower transportation costs and serve our target customers. Except for our Mianxian production line which we are applying for the relevant mining license, all of our production lines are located near our limestone quarries and are also strategically located close to our end markets. All of our production lines employ the advanced NSP technology, which is more energy efficient and environmentally friendly than non-NSP technologies. We also employ residual heat recovery systems at our Lantian and Xunyang production facilities, which allows us to achieve electricity cost savings. No third-party license is necessary for adopting these technologies and there is no uniform scientific standard applicable to these technologies.

Details of our production lines are set forth in the table below.

Production Lines	Location	Owned By	Commencement of Operations	NSP Technology	Residual Heat Recovery Systems as of April 30, 2010	Capital Investment/ Acquisition Cost as of April 30, 2010	Investment Cost per Ton of Cement as of April 30, 2010 ⁽¹⁾
						(RMB million)	(RMB)
Pucheng	Pucheng county	Shaanxi Yaobai	February 2004	Yes	No ⁽²⁾	448.0	320.0
Lantian — Line 1	Lantian county	Lantian Yaobai	May 2007	Yes	Yes	646.1	293.7 ⁽³⁾
Lantian — Line 2	Lantian county	Lantian Yaobai	August 2007	Yes	Yes		
Xunyang	Xunyang county	Ankang Yaobai	January 2009	Yes	Yes	807.8	448.8 ⁽⁴⁾
Zhen'an	Zhen'an county	Xiushan Yaobai	April 2005 ⁽⁵⁾	Yes	No ⁽²⁾	153.8	219.7
Danfeng	Danfeng county	Longqiao Yaobai	September 2007 ⁽⁵⁾	Yes	No ⁽²⁾	365.4	332.2
Yangxian	Yangxian county	Hanzhong Yaobai	December 2009	Yes	No ⁽²⁾	405.0	368.2 ⁽⁶⁾
Mianxian.	Mianxian county	Mianxian Yaobai	July 2010	Yes	No ⁽²⁾	242.4	220.4 ⁽⁷⁾

Notes:

- (1) The investment cost per ton of cement is arrived at by dividing the capital investment/acquisition cost of each production line(s) by its production capacity.
- (2) We intend to install the residual heat recovery system at our Pucheng, Zhen'an, Danfeng and Yangxian production lines in the fourth quarter of 2010 and at our Mianxian production line in the second quarter of 2011.
- (3) The investment cost per ton of cement of our Lantian production lines does not take into consideration the 0.7 million tons of production capacity increase as a result of the installation of a cement grinding mill at our Lantian production line as this grinding mill was not part of the original capital investment.
- (4) The investment cost per ton of cement does not take into consideration the 0.2 million tons of a production capacity of increase as a result of the installation of an additive grinding mill at our Xunyang production line as this grinding mill was not part of the original capital investment. The investment cost per ton of cement of our Xunyang production line is comparatively higher because it included the cost of construction of a 7-km conveyor belt, part of which is over a mountainous region, for transportation of limestone from the quarry to our production facility.
- (5) We acquired our Zhen'an and Danfeng production lines in August 2009 and December 2009, respectively.
- (6) The capital investment cost/investment cost per ton of cement of our Yangxian production line does not take into consideration approximately RMB80 million to be paid in 2010 and 2011 which consists of mainly balance of the contract payment for construction of our Yangxian production line kept by us during the warranty period under the relevant contracts. Taking this into account, the investment cost per ton of cement of our Yangxian production line will increase to approximately RMB440.9.
- (7) The total estimated capital investment cost of our Mianxian production line is between RMB350 million and RMB400 million and therefore the corresponding total estimated investment cost per ton is between RMB318.2 and RMB363.6.

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

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

Notes:

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

Our automated NSP production lines are equipped with Distributed Control System, an advanced process control system that significantly improves our production efficiency by reducing labor costs associated with our production. In addition, facilities equipped with NSP technology discharge lower levels of harmful emissions than facilities that employ non-NSP technology. As a result, our NSP technology is supported by PRC government policies intended to reduce industrial waste and pollution. In both the *Notice Regarding Replacement of Obsolete Cement Production Capability* (關於做好淘汰落後水泥生產能力有關

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工作的通知) issued on February 18, 2007 and *Policies on the Development of the Cement Industry* (水泥工業產業發展政策) issued on October 17, 2006, the NDRC mandated that all production facilities using less-advanced technologies, including dry hollow kilns and wet kilns, should be replaced. The NDRC also required in these policies that all local governments should phase out the cement enterprises with annual production capacities of less than 200,000 tons or which fail to comply with relevant environmental protection requirements or cement product quality standards. We believe that all the production lines we acquired in 2009 are in compliance with both the environmental production requirements and product quality national standards.

During the Track Record Period, we have improved our production process technology through continuous research and development efforts, which enabled us to achieve relatively high production efficiency and utilization rate for our production facilities. Our Directors are of the view that although the actual annual production volume of certain of our production facilities exceeds the annual production capacity, there will not be any adverse impact on our production safety.

Recent Acquisitions

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

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

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

Potential Acquisition

On October 31, 2009, Shaanxi Yaobai, 陝西安康江華集團水泥有限公司 (Shaanxi Ankang Jianghua Group Cement Co., Ltd.*), or Jianghua Cement, and its shareholder entered into a non-binding memorandum of understanding for the proposed acquisition by Shaanxi Yaobai of 100% of the registered capital of Jianghua Cement. Jianghua Cement is a cement producer located in Ankang which operates one cement production line with a total annual production capacity of approximately 1.1 million tons of cement. According to Digital Cement Net, Jianghua Cement ranked 9th in Shaanxi Province in terms of cement production capacity in 2009.

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To the best of the knowledge of our Directors after due inquiries, Jianghua Cement and its shareholder are Independent Third Parties. Jianghua Cement and its shareholder agreed to negotiate exclusively with us before December 31, 2009 relating to the sale of its equity interests and we paid a deposit in the amount of RMB100 million to Jianghua Cement to secure our exclusivity in such negotiation, which was based on commercial negotiations between the parties. We believe it is consistent with market practice to make sufficient amount of deposit to secure an exclusive negotiation.

Based on initial legal due diligence and preliminary discussions with Jianghua Cement after the signing of the non-binding memorandum of understanding, we have identified a number of issues, including insufficient self-owned limestone resources for operation of Jianghua Cement, which we consider important to our acquisition and which would require additional time for Jianghua Cement to consider and resolve. Based on information available to us, Jianghua Cement is taking steps to address the issues identified by us. Therefore on January 25, 2010, Shaanxi Yaobai, Jianghua Cement and its shareholder entered into an extension agreement to extend the exclusivity period to December 31, 2010. This proposed acquisition is subject to our satisfactory legal and financial due diligence of Jianghua Cement.

Under the terms of the extension agreement, Jianghua Cement will refund the RMB100 million deposit to us if we decide to cease the negotiations or we do not enter into a definitive acquisition agreement with Jianghua Cement within the exclusivity period. Our PRC legal counsel, Zong Heng Law Firm, has advised us that the extension agreement is binding on Jianghua Cement and we are entitled to recover the deposit in accordance with its terms. Our Board will continue to monitor our negotiation with Jianghua Cement after Listing and ensure our right to recover the deposit is properly exercised. We will enforce our rights under the extension agreement to request Jianghua Cement to return the deposit if we decide not to proceed with the acquisition. Based on our executive Directors' assessment of the scale of operation of Jianghua Cement according to information available and their industry knowledge and experience of the cement industry in Shaanxi province, they believe that Jianghua Cement should be able to repay the deposit if we decide not to proceed with the acquisition.

Our executive Directors are of the view that acquisition of Jianghua Cement will enlarge the Group's market share and consolidate the Group's leading position in Ankang in Shaanxi province as Jianghua Cement is the other major cement producer adopting NSP technology in Ankang. We estimated the total consideration for acquisition of Jianghua Cement at approximately RMB650 million and we intend to pay such consideration partly with the proceeds from the Global Offering and partly with cash generated from our operations and bank borrowings.

As of the Latest Practicable Date, we had not received satisfactory replies from Jianghua Cement on the issues we had identified and therefore we had not formulated any concrete plan or timetable for due diligence work in detail nor have we set a date of completion of the acquisition. We have commenced our initial legal due diligence on Jianghua Cement and have received a preliminary report on the legal due diligence from our PRC legal counsel, Zong Heng Law Firm. After we are satisfied with the results of our legal due diligence, we plan to conduct financial due diligence on Jianghua Cement by the end of the third quarter of 2010. As per the extension agreement, we plan to settle the issues we identified with Jianghua Cement and make our final decision on the acquisition on or before December 31, 2010. We will disclose the status of our negotiation with Jianghua Cement and whether we have recovered the deposit in our interim and annual report to be published after Listing.

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Planned Capacity Expansion

In order to meet the fast-growing market demand for cement products in Shaanxi province, we plan to further expand our production capacity through acquisitions of additional production facilities and construction of new production facilities. We intend to actively pursue acquisition opportunities that will enable us to penetrate other markets adjacent to our current core markets, such as selected markets in other parts of southern Shaanxi province, Gansu province or Sichuan province.

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

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

Our estimated capital expenditures to be incurred for our new production facilities at Pucheng and Xixiang counties amount to HK\$665 million (equivalent to approximately RMB580 million). We intend to use cash generated from our operations and bank borrowings to fund these expansion plans.

Production Lines Under Construction	Location	Owned By	Planned	Target Production Commencement Date	Total	Actual	Estimated
			Annual Production Capacity		Budgeted Capital Expenditure	Capital Expenditure of April 30, 2010	Capital Expenditure in Future
			(in million tons)		(RMB in millions)	(RMB in millions)	(RMB in millions)
Pucheng . . .	Pucheng county	Shaanxi Yaobai	1.1	August/September 2010	330-380	164	166-216
Xixiang. . . .	Xixiang county	Xixiang Yaobai	1.1	January/February 2011	370-420	57	313-363

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We are advised by our PRC legal counsel, Zong Heng Law Firm, that all necessary approvals for the construction of our existing and new production lines at Mianxian, Pucheng and Xixiang counties have been obtained.

In addition to the two projects set forth in the table above, we intend to use HK\$1,456 million (equivalent to approximately RMB1,270 million) in total to install residual heat recovery systems at our production facilities at Danfeng, Pucheng, Yangxian and Zhen'an counties for RMB250 million, upgrade our current production facilities at Zhen'an county for RMB50 million and Danfeng county for RMB110 million, to inject further capital to Longqiao Yaobai for RMB100 million, to fund any future acquisitions (including potential acquisition of Jianghua Cement) for RMB500 million, to pay the remainder of the construction cost for our Yangxian production line consisting of mainly balance of the contract payment for construction of this production line kept by us during the warranty period under the relevant contracts of approximately RMB80 million, to pay the remainder of the construction cost for our Mianxian production line of approximately RMB110 million, to pay approximately RMB70 million for upgrade of our head office in Xi'an including renting new office and installation of an ERP system and balance of the contract payment for the construction of the conveyor belt of our Xunyang production facilities kept by us during the warranty period under the relevant contracts. Such expenditures will also be funded by cash generated from our operations, bank borrowings and net proceeds from the Global Offering.

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

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

We are advised by our PRC legal counsel, Zong Heng Law Firm, that all necessary approvals for the upgrading of our production facilities at Zhen'an county have been obtained and we are not required to obtain approval as of the Latest Practicable Date for upgrading of our production facilities at Danfeng county as we are still conducting preliminary study and have not finalized the details of the upgrading. Our plan for the upgrade of our production facilities at Danfeng county will mainly focus on its ability to recycle industrial waste, industrial by-products and construction waste to produce cement and the residual heat recovery system and the details of such upgrade should be finalized by end of 2010. Our executive Directors and our PRC legal counsel, Zong Heng Law Firm, do not expect that there is any legal impediment in our obtaining of approval for upgrading of our production facilities at Danfeng county as the proposed upgrade is in compliance with applicable regulation and industry policy.

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

Production Process

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

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

Raw Materials

The primary raw materials used in our cement production are limestone, gypsum, clay, flyash, pyrite cinder and slag. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, the costs of raw materials accounted for approximately 34.0%, 26.0%, 32.4% and 24.5%, respectively, of our total cost of sales.

Limestone

The principal raw material used in the production of cement is limestone. Most of the limestone that we use for cement production is sourced from quarries which we have obtained license to excavate. We have sufficient reserves of limestone to meet the current production requirements of our existing production facilities for at least 30 years, based on government surveyors' reports on the amounts of our limestone reserves, the annual excavation limits specified in our mining licenses and our current production requirements. We cooperate with an independent third-party contractor to excavate limestone from our limestone quarries. We have entered into agreements with the contractor to excavate limestone for our Pucheng, Lantian, Xunyang and Yangxian production lines. The agreements are for terms between nine to ten years and the contractor is required to excavate different minimum amounts of limestone per year. The fees we paid to the contractor is based on a fixed price for each ton of limestone excavated which may be adjusted at the beginning of each year depending on changes in excavation costs and consumable materials used in the limestone mine. Under our agreements with the contractor, the contractor is responsible for excavating limestone with its own equipment and employees. The contractor is required to comply with applicable laws and regulations for excavation of limestone at our quarries. All limestone excavated by the contractor must be supplied to us and the contractor is not allowed to supply such limestone to any other third party. The supply of limestone will be in accordance with our production arrangement. We ensure that our contractor is in compliance with the relevant PRC laws and regulations by requiring them to provide us with the applicable licenses and renewal certificates as well as conduct safety inspections at the quarries on a monthly basis. However, we may still be held liable by the authority if our contractor failed to comply with relevant PRC laws and regulations. Contractors for limestone excavation are readily available in Shaanxi province. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, we paid the contractor approximately RMB7.6 million, RMB27.3 million, RMB31.4 million and RMB15.8 million for its services, respectively.

All of the limestone produced from our limestone quarries is used for our cement production. We have not made any external sales of limestone.

For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, we excavated approximately 0.6 million, 2.5 million, 2.7 million and 1.4 million tons of limestone, respectively. In 2007 and 2008, we only excavated limestone from our Yaoshan and Xiaozhai quarries. In

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2008, our Lantian production facilities ramped up to full operation and thus our limestone excavated increased to approximately 2.5 million tons for that year. In 2009, excavation of limestones at Qingshanzhai quarry did not commence until the end of 2009 while no excavation was carried out at Chujiashai, Longtanzi and Jinsushan limestone quarries and therefore the amount of limestone excavation of 2009 was similar to that of 2008.

We purchased approximately 1.3 million tons, 0.6 million tons, 1.7 million and 0.6 million tons of limestone from third party limestone suppliers in the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively.

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

Name of Quarry	Location	Mining Right Owner	Period of Validity ⁽¹⁾	Area (km ²)	Maximum Annual Production Volume Per Mining License (’000 tons)	Reserve ⁽²⁾ (’000 tons)
Yaoshan (堯山) ⁽²⁾	Pucheng county, Shaanxi province	Shaanxi Yaobai	June 18, 2008 – November 18, 2013	1.3	1,078	85,300
Xiaozhai (小寨)	Lantian county, Shaanxi province	Lantian Yaobai	December 17, 2007 – December 17, 2022	1.3	2,120	59,360
Qingshanzhai (青山寨)	Xunyang county, Shaanxi province	Ankang Yaobai	December 30, 2008 – December 30, 2013	0.4	1,754	69,500
Chujiashai (褚家寨)	Zhen’an county, Shaanxi province	Xiushan Yaobai	May 8, 2008 – May 8, 2016	0.1	400	154,970
Longtanzi (龍潭子)	Zhen’an county, Shaanxi province	Xiushan Yaobai	December 3, 2009 – December 3, 2012	0.1	450	8,635
Jinsushan (金粟山) ⁽³⁾	Pucheng county, Shaanxi province	Shaanxi Yaobai	August 1, 2009 – August 1, 2010 ⁽⁴⁾	0.2	80	7,007
Dalingliang (大嶺梁)	Hanzhong region, Shaanxi province	Hanzhong Yaobai	January 25, 2010 – January 25, 2020	0.6	2,219	110,180
Liu Xianping West Mountain (留仙坪西大山)	Danfeng county, Shaanxi province	Longqiao Yaobai	January 26, 2010 – January 26, 2020	0.3	1,200	13,542
Liu Xianping East Mountain (留仙坪東大山)	Danfeng county, Shaanxi province	Longqiao Yaobai	January 26, 2010 – January 26, 2020	0.2	1,200	27,937

Notes:

- (1) According to *Procedures for Registration of Mining of Mineral Resources* (礦產資源開採登記管理辦法) issued by the State Council on February 12, 1998, the mining license period will be based on the scale of the quarry: large-scale or above quarry can have a maximum of 30-year mining license period, medium-scale quarry can have a maximum of 20-year mining license period and small-scale quarry can have a maximum of 10-year mining license period. The bases for classifying into “large-scale”, “medium-scale” and “small-scale” quarries are specified in the Notice Regarding the Standard for Sizes of Natural Resources and Reserves (礦產資源儲量規模劃分標準的通知) issued by the Ministry of Land and Resources in the PRC on April 24, 2000. According to such notice, “large-scale” quarry has a reserve of over 80 million tons, “medium-scale” quarry has a reserve between 15 to 80 million tons, and “small-scale” quarry has a reserve of less than 15 million tons.
- (2) The limestone reserve figures are extracted from data compiled and project approval documents issued by relevant government authority and document issued by government appointed expert committee and asset appraisal firm engaged by us.

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- (3) As at January 1, 2007, we had mining rights at Yaoshan and Jinsushan limestone quarries for supplying limestone to our production facility at Pucheng county. The mining right of Yaoshan was renewed in June 2008 while the mining right of Jinsushan was renewed annually.
- (4) Our Directors understand that the period of validity for quarries with mining volume of less than 100,000 tons per year is subject to the approval of the Ministry of Land and Resources in the PRC and such authority limits the period of validity for such quarry to one year subject to renewal. We do not foresee any legal impediment to renewing this mining right.

We have not had any incidence of non-renewal of our mining rights during the Track Record Period and up to the Latest Practicable Date. We have been advised by our legal counsel as to PRC law, Zong Heng Law Firm, and we confirm that we have obtained the necessary licenses, approvals and certificates for all of our limestone quarries.

Other raw materials

Our other raw materials primarily include gypsum, clay, flyash, pyrite cinder and slag. Gypsum is used to regulate the setting time of cement. We source gypsum from Chengcheng County Kaitong Yunye Co., Ltd. (澄城縣凱通運業有限公司), Yuncheng Fenglingdu Development Zone Longxing Flyash Co., Ltd. (運城風陵渡開發區龍興粉煤灰有限公司) and Jingmen City Zhengda Mining Business Co. Ltd. (荊門市正大礦業有限公司). Clay is another principal ingredient in cement production. We purchase clay from third-party suppliers that are located close to our production facilities. Flyash is a by-product of the electric power generating process. We purchase flyash from local coal power stations and its price has been stable over the past three years. Pyrite cinder is an industrial by-product in the production process of sulfuric acid. We source pyrite cinder from Shaanxi Qinneng Resources and Technology Development Co., Ltd. (陝西秦能資源科技開發有限公司), Hanzhong Tanfeng Industrial and Trade Co., Ltd. (漢中唐楓工貿有限公司) and other sulfuric acid factories near our production facilities. Slag is an industrial waste that can be added to clinker to produce slag cement. We source slag from Shaanxi Longmeng Steel Environmental Protection Industry Branch (陝西龍門鋼鐵環保產業公司).

All the above-mentioned suppliers are Independent Third Parties. Other than Chengcheng County Kaitong Yunye Co., Ltd. (澄城縣凱通運業有限公司) and Jingmen City Zhengda Mining Business Co. Ltd. (荊門市正大礦業有限公司), all of the above-mentioned suppliers have long-term business relationship with us. We have not entered into any long-term supply contracts with the suppliers of other raw materials. Under the current arrangements with our suppliers of other raw materials, our suppliers are generally required to provide a minimum amount of the respective raw materials to ensure sufficient supply for our cement production. We settle the purchase prices of such raw materials with our suppliers on a monthly basis. As most of the other raw materials are readily available in the market, our executive Directors believe that there are alternative sources of such raw materials and we do not rely on the current suppliers of such raw materials.

We believe that there is adequate supply of limestone, gypsum, clay, flyash, pyrite cinder and slag and other raw materials for our production either from our own reserves or on the market and we do not foresee any difficulty in obtaining any of these raw materials for our production requirements in the near future.

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Energy Supply

Coal

Coal is used as fuel in our cement production. We obtain our supply of coal mainly from the Coal Transportation and Sales Company under the Tongchuan Mining Bureau (銅川礦務局煤炭運輸銷售公司), Shuiliandong Coal Co., Ltd. of Bin County (彬縣水簾洞煤炭有限責任公司), Shaanxi Huoshizui Coal Mine Co., Ltd. (陝西火石咀煤礦有限責任公司) and the Hongshiyuan Coal mine of Shaanxi Province (陝西省紅石岩煤礦), with whom we have supply contracts for terms of six months to one year. We believe that our existing suppliers are capable of meeting our demand for coal and alternative sources of supply is considered not necessary. The purchase price is determined when we place each purchase order with reference to the prevailing market price. We are usually able to obtain competitive price from our coal suppliers due to our long-term relationships with them. We are required to make full payment in advance for the coal we purchase. Coal is delivered to our production facilities by means of road transportation. All the above-mentioned coal suppliers are Independent Third Parties. We have had a two-year business relationship with each of Shuiliandong Coal Co., Ltd. of Bin County (彬縣水簾洞煤炭有限責任公司) and Shaanxi Huoshizui Coal Mine Co., Ltd. (陝西火石咀煤礦有限責任公司) and a more than three-year business relationship with each of Tongchuan Mining Bureau (銅川礦務局煤炭運輸銷售公司) and Hongshiyuan Coal mine of Shaanxi Province (陝西省紅石岩煤礦).

Coal constituted approximately 21.4%, 36.0%, 31.2% and 37.9% of our total cost of sales for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. We purchased approximately 0.3 million, 0.4 million, 0.6 million and 0.3 million tons of coal in 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. The average purchase price of coal used in our production was RMB290, RMB492, RMB434 and RMB559 per ton in 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. In 2009, coal price declined compared with 2008 due to reduced demand as a result of the global financial crisis. In the first four months of 2010, coal price increased substantially due to our expansion to southern Shaanxi province, where coal price is generally higher due to higher transportation costs and due to the recovery of the global economy.

With the installation of an additional equipment, all our production facilities are capable of burning non-recyclable domestic garbage as fuel in our production process. If put into use, this equipment will be able to reduce our requirements for coal, thus reducing our cost of sales. We plan to use this equipment to generate fuel upon the passage of regulations by the local governments where our production facilities are located requiring separate placement and disposal of recyclable and non-recyclable garbage.

Electricity

Electricity costs constituted approximately 24.8%, 22.0%, 20.7% and 18.6% of our total cost of sales for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. We obtain our electricity supply from the Electricity Supply Bureau of Shaanxi Province, which is the sole supplier of electricity to our production facilities in Shaanxi province. We pay standard rates. We have not in the past experienced any disruption in our operations due to insufficient supply of electricity and do not anticipate any significant interruption in electricity supply that would have a material impact on our business. However, we have experienced increases in electricity prices in recent years due to surging coal prices. We pay for our electricity expenses at the end of each month based on actual consumption. We believe that we are able to obtain sufficient electricity from the Electricity Supply Bureau of Shaanxi Province.

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We have installed residual heat recovery systems with a total installed capacity of 16,500 KW at our cement production facilities in Lantian and Xunyang counties. The residual heat recovery system collects residual heat from the cement production process to generate power that can be used in the production process. The average costs of electricity produced through these generators ranged from RMB0.14 to RMB0.16 per KWh in 2009, significantly lower than our average electricity purchase price of RMB0.48 per KWh during the same period. We achieved approximately RMB18.4 million in electricity cost savings in 2009 as a result of installing the residual heat recovery system. We plan to install residual heat recovery systems with total installed capacity of 27,000 KW at our production facilities at Danfeng, Pucheng, Yangxian and Zhen'an counties in the fourth quarter of 2010 and Mianxian in the second quarter of 2011.

To mitigate the impact from price fluctuations of our raw materials and energy costs to our results of operation and as a result of the increased market demand of cement products in 2008 and 2009, we raised the prices of our cement products in 2008 and 2009. Notwithstanding the substantial increase of cost of coal in the second and third quarters of 2008, we were able to maintain our gross profit margin in 2008 and 2009 as we were able to pass most of the raw materials and energy cost increases onto our customers. We may further raise the prices of our cement products in the future if the costs of raw materials and energy continue to increase. Any further increase in the prices of our cement products will depend on a number of factors, including general market demand for cement products and prices of cement products of our competitors.

Suppliers

Our procurement department is responsible for the centralized procurement of key raw materials such as gypsum, flyash, pyrite cinder and slag from our suppliers. Our procurement department orders the relevant raw materials according to our monthly production plans. We are typically required to make full payment for our raw materials within one to three months after delivery. Our production lines source clay locally as it is easy to obtain and inexpensive.

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

For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, purchases from our five largest suppliers accounted for approximately 49.2%, 51.9%, 35.6% and 51.9% of our total cost of sales, respectively. During the same periods, purchases from our largest supplier accounted for approximately 15.7%, 16.4%, 8.8% and 32.7% of our cost of sales, respectively. Our five largest suppliers during the Track Record Period were mainly suppliers of coal, electricity and other raw materials and a third party contractor for excavation of limestone. To the best knowledge of our Directors after due inquiries, as of the Latest Practicable Date, all of our suppliers were Independent Third Parties.

As of 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 our issued share capital) had any interest in any of our five largest suppliers.

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Sales and Marketing

Sales

In 2007, 2008 and 2009 and the four months ended April 30, 2010, we sold all our products to customers in Shaanxi province. We sell a majority of our cement directly to government infrastructure projects, ready-mixed concrete stations, and distributors, which then resell our cement to retail purchasers. We conduct our sales primarily through our regional and local sales offices in Shaanxi province. We have five regional sales offices in Xi'an, Weinan, Ankang, Hanzhong and Shangluo regions, and five local sales offices in Pucheng, Lantian, Xunyang, Zhen'an and Danfeng counties. Our regional sales offices are responsible for, among other things, organizing sales activities, establishing market development plans and controlling marketing expenses. On the other hand, our local sales offices are more tailored toward customer services with a focus on sales activities and product promotion. We centralize the management of our sales activities by setting sales target and guideline for sales activities of each regional sales office and monitoring their implementation.

For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our rebates to the distributors amounted to approximately RMB1.7 million, RMB1.1 million, nil and nil, respectively.

Demand for our products is subject to seasonal fluctuations and our sales volume is generally lower from January to February due to the winter and Chinese New Year holiday season.

Marketing

Our marketing department gathers market information, such as cement prices, coal prices and transportation costs. Our general administrative office together with our sales department coordinate our marketing activities, which primarily include promotional media events, purchasing outdoor billboards, distributing promotional brochures and purchasing advertisements placed on vehicles. Our marketing activities are focused on raising the awareness of our brand.

We monitor market development and customer preferences by having our sales personnel visit our customers and potential customers. Our sales personnel pay regular visits to our direct sales customers, both to provide after-sales support, such as seeking their feedback on ways to improve our delivery schedule and packing services as well as our adjustment to pricing policy and to assess their needs in order to meet their demand. Our sales personnel also visit potential customers and introduce our products to them by offering product samples and plant tours.

Our sales personnel sometimes work together with experienced independent project managers, who are usually individuals with market knowledge and established relationships in the cement industry. These project managers are usually involved at the early stage of a project by introducing potential projects to our sales personnel. Based on the negotiations with the project managers, our sales personnel would propose the potential project to us. We would then decide whether to let our sales personnel proceed with such project, and agree in advance with our sales personnel on a fixed percentage of compensation to the project managers based on the income of the project, taking into account various factors, such as the importance of the project to us and the market knowledge of the project managers. If we are successfully involved in the project, we

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would compensate the project manager in installments, along with the payments we received from the project. The project managers also help us develop and maintain customer relationships and assist us in collecting outstanding payments from our customers. We do not enter into any agreement with the project managers.

Customers

We have a broad and well-established customer base in Shaanxi province. Our cement products are primarily sold to government infrastructure projects, ready-mixed concrete stations and distributors, which then resell our products to retail purchasers. We participate in both the “open bidding processes” and “bidding by invitations” for supplying to government infrastructure projects.

The table below sets forth our revenue by customer type for each of the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2009 and 2010.

Type of Customer	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	(RMB in millions)			(unaudited) (RMB in millions)	
Government infrastructure projects ⁽¹⁾	104.6	136.4	657.7	72.0	77.5
Ready-mixed concrete stations	60.4	165.1	113.3	23.8	43.8
Distributors (both entities and individuals) . . .	273.7	406.4	595.1	205.6	416.4
Others ⁽²⁾	87.2	158.2	150.7	48.0	137.6
Total	<u>525.9</u>	<u>866.1</u>	<u>1,516.8</u>	<u>349.4</u>	<u>675.3</u>

Notes:

- (1) Include infrastructure projects sponsored by various levels of the PRC government or state-owned enterprises, including telecommunication network, railway and expressways.
- (2) Include sales to other customers who do not fall into the categories of government infrastructure projects, ready-mixed concrete stations and distributors. These customers were primarily individuals or entities located near our production facilities and purchased our products for use in small construction projects. Such sales also included direct cash sales to individual retail customers which amounted to approximately RMB0.9 million, RMB1.8 million, RMB5.5 million, RMB0.6 million and RMB6.8 million during the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2009 and 2010, respectively.

Our direct sales personnel are divided into teams to cover different customer groups. As of the Latest Practicable Date, we had 146 direct sales personnel, who are responsible for selling our products in their assigned areas and providing after-sales support to our direct sales customers. They also collect customer feedback and market data by visiting customers on a regular basis. Our direct sales personnel are required to meet monthly and annual sales targets. In the event that our direct sales personnel do not meet their sales targets, their target-based compensation will be prorated.

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Distributors

We also sell our cement to distributors, which then resell our cement to retail purchasers. We do not have any distributorship arrangement nor exclusive relationships with these distributors, and they can purchase and sell cement produced by other cement producers. We do not have minimum purchase requirements for such distributors. We do not provide any credit sales to, nor do we allow any return of our products from, such distributors. We require the distributors to pay in advance the full purchase price for each purchase order they place with us. As an incentive, we provide rebates in the form of extra amounts of cement to such distributors with high sales volumes at the end of each year. Our standard of rebate is based on the annual sales volume of the distributors and the rebates were settled with our cement products of same monetary value as the rebates to the distributors. The table below sets out the numbers of distributors that we engaged and their average number of years of relationship with us during the three years ended December 31, 2007, 2008 and 2009:

Year	Number of Distributors	Range of Years of Relationship between the Distributors and us
2007.....	322	1-3
2008.....	412	1-4
2009.....	431	1-5

We believe that our low entry barrier for cement distributors in Shaanxi province has attracted a substantial number of individuals to purchase our cement products and re-sell such cement products to end customers in nearby regions. As we do not require the setting up of corporate entity to act as our distributor nor a minimum purchase amount, individuals can commence their business as our distributors as soon as they are able to identify demand of cement products in local districts in Shaanxi province.

To the best knowledge of our Directors after due inquiries, all of the Group's distributors during the three years ended December 31, 2007, 2008 and 2009 were Independent Third Parties. In the years ended December 31, 2007, 2008 and 2009, we sold our products to 144, 289 and 291 new distributors, respectively, and ceased to sell our products to 96, 174 and 272 distributors, respectively. We ceased our sales to those distributors mainly because of the completion of certain construction projects which such distributors were involved and changes in our sales policies in favor of distributors with stronger financial strength such as a lower selling price provided to distributors who were able to make large amount of pre-payment. As indicated in the table above, we worked with increasing number of distributors during the three years ended December 31, 2007, 2008 and 2009 as we entered into new markets in local districts with the commencement of operation of our production lines at Lantian and Xunyang counties in 2008 and 2009.

For the three years ended December 31, 2007, 2008 and 2009, we sold our products to 282, 387 and 340 distributors who were individuals, respectively, and our sales to such distributors amounted to approximately RMB255.6 million, RMB362.9 million and RMB413.9 million, representing approximately 48.5%, 38.0% and 21.9% of our revenue for the same periods, respectively. We maintain close relationships with only selected distributors and we do not require such distributors to sell our cement products exclusively. We require payment in advance from the distributors before we sell our products to them and therefore we did not suffer any loss in the past from our sales to such distributors.

During the Track Record Period, we also sold our products to individual retail customers through direct cash sales. These sales are recorded as "cash sales" in our sales and accounting system. The identities of these individuals were not recorded and there is no listing of these individual retail customers. We only maintained

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a record of stocks sold and cash received for such sales to the individual retail customers as such direct cash sales were considered insignificant when compared with our total sales. During the Track Record Period, the volume of our sales to individual retail customers amounted to approximately 3,900 tons, 6,600 tons, 16,800 tons and 21,000 tons, respectively, which constituted less than 0.5% of our cement products produced during the Track Record Period. Our sales to the individual retail customers during the Track Record Period amounted to approximately RMB0.9 million, RMB1.8 million, RMB5.5 million and RMB6.8 million, respectively. As our sales to individual retail customers were direct cash sales, we did not suffer any loss from payment default during the Track Record Period. We intend to establish a record system of individual retail customers in all of our sales offices before Listing. Under the record system, in addition to details of cash sales to retail customers such as date of transaction sales volume and value which we recorded in the past our sales personnel also will record the intended use and details of the retail customers. All such details will be confirmed by the retail customers and our accounting personnel and person-in-charge of each sales office will conduct monthly check on the record.

We believe that sales of cement products to individuals (including distributors and retail customers) are common for cement producers in Shaanxi province as the entry barrier for new cement distributors is low and because our cement products are also sold for domestic use.

For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, sales to our five largest customers accounted for approximately 25.0%, 19.2%, 13.4% and 12.5%, respectively, of our revenue, and sales to our largest customer accounted for approximately 6.6%, 4.8%, 7.1% and 4.1%, respectively, during the same periods. Our five largest customers during the Track Record Period included (i) construction companies for government infrastructure projects including Zhengzhou (Henan Province) – Xi'an Railway and Baotou (Inner Mongolia) – Xi'an Railway; (ii) ready-mixed concrete stations in Shaanxi province and (iii) individual distributors most of whom have maintained business relationships with us during the Track Record Period and conduct cement sales activities mostly in Weinan. The following table sets out the background of our individual distributors who were among our five largest customers during the Track Record Period:

Name	Target markets	Business scope
Mr. Zhou Yunke (周雲科)	Weinan region and Lintong county	Sales of cement products
Mr. Wang Genhu (王根虎)	Weinan region	Sales of cement products
Mr. Li Huancang (李煥倉)	Xi'an and Lantian county	Sales of cement products
Mr. Zhao Jianrong (趙建榮)	Pucheng, Fuping, Baishui and Dali counties	Sales of cement products
Mr. Zhang Shichao (張世超)	Weinan region and Dali, Huayin and Hua counties	Sales of cement products and other construction materials
Ms. Lei Xiuxia (雷秀霞) (who is the spouse of Mr. Li Huancang)	Xi'an and Hu county	Sales of cement products
Mr. Zhou Xiaoyong (周曉勇)	Weinan region and Lintong county	Sales of cement products

During each of the three years ended December 31, 2007, 2008 and 2009 and the four month ended April 30, 2010, our aggregate sales to the above distributors amounted to RMB76.4 million, RMB152.8 million, RMB133.5 million and RMB92.9 million, respectively.

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

Pricing policy

We set the prices for our products based on market demand, our production capacity, transportation costs, inventory levels, competitors' prices and credit terms. A minimum price level is set for each type of products. Any sales below the minimum price is subject to approval by the sales manager and senior management. Our central sales department in Xi'an evaluates the factors affecting our selling price on a regular basis and adjusts our minimum prices when appropriate. We usually sell our products by prepayment or credit sales. In general, the prices for credit sales are higher than that under prepayment. We usually sell cement to our distributors at the same price as our direct retail customers. In certain cases, we sell our cement to some customers on a comparatively lower price based on the purchase volume. We set different prices for different markets based on estimated transportation costs as well as local market conditions. We do not have any control over the re-sell price charged by the distributors to end users.

Except for extraordinary measures adopted by the PRC government such as caps on prices of cement products sold to Sichuan after its earthquake in 2008, our products are generally not subject to any government price control. During the Track Record Period, we did not sell any of our products to Sichuan after the earthquake at capped prices.

Payment terms

We require the distributors and the retail customers to make full payment of the contract price before they collect our products from our production facilities. We typically grant a credit period of 60 to 90 days to governmental infrastructure projects. Our customers usually pay either by cash or by bank transfers.

Transportation

For coal, depending on contract terms, we are either required to collect the coal we purchase from our suppliers or they deliver it to us, in both cases at our own costs. In cases where our suppliers are responsible for delivery, they also bear the risk of loss in delivery, and we bear the risk of loss when we collect the raw materials from our suppliers. The distributors and some of our direct sale customers collect their cement purchases at their own costs at our production facilities. We arrange for transportation to deliver our cement to some government infrastructure projects at their own costs. If the actual cost of transportation exceeds the amount agreed between us and our customers, we pay the excess amount.

Competition

We compete exclusively in the Shaanxi province market. The cement industry in China is generally a fragmented and regional industry. According to Digital Cement Net, there were 165 cement producers which had proper and valid approvals and licenses, annual sales of over RMB5 million and annual production capacity of over 150,000 tons of cement in Shaanxi province as of December 31, 2009.

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As the weight and bulky nature of cement makes it expensive to transport, the cement industry is localized in nature. As a result, we view only those companies with a presence in or near Shaanxi province as our primary competitors. Our major competitors include Tangshan Jidong Cement Co., Ltd. (唐山冀東水泥股份有限公司), Shengwei Cement Co., Ltd. (聲威水泥建材集團有限公司), Baoji Zhongxi Cement Co., Ltd. (寶雞眾喜水泥有限公司), SINOMA Cement Co. Ltd. (中材水泥有限責任公司), and Shaanxi Fuping Cement Co., Ltd, a subsidiary of Italcementi Group (意大利水泥集團陝西富平水泥有限公司). In addition, Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司) has announced that it is constructing cement production facilities in Shaanxi province and may become our competitor in the region.

We compete primarily on the basis of pricing, variety of product offerings, access to resources, sales and marketing network and brand image. We believe we compete favorably on the basis of each of these factors. However, some of our competitors may have better brand recognition in their local markets, better pricing or greater financial, technical or marketing resources than we do. While most of our competitors' core markets are in central Shaanxi province, which is adjacent to one of our core markets, they could compete with us for the same target customers. If we fail to compete effectively against our competitors, our business, financial condition and results of operations may be materially and adversely affected.

Research and Development

Our research and development efforts focus on lowering costs by using waste materials as additives in our cement products. For the year ended December 31, 2009, we used approximately 1.6 million tons of industrial by-products, industrial waste and urban construction waste as raw materials in our cement production. These by-products and waste materials are readily available at low costs. Our ability to recycle such materials and use them in our cement production lowers our overall cost of materials, which we believe represents a significant advantage that distinguishes us from our competitors. Our total expenditures on research and development amounted to nil, approximately RMB0.7 million, RMB1.9 million and RMB0.8 million during the Track Record Period.

As of the Latest Practicable Date, we have entered into cooperative agreements with Xi'an University of Architecture & Technology (西安建築科技大學), Tianjin Cement Industrial Design Institution (天津水泥工業設計院) and Nanjing Cement Industrial Design Institution (南京水泥工業設計院), each a leading research institution in construction materials or cement-related technology. Under the relevant cooperative agreements, we are entitled to use the equipment or software developed with relevant institutions for free while the institutions retain or jointly hold with us the ownership of the technology. During the Track Record Period, we did not have any profit sharing from our cooperation with educational and scientific institutions.

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The following table shows the major terms of our cooperation with scientific and educational institutions:

Name of Institution	Terms of Cooperation	Scope of Research and Development	Ownership of Technology	Profit Sharing	Confidentiality Agreement
Xi 'an University of Architecture & Technology	January 12, 2006 — January 11, 2016	Establishment of Shaanxi Yaobai Special Cement Co., Ltd. Technology Center	The institute and we jointly enjoy the ownership of technology	Both the institute and we are entitled to share 50% of the profit obtained from transfer of any results of research and development conducted by Shaanxi Yaobai Special Cement Co., Ltd. Technology Center established under the cooperative agreement (no actual profit sharing during Track Record Period)	The institute and we should not disclose any data, technology or design provided by the other party to any third party and can only use them within the scope of cooperation agreement
Tianjin Cement Industrial Design Institution	October 28, 2006 — present	Provide project design and technological service in relation to the establishment of 2*2500t/d production lines	The institute enjoys the ownership of the software developed under the cooperation agreement	N/A	We should not copy and reuse the design documents, or transfer the design documents to third party, or use the documents in other projects without the institute's consent
Nanjing Cement Industrial Design Institution	October 6, 2003 — present	Provide project design and technological service in relation to the establishment of 1*5000t/d production line	The institute enjoys the ownership of the software developed under the cooperation agreement	N/A	N/A

Our cooperation with these institutions has helped, and we believe will continue to help, us to improve our production technology and lower our operational costs.

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Intellectual Property

We rely on a combination of trademarks, domain name registrations and contractual restrictions to establish and protect our intellectual property rights. We sell our products under the trademarks “堯柏” (Yao Bai) (Registration No. 901015) and “堯柏水泥” (Yaobaishuini) (Registration No. 5158040), which are registered with the PRC Trademarks Office under the State Administration for Industry and Commerce. We have also registered our corporate logos “” and “”, as well as certain other trademarks in Hong Kong. In addition, we have registered our internet domains “yaobo.com.cn” (Registration No. ce08b-ym/ty0027998gh), “westchinacement.com” (Registration No. 20061219129921093), “中國西部水泥” (Registration No. 20061219129921083) and “中國西部水泥有限公司” (Registration No. 20070706130198354) in China.

Any unauthorized use of our brand names, trademarks and other intellectual property rights could adversely affect our business, reputation and market position. Each of our research and development personnel has entered into a standard employment contract with us that is subject to renewal every three years, which includes confidentiality undertakings and an acknowledgement and agreement that all inventions, designs, trade secrets, works of authorship, developments and other processes developed or generated by them on our behalf during their employment by us are our property, and assigns to us any ownership rights that they may claim in those works.

Quality Control

The production facilities of our following PRC subsidiaries, namely, Shaanxi Yaobai, Ankang Yaobai, Lantian Yaobai, Longqiao Yaobai and Xiushan Yaobai are accredited with ISO-9000 quality control system certification, which are valid until August 3, 2012, August 10, 2012, November 1, 2010, January 20, 2012 and May 17, 2012, respectively. We established testing laboratories equipped with various advanced testing equipment at our production facilities to work together with our production technology department to conduct quality testing and maintain quality control. Our quality control system includes raw materials and coal, production process and finished products quality control inspections. Raw materials and coal are tested by taking samples from each shipment. Any raw materials and coal that do not meet our requirements will be returned to the suppliers for replacement. We also set up multiple inspection points at different production stages to test our products by random sampling during the production process. All of our substandard products would be reprocessed and regenerated for use. Our finished products are inspected and tested by applying a variety of national standards prior to delivery. Such national standards include GB/T 17671-1999 on compressive strength and GB/T 176-1 1996 on cement chemical analysis method.

We had received complaints on our product quality during the Track Record Period but they were later confirmed as results of improper storage of our products by the customers or products not manufactured by us but sold under our brand name without our knowledge or authorization. For such unauthorized products, we informed the relevant local authority if the quantity of such products was substantial. We had encountered only one case of unauthorized use of trademark by a local cement distributor during the Track Record Period. As the volume of fake products was comparatively small, we only gave a warning to the local distributor and destroyed all the fake products instead of reporting the incident to the local authority.

As of the Latest Practicable Date, we had not been involved in any litigation nor entered into any settlement with any third parties concerning the quality of our products.

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Production Management and Inventory Control

We plan our production and manage the inventory level of our finished products on a monthly basis based on projected sales volumes and make periodic adjustments to the production schedule and volumes based on actual orders received. We closely supervise our daily production and aim to maintain suitable inventory levels of raw materials and finished goods at each production facility.

We maintain different inventory levels for raw materials and coal depending on lead time required to obtain additional supplies. We typically maintain an inventory of nine days for limestone and 16.5 days for coal. We typically keep an inventory level of approximately nine days for cement products.

Repair and Maintenance

Regular repair and maintenance programs for our production facilities are scheduled by our production departments and carried out by our machinery and electrical repair teams to maximize production efficiency and avoid unexpected interruption of our operations. We conduct scheduled maintenance twice a year, which takes approximately one week to complete. Our machinery and electrical repair teams carry out day-to-day maintenance and repair of the facilities and machinery on an as-needed basis. Normally, maintenance is only carried out on one production line at each plant at a time to ensure the continuity of our production.

Occupational Health and Safety

The Production Safety Law of the PRC (中華人民共和國安全生產法), which was promulgated on June 29, 2002 and became effective on November 1, 2002, is the fundamental law to strengthen the supervision and administration of production safety and labor protection. See the section headed “Regulatory Overview—Labor, Social Insurance and Production Safety” in this prospectus. We obtained the OHSAS18000 certification for our health and safety management systems in Lantian Yaobai and Shaanxi Yaobai, which are valid until November 9, 2011 and December 2, 2010, respectively. To ensure compliance with relevant PRC regulatory requirements, we have implemented a number of safety measures and established a safety supervision department that is responsible for formulation and implementation of such safety measures. This department currently consists of 18 personnel, all of whom have relevant production safety management experience and qualifications issued by relevant governmental authorities. Our safety supervision department conducts inspections of our production facilities on a monthly basis to ensure that all of our operations are in compliance with existing laws and regulations. Our safety supervision department also conducts regular training sessions for employees two to three times each month on accident prevention and management. The safety measures we adopted include measures for personnel safety protection, vehicle operation safety and reward and penalty system for safe production. Such safety measures lay out the potential safety hazards, responsible personnel for safety matters, emergency reaction plans and periodic inspection procedures. Our operations are in compliance with the currently applicable labor and safety regulations in all material aspect.

For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our fatality rate per one thousand employees, which was calculated to only include fatalities for which we were responsible, was nil, approximately 0.6, 0.4 and 0.3, respectively, and our injury rate per one thousand employees was approximately 1.9, 2.4, 2.7 and 0.3, respectively, for the same periods. 12 accidents, involving 14 employees, took place at our production facilities during the Track Record Period, resulting in one fatality and four severe injuries in 2008, one fatality and six severe injuries in 2009, one fatality and one injury during the four months ended April 30, 2010. These accidents were caused by non-compliance of relevant operation safety measures by the deceased or injured employees or low risk awareness of such

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employees. We have paid compensation and other expenses relating to these accidents in a total amount of approximately RMB479,000 and recovered approximately RMB290,000 under relevant insurance policies during the Track Record Period. We reorganized specific safety trainings after such accidents and the management personnel responsible for safety measures and monitoring were requested to review the relevant safety manuals to ensure they are sufficient. Our PRC legal counsel has advised us that our compensation liabilities relating to these accidents have been duly and fully paid. Since no relevant PRC laws or regulations were violated, there was no disciplinary action or penalty imposed on us for these accidents. Our Directors are of the view that these accidents have not adversely affected our operations. Our PRC legal counsel, Zong Heng Law Firm, has advised us that our production facilities in the PRC comply with the requirements and provisions of applicable production safety laws and regulations in the PRC.

To prevent future occurrence of similar accidents, we have adopted a series of remedial measures, including revision of relevant operation safety measures, inspection and modification of equipment, and holding training sessions for employees. We are committed to further reducing our fatality or personal injury rates and maintaining high safety standards at our production facilities in the future by enhancing the implementation of various safety measures, inspecting production facilities for potential problems and increasing the safety awareness of the employees by providing training on a regular basis. We also provide various healthcare benefits to our employees in accordance with applicable laws and regulations and our subsidiaries in Pucheng and Lantian counties have passed the occupational health and safety certification with our Xunyang subsidiary in the process of obtaining such certification. To prevent potential future risks, we have also adopted various emergency action plans for limestone mining accidents, special equipment failure accidents, coal storage facility fire accidents and other accidents. Such plans set forth the responsible personnel and procedures to control and minimize the damages under emergency situation.

Insurance

We maintain loss of cash and property insurance covering our equipment, vehicles and facilities for loss due to fire, flood and a wide range of natural disasters. We also maintain public liability insurance, product liability insurance and loss of profit insurance for Shaanxi Yaobai. We do not maintain key employee or business interruption insurance. We believe our insurance coverage is customary and standard with respect to the type and scope of coverage for companies of comparable size in the cement industry in China.

Employees

As of Latest Practicable Date, we employed a total of 3,186 full time employees. A breakdown of our employees by function is shown below:

Employee Function	Number of Employees
General and administration	384
Finance	194
Production/technical	2,140
Quality control	246
Sales and marketing	146
Procurement	29
Others	47
Total	<u>3,186</u>

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Compensation for our employees includes basic wages, variable wages, bonuses and other staff benefits. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our employee benefit expenses were approximately RMB30.2 million, RMB44.9 million, RMB57.7 million and RMB25.5 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 Staff — Compensation of Employees” for more details on our housing funds.

Social Welfare Schemes

We are required by the PRC state laws and regulations to participate in various social welfare schemes including pension, medical, unemployment, birth and work-related injury insurances and housing provident fund contributions. The local authorities at the counties where our subsidiaries in the PRC are located, however, have different interpretation and implementation of such state laws and policies and we have been complying with the regulations and policies to the extent required by local authorities. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, we contributed approximately RMB0.6 million, RMB1.6 million, RMB2.5 million and RMB1.2 million to the social insurance schemes, respectively. We would need to pay additional amount of RMB0.5 million, nil, RMB1.1 million and RMB0.6 million for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 if we made the contribution to social insurance fund and housing provident fund for our group members according to applicable national laws and regulations during the Track Record Period.

Pursuant to policies including the Opinions of the Central Committee of the Communist Party of China and the State Council Regarding Deepening Medical and Hygienic Reform (中共中央、國務院關於深化醫藥衛生體制改革的意見), the Report of the Agricultural and Rural Affairs Committee of the National People’s Congress on Follow-up and Inspection of Construction of Social Security System in Rural Areas (全國人民代表大會農業與農村委員會關於農村社會保障體系建設情況跟踪檢查報告) and the Guiding Opinions of the State Council Regarding Development of New Rural Social Old-Age Insurance on an Experimental Basis (國務院關於開展新型農村社會養老保險試點的指導意見), the PRC Government does not request contribution of pension and medical insurance for workers with rural residence on a mandatory basis.

Due to the differences in the local regulations and interpretation and implementation of relevant social insurance policies and laws and regulations by the local social insurance authorities, we have been making payments to selected social welfare schemes in accordance with policies of local social insurance authorities at counties where our PRC subsidiaries are located. As acknowledged by the social insurance authorities in the counties where our subsidiaries in the PRC are located: (1) pursuant to the national and local policies and laws and regulations regarding rural social security system, our subsidiaries in the PRC do not have mandatory obligations to pay social insurance payments for workers with rural residence; (2) other than pension insurance, the relevant counties have different implementation policies regarding medical, unemployment, birth and work-related injury insurances and housing provident funds and our subsidiaries in the PRC have complied with the relevant local policies. The local social insurance authorities where our subsidiaries are located have confirmed that none of our subsidiaries has been penalized for non-compliance

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with social insurance regulations and that they may continue to make social insurance contributions under the present regulations and guidelines without incurring any penalty. Accordingly, we do not consider it is necessary to make a provision for the difference between social insurance and housing provident fund payments required under state laws and regulations and by the local authorities.

Property

As of June 30, 2010, we owned 22 parcels of land, with an aggregate site area of approximately 1,650,482 square meters. We own 194 buildings and units, with an aggregate gross floor area of approximately 94,672.80 square meters. All of the properties we own are located in Shaanxi province. Jones Lang LaSalle Sallmanns Limited, an independent valuer, has valued our property interests as of June 30, 2010 at approximately RMB1,228 million. Details of these properties are set out in Appendix IV “Property Valuation” to this prospectus. As advised by our PRC legal counsel, Zong Heng Law Firm, we have obtained all the land use right certificates of all our lands and ownership certificates for all our self-owned properties.

As of June 30, 2010, we had under construction buildings and structures with an aggregate planned floor area of 171,814 square meters.

Environmental Compliance and Pollution Controls

The cement industry is categorized as a polluting industry under PRC laws. Our production processes generate noise, waste water, gaseous wastes and other industrial wastes. Our production facilities are subject to various environmental laws and regulations promulgated by national and local governments with respect to noise and air pollution and the disposal of waste and hazardous materials. According to the Environmental Protection Law of China (中華人民共和國環境保護法) and other relevant laws and regulations, companies that discharge contaminants must report and register with the State or the relevant local environmental protection authorities. The State Environmental Protection Administration sets national discharge standards for various pollutants and local environmental protection bureaus may set stricter local standards. Enterprises are required to comply with the stricter of the two applicable standards. The central and local governments provide schedules of base-level discharge fees for various polluting substances and if such levels are exceeded, the polluting entity will be required to pay excess discharge fees. Local governments are also authorized to issue orders to stop or reduce discharges in excess of the base levels. Each of our production plants, prior to its construction, is required to be evaluated for its environmental impact and when constructed, is required to be tested and approved by local environmental agencies, and is subject to continuous government monitoring thereafter. See the section headed “Regulatory Overview — Environmental protection” in this prospectus.

We have established and implemented various internal control rules and guidelines regarding environmental compliance and pollution controls, such as the guidelines on control and management of waste water, solid waste and waste gas, the guidelines on management of the operation of pollution control system and the guidelines on management of data related to environmental protection. We have also established a Safety and Environmental Protection Committee comprising 38 members including:

Our executive Directors: Zhang Jimin (張繼民), Wang Jianli (王建禮), Low Po Ling (羅寶玲), Tian Zhenjun (田振軍)

Our senior management: Chen Zhixin (陳志信), Li Wenyu (李文育), Tian Maoyuan (田茂遠), Li Yongji (李永繼), Lian Jie (連傑)

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Other senior management:

- our group level: Liu Guangguo (劉廣國) (deputy head of Safety and Environment Protection Committee cum safety supervisor), Li Xianjun (李縣軍) (deputy director of technical department), Wang Rui (王蕊) (deputy administration director), Liang Jian (梁建) (deputy director of technical department cum manager of engineering management department), Yang Junqi (楊軍旗) (deputy finance director), Fan Xuefei (樊雪菲) (assistant to administration director cum human resources manager), Zhang Zhaojun (張照軍) (manager of corporate management department), Zhang Zengtao (張增濤) (manager of marketing department), Liu Xin (劉鑫) (head of president office), Jiao Jian (焦建) (manager of securities department), Bai Xiaogang (白曉剛) (manager of investment and development department), Wang Peng (王鵬) (deputy manager of information center)
- Pucheng production facility: Wang Jiujun (王九軍) (executive deputy general manager), Li Ping (李平) (deputy manager)
- Lantian production facility: Liu Jianjun (劉建軍) (executive deputy general manager), Li Haidong (李海東) (deputy manager)
- Xunyang production facility: Yang Chao (楊超) (deputy general manager), Lei Yong'an (雷永安) (deputy general manager cum finance director), Cao Jianshun (曹建順) (deputy general manager),
- Yangxian production facility: Wang Fayin (王發印) (manager), Zhang Taiquan (張太權) (deputy manager), Yun Minzhan (負民戰) (deputy manager),
- Mianxian production facility: Luo Xianbo (羅先波) (manager)
- Xixiang production facility: Wang Changping (王長平) (project manager),
- Danfeng production facility: Dang Liwen (黨理文) (deputy manager), Li Yongfu (李永福) (deputy manager), Xu Deming (徐德明) (deputy group leader of production safety)
- Xi'an Yaobai: Fan Qingmei (樊慶梅) (manager)

The members of the Safety and Environmental Protection Committee comprise senior management at both our Group and each production facilities level who are responsible for the day-to-day operation and production management at such facilities, some of whom have relevant qualifications in production safety and environmental management. Among such members, Chen Zhixin, Liu Jianjun, Lian Jie, Cao Jianshun, Xu Deming, Liu Guangguo and Dang Liwen have obtained production safety management qualification from local work safety bureau and Li Ping, Li Haidong, Zhang Zengtao, Yang Chao and Liu Guangguo have attended the internal audit training on environment, safety and quality management held by Quality Certification Management Centre of Construction Material Industry (建材工業品質認證管理中心).

The committee is responsible for overseeing environmental protection related matters within our Group. The main responsibility of our environmental protection committee includes (i) providing regular training to our staff, (ii) conducting regular on-site inspection, (iii) collecting documents or information related to environmental protection and (iv) implementing the opinions and requirements of local environmental protection authorities.

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We have established a pollution control system and installed various equipment to process and dispose of our industrial wastes and hazardous materials to minimize the impact on the environment. Two of our subsidiaries have met the ISO 14001 environmental management standards.

Air: We generate dust in our cement production process. We have installed electrostatic precipitators and bag filters for the collection and removal of dust. Electrostatic precipitator applies high voltage static electricity to separate gas and dust. During the cement production process, dusty air will pass through the electrostatic precipitator where dust is removed. Bag filter is more widely used among cement producers. During the cement production process, dusty air passes through the bag filter and becomes purified fume, which is then discharged.

Water: We have a water treatment and recycle system which allows us to recycle and reuse water.

Noise: We have also installed mufflers, acoustic claddings and soundproof doors to control the noise generated during our operations.

Mining area: We plan to actively rehabilitate the mining area where the environment is affected by the mining activities after the limestone quarries are fully excavated on when our mining rights expire. Measures include careful selection of actual mining sites and location of storage of limestone to minimize impact to the mining area, proper storage and re-use of soil removed and sufficient plantation and vegetation after the mining is completed.

As advised by our PRC legal counsel, Zong Heng Law Firm, the current measures adopted by our Group to deal with various pollutions comply with national standards and requirements.

Based on the legal opinion issued by our PRC legal counsel, we have fully complied with the relevant environmental rules and regulations and have obtained all environmental permits and approvals necessary to conduct our business. Our cost of compliance with applicable environmental protection laws and regulations was approximately RMB21.3 million, RMB41.8 million, RMB74.7 million and RMB75.4 million for each of the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. The increase in our cost of compliance with applicable environmental protection laws and regulations during the three years ended December 31, 2007, 2008 and 2009 was mainly driven by addition of new production facilities in Xunyang and Lantian counties and therefore we acquired new equipment for pollution control. The cost of compliance for the year ending December 31, 2010 is estimated to be RMB142.7 million. The estimated increase in our cost of compliance with applicable environmental protection laws and regulations in 2010 is mainly driven by the addition of new facilities for residual heat recovery system at our new production lines at Mianxian, Pucheng and Xixiang counties. We have not encountered material environmental claims or been subject to any material sanctions or fines for environmental violations in the past. As the PRC environmental protection regulations continue to evolve, we may be required to make significant expenditures to upgrade our production facilities to comply with environmental regulations that may be adopted or imposed in the future.

Government Incentives

Pursuant to the *Notice regarding Policies relating to Value-Added Tax on Products Made Through Comprehensive Utilization of Resources and Certain Other Products* promulgated by the Ministry of Finance and the State Administration of Taxation (財政部、國家稅務總局關於部分資源綜合利用及其他產品增值

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稅政策問題的通知), we enjoy VAT refunds for cement products that use a certain percentage of recycled materials as raw materials, such as slag and flyash. During the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, such VAT refunds amounted to RMB30.5 million, RMB39.2 million, RMB65.0 million and RMB25.2 million, respectively.

We currently enjoy certain PRC tax incentives as a result of the status of certain of our PRC subsidiaries as wholly foreign owned enterprises and the locations of all of our PRC subsidiaries in western China. As wholly foreign owned enterprises, Shaanxi Yaobai and Lantian Yaobai are entitled to a two-year exemption from the PRC enterprise income tax from their first profitable year on a cumulative basis, and a 50% reduction of their applicable enterprise income tax rate for the succeeding three years. They are currently in the 50%-reduction three-year period, which will end in 2010 for Shaanxi Yaobai and 2011 for Lantian Yaobai. As enterprises located in western China, certain of our PRC subsidiaries are entitled to a preferential enterprise income tax rate of 15% under the “Western Development Plan” (西部大開發), compared with the regular national enterprise income tax rate of 25%. The tax benefits under the “Western Development Plan” (西部大開發) are currently scheduled to expire at the end of 2010. The PRC government has not announced whether or not it intends to renew those benefits upon their expiration.

Pursuant to the *Notice regarding the Collection of Funds for Bulk Cement and Its Method of Use* promulgated by the Ministry of Finance and the State Administration of Taxation (財政部·國家稅務總局關於散裝水泥專項資金徵收和使用管理辦法的通知), we enjoy rebates for selling cement in bulk. For the sale of each bag of packaged cement, an enterprise is required to contribute RMB1.0 to the “Bulk Cement Fund,” and in turn, the money collected in that fund by local tax authorities will be used as rebates for the sales of bulk cement.

Legal Proceedings and Compliance

We were not involved in any legal, administrative or arbitration proceedings which had a material adverse effect on our business, result of operations on financial position during the Track Record Period. As of the Latest Practicable Date, we were not aware of any legal, arbitration or administrative proceedings against us or any of our Directors or senior management members which may have a material adverse effect on our business, results of operations or financial position.

All our business and operations are in Shaanxi province, the PRC. As advised by our PRC legal counsel, Zong Heng Law Firm, we have complied with all applicable laws and regulations in jurisdictions where we operated since the commencement of the Track Record Period and we have obtained all the necessary permits, certificates, licenses and approvals for our operations. In order to maintain our on-going compliance with the relevant regulatory requirements in such jurisdictions, we have adopted the following measures:

- establishment of a Safety and Environment Protection Committee to oversee all safety and environment related matters within our Group and our compliance with applicable laws and regulations; and
- appointment of external legal counsels in the PRC to advise us on compliance with applicable laws and regulations.

We have engaged our PRC legal counsel, Zong Heng Law Firm, to advise us regarding legal compliance matters in our daily operation for one year starting from March 1, 2010 for a fixed fee.

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Facility Arrangement with Credit Suisse, Singapore Branch

On May 29, 2008, we entered into the CS Facility Agreement with, among others, Credit Suisse, Singapore Branch, primarily to finance our capital injection in the construction of our Xunyang production facility. Under the CS Facility Agreement, our Company issued the Warrants to the Warrantholder. For more information on the CS Facility Agreement and the Warrant, please refer to the paragraph headed “Facility Arrangements” under the section headed “History, Reorganization and Corporate Structure” in this prospectus.

As the Warrantholder may, under the Warrant Instrument, elect for the issue of up to 7,802,142 Shares, which will result in up to approximately 10.7% dilution effect assuming the Warrants are exercised in whole at the relevant time, or cash settlement, which will result in a significant one-off cash outflow, with a view to reduce our dilution effect or liquidity risk resulting from the exercise of Warrants, our Directors have taken the view that the redemption of Warrants at the pricing level at the relevant time was prudent and in the interests of our Group. We have executed the Amendment Deed on October 21, 2009. Pursuant to the Amendment Deed, we redeemed all of the outstanding 7,802,142 Warrants issued at a redemption amount of US\$30,187,696, the difference between the settlement price of US\$6.5608, being £4.00, which was determined after arm’s length negotiation with reference to the Share price at the relevant time, at the exchange rate of US\$1.6402 per pound sterling, and the Strike Price of US\$2.6916. An amount equal to 10% of the redemption amount was paid on the date of the Amendment Deed, and the remaining amount together with 5% per annum interest calculated from the date of the Amendment Deed, was paid on November 3, 2009, and a loss of approximately RMB168.5 million was incurred for the redemption of the Warrants. We expect that our business will sustain a continuous growth in future years, which we believe will have a positive impact on the performance of our future Share price, and as a result, more loss will be incurred if no redemption was made at the relevant time and when the Warrantholder exercises its rights in the future. In view of the foregoing, we redeemed the Warrants despite having incurred a loss of approximately RMB168.5 million.

Some risk factors in our business operation

Among the risk factors identified in the section headed “Risk Factors” in this prospectus, we have identified the following risks related to our business operations which we may suffer losses if we fail to properly manage such risks. Save as the losses suffered in accidents of our employees during our business operations, we did not suffer any loss related to such risks and we have relevant measures to manage such risks as described below. We are not able to guarantee that we will not suffer similar or addition loss in the future related to such risks.

Risks	Measures to manage the risks
<ul style="list-style-type: none">• Shortage or interruption in the supply of coal and electricity	<ul style="list-style-type: none">• Select multiple suppliers to avoid reliance on any single supplier
<ul style="list-style-type: none">• Disruption of business operations and construction of new facilities	<ul style="list-style-type: none">• Select third party contractors with good reputation and strong capacity• Maintain loss of profit insurance for disruption of business operations as a result of natural disasters

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Risks	Measures to manage the risks
<ul style="list-style-type: none">Industrial accidents	<ul style="list-style-type: none">Continue to strengthen and monitor the implementation of our safety measures in operation and emphasize in ongoing training of our employees
<ul style="list-style-type: none">Unauthorized use of our brand names, trademarks and other intellectual property rights	<ul style="list-style-type: none">Implement a policy whereby any incident of unauthorized use of our brand names, trademarks and other intellectual property rights would be promptly reported to authorities
<ul style="list-style-type: none">Product liability	<ul style="list-style-type: none">Enhance quality control in our production process
<ul style="list-style-type: none">Non-compliance with environmental, safety and health regulations	<ul style="list-style-type: none">Establish Safety and Environment Department to oversee and ensure compliance with relevant regulations

INTERNAL CONTROLS OVER FINANCIAL REPORTING

In connection with Listing, in November 2009, we engaged a reputable external consulting firm as our internal control advisor to review selected areas of our internal controls over financial reporting to fulfill certain of our obligations in assisting the Joint Sponsors' due diligence under the Listing Rules. Such review was conducted on the basis of agreed upon procedures and its scope of work was limited to certain areas and did not extend to all aspects of the Company's internal controls over financial reporting. The scope of review of the internal control advisor covers certain agreed upon procedures in the areas of (i) entity wide and corporate level controls such as conflict of interest policy, composition and competency of the Board and its committees, risk assessment policies and procedures and information and communication policies and procedures and (ii) business process level controls including sales and receipts, purchases and payments, inventory management, capital expenditure management, human resources and payroll, expenses and payment, treasury management, financial reporting, information technology general controls and intellectual property rights, at our headquarter in Xi'an and subsidiaries in Lantian county and Hanzhong region. As a result, the findings of such review may not include all control deficiencies in internal controls over financial reporting given the limited nature of the work. The Joint Sponsors consider that the scope is sufficient to satisfy their due diligence obligations under the Listing Rules.

A summary of key findings of the internal control advisor, are set out below:

- (i) our inadequate IFRS capabilities due to lack of accounting personnel with a good understanding of IFRS reporting requirements which led to adjustments to prior year audited financial statements of our Group as disclosed in our 2009 annual report published on March 4, 2010 in AIM. The accounting errors relating to the prior year adjustments were mainly in the areas of reclassification of non-current bank borrowings, change of functional currency, reclassification of lease prepayments, understatement of construction in progress and other reclassifications in the consolidated balance sheet and the consolidated statement of comprehensive income;

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- (ii) our lack of a comprehensive set of internal control policies and procedures due to lack of resources such as personnel with internal control experience, including but not limited to:
- inadequate financial statement closing policies and procedures to ensure that all accounts are analyzed and financial statements are prepared in accordance with applicable accounting standards and the Listing Rules;
 - inadequate policies and procedures relating to treasury management;
 - inadequate policies and procedures relating to sales/customer and purchases/supplier management; and
 - inadequate monitoring and control over the construction in progress to ensure that the cost of construction in progress is recognized on a percentage completion basis;
- (iii) our lack of an effective corporate governance system in relation to compliance with the Listing Rules, including but not limited to:
- the current Board committees structure and composition, are not in compliance with the relevant requirements of the Listing Rules, including the audit committee and remuneration committee;
 - lack of policies and procedures relating to risk assessment, fraud detection and prevention;
 - lack of policies and procedures relating to company information disclosure in relation to compliance with the Listing Rules; and
 - lack of an independent internal audit function;
- (iv) our lack of information technology general controls policies and procedures.

We were not able to recruit sufficient accounting personnel with a good understanding of IFRS reporting requirements or with internal control experience during the Track Record Period because we were not able to locate suitable candidates who fit our requirements for such personnel. During the Track Record Period, our Group recruited 28, 43, 84 and 103 accounting personnel, respectively, among whom 5, 9, 15 and 16 personnel had obtained accounting qualifications such as a fellow membership of Association of Chartered Certified Accountants, certified public accountant in the PRC and accountant qualification issued by Ministry of Finance of the PRC and we believe they had sufficient experience to support the financial reporting of our Group.

We had also during the Track Record Period established internal control procedures, systems and policies over our financial reporting and our corporate governance system but they were not designed to satisfy the requirements of the Listing Rules and together with the reasons disclosed above, they had led to the deficiencies and weaknesses identified by the internal control advisor. Our inadequate IFRS capabilities had led to adjustments to prior year audited financial statements of our Group and our results during the Track Record Period as disclosed in this prospectus had reflected such adjustments. However, our Directors believe that our internal control procedures, systems and policies over our financial reporting during the Track Record Period were able to meet our operation needs at that time.

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The Joint Sponsors, having (i) reviewed and considered the internal control procedures, systems and policies over our financial reporting during the Track Record Period, (ii) conducted due diligence with our management on our business operation and (iii) reviewed and discussed the findings of the internal control advisor with us and the internal control advisor, were not aware of any material adverse effect on our business operation and financial results during the Track Record Period as a result of our internal control deficiencies over financial reporting. Our Directors believe that the Group's internal control procedures, systems and policies over financial reporting during the Track Record Period were able to meet its operations needs at that time and the Group's internal control deficiencies had not affected its track record results.

As advised by our legal advisors on English law, Memery Crystal LLP, the AIM Rules require that a company whose shares are traded on AIM must have in place sufficient internal control procedures, resources and controls to enable it to comply with the AIM Rules and it is for the nominated advisor of such company to assess whether it has in place sufficient internal control procedures, resources and controls to enable it to comply with the AIM Rules. Our nominated advisor, NCB Stockbrokers Limited, has also confirmed that based on the report prepared by our former reporting accountant on our internal control procedures, systems and policies over our financial reporting for our listing on AIM and its working experience with us as our nominated advisor, it was not aware of any breach of the AIM Rules by us as a result of our internal control deficiencies and weaknesses during the Track Record Period. Accordingly, our Directors are of the view that the findings of our internal control advisor above did not affect our compliance with the AIM Rules during the Track Record Period.

In response to the recommendations of the internal control advisor, we have revised and implemented internal control policies and procedures in areas of deficiencies and weaknesses and have planned the monitoring process after the implementation. These are summarized as follows:

Material weaknesses and significant deficiencies	Remedial action	Time of Implementation of the remedial actions	Monitoring process after implementation	Personnel involved in designing the new or revised policies	Personnel involved in overseeing the implementation	Personnel involved in monitoring
Inadequate IFRS capabilities due to lack of accounting personnel with a good understanding of IFRS reporting requirements	We appointed Mr. Sin Lik Man ⁽¹⁾ as our company secretary and Mr. Chan King Sau ⁽²⁾ as our assistant financial controller. Both of them have the relevant accounting qualification and experience to provide support in our financial reporting.	Appointments of Mr. Sin Lik Man and Mr. Chan King Sau became effective on May 17, 2010 and June 1, 2010, respectively.	The qualification and the working competence of the financial reporting staff are regularly assessed by Ms. Low Po Ling ⁽¹⁾ , the chief financial officer of our Group ("CFO") and our executive Director. In addition, the Board and the audit committee of our Company (the "Audit Committee") will review, assess and comment on the quality of financial information submitted to the Board.	The Board	CFO	Audit Committee

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Material weaknesses and significant deficiencies	Remedial action	Time of Implementation of the remedial actions	Monitoring process after implementation	Personnel involved in designing the new or revised policies	Personnel involved in overseeing the implementation	Personnel involved in monitoring
	We implemented various training programs to update our accounting employees with the latest developments in the IFRS and reporting and disclosure requirements under the Listing Rules and the Companies Ordinance.	The training sessions related to IFRS have been held in February, March and April 2010 and similar trainings will be held at least on a quarterly basis afterwards.	The CFO will review the technical element of the training material, assess its sufficiency and collect feedback from the employees who attend such training to assess the effectiveness of such training periodically. Training attendance records, employee's feedbacks and training materials will be properly maintained for the periodical review by the internal audit department of our Company ("Internal Audit Department").	Deputy to CFO: Mr. Yang Junqi ⁽²⁾ ("Deputy CFO") Company Secretary: Mr. Sin Lik Man ("Company Secretary") External accounting consultant of our Company	CFO	Head of Internal Audit Department: Ms. Tang Huiqin ⁽²⁾ ("Head of Internal Audit Department")
	We engaged an external accounting consultant to: - provide technical support on our financial report preparation according to IFRS requirements; - provide an update of IFRS for our accounting department; and - review our interim report, annual report or specific accountants report upon our request, to ensure the relevant financial statements comply with IFRS requirements.	Engagement of the external accounting consultant has been made in June 2010 and the engagement is on a continuous basis until terminated by us and the external accounting consultant.	The external consultant engagement will be annually assessed by the CFO and the Audit Committee.	Deputy to CFO	CFO	Audit Committee
Lack of a comprehensive set of internal control policies and procedures due to lack of resources such as personnel with internal control experience, including but not limited to:	In addition to the appointment of Mr. Sin which took effect on May 17, 2010, we have employed Mr. Chan King Sau as our assistant financial controller, whom has an adequate experience on internal control monitoring.	Appointment of Mr. Chan became effective on June 1, 2010	The qualification and the working competence of the finance staffs are regularly assessed by the CFO. In addition, the Board and the Audit Committee will review, assess and comment on the operational effectiveness of internal control policy and procedures.	The Board	CFO	Audit Committee

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Material weaknesses and significant deficiencies	Remedial action	Time of Implementation of the remedial actions	Monitoring process after implementation	Personnel involved in designing the new or revised policies	Personnel involved in overseeing the implementation	Personnel involved in monitoring
- inadequate financial statement closing policies and procedures to ensure that all accounts are analyzed and financial statements are prepared in accordance with applicable accounting standards and the Listing Rules;	Upon receiving the recommendation from the internal control advisor in December 2009, our management immediately started studying the feasibility of the recommendation. Before officially issuing the updated policy, the respective business unit has drafted the relevant policy for the management's review and trial implementation. The respective business unit and the management also provided feedback on the draft policy. Having carefully considered the resources available and the impact on implementing the recommendation, we have officially issued the formal financial statement closing checklist and updated the relevant financial reporting policy on April 7, 2010.	Revised policy was issued in April 2010 and has been implemented.	The implementation of the formal financial statement closing checklist will be monitored on a monthly basis after the Listing by the Deputy to the CFO. Random check to be conducted by the CFO. The policy implemented will be periodically reviewed by our internal audit department. The findings will be reported to the Audit Committee.	Deputy to CFO	CFO	Head of Internal Audit Department
- inadequate policies and procedures relating to treasury management;	Upon receiving the recommendation from the internal control advisor in December 2009, the management immediately started studying the feasibility of the recommendation. Before officially issuing the updated policy, the respective business unit has drafted the relevant policy for the management's review and trial implementation. The respective business unit and the management also provided feedback on the draft policy. Having carefully considered the resources available and the impact on implementing the recommendation between February and April 2010, we have officially issued a comprehensive set of internal control procedures, and such procedures have been codified in our new internal operation manual, which enhanced our existing manual in the following areas:	Revised policies were issued between February 2010 and May 2010 and have been implemented between April 2010 and May 2010.	Our internal audit department and the relevant business unit will review the operational effectiveness of the policies implemented and ensure the compliance with this policy on the periodic basis.	Deputy to CFO	Executive Assistant to Chief Executive Officer: Mr. Li Yongji ⁽¹⁾	Head of Internal Audit Department
- inadequate policies and procedures relating to sales/customer and purchaser/ suppliers management; and	Upon receiving the recommendation from the internal control advisor in December 2009, the management immediately started studying the feasibility of the recommendation. Before officially issuing the updated policy, the respective business unit has drafted the relevant policy for the management's review and trial implementation. The respective business unit and the management also provided feedback on the draft policy. Having carefully considered the resources available and the impact on implementing the recommendation between February and April 2010, we have officially issued a comprehensive set of internal control procedures, and such procedures have been codified in our new internal operation manual, which enhanced our existing manual in the following areas:		Our internal audit department and the relevant business unit will review the operational effectiveness of the policies implemented and ensure the compliance with this policy on the periodic basis.	Deputy to CFO General Sales Manager: Mr. Tian Maoyuan ⁽¹⁾	Executive Director: Mr. Tian Zhenjun ⁽¹⁾	Head of Internal Audit Department
- inadequate monitoring and control over the construction in progress to ensure that the cost of construction in progress is recognized on a percentage completion basis.	Upon receiving the recommendation from the internal control advisor in December 2009, the management immediately started studying the feasibility of the recommendation. Before officially issuing the updated policy, the respective business unit has drafted the relevant policy for the management's review and trial implementation. The respective business unit and the management also provided feedback on the draft policy. Having carefully considered the resources available and the impact on implementing the recommendation between February and April 2010, we have officially issued a comprehensive set of internal control procedures, and such procedures have been codified in our new internal operation manual, which enhanced our existing manual in the following areas: - finance and accounting - treasury management - sales management - purchase management - contract management - construction and project management - inventory management		Our project manager will monitor the progress and execution of the projects. They will communicate with our finance department and report to the Executive Directors, Mr. Wang Jianli. Our finance department at the head office will review the construction project on monthly basis in order to ensure our policy is consistently applied. The policy implemented will be periodically reviewed by our internal audit department and the head office in Xi'an.	Deputy to CFO	Executive Director: Mr. Wang Jianli ⁽¹⁾	Head of Internal Audit Department

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Material weaknesses and significant deficiencies	Remedial action	Time of Implementation of the remedial actions	Monitoring process after implementation	Personnel involved in designing the new or revised policies	Personnel involved in overseeing the implementation	Personnel involved in monitoring
<p>Lack of an effective corporate governance system in relation to compliance with the Listing Rules, including but not limited to: - the current Board committees structure and composition are not in compliance with the relevant requirements of the Listing Rules, including the audit committee and remuneration committee;</p>	<p>We appointed three independent non-executive Directors who possess financial and management experience to enhance the corporate governance.</p> <p>All three independent non-executive Directors were interviewed by the existing Board and the nominated advisor of our Company, NCB Stockbrokers Limited, for AIM to ensure they have the relevant financial and management experience to enhance our corporate governance.</p> <p>Our Directors had attended training sessions conducted by our Hong Kong legal counsel, Sidley Austin, regarding on-going obligations and duties of directors of a publicly listed company on the Main Board of the Stock Exchange, including connected transactions and code on corporate governance practices;</p> <p>In December 2009, we distributed the connected transaction memorandum prepared by our Hong Kong legal counsel, Sidley Austin, to all Directors (including the independent non-executive Directors) and senior management for their review. Our Directors and senior management have declared that they have no connected transaction with us.</p> <p>The connected transaction declaration forms together with the relevant connected transaction memorandum were distributed to our Directors and senior management in May 2010. Our Directors and senior management had declared that they have no connected transaction with us.</p> <p>Training session of the similar nature for applicable requirements of connected transactions under the Listing Rules was also provided for our senior management in May 2010 so as to assist them to maintain the corporate governance system of our Group.</p> <p>We have established the Audit Committee in accordance with the Listing Rules comprising three independent non-executive Directors. The Audit Committee will review and supervise our financial reporting process and internal control system.</p> <p>We have established a remuneration committee in accordance with the Listing Rules. Two third of the committee's members would be independent non-executive Directors;</p>	<p>Appointments of the three independent non-executive Directors became effective on July 29, 2010</p> <p>Trainings were held in February 2010 and June 2010, respectively</p> <p>The Audit Committee which complies with the Listing Rules was set up on July 29, 2010.</p> <p>The remuneration committee which complies with the Listing Rules was set up on July 29, 2010.</p>	<p>Self assessment exercise will be performed by the Board to ensure the structure is in compliance with the relevant requirements of the Listing Rules.</p> <p>The assessment covers qualification, effectiveness of the committees, reporting/notice period for submission of Board papers etc.</p> <p>With the assistance of the compliance advisor and legal counsel, ongoing training and updates regarding the on-going obligations and duties of directors of a publicly listed company on the Main Board of the Stock Exchange, including the Listing Rules related to the connected transactions and code on corporate governance practices will be periodically provided for the directors and the senior management of our Company.</p> <p>The Board and the compliance advisor will conduct semi-annual review on the operation of the Audit Committee and its compliance with the requirements of the Listing Rules.</p> <p>The Board and the compliance advisor will conduct quarterly review of the operation of the remuneration committee and its compliance with the requirements of the Listing Rules.</p>	<p>Company Secretary</p> <p>Our Compliance advisor</p> <p>Our Hong Kong legal counsel</p>	<p>CFO</p>	<p>The Board</p>

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Material weaknesses and significant deficiencies	Remedial action	Time of Implementation of the remedial actions	Monitoring process after implementation	Personnel involved in designing the new or revised policies	Personnel overseeing the implementation	Personnel involved in monitoring
- lack of policies and procedures relating to risk assessment, fraud detection and prevention;	We have revised our employees' handbook and set up a formal code of conduct for our Directors and senior management which provides guidelines on acceptable/unacceptable business behaviors and handling conflict of interest circumstances.	The relevant policies and procedures were issued and implemented between April 2010 and May 2010.	The conduct of the Board and the senior management will be monitored by the independent non-executive Directors. Our human resource department and also the internal audit department will periodically review the policies and procedures in relation to the code of conduct.	Head of Corporate Management Department: Mr. Zhang Zhaojun ⁽²⁾ ("Head of Corporate Management Department")	Executive Director: Mr. Tian Zhenjun	Head of Internal Audit Department Audit Committee
	We have developed formal policies and procedures in relation to the code of conduct and fraud detection and prevention for our employees. We have established reporting channels for our employees to report any alleged corruption and fraud;	Our risk assessment committee was set up and a risk assessment was conducted in June 2010.	Our risk assessment committee's function and effectiveness will be annually reviewed by the Audit Committee. Any deficiency noted on the risk assessment process will be addressed to the Board for their respective action.	Head of Corporate Management Department	The Board	Audit Committee
- lack of policies and procedures relating to company information disclosure in relation to compliance with the Listing Rules;	We developed information disclosure policies and procedures for compliance with Listing Rules including the reporting and disclosure of price sensitive information, notifiable transactions and connected transactions;	Policies and procedures were issued and implemented in April 2010.	The internal audit department and the compliance advisor will periodically review the policies and procedures relating to company information disclosure in relation to the compliance with the Listing Rules.	Head of Corporate Management Department Deputy to CFO	CFO Company Secretary	Head of Internal Audit Department Compliance Advisor
- lack of an independent internal audit function;	We segregated the internal audit department, which is headed by Ms. Tang Huiqin, from the finance department to ensure independence.	Our internal audit department was segregated from the finance department and Ms. Tang Huiqin was appointed as the head of internal audit department on March 25, 2010.	The team resources, the internal audit execution status, the audit plan and also the capability of the internal audit department will be semi-annually reviewed by the Audit Committee.	Head of Internal Audit Department	Company Secretary	Audit Committee
	We have appointed a compliance advisor to advise us on compliance with the Listing Rules in accordance with Rule 3A.19 of the Listing Rules.	Appointment will become effective upon Listing.	The qualification and the competence of the compliance advisor will be annually reviewed by the Audit Committee.	Company Secretary	CFO	Audit Committee
Lack of information technology general controls policies and procedures	We developed formal policies and procedures relating to information technology general controls, including system security management, network management, anti-virus protection and data back-up and recovery.	Policies and procedures were issued and implemented between April 2010 and June 2010.	The policies and procedures implemented will be regularly reviewed and inspected by the internal audit department	Deputy to CFO External information technology service provider	Head of Corporate Management Department	Head of Internal Audit Department

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Notes:

- (1) For details of the experience and qualification of our Executive Directors and senior management, please refer to the section headed “Directors, Senior Management and Staff”.
- (2) Set out below are the experience and qualification of our staff referred to in the above table:

Name of relevant personnel	Title	Relevant qualification and experience
Mr. Chan King Sau	Assistant Financial Controller	Mr. Chan joined us on June 1, 2010. From September 2000 to August 2008, Mr. Chan worked for Ernst & Young, in a range of positions including staff accountant, senior accountant and manager. From September 2008 to October 2009, Mr. Chan worked for Nineyou International Limited, an online game operator as a chief financial officer and company secretary. He graduated from University of Hong Kong with a bachelor’s degree in finance in November 2000. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants.
Ms. Tang Huiqin.	Head of Internal Audit Department	Ms. Tang joined us in November 2004. She has approximately 19 years of experience in accounting and internal audit. She received a MBA from School of Economics and Management, Northwestern University (西北大學經濟管理學院) in the PRC in 2005. She also obtained the senior accountant certificate awarded by the Human Resources Bureau of Shaanxi Province in October 2007 and became a certified tax planner (註冊納稅籌劃師) in March 2009 by 中國企業聯合會 (China Enterprise Federation), a non-profit association among enterprises and entrepreneur under the supervision of State-owned Assets Supervision and Administration Commission of the State Council.
Mr. Yang Junqi	Deputy to Chief Financial Officer	Mr. Yang joined us in August 1998. He has approximately 12 years of experience in accounting and financial management. He qualified as a medium level accountant (中級會計師) in May 2004 by Ministry of Finance of the PRC and as a certified tax planner (註冊納稅籌劃師) in March 2009 by 中國企業聯合會 (China Enterprise Federation).
Mr. Zhang Zhaojun	Head of Corporate Management Department	Mr. Zhang joined us in March 1999 and has worked in several departments of our Group including production and technology department and enterprise management department.

We have conducted two follow-up reviews with the assistance of our internal control advisor. The first review was performed in April 2010 and the second review was performed from May to June 2010 (with a follow-up on certain matters in July 2010), respectively. The reviews were focused on the status of implementation of the recommended remedial actions in the areas where deficiencies and weaknesses were identified. Based on the results of the follow-up reviews, the internal control advisor is satisfied that we have implemented new or revised internal control policies and procedures in response to those areas where deficiencies and weaknesses were identified. We are of the view that our implementation of the recommended remedial actions set out above has improved our internal controls in such areas. After considering the above recommended remedial actions, our Directors (including our independent non-executive Directors) are of the view that we have adequate internal control procedures and policies in place and we are able to comply with the internal control requirements under the Listing Rules after Listing.

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We plan to engage an independent external consulting firm to review and test the effectiveness of our internal control measures (which would cover the implementation of such measures at our new production facilities at Danfeng, Mianxian, Pucheng, Xixiang and Yangxian counties (to the extent applicable), the record system for retail customers and the budgeting system for the monitoring of compliance with covenants under relevant loan agreements entered into by our Group) for the 12 months after Listing, and disclose the conclusion of such external consulting firm in our interim report and annual report for year 2010 and interim report for the six months ending June 30, 2011. In addition, we will also engage our PRC legal counsel, Hong Kong legal counsel and compliance advisor to conduct trainings for our Directors for update of latest requirements of the Listing Rules and other regulations in the PRC and Hong Kong related to financial reporting on a quarterly basis for the 12 months after Listing.

Based on (i) due diligence enquiries conducted by the Joint Sponsors in relation to our procedures, systems and controls (including accounting and management systems), (ii) the results of the two follow-up reviews mentioned above and (iii) the remediation measures adopted by us as referred to in the table above, the Joint Sponsors are satisfied that our Group has established procedures, systems and controls (including accounting and management systems) which are adequate having regard to the obligations of our Company and our Directors to comply with the Listing Rules and other relevant legal and regulatory requirements (in particular rules 13.09, 13.10, 13.46, 13.48 and 13.49, Chapters 14 and 14A and Appendix 16 of the Listing Rules) and which are sufficient to enable our Directors to make a proper assessment of the financial position and prospects of our Group, both before and after Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Upon completion of the Global Offering and subdivision of Shares, Mr. Zhang, Asia Gain, Ms. Zhang Lili, the daughter of Mr. Zhang and Central Glory, will together be beneficially interested in approximately 45.69% of our issued share capital taking no account Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of options granted under the Share Option Scheme or the Post-IPO Share Option Scheme or Shares which may be issued upon the exercise of the AS Warrants. Mr. Zhang, Asia Gain, Ms. Zhang Lili and Central Glory will be our Controlling Shareholders. None of our Controlling Shareholders is interested in any business which is, whether directly or indirectly, in competition with our business. To ensure that competition will not exist in the future, our Controlling Shareholders have entered into the Deed of Non-Competition with us to the effect that each of them will not, and will procure each of their respective associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with our businesses.

DEED OF NON-COMPETITION

Each of our Controlling Shareholders has undertaken to us in the Deed of Non-Competition that it/he/she will not, and will procure its/his/her associates (other than members of our Group) not to, engage in any cement production business including (without limitation) the following activities:

- acquiring, holding, developing, transferring, disposing or otherwise dealing in, whether directly or indirectly, cement production business or related investments;
- engaging, having a right or in any way having an economic interest, in the promotion or development of or investment in cement production business; or
- acquiring, holding, transferring, disposing or otherwise dealing in any option, right or interest over any of the matters set out in the two paragraphs above;

except for acquiring, holding, transferring, disposing or otherwise dealing in, directly or indirectly, shares of any company, joint venture, corporation or entity of any nature, whether or not incorporated, with any interest in the matters set out in the three paragraphs above so long as their aggregate interest in any such entity is less than 5% of its equity interest.

The Deed of Non-Competition will lapse automatically if our Controlling Shareholders and their associates cease to hold, whether directly or indirectly, any of our Shares.

The Deed of Non-Competition also provides that:

- our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders;
- each of our Controlling Shareholders has undertaken to us that it/he/she will, and will procure its/his/her associates to use its/his/her best endeavors to provide all information necessary for the annual review by the independent non-executive Directors for the enforcement of the Deed of Non-Competition;
- we will disclose the review by the independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-Competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- each of our Controlling Shareholders will make an annual declaration in our annual report on the compliance with the Deed of Non-Competition in accordance with the principle of voluntary disclosure in the corporate governance report.

INDEPENDENCE TO OUR CONTROLLING SHAREHOLDERS

Our Directors consider that we will be able to operate independently from our Controlling Shareholders upon Listing for the following reasons:

- (i) As of the Latest Practicable Date, no executive Director has overlapping roles or responsibilities in any business operation other than our business.
- (ii) Our Controlling Shareholders do not operate any business other than our business.
- (iii) As of the Latest Practicable Date, none of our Directors had an interest in any business which competes or is likely to compete, either directly or indirectly, with our business.
- (iv) As of the Latest Practicable Date, we had not entered into any connected transactions with any connected person of our Group (other than Shaanxi Danshui) and had independent operation capabilities and independent access to customers and suppliers.
- (v) We are financially independent of our Controlling Shareholders and their associates. In October 2009, we obtained the ICBCI Facility in the principal amount to US\$50 million from Superb Miles Limited, a fellow subsidiary of ICBCI, which was secured by a charge over 19,393,776 Shares held by Mr. Zhang, a Controlling Shareholder, amounted to 29.45% of the total Shares in issue as of the Latest Practicable Date, and a personal guarantee provided by Mr. Zhang. In February 2010, we also obtained the ICBC Facility in the principal amount of US\$50 million from ICBC (Asia) and ICBC Macau. A second charge over 19,393,776 Shares held by Mr. Zhang, which amounted to 29.45% of the total Shares in issue as of the Latest Practicable Date, and a personal guarantee provided by Mr. Zhang in favor of ICBCI Holdings, as the guarantor to the ICBC Facility. Save for the ICBCI Facility and the ICBC Facility, there was no amount due to and no guarantee given by our Controlling Shareholders and their associates during the Track Record Period. The share charge and the personal guarantee created under the ICBCI Facility and the ICBC Facility will be released before or upon Listing. We have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third party financing.

Our Directors are satisfied that we are capable of carrying on our business independently from any of our Controlling Shareholders (including their respective associates) after our Company is listed on the Stock Exchange.

CONNECTED TRANSACTION

Pursuant to Chapter 14A of the Listing Rules, our Directors, substantial shareholders and chief executive officer or those of our subsidiaries, any person who was our Director or a director of our subsidiaries within 12 months preceding the Listing Date and any of their associates will constitute a connected person of our Company. Upon the listing of our Shares on the Stock Exchange, our transactions with such connected persons will constitute connected transactions under Chapter 14A of the Listing Rules.

Our Directors confirm that the following transaction will, upon Listing, constitute a connected transaction for us under Chapter 14A of the Listing Rules.

Connected transaction which is exempt from the reporting, announcement and independent shareholders' approval requirements

Shareholder's loan from Shaanxi Danshui

On December 28, 2009, Shaanxi Yaobai entered into a Joint Venture Agreement (as defined in the section headed "History, Reorganization and Corporate Structure") in this prospectus with Shaanxi Danshui in relation to the establishment of Longqiao Yaobai. Please refer to the section headed "History, Reorganization and Corporate Structure — Our Corporate Development — Other operating PRC Subsidiaries" for details of the joint venture arrangement under the Joint Venture Agreement. Pursuant to the Joint Venture Agreement, Shaanxi Danshui advanced to Longqiao Yaobai, a non wholly-owned subsidiary of our Company, an unsecured interest-free shareholder's loan in the amount of RMB140,320,900 (the "Loan"). The Loan is repayable as to 50% on or before June 30, 2010 and the remaining 50% on or before June 30, 2011. On January 1, 2010, Longqiao Yaobai entered into a supplementary agreement with Shaanxi Danshui, pursuant to which the repayment date of the Loan was extended to December 31, 2011. No security over the assets of our Group has been granted in respect of the Loan.

Longqiao Yaobai is owned as to 80% by Shaanxi Yaobai and 20% by Shaanxi Danshui. Shaanxi Danshui, being the substantial shareholder (as defined under the Listing Rules) of an indirect subsidiary of our Company, is a connected person of our Company under the Listing Rules.

The Loan constituted financial assistance provided by a connected person of our Company for the benefit of our Group and fall within the exemption under Rule 14A.65(4) of the Listing Rules for the following reasons:

- (i) the financial assistance provided for the benefit of our Group was unsecured and interest free, which represented better terms than normal commercial terms; and
- (ii) no security over the assets of our Group has been granted in respect of such financial assistance.

As the Loan was provided by Shaanxi Danshui for the benefit of our Group on normal commercial terms (or better to our Group) where no security over the assets of our Group is granted in respect of the Loan, the Loan is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

CONNECTED TRANSACTION

Given that the Loan was provided by Shaanxi Danshui to Longqiao Yaobai in connection with the capital investment in Longqiao Yaobai during the establishment of Longqiao Yaobai, which was conducted by Shaanxi Danshui in the ordinary course of investment activity permitted by the PRC Company Law and Contract Law, our PRC legal counsel, Zong Heng Law Firm, has confirmed that such shareholder loan provided by a legally established company in the PRC was not one of “prohibited loans” under the General Principles of Loans (貸款通則), even though the lender is not a financial institution. See also “Business — Recent Acquisitions” and “History, Reorganization and Corporate Structure — Our Corporate Development.”

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Our Board currently consists of eight Directors, comprising four executive Directors, one non-executive Director and three independent non-executive Directors. The powers and duties of our Board include convening general meetings and reporting our Board's work at our Shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports; formulating proposals for profit distributions, recovery of losses and for the increase or reduction of our registered capital, as well as exercising other powers, functions and duties conferred by our Memorandum and Articles of Association. We have entered into service contracts with each of our executive Directors and non-executive Director. We have also entered into letters of appointment with each of our independent non-executive Directors.

The following table sets forth certain information concerning our Directors.

Name	Age	Position
Mr. Zhang Jimin (張繼民)	55	Chairman, Executive Director and Chief Executive Officer
Mr. Wang Jianli (王建禮)	46	Executive Director and Chief Engineer
Ms. Low Po Ling (羅寶玲)	35	Executive Director and Chief Financial Officer
Mr. Tian Zhenjun (田振軍)	49	Executive Director and Deputy Chief Executive Officer
Mr. Ma Zhaoyang (馬朝陽)	42	Non-executive Director
Mr. Lee Kong Wai Conway (李港衛)	55	Independent non-executive Director
Mr. Wong Kun Kau (黃灌球)	49	Independent non-executive Director
Mr. Tam King Ching Kenny (譚競正)	61	Independent non-executive Director

Executive Directors

Mr. Zhang Jimin (張繼民), aged 55, is the chairman and executive Director of our Company. He was appointed an executive Director of our Company on October 27, 2006. He is also our chief executive officer. Mr. Zhang is the founder of our Group and is also a director of a number of our subsidiaries including West China BVI, Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Xiushan Yaobai, Xi'an Yaobai and Longqiao Yaobai. He is responsible mainly for our overall strategy planning and investment decisions. Mr. Zhang has approximately 25 years of experience in the cement industry. He served as the factory manager of Shaanxi Province Pucheng County Hanjing Town Second Cement Factory (陝西省蒲城縣罕井鎮第二水泥廠), a collectively-owned enterprise established by the Pucheng County Hanjing Town Commune (蒲城縣罕井鎮人民政府), a PRC local-level government from 1985 to December 1990. Since December 1990, Mr. Zhang served as the manager of Pucheng County Hanjing Town Cement Factory (蒲城縣罕井鎮水泥廠), a collectively-owned enterprise established by the Pucheng County Hanjing Town Commune (蒲城縣罕井鎮人民政府) and which was then succeeded by Pucheng Yaobai and continued with such positions in Shaanxi Yaobai. Mr. Zhang actively participated in various cement technologies development projects and during 1992 to 1994, he led the development of lowheat slag cement and moderate-heat Portland cement, which won the Second Grade Science and Technology Progress Prize issued by the Shaanxi Province government. Mr. Zhang has also assumed several social positions, such as being the chairman of Shaanxi Province Cement Association (陝西省水泥協會), an industry association jointly established by The Raw Materials Division of The Industry and Information Technology Department of Shaanxi Province (陝西省工業和信息化廳原材料處) and various cement production enterprises in Shaanxi, since December 2009. As the chairman of Shaanxi Province Cement Association (陝西省水泥協會), Mr. Zhang is mainly responsible for promoting the information exchange of the cement enterprises in Shaanxi, leading the association to establish and perfect the self-regulatory regime of the cement industry, maintain

DIRECTORS, SENIOR MANAGEMENT AND STAFF

fair market competition, providing technology and human resources and assisting the Shaanxi Province government to regulate the cement industry in Shaanxi province. Mr. Zhang is also a representative of Xi'an City of the 11th Standing Committee of Shaanxi Provincial People's Congress (陝西省第十一屆人民代表大會常務委員會西安市代表) who participates in the plenary sessions of the 11th Standing Committee of Shaanxi Provincial People's Congress for discussion and approval of various matters such as politics, economics in relation to Shaanxi province. Through these social positions, Mr. Zhang is able to maintain close contact with the industry partners and the local government so as to keep abreast of the latest development of the cement industry and government policies. Mr. Zhang received professional training course in economic management from Peking University (北京大學) in July 2001.

Save as disclosed herein, there are no other matters in relation to Mr. Zhang which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Wang Jianli (王建禮), aged 46, is an executive Director of our Company. He is also our chief engineer and director of a number of our subsidiaries including Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai, Mianxian Yaobai and Xixiang Yaobai. He was appointed an executive Director of our Company on November 2, 2006. He is responsible mainly for our overall production management, technology quality assurance, safety, environmental protection, efficiency management and project management. Mr. Wang graduated from Xi'an University of Technology (西安理工大學) (formerly known as Shaanxi College of Machinery (陝西機械學院)) with a bachelor's degree in engineering in December 1990. Mr. Wang has more than 28 years of experience in the cement industry. He worked at the Shaanxi Design & Research Institute of Building Materials (陝西省建築材料工業設計研究院), an integrated research institute supervised by the Science and Technology Department of Shaanxi Province (陝西省科技廳) and specializing in the scientific research and designing of construction materials, from December 1982 to February 2002 with a range of positions including technician, assistant engineer, engineer, senior engineer, deputy director of design institute, director of design institute and assistant to the dean; and he had been engaged in the design and technical management of cement plants during such period. He has been in his current position at Shaanxi Yaobai since March 2002 and was in charge of design and construction of our various cement production lines at Pucheng, Lantian, Xunyang and Yangxian and through such engagement, he accumulated valuable management experience and technical knowledge. Mr. Wang has also published some thesis in cement industry journals, for example, "Microstructure and chemical composition of ferrous micro-bead separated from fly ash (粉煤灰中磁珠的微觀結構及化學組成)" in the cement industry journal Mining Research and Development (礦業研究與開發) and "Characteristics of ultra-fine fly ash and hydration in cement paste (超細粉煤灰及其在水泥淨漿中的水化特徵研究)" and "Influence of particle pattern and gradation on the water dosage of fly ash cement (顆粒形貌及粒級對粉煤灰水泥需水量影響的試驗研究)" in the cement industry journal Concrete (混凝土).

Save as disclosed herein, there are no other matters in relation to Mr. Wang which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Ms. Low Po Ling (羅寶玲), aged 35, is an executive Director of our Company. She was appointed an executive Director of our Company on October 20, 2008. She is also our chief financial officer and a director of our subsidiary, Shaanxi Yaobai. She is responsible mainly for supervising our corporate finance, audit, securities and information dissemination. Ms. Low graduated from Systematic Business Training Centre in 1995. Before joining us, Ms. Low worked in Malaysia, Singapore and the United Kingdom. She was an associate consultant of PricewaterhouseCoopers Consulting Sdn Bhd, an accounting firm in Malaysia

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between May 1998 and May 1999. From November 2000 to January 2003, she worked as an audit assistant with Tan Choon Chye & Co., a CPA firm. In January 2003, Ms. Low joined BDO International, a CPA firm in Singapore as a senior auditor. Between January 2005 and May 2006, she was with BDO London as a consultant. She then joined PKF (UK) LLP, an accounting and business consulting firm in London and worked as a corporate finance executive until March 2007. From April 2007 to December 2008, Ms. Low served as an associate director of Goldenway Capital and Chang'an Capital, an investment company before joining our Group. Ms. Low is a fellow member of the Association of Chartered Certified Accountants (ACCA). Ms. Low has more than 10 years of experience in audit practice and corporate finance.

Save as disclosed herein, there are no other matters in relation to Ms. Low which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Tian Zhenjun (田振軍), aged 49, is an executive Director of our Company. He was appointed an executive Director of our Company on May 17, 2010. He is also our deputy chief executive officer and is responsible for our overall administrative, human resources and operational management. Mr. Tian is a director of a number of our subsidiaries including Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai. Mr. Tian has received an undergraduate degree in accountancy from Shaanxi Finance & Economy College (陝西財經學院) in December 2001. From August 1988 to August 1998, Mr. Tian served as the accounting manager of Pucheng County Coal Mine (蒲城縣煤礦), a local state-owned enterprise. He joined Shaanxi Yaobai in September 1998 and has held several positions in our Group, including general accountant, director of the finance department, assistant general manager and sales manager. Mr. Tian became a certified accountant in the PRC in October 1994.

Save as disclosed herein, there are no other matters in relation to Mr. Tian which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Non-executive Director

Mr. Ma Zhaoyang (馬朝陽), aged 42, was appointed a non-executive Director of our Company on July 29, 2010. Mr. Ma received a master's degree in management from Northwestern Polytechnic University (西北工業大學) in May 1998. Mr. Ma has been a professor of management at Northwestern Polytechnic University in Shaanxi, China since 1996. In view of his academic knowledge and extensive experience in strategic planning, Mr. Ma Zhaoyang was appointed a non-executive Director of our Company and assumes an advisory role with us in respect of the overall strategic planning and operation of our business. Mr. Ma has been the chairman and director of Sino Vanadium Inc., a vanadium mining company listed on the TSX Venture Exchange in Canada since June 2009. He has also been a non-executive director of Taihua PLC, a pharmaceutical company listed on the LSE, where he assumes an advisory role since December 2006. He is currently and has been an independent non-executive director of Xi'an Kaiyuan Holding Group Co., Ltd. (西安開元控股集團股份有限公司), a company listed on the Shenzhen Stock Exchange which is principally engaged in department store retail businesses and where he assumes an advisory role since May 2006.

Save as disclosed herein, there are no other matters in relation to Mr. Ma which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

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Independent non-executive Directors

Mr. Lee Kong Wai Conway (李港衛), aged 55, was appointed an independent non-executive Director of our Company on July 29, 2010. Mr. Lee received a bachelor's degree in arts from Kingston University (formerly known as Kingston Polytechnic) in London in July 1980 and further obtained his postgraduate diploma in business from Curtin University of Technology in Australia in February 1988. Mr. Lee served as a partner of Ernst & Young over the past 29 years and held key leadership positions in the development of such firm in China. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants. Mr. Lee currently also serves as an independent non-executive director of China Taiping Insurance Holdings Company Limited and Chaowei Power Holdings Limited, companies listed on the Main Board of the Stock Exchange since October 2009 and July 2010, respectively, and Sino Vanadium Inc., a company listed on the TSX Venture Exchange in Canada since October 2009. Mr. Lee was appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China since 2007.

Save as disclosed herein, there are no other matters in relation to Mr. Lee which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Wong Kun Kau (黃灌球), aged 49, was appointed an independent non-executive Director of our Company on July 29, 2010. Mr. Wong received a bachelor's degree in social sciences from the University of Hong Kong in November 1982. He has 28 years of experience in fund management, securities broking and corporate financing involving securities origination, underwriting and placing of equities and equity-linked products, mergers and acquisitions, corporate restructuring and reorganizations and other general corporate advisory activities. Mr. Wong has extensive experience in the Greater China region markets. He is the founder and currently the managing partner of Bull Capital Partners Ltd, a direct investment fund management company. Before founding Bull Capital Partners Ltd., Mr. Wong was the head of investment banking (Asia) of BNP Paribas Capital (Asia Pacific) Limited from 2002 to 2007.

Save as disclosed herein, there are no other matters in relation to Mr. Wong which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Tam King Ching Kenny (譚競正), aged 61, was appointed an independent non-executive Director of our Company on July 29, 2010. Mr. Tam received a bachelor's degree in commerce from the Concordia University in November 1975. He is a practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Tam is serving as a member of the Ethics Committee and Practice Review committee in the Hong Kong Institute of Certified Public Accountants. He is also a past president of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an independent non-executive director of five other listed companies on the Main Board of the Stock Exchange, namely, Kingmaker Footwear Holdings Limited, CCT Telecom Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite Holdings Limited and Van Shung Chong Holdings Limited since May 1994, December 1999, February 1996, July 2004 and September 2004, respectively, and a listed company on the GEM board of the Stock Exchange, namely, North Asia Strategic Holdings Limited, since September 2004. He was also an independent non-executive director of King Stone Energy Group Limited (formerly known as Yun Sky Chemical (International) Holdings Limited), a listed company on the Main Board of the Stock Exchange, during the period from August 2005 to September 2008.

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Although Mr. Tam has been appointed an independent non-executive director of six other listed companies, Mr. Tam is of the view that he can allocate sufficient time to serve as an independent non-executive Director and our Company is also satisfied that Mr. Tam can devote sufficient time to perform his duties as an independent non-executive Director.

Save as disclosed herein, there are no other matters in relation to Mr. Tam which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

The following table sets forth certain information concerning our other senior management members.

Name	Age	Position
Mr. Chen Zhixin (陳志信)	50	General Manager of Ankang Yaobai
Mr. Li Wenyu (李文育)	49	General Manager of Longqiao Yaobai
Mr. Tian Maoyuan (田茂遠)	45	General Sales Manager
Mr. Li Yongji (李永繼)	32	Executive Assistant to the Chief Executive Officer and Secretary to the board of directors of Shaanxi Yaobai
Mr. Lian Jie (連杰)	41	General Manager of Xiushan Yaobai
Ms. Tang Huiqin (唐會芹)	42	Head of internal audit department
Mr. Sin Lik Man (洗力文)	31	Company Secretary

Mr. Chen Zhixin (陳志信), aged 50, is the general manager of Ankang Yaobai. Mr. Chen is also a director of a number of our subsidiaries including Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai and Xiushan Yaobai. Mr. Chen received an undergraduate degree in commanding communications from the PLA Commanding Communications Academy (中國人民解放軍通信指揮學院) in July 2000. From February 1978 to December 2002, Mr. Chen worked for the army of the PRC. From December 2002 to September 2005, he worked as vice general manager of the Shaanxi West Cyber Information Co. Ltd. (陝西西部數通電訊資訊有限公司). Mr. Chen joined Shaanxi Yaobai in September 2005 and has held several positions in our Group including assistant to the general manager of Shaanxi Yaobai, vice general manager of Shaanxi Yaobai, general manager of a branch office of Shaanxi Yaobai and general manager of Ankang Yaobai.

Mr. Li Wenyu (李文育), aged 49, is the general manager of Longqiao Yaobai and is responsible for the overall management of Longqiao Yaobai. He is also a director of Shaanxi Yaobai and Longqiao Yaobai. Mr. Li received professional training in business operations from Northwest University of China (西北大學) in March 2003. Mr. Li served as the director of supply and marketing division of Pucheng Shangwang Construction Material Co., Ltd. (蒲城縣上王建材廠) from February 1993 to October 1997 and has been involved in the building materials industry for approximately 17 years. In 1997, Mr. Li joined Shaanxi Yaobai and has held several positions in our Group including head officer of general logistics department, sales manager and general manager of Hanzhong Yaobai, Mianxian Yaobai and Xixiang Yaobai.

Mr. Tian Maoyuan (田茂遠), aged 45, is our general sales manager and is responsible for sales and marketing of our products. Mr. Tian is also a director of a number of our subsidiaries including Shaanxi Yaobai, Hanzhong Yaobai, Mianxian Yaobai and Xixiang Yaobai. Mr. Tian received a bachelor's degree and a MBA from Northwestern Polytechnic University (西北工業大學) in July 1988 and December 2005, respectively. From August 1988 to August 2008, Mr. Tian worked for Xi'an Electric Switch Electric Co., Ltd.

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(西安西電開關電氣有限公司), a subsidiary of China XD Group (中國西電集團), in a range of positions including deputy director of the manufacture institute, deputy director of the sale and service department, deputy director and director of the isolating switch institute and assistant to the general manager. Mr. Tian joined us in 2008 and has held several positions in our Group including vice president of our Company, head officer of the administration department, general manager of a branch office of Shaanxi Yaobai and sales manager.

Mr. Li Yongji (李永繼), aged 32, is the executive assistant to the chief executive officer and secretary to the board of directors of Shaanxi Yaobai. He is also our manager of investment and development department and is responsible for our strategic planning of the development and public relationship. Mr. Li is also a director of Xi'an Yaobai and Longqiao Yaobai. Mr. Li received a diploma in accounting from Xi'an Jiaotong University (西安交通大學) in December 2004. Mr. Li joined us in August 2002 and has worked in several departments of our Group including finance department, Lantian project department, and investment and development department. Mr. Li obtained the certificate for medium level accountant (中級會計師) issued by Finance Department of PRC (中華人民共和國財政部) in May 2005 and a certified tax planner in the PRC in March 2009.

Mr. Lian Jie (連杰), aged 41, is a director and the general manager of Xiushan Yaobai and is responsible for the overall management of Xiushan Yaobai. Mr. Lian received an undergraduate degree in accounting from Shaanxi Economics and Trade Institute (陝西經貿管理學院, formerly known as Shaanxi College of Industry and Commerce (陝西工商學院)) in July 1995 and a bachelor's degree in accounting from Central Broadcasting and Television University (中央廣播電視大學) in June 2005. Prior to joining us, Mr. Lian worked as the deputy general manager of Shaanxi Xiushan Cement (Group) Co., Ltd. (陝西秀山水泥(集團)有限公司), the predecessor of Xiushan Yaobai, from January 2006 to July 2009 and as a director of the finance department of Shaanxi Xiushan Cement (Group) Co., Ltd. (陝西秀山水泥(集團)有限公司) from March 2005 to December 2005. Mr. Lian joined us in August 2009 as executive vice general manager of Xiushan Yaobai and is currently the general manager of Xiushan Yaobai. Mr. Lian obtained the certificate for medium level accountant (中級會計師) issued by Finance Department of PRC (中華人民共和國財政部) in May 2002.

Ms. Tang Huiqin (唐會芹), aged 42, is the head of internal audit department of our Company and she joined us in November, 2004. Ms. Tang has approximately 19 years of experience in accounting and internal audit. Between July 1991 and October 2004, Ms. Tang worked at Shaanxi Shaanhua Company Fufei Factory (陝西陝化股份公司復肥廠) and served as a vice manager, responsible for financial reporting, costing and internal auditing. From November 2004 to December 2007, she served various positions in Shaanxi Yaobai, such as head of internal audit department of Pucheng branch office, deputy financial controller, head of internal control, deputy general manager and head of audit department, responsible for audit and internal control of Shaanxi Yaobai. She received a Master's degree of Business Administration from School of Economics and Management, Northwestern University (西北大學經濟管理學院) in the PRC in 2005. She also obtained the senior accountant certificate awarded by the Human Resources Bureau of Shaanxi Province in October 2007 and became a certified tax planner in the PRC in March 2009.

Mr. Sin Lik Man (洗力文), aged 31, is the company secretary of our Company and he joined us on May 17, 2010. Mr. Sin received a bachelor's degree of Business Administration, with a major in accounting from the Hong Kong University of Science and Technology in November 2000 and further received a master's degree in accounting from Curtin University of Science and Technology, Australia in April 2007.

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Mr. Sin is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a fellow member of the Association of Chartered Certified Accountants (ACCA). Mr. Sin possesses about 10 years of experience in financial control, corporate finance, capital market relations, corporate governance and compliance, and company secretarial practice through his past working history which enabled him to discharge the functions as a company secretary of our Company. Before joining us, Mr. Sin worked as a senior finance manager of a subsidiary and an associated company of Norstar Founders Group Limited, a company listed on the Main Board of the Stock Exchange, from April 2006 to May 2010 and was responsible for the management of the overall corporate finance and treasury functions, providing technical support on the financial control and corporate governance issues of the company. From May 2003 to September 2005, Mr. Sin served as an accounting services officer of HSBC International Trustee Limited, responsible for preparing the financial accounts, and internal audit officer of Delta Asia Financial Group, responsible for performing the internal audit and preparing internal audit report. Mr. Sin was a staff accountant of Ernst & Young from September 2000 to April 2003, responsible for reviewing accounting and internal control system, auditing financial accounts and preparing audited financial statements.

COMPANY SECRETARY

Mr. Sin Lik Man is a member of our senior management and the company secretary of our Company. Please refer to his biography under the paragraph headed “— Senior Management” above.

BOARD COMMITTEES

Audit Committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The audit committee currently consists of three independent non-executive Directors, being Mr. Lee Kong Wai Conway, Mr. Tam King Ching Kenny and Mr. Wong Kun Kau, with Mr. Lee Kong Wai Conway serving as chairman of the audit committee. Mr. Lee Kong Wai Conway has the appropriate professional qualification as set out in Rule 3.10(2) of the Listing Rules.

The primary duties of the audit committee are to assist our Board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with paragraph B1 of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The remuneration committee currently consists of two independent non-executive Directors, being Mr. Tam King Ching Kenny and Mr. Wong Kun Kau and one executive Director, being Mr. Zhang, with Mr. Zhang serving as chairman of the remuneration committee.

The primary duties of the remuneration committee are to establish and review the policy and structure of the remuneration for Directors and senior management.

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Nomination Committee

We have established a nomination committee with written terms of reference as recommended under the Code on Corporate Governance Practices, set out in Appendix 14 to the Listing Rules. The nomination committee currently consists of two independent non-executive Directors, being Mr. Lee Kong Wai Conway and Mr. Tam King Ching Kenny, and one executive Director, being Mr. Zhang, with Mr. Zhang serving as chairman of the committee.

The primary functions of the nomination committee are to make recommendations to our Board regarding the appointment of members of our Board.

Risk Assessment Committee

We have established a risk assessment committee with written terms of reference. The risk assessment committee currently consists of 23 members including, among others, all our executive Directors, namely Mr. Zhang, Mr. Wang Jianli, Ms. Low Po Ling and Mr. Tian Zhenjun, our company secretary, Mr. Sin Lik Man, and each of our senior management disclosed in the section headed “Directors, Senior Management and Staff”, namely Mr. Chen Zhixin, Mr. Li Wenyu, Mr. Tian Maoyuan, Mr. Li Yongji, Mr. Lian Jie and Ms. Tang Huiqin, with Mr. Zhang serving as the chairman of the committee.

The primary functions of the risk assessment committee are to identify risk areas and formulate action plans for each department of our Group to execute.

COMPENSATION OF DIRECTORS AND MANAGEMENT

For the purpose of admission of our Shares to AIM, we have established a remuneration committee to determine the remuneration of our Directors and senior management from time to time. Our remuneration policy is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. Our remuneration committee reviews such packages annually, or when the occasion requires. Our executive Directors, who are also our employees, receive compensation in the form of salaries, bonuses and other allowances. The aggregate amount of remuneration (including fees, salaries and discretionary bonuses) which were paid by our Group to our Directors for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 were approximately RMB4.5 million, RMB8.0 million, RMB4.7 million and RMB1.4 million, respectively.

Upon completion of the Global Offering, our remuneration committee will adopt a remuneration policy similar to the policy adopted prior to Listing, make recommendations on the remuneration of our Directors taking into account the performance of our Directors and market standards and the remuneration will be subject to approval by our Shareholders. Accordingly, the historical remuneration to our Directors during the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 may not reflect the future levels of remuneration of our Directors.

The aggregate amount of remuneration (including fees, salaries and discretionary bonuses) which were paid by our Group to the five highest paid individuals, including our Directors, during the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 were approximately RMB4.5 million, RMB7.9 million, RMB4.7 million and RMB1.4 million, respectively.

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No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments including contributions to pension schemes have been paid or are payable, in respect of the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, by us or any of our subsidiaries to our Directors, and no payments were made during the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 by us to any of our Directors as an inducement to join or upon joining our Group. According to the present arrangements, the aggregate amount of emoluments, excluding any discretionary bonus payable to our Directors (excluding Mr. Robert Sinclair Robertson and Mr. Brett Lance Miller who resigned on July 29, 2010), for the financial year ending December 31, 2010 is estimated to be approximately RMB3,130,000.

EMPLOYEES

As of the Latest Practicable Date, we employed a total of 3,186 full-time employees. They can be categorized as follows according to their roles. The following table shows an approximate breakdown of our employees by function.

Employee Type	Number of Employees
General and administration	384
Finance	194
Production/technical	2,140
Quality control	246
Sales and marketing	146
Procurement	29
Others	47
Total	<u>3,186</u>

Compensation for our employees includes basic wages, variable wages, bonuses and other staff benefits. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our total staff costs were approximately RMB30.2 million, RMB44.9 million, RMB57.7 million and RMB25.5 million, respectively.

We have not experienced any significant problems with our employees or disruption to our operations due to labor disputes and save as disclosed in the paragraphs headed “Internal Controls over Financial Reporting” in the section headed “Business” in this prospectus, we have not experienced any difficulty with the recruitment and retention of experienced staff. Our Directors believe that we maintain a good working relationship with our employees.

We are required by the PRC state laws and regulations to participate in various social welfare schemes including pension, medical, unemployment, birth and work-related injury insurances and housing provident fund contributions. The local authorities at the counties where our subsidiaries in the PRC are located, however, have different interpretation and implementation of such state laws and policies and we have been

DIRECTORS, SENIOR MANAGEMENT AND STAFF

complying with the regulations and policies to the extent required by local authorities. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, we contributed approximately RMB0.6 million, RMB1.6 million, RMB2.5 million and RMB1.2 million to the social insurance schemes, respectively. We would need to pay additional amount of RMB0.5 million, nil, RMB1.1 million and RMB0.6 million for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 if we made the contribution to social insurance fund and housing provident fund for members of our Group according to applicable state laws and regulations during the Track Record Period.

Pursuant to policies including *the Opinions of the Central Committee of the Communist Party of China and the State Council Regarding Deepening Medical and Hygienic Reform* (中共中央、國務院關於深化醫藥衛生體制改革的意見), *the Report of the Agricultural and Rural Affairs Committee of the National People's Congress on Follow-up and Inspection of Construction of Social Security System in Rural Areas* (全國人民代表大會農業與農村委員會關於農村社會保障體系建設情況跟踪檢查報告) and *the Guiding Opinions of the State Council Regarding Development of New Rural Social Old-Age Insurance on an Experimental Basis* (國務院關於開展新型農村社會養老保險試點的指導意見), the PRC Government does not request contribution of pension and medical insurance for workers with rural residence on a mandatory basis.

Due to the differences in the local regulations and interpretation and implementation of relevant social insurance policies and laws and regulations by the local social insurance authorities, we have been making payments to selected social welfare schemes in accordance with policies of local social insurance authorities at counties where our PRC subsidiaries are located. The PRC local government authorities in charge of housing fund in Danfeng, Pucheng, Xunyang, Zhen'an Counties and Xi'an have issued confirmations confirming that, among others, housing provident fund is not made mandatory in the areas where our relevant subsidiaries are located, and that we will not be subject to penalty in respect of housing provident fund payment. Our PRC legal counsel, Zong Heng Law Firm, has further confirmed that the relevant PRC local government authorities in charge of housing provident fund in Danfeng, Pucheng, Xunyang, Zhen'an Counties and Xi'an have the authority to issue such confirmations. Accordingly, we do not consider a provision for the sum of social insurance payments which we would have made had we complied with the state laws and regulations regarding social welfare schemes is necessary.

Our Directors has confirmed that, as of the Latest Practicable Date, our Group complied with the relevant labor and social welfare laws and regulations in the PRC where our Group operates, and has made the relevant contributions as required by local government authorities in charge of social insurance and housing provident fund.

Given that new policies or supplementary provisions on the PRC Labor Contract Law may be promulgated in the future and our labor and employment policies may be adjusted accordingly, we will not rule out the possibility that such change may affect our current employment policies. Please refer to paragraphs entitled "We may be subject to fines and penalties under the PRC Labor Contract Law, and our labor costs may increase" in the section headed "Risk Factors" in this prospectus for details.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

COMPLIANCE ADVISOR

Our Company has appointed Taifook Capital Limited (“Taifook”) as its compliance advisor effective upon Listing in compliance with Rule 3A.19 of the Listing Rules by entering into a compliance advisor’s agreement with Taifook, the material terms of which are summarized as follows:

- (a) our Company has appointed Taifook as its compliance advisor for the purpose of Rule 3A.19 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of the financial results for the first full financial year of our Group commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
- (b) Taifook shall provide our Company with services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines;
- (c) our Company shall consult with and, if necessary, seek advice from Taifook on a timely basis in the following circumstances:
 - (i) before the publication of any regulatory announcement, circular or financial report;
 - (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
 - (iii) where our Company proposes to use the proceeds of Listing in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Group deviate from any forecast, estimate, or other information in this prospectus;
 - (iv) where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules;
- (d) our Company will indemnify Taifook for certain actions against it and losses incurred by it arising out of or in connection with the performance by Taifook of its duties under the agreement; and
- (e) our Company may terminate the appointment of Taifook as its compliance advisor only if its work is of an unacceptable standard as determined under the Listing Rules and the relevant laws and regulations or if there is a material dispute (which cannot be resolved within 30 days) over fees payable to it as permitted by Rule 3A.26 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following the completion of the Global Offering and Subdivision of Shares taking no account of any shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of any options granted under the Share Option Scheme or the Post-IPO Share Option Scheme, have beneficial interests or short positions in any of our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company:

Name	Nature of interest	Number of Shares held upon completion of the Global Offering	Percentage of shareholding in our Company upon completion of the Global Offering
Asia Gain (<i>Note 1</i>)	Beneficial owner	1,738,873,900	42.25%
Zhang Jimin (<i>Note 1</i>).	Interest of a controlled corporation	1,738,873,900	42.25%
Techno Faith (<i>Note 2</i>)	Beneficial owner	213,679,950	5.19%
Ma Zhaoyang (<i>Note 2</i>).	Interest of a controlled corporation	213,679,950	5.19%

Notes:

1. Asia Gain is beneficially and wholly-owned by Zhang Jimin.
2. Techno Faith is beneficially and wholly-owned by Ma Zhaoyang.

If the Over-allotment Option is fully exercised, the shareholding held by each of Asia Gain, Zhang Jimin, Techno Faith and Ma Zhaoyang will be approximately 41.02%, 41.02%, 5.04% and 5.04%.

Except as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no shares are to be issued upon the exercise of any options granted under the Share Option Scheme or the Post-IPO Share Option Scheme), have beneficial interests or short positions in any of our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company. Further, our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

The following is a description of our authorized share capital and our share capital in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering (after subdivision of Shares and without taking into account any Shares that may be issued pursuant to the Share Option Scheme and the Post-IPO Share Option Scheme):

		£
<i>Number of Shares comprised in the authorized share capital:</i>		
<u>10,000,000,000</u>	Shares	<u>20,000,000</u>

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately following the Global Offering will be as follows:

		£
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering (after subdivision of Shares)</i>		
3,292,411,850	Shares in issue	6,584,823.70
<u>823,120,000</u>	Shares to be issued in the Global Offering	<u>1,646,240.00</u>
<u>4,115,531,850</u>	Shares	<u>8,231,063.70</u>

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately following the Global Offering will be as follows:

		£
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering (after subdivision of Shares)</i>		
3,292,411,850	Shares in issue	6,584,823.70
<u>946,588,000</u>	Shares to be issued in the Global Offering	<u>1,893,176.00</u>
<u>4,238,999,850</u>	Shares	<u>8,477,999.70</u>

The table above assumes the Global Offering becomes unconditional and is completed. It does not take into account (a) any Shares which may be issued under the general mandate given to our Directors for the issue and allotment of Shares (please refer to the paragraph headed “— General Mandate to Issue Shares” below for further details) upon the exercise of the Over-allotment Option, (b) any Shares which may be issued under the general mandate given to our Directors for the issue and allotment of Shares (please refer to the paragraph headed “— General Mandate to Issue Shares” below for further details), or (c) any Shares which may be repurchased by us pursuant to the general mandate given to our Directors for the repurchase of Shares (please refer to the paragraph headed “and 6. Repurchase of our Shares” in Appendix VI to this prospectus for further details) or (d) any Shares which may be issued upon the exercise of any options granted under the Share Option Scheme or the Post-IPO Share Option Scheme or (e) any Shares which may be issued and allotted pursuant to the exercise of the AS Warrants.

SHARE CAPITAL

RANKING

The Offer Shares will rank equally with all our Shares now in issue or to be issued and will qualify for all dividends, income and other distributions and any other rights and benefits attaching or accruing to our Shares upon the completion of the Global Offering.

GENERAL MANDATE TO ISSUE SHARES

On July 20, 2010, an unconditional general mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with the Shares. Please refer to the section headed “Appendix VI — Statutory and General Information — A. Further Information about our Company — 3. Resolutions of our Shareholders” to this prospectus for further information about the unconditional general mandate. In compliance with the Listing Rules, in the event that our Directors determine to exercise such issue mandate after completion of the Global Offering, our Directors will not exercise such mandate to exceed 20% of the aggregate number of (i) the issued share capital of our Company immediately following the completion of the Global Offering (but taking no account of any Shares which may be issued and allotted under such mandate pursuant to the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme or the Post-IPO Share Option Scheme) plus (ii) the number of Shares repurchased in accordance with the Buyback Mandate, so that the maximum number of Shares which may be issued are 823,106,370 Shares.

The general mandate is in addition to the powers of our Directors to allot, issue or deal with Shares under any rights issue, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend in accordance with our Memorandum and Articles of Association.

GENERAL MANDATE TO REPURCHASE SHARES

On July 20, 2010, an unconditional general mandate was given to our Directors authorizing them to exercise all powers of our Company to purchase or repurchase Shares of not more than 10% of the aggregate number of the issued share capital of our Company following the completion of the Global Offering (but taking no account of any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme or the Post-IPO Share Option Scheme) or Shares which may be issued and allotted pursuant to the exercise of the AS Warrants. Please refer to the section headed “Appendix VI — Statutory and General Information — A. Further Information about our Company — 6. Repurchase of our Shares” to this prospectus for further information about the unconditional general mandate.

SHARE OPTION SCHEME AND POST-IPO SHARE OPTION SCHEME

On October 27, 2006, our Company adopted the Share Option Scheme. On March 31, 2010, the Post-IPO Share Option Scheme was conditionally adopted by resolution of our Shareholders. Please refer to the section headed “Appendix VI — Statutory and General Information — D. Other Information” to this prospectus for further details of the Share Option Scheme and the Post-IPO Share Option Scheme.

Save as disclosed above, no share or loan capital of our Company or any of its subsidiaries is under any option or is agreed conditionally or unconditionally to be put under any option.

SHARE CAPITAL

SHARE PRICES

The following table sets forth for the periods indicated the reported high, low, month end, and monthly average of the closing trading prices on AIM for our Shares from May 2009 until the Latest Practicable Date (after adjustment as a result of subdivision of Shares). Historical Share prices are not indicative of the prices at which our Shares will trade following Listing.

	High (as adjusted) (£) <i>(Note)</i>	Low (as adjusted) (£) <i>(Note)</i>	Month End (as adjusted) (£) <i>(Note)</i>	Monthly Average (as adjusted) (£) <i>(Note)</i>
2009				
May	0.0374	0.0347	0.0353	0.0359
June	0.0364	0.0325	0.0357	0.0353
July	0.0529	0.0331	0.0515	0.0397
August	0.0653	0.0487	0.0653	0.0581
September	0.0792	0.0626	0.0694	0.0728
October	0.0960	0.0682	0.0882	0.0855
November	0.0983	0.0865	0.0940	0.0926
December	0.0950	0.0869	0.0893	0.0905
2010				
January	0.0907	0.0790	0.0772	0.0870
February	0.0925	0.0792	0.0914	0.0879
March	0.1285	0.0982	0.1217	0.1196
April	0.1447	0.1200	0.1335	0.1338
May.....	0.1295	0.0900	0.1015	0.1131
June	0.1115	0.0935	0.0980	0.1019
July (up to the Latest Practicable Date) <i>(Note)</i>	0.1385	0.0940	0.1380	0.1147

Note: Pursuant to a resolution passed by our Shareholders on July 20, 2010, each of our Company's issued and unissued shares of £0.10 each were subdivided into 50 shares of £0.002 so that the authorized share capital of our Company would be £20,000,000 divided into 10,000,000,000 shares of £0.002 each, which is conditional on and effective from Listing. For the purpose of computing the high, low, month end and monthly average of the closing trading prices on AIM for our Shares from May 2009 until the Latest Practicable Date, the trading prices of our Shares prior to the subdivision of Shares are divided by 50 for illustrative purpose.

SHARE CAPITAL

The following table sets forth the average daily trading volume and turnover on AIM of each month of our Shares since our Shares (after adjustment as a result of subdivision of Shares) commenced trading on AIM on December 4, 2006.

	Adjusted Average Daily Volume (Shares) <i>(Note)</i>	Average Daily Turnover (£) <i>(Note)</i>
2006		
December	8,624,500	222,055
2007		
January	1,114,500	33,916
February	762,500	30,647
March	8,167,200	258,976
April	27,287,650	876,850
May	3,312,800	128,782
June	2,352,250	95,656
July	6,022,250	270,408
August	4,141,550	179,692
September	4,126,950	153,128
October	11,915,700	554,297
November	2,131,400	92,584
December	660,600	32,180
2008		
January	1,235,050	47,946
February	274,050	12,203
March	1,459,450	34,830
April	7,296,450	154,219
May	4,406,900	110,297
June	17,467,150	523,371
July	2,620,750	64,996
August	2,291,500	48,709
September	14,227,000	332,110
October	1,292,650	23,032
November	17,471,450	244,794
December	6,083,250	76,180
2009		
January	9,037,000	111,607
February	11,995,750	181,823
March	9,207,000	185,355
April	12,616,100	369,335
May	13,446,600	488,441
June	4,590,100	161,036
July	9,548,050	421,550
August	13,918,000	824,861
September	10,252,500	755,512
October	10,438,850	915,868
November	7,364,900	687,207
December	6,030,800	545,523

SHARE CAPITAL

	Adjusted Average Daily Volume (Shares) <i>(Note)</i>	Average Daily Turnover (£) <i>(Note)</i>
2010		
January	7,704,850	659,490
February	7,625,750	657,594
March	14,499,600	1,741,663
April	15,698,350	2,080,602
May	11,813,150	1,302,495
June	4,423,300	450,084
July (up to the Latest Practicable Date) <i>(Note)</i>	5,840,300	708,336

Note: Pursuant to a resolution passed by our Shareholders on July 20, 2010, each of our Company's issued and unissued shares of £0.10 each were subdivided into 50 shares of £0.002 so that the authorized share capital of our Company would be £20,000,000 divided into 10,000,000,000 shares of £0.002 each, which is conditional on and effective from Listing. For the purpose of computing the average daily volume of our Shares traded on AIM for the period of May 2009 and up to the Latest Practicable Date, the average daily volume prior to the subdivision of Shares are multiplied by 50 for illustrative purpose.

SELECTED FINANCIAL AND OPERATING DATA

You should read the selected consolidated financial information presented below in conjunction with our consolidated financial information and the notes thereto included in accountant's report as set out in Appendix I to this prospectus. You should also read the section of this prospectus entitled "Share Capital".

The following selected consolidated financial information for the years ended December 31, 2007, 2008 and 2009 and for the four months ended April 30, 2010 has been derived from our audited consolidated financial information included in accountant's report as set out in Appendix I to this prospectus. Our selected consolidated financial information for the four months ended April 30, 2009 has been derived from our unaudited financial information included in accountant's report as set out in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS.

Selected consolidated comprehensive income statement data

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	525,929	866,126	1,516,766	349,421	675,309
Cost of sales	(350,165)	(556,073)	(878,087)	(198,537)	(429,710)
Gross profit	175,764	310,053	638,679	150,884	245,599
Selling and marketing expenses	(9,796)	(12,018)	(15,064)	(4,745)	(6,082)
Administrative expenses	(29,038)	(55,224)	(77,846)	(16,778)	(24,912)
Other income	35,708	40,617	71,526	8,546	28,444
Other gains/(losses) - net	2,273	(184)	(1,057)	50	(513)
Operating profit	174,911	283,244	616,238	137,957	242,536
Finance income	1,572	2,600	1,190	347	138
Finance costs					
— loss on redemption of warrants	—	—	(168,451)	—	—
— other finance costs	(26,210)	(28,115)	(73,830)	(39,855)	(58,582)
Finance costs - net	(24,638)	(25,515)	(241,091)	(39,508)	(58,444)
Profit before income tax	150,273	257,729	375,147	98,449	184,092
Income tax expense	—	(11,566)	(44,687)	(7,626)	(29,798)
Profit for the year/period	150,273	246,163	330,460	90,823	154,294
Attributable to:					
Shareholders of our Company	150,273	246,163	330,460	90,823	153,074
Non-controlling interests	—	—	—	—	1,220
	150,273	246,163	330,460	90,823	154,294
Basic earnings per share (RMB)⁽¹⁾⁽²⁾	2.35	3.84	5.12	1.42	2.36
Diluted earnings per share (RMB)⁽¹⁾⁽³⁾	2.33	3.83	5.07	1.42	2.34

SELECTED FINANCIAL AND OPERATING DATA

Notes:

- (1) The basic and diluted earnings per share represent the basic and diluted earnings per share for profit attributable to the shareholders of our Company and do not take into account the effect of share subdivision. The share subdivision will become effective upon Listing.
- (2) Basic earnings per share is calculated by dividing the profit attributable to shareholders of our Company by the weighted average number of ordinary shares in issue during the Track Record Period.
- (3) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Our Company had share options as well as warrants. For the share options and warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

Selected consolidated balance sheet data

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	1,017,177	1,645,759	2,861,090	3,430,125
Current assets	201,440	280,314	812,489	588,966
Non-current liabilities	77,287	457,294	491,451	904,343
Current liabilities	458,889	538,695	1,886,902	1,653,823
Net current liabilities	(257,449)	(258,381)	(1,074,413)	(1,064,857)
Total assets less current liabilities	759,728	1,387,378	1,786,677	2,365,268
Capital and reserve attributable to shareholders of our Company	682,441	930,084	1,270,226	1,434,705
Non-controlling interests	—	—	25,000	26,220

Selected consolidated cash flow statement data

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net cash generated from operating activities	170,969	323,092	619,676	229,236	261,572
Net cash used in investing activities	(355,395)	(667,923)	(847,503)	(250,590)	(373,978)
Net cash generated from/(used in) financing activities	22,034	351,872	537,047	82,460	(180,128)
Net (decrease)/increase in cash and cash equivalents	(162,392)	7,041	309,220	61,106	(292,534)
Cash and cash equivalents at beginning of year/period	192,389	29,997	37,038	37,038	346,258
Cash and cash equivalents at end of year/period	<u>29,997</u>	<u>37,038</u>	<u>346,258</u>	<u>98,144</u>	<u>53,724</u>

SELECTED FINANCIAL AND OPERATING DATA

Selected operating data

	Year ended December 31,						Four months ended April 30,			
	2007		2008		2009		2009		2010	
	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price
	(thousand ton for sales volume and RMB/ton for average selling price)									
High grade cement . .	687	239	1,581	280	3,679	311	784	304	1,554	309
Low grade cement . .	1,709	211	1,863	227	1,392	268	416	265	691	265
Clinker.	2	201	4	191	4	256	3	256	58	221
Total	2,398		3,448		5,075		1,204		2,303	
Average selling price for cement ⁽¹⁾		219		251		299		290		295
Average selling price for cement products ⁽²⁾		219		251		299		290		293

Notes:

- (1) Average selling price for cement is calculated by dividing (i) our revenue derived from sales of high grade and low grade cement by (ii) the total sales volume of high grade and low grade cement.
- (2) Average selling price for cement products is calculated by dividing (i) our total revenue derived from sales of high grade cement, low grade cement and clinker by (ii) the total sales volume of these three products.

FINANCIAL INFORMATION

You should read the discussion and analysis of our financial condition and results of operations set forth in this section in conjunction with our consolidated financial information for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2009 and 2010, together with the accompanying notes. Our consolidated financial information was prepared in accordance with IFRS. You should read the accountant's report set out in Appendix I to this prospectus in its entirety and not rely merely on the information contained in this section.

Our historical results do not necessarily indicate our performance for any future periods. The discussion and analysis of our financial condition and results of operations contain forward-looking statements that involve risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a cement producer in Shaanxi province in the PRC. We produce and sell a variety of cement products to customers in Shaanxi province under the trademarks "堯柏" (Yao Bai) and "堯柏水泥" (Yaobaishuini). We derive all of our revenue from sales of our cement products.

As of the Latest Practicable Date, we had eight cement production lines located in Shaanxi province, with a total annual production capacity of 9.6 million tons. For the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our sales volume of cement was approximately 2.4 million, 3.4 million, 5.1 million and 2.3 million tons, respectively. The average selling price per ton of our cement sold was approximately RMB219, RMB251, RMB299 and RMB295, respectively, during the same periods.

We are installing a new cement grinding mill at our Lantian production facility, which is expected to increase our annual production capacity by 0.7 million tons upon its scheduled completion in August 2010. We are also constructing two new production lines in Pucheng and Xixiang counties with a total annual production capacity of 2.2 million tons, which are scheduled to be completed by September 2010 and February 2011, respectively. These additional production facilities are expected to increase our total annual production capacity to 12.5 million tons upon their completion. We intend to further increase our production capacity through acquisitions.

We achieved significant growth in revenue, operating profit and net profit during the Track Record Period. Our revenue increased from approximately RMB525.9 million for the year ended December 31, 2007 to approximately RMB866.1 million for the year ended December 31, 2008 and to approximately RMB1,516.8 million for the year ended December 31, 2009, representing a CAGR of 69.8%. Our operating profit increased from approximately RMB174.9 million for the year ended December 31, 2007 to approximately RMB283.2 million for the year ended December 31, 2008 and to approximately RMB616.2 million for the year ended December 31, 2009, representing a CAGR of 87.7%. Our net profit increased from approximately RMB150.3 million for the year ended December 31, 2007 to approximately RMB246.2 million for the year ended December 31, 2008 and to approximately RMB330.5 million for the year ended December 31, 2009, representing a CAGR of 48.3%. Our revenue, operating profit and net profit for the four months ended April 30, 2010 were approximately RMB675.3 million, RMB242.5 million and RMB154.3 million, respectively, representing growth rates of 93.3%, 75.8% and 69.9%, respectively, from the same period in 2009.

FINANCIAL INFORMATION

FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

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

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

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

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

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

Production Capacity

Our results of operations depend on our ability to fulfill customer orders, which in turn depends in part on our production capacity. Our cement annual production capacity increased from 1.4 million tons as of January 1, 2007 to 8.5 million tons as of April 30, 2010. In connection with our expansion, we incurred approximately RMB359.1 million, RMB669.1 million, RMB629.3 million and RMB374.8 million in capital expenditures, as represented by the cash used for the purchase of property, plant and equipment, land use right, mining rights and other intangible assets, for the construction of new production lines and we incurred nil, nil, approximately RMB120.9 million and nil in acquisition in 2007, 2008, 2009 and the first four months of 2010, respectively. Partly due to the increase in our production capacity, our revenue grew by approximately 64.7% between 2007 and 2008 and by approximately 75.1% between 2008 and 2009. We believe that demand for our products will continue to increase and we intend to further increase our annual production capacity. As a result, we anticipate that we will incur further capital expenditures, which we intend to finance using cash generated from our operations, bank borrowings and the net proceeds of the Global Offering.

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Pricing

The prices of our products are primarily affected by the supply of, and demand for, cement in the regions where we operate. The average selling prices of our cement were approximately RMB219, RMB251, RMB299 and RMB295 per ton in 2007, 2008, 2009 and the first four months of 2010, respectively. In 2008 and 2009, we increased prices of our cement products because demand grew as a result of increased building and construction activities and as a result, we were able to pass on a portion of our increased cost of sales to our customers through higher average selling prices.

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

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

Product Mix

Our results of operations are affected by our product mix. We sell different grades of cement with various physical characteristics at different selling prices. To fully utilize our clinker production capacity, we also sold small amounts of clinker during the Track Record Period when we had surplus clinker in our cement production.

The average selling price of our high grade cement is higher than the average selling price of our low grade cement. Our high grade cement was sold at an average price of approximately RMB239, RMB280, RMB311 and RMB309 per ton in 2007, 2008 and 2009 and the first four months of 2010, respectively, while our low grade cement was sold at an average price of approximately RMB211, RMB227, RMB268 and RMB265 per ton in 2007, 2008 and 2009 and the first four months of 2010, respectively.

As high grade cement has higher strength, it has been primarily used in government infrastructure projects while the low grade cement has been primarily used in various rural residential construction projects. As a result of the increasing investment in governmental infrastructure projects in Shaanxi province, our revenue contributed by sales of high grade cement increased substantially during the Track Record Period. We sold approximately 0.7 million tons, 1.6 million tons, 3.7 million tons and 1.6 million tons of high grade cement in 2007, 2008, 2009 and the first four months of 2010, respectively, which represented 28.6%, 45.9%, 72.5% and 67.5% of our total sales volume and contributed to 31.2%, 51.2%, 75.4% and 71.0% of our total revenue for the relevant periods.

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Costs of Coal and Electricity

The results of our operations are significantly affected by the costs of coal and electricity. The cost of coal is one of the largest components of our cost of sales, representing approximately 21.4%, 36.0%, 31.2% and 37.9% of our total cost of sales for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. Fluctuations of coal price have a direct impact on our results of operations. We experienced significant increases in coal price in 2008 due to a surge in coal demand and a supply shortage of coal in the market. In 2009, coal price declined compared to 2008 due to reduced demand as a result of the global financial crisis. In the first four months of 2010, coal price increased due to the recovery of the Chinese economy. Our average purchase price of coal per ton increased in the four months ended April 30, 2010 compared with the same period in 2009 also because we added our Zhen'an, Danfeng and Yangxian production lines in the second half of 2009. Those production lines are located further away from coal mines than our other production lines and, as a result, their average cost of coal is higher due to higher transportation costs. Our average purchase prices of coal per ton were approximately RMB290, RMB492, RMB434, RMB429 and RMB559 in 2007, 2008 and 2009 and the first four months in 2009 and 2010, respectively.

Our operations also require a significant amount of electricity. The cost of electricity represented approximately 24.8%, 22.0%, 20.7% and 18.6% of our total cost of sales for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. We experienced increases in electricity prices in recent years. For the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our average electricity purchase price per KWh was RMB0.40, RMB0.40, RMB0.43 and RMB0.48, respectively. In November 2009, the Shaanxi Electric Power Company increased the price per KWh by RMB0.0367. We had installed residual heat recovery systems in three of our eight production lines as of the Latest Practicable Date and have achieved energy cost savings. We plan to install residual heat recovery systems in all our production lines in the future.

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

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New Production Facilities

Our revenue, cost of sales, gross profit margin and our inventories during the Track Record Period were affected by additions of production facilities. The table below sets forth the revenue, gross profit and gross profit margin of our existing and newly-added production facilities for each of the periods indicated. Existing production facility(ies) represents those production facilities that had already commenced sales as of the first day of the year or period indicated and new production facility(ies) represents those production facilities that commenced sales during the year or period indicated.

	Year ended December 31,			Four months ended April 30,
	2007 ⁽¹⁾	2008	2009 ⁽²⁾	2010 ⁽³⁾
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue generated by:				
existing production facility(ies)	308,707	866,126	1,035,071	567,491
new production facility(ies)	217,222	—	481,695	107,818
Total	<u>525,929</u>	<u>866,126</u>	<u>1,516,766</u>	<u>675,309</u>
Gross profit contributed by:				
existing production facility(ies)	100,538	310,053	496,735	217,133
new production facility(ies)	75,227	—	141,944	28,466
Total	<u>175,764</u>	<u>310,053</u>	<u>638,679</u>	<u>245,599</u>
Gross profit margin for:				
existing production facility(ies)	32.6%	35.8%	48.0%	38.3%
new production facility(ies)	34.6%	—	29.5%	26.4%
Overall gross profit margin	33.4%	35.8%	42.1%	36.4%

Notes:

- (1) New production facility for year ended December 31, 2007 represents Lantian production facility.
- (2) New production facilities for year ended December 31, 2009 represent Xunyang production facility and Zhen'an production facility.
- (3) New production facilities for the four months ended April 30, 2010 represent Yangxian production facility and Danfeng production facility.

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

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

For the four months ended April 30, 2010, our newly added Yangxian and Danfeng production facilities contributed approximately RMB107.8 million to our revenue and approximately RMB28.5 million to our gross profit. The gross profit margin of the new production facilities was approximately 26.4% in the first four months in 2010, lower than that of our existing production facilities. This was primarily due to the lower gross profit margin of Danfeng production facility where our cement products are sold at lower average selling price than our other production facilities as it is located in mountainous area where demand and market price of cement products are more susceptible to winter season. As Danfeng production facility was neither constructed nor managed by us before it was acquired by us, it is less cost efficient than our other production facilities.

Our new production facilities increased our working capital requirements primarily in the form of inventories. The addition of new production facilities in 2007, 2009 and the first four months of 2010 resulted in the increase of our inventories by approximately RMB18.0 million, RMB42.9 million and RMB37.8 million, respectively, which constituted the main portion of the working capital related to the new production facilities.

PRC Government Incentives

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

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SELECTED ITEMS OF STATEMENTS OF COMPREHENSIVE INCOME

Revenue

We derive all of our revenue from sales of our cement products. Our revenue was approximately RMB525.9 million, RMB866.1 million, RMB1,516.8 million and RMB675.3 million for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively.

Our revenue in any given period is determined by our sales volume and average selling prices of our cement products. During the Track Record Period, the sales volumes of our cement products experienced significant increases. We sold approximately 2.4 million tons, 3.4 million tons, 5.1 million tons, 1.2 million tons and 2.3 million tons of cement products for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2009 and 2010, respectively. The increases in our sales volume were mainly driven by our expansion into new markets and the growth in the construction industry in Shaanxi province. In order to capitalize on the rapidly increasing demand for our cement products, we have significantly expanded our production capacity through the construction of new production lines and acquisitions. In May and August 2007, two production lines at our Lantian production facility commenced operations. In January 2009, our Xunyang production facility commenced cement production. We acquired Xiushan Yaobai in August 2009, which operates our Zhen'an production facility. Our Yangxian production facility commenced operation in December 2009 and started to sell cement products in 2010. With these additional production lines, our annual production capacity increased from 3.6 million tons as of December 31, 2007 to 8.5 million tons as of April 30, 2010, allowing us to capture the growth in the construction industry in Shaanxi province, as reflected in the substantial increase in our revenues during the Track Record Period.

In the three years ended December 31, 2009, our average selling price increased primarily due to changes in the supply of, and demand for, our products and was also affected by the increase of the cost of coal and other raw materials. The average selling price of our cement products was approximately RMB219, RMB251 and RMB299 for 2007, 2008, 2009, respectively. The average selling price of our cement products increased over the three years ended December 31, 2009 primarily as a result of the increased market demand in 2008 and 2009 caused by the increased building and construction activity in Shaanxi province. The average selling price of our cement products sold in the first four months in 2010 was slightly higher than that for the corresponding period in 2009. We will continue to evaluate the market demand for our products and may from time to time adjust our product prices and production capacity to meet market demand.

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

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

	Four months ended April 30,							
	2009				2010			
	Average selling price	Sales volume	%	Revenue	Average selling price	Sale volume	%	Revenue
(RMB)	(Ton 000 ¹)		(RMB in million)	(RMB)	(Ton 000 ¹)		(RMB in million)	
High grade cement	304	784	65.1	238.1	309	1,554	67.5	479.5
Low grade cement	265	416	34.6	110.5	265	691	30.0	183.0
Clinker	256	3	0.2	0.9	221	58 ⁽¹⁾	2.5	12.8
Total		1,204	100.0	349.4		2,303	100.0	675.3
Average selling price for cement ⁽²⁾	290				295			
Average selling price for cement products ⁽³⁾	290				293			

Notes:

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

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

Our revenue derived from sales of high grade cement in the first four months of 2010 more than doubled compared to the same period in 2009. Our revenue increased primarily because sales volume increased from 0.8 million tons for the four months ended April 30, 2009 to 1.6 million tons for the four months ended April 30, 2010, which was a result of our increased production capacity attributable to the newly added production facilities in Zhen'an and Danfeng counties and the commencement of operations of our new production facilities in Yangxian and Xunyang.

Our revenue derived from sales of low grade cement increased from approximately RMB361.2 million in 2007 to approximately RMB422.3 million in 2008 but decreased to approximately RMB372.4 million in 2009. The increase of such revenue in 2008 was primarily due to the increase in the sales volume and the general increase of average selling price of low grade cement. The increase of sales volume of low grade cement was primarily due to the increased cement production capacity. The implementation of a new nation-wide industry standard by the PRC government in mid-2008, which prohibited the production of PO32.5R cement, a sub-category of low grade cement with lower quality and higher energy consumption, has mildly impacted our sales volume of low grade cement as some customers ordered other cement products in lieu of PO32.5R cement. The average selling price of low grade cement increased in 2008 primarily due to the increased cost of coal. The decrease of our revenue from low grade cement in 2009 was primarily due to the increase in the demand of high grade cement and the decrease of production volume of our low grade cement as a result of the full implementation of the nation-wide industry standard prohibiting the production of PO32.5R cement. The impact of the decreased production volume on our revenue of low grade cement from 2008 to 2009 has been partially offset by the increased average selling price of low grade cement. Our revenue from low grade cement in the first four months of 2010 increased substantially compared to the same period in 2009 primarily due to our increased sale volume of low grade cement from 0.4 million tons for the first four months in 2009 to 0.7 million tons for the four months in 2010, as a result of our increased production capacity.

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Cost of Sales

The table below sets forth the major components of our cost of sales (i) with each item expressed both as a percentage of cost of sales and as a percentage of revenue, and (ii) by the cost per ton of cement products sold for the periods indicated.

	Year ended December 31,											
	2007				2008				2009			
	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold
				(RMB)				(RMB'000)				(RMB)
Raw materials . . .	119,141	34.0	22.7	49.7	144,379	26.0	16.7	41.9	284,543	32.4	18.8	56.1
Coal	75,070	21.4	14.3	31.3	200,209	36.0	23.1	58.1	273,745	31.2	18.0	53.9
Electricity	86,859	24.8	16.5	36.2	122,160	22.0	14.1	35.4	182,062	20.7	12.0	35.9
Depreciation . . .	42,216	12.1	8.0	17.6	57,496	10.3	6.6	16.7	92,035	10.5	6.1	18.1
Labor costs	17,010	4.9	3.2	7.1	17,486	3.1	2.0	5.1	28,534	3.2	1.9	5.6
Others	9,869	2.8	1.9	4.1	14,343	2.6	1.7	4.2	17,168	2.0	1.1	3.4
Total	350,165	100.0	66.6	146.0	556,073	100.0	64.2	161.3	878,087	100.0	57.9	173.0

	Four months ended April 30,							
	2009				2010			
	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold
				(RMB)				(RMB'000)
			(unaudited)					
Raw materials	49,726	25.0	14.2	41.3	105,226	24.5	15.6	45.6
Coal	71,472	36.0	20.5	59.4	162,888	37.9	24.1	70.6
Electricity	44,964	22.6	12.9	37.3	79,974	18.6	11.8	34.7
Depreciation	17,786	9.0	5.1	14.8	58,111	13.5	8.6	25.2
Labor costs	7,589	3.8	2.2	6.3	13,324	3.1	2.0	5.8
Others	7,000	3.6	1.9	5.8	10,187	2.4	1.5	4.3
Total	198,537	100.0	56.8	164.9	429,710	100.0	63.6	186.2

Cost of raw materials

Our cost of sales was approximately RMB350.2 million, RMB556.1 million, RMB878.1 million and RMB429.7 million for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. Our cost of sales primarily consists of coal, electricity, raw materials, depreciation, labor and other costs. Our cost of raw materials primarily includes costs of limestone, gypsum, clay, flyash, pyrite cinder and slag. We cooperate with a third party contractor to excavate limestone from our limestone mines. We pay a fixed excavation fee for each ton of limestone excavated by the contractor and the fixed fee is adjusted at the beginning of each year depending on changes in excavation costs and consumable materials

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used in the limestone mine. Of the limestone we used in our production in the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, approximately 0.6 million, 2.5 million, 2.7 million and 1.4 million tons, respectively, was excavated from our mines. We purchased approximately 1.3 million tons, 0.6 million tons, 1.7 million and 0.6 million tons of limestone from third party limestone suppliers in the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. We sourced some limestone in the market for Pucheng production facility primarily because one of our production lines at our Pucheng production facility is located some distance away from our limestone quarry and as a result it is less expensive to purchase limestone for that production line than to excavate and transport limestone from our limestone quarry. In addition, as we sourced limestone in the market for Lantian production facility before our limestone quarry that supplies limestone to Lantian production facility commenced full operation in 2008, we purchased a higher proportion of limestone from third party limestone suppliers in 2007. As our Xunyang production facility commenced operations in January 2009, but the conveyor belt between its limestone mine and production line was not completed until November 2009, we also purchased limestone for production at our Xunyang production facility between January and November in 2009. We have not purchased limestone from third parties for Xunyang production facility in 2010 and do not expect to do so in the future. The limestone purchased from third parties in the first four months in 2010 was primarily used in the operation of our Longqiao, Xiushan and Yangxian production facilities.

The average cost per ton we incurred for the limestone we excavated from our limestone mines for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 was approximately RMB12.2, RMB11.0, RMB11.4 and RMB11.6 per ton, respectively. The average cost per ton we incurred for the limestone we purchased on the market for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 was approximately RMB15.1, RMB15.6, RMB25.4 and RMB19.0 per ton, respectively. The increase in the average cost per ton of our purchased limestone in 2009 was primarily because our Xunyang production facility had to purchase limestone from the market at prices that were much higher than market prices of our other plants due to the scarcity of limestone in the nearby region before it completed the limestone conveyor belt connecting our limestone quarry and the Xunyang production facility. The high level of limestone cost per ton for the first four months of 2010 was primarily due to the higher average cost per ton of limestone at our Yangxian production facility because our limestone mine for Yangxian production facility only commenced full operation in March 2010.

Our raw material cost per ton of cement products sold was approximately RMB49.7, RMB41.9, RMB56.1 and RMB45.6 for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. The decrease of the raw material cost per ton of cement products sold from 2007 to 2008 was primarily due to the higher proportion of limestone we purchased from third party limestone suppliers in 2007 as a result of sourcing of limestone on the market by Lantian production facility before our quarry supplying limestone to Lantian production facility commenced full operations in 2008. The commencement of the use of recycled raw materials such as desulfurization gypsum and construction waste in 2008 also contributed to the decrease of our raw material cost per ton of cement products sold. Our raw material cost per ton of cement products sold increased from 2008 to 2009 primarily as a result of the increased proportion of limestone purchased from third parties at a higher price as a result of our operation of Xunyang production facility in January 2009, which purchased limestone from the market before the completion of the limestone conveyor belt connecting our limestone quarry and the Xunyang production facility in November 2009. The increased price of flyash in 2009 also contributed to the increase of our raw material cost from 2008 to 2009. In addition, the commencement of cement production of Xunyang production facility and the acquisition of Zhen'an production facility contributed to the increase of our raw

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material cost per ton from 2008 to 2009 because certain raw materials used by these two production facilities, such as natural gypsum and slag, may not be replaced by recycled raw materials, such as desulfuration gypsum and flyash, or may only be replaced to a very limited extent due to the short supply of these recycled raw materials in the nearby areas.

We endeavor to reduce our cost of sales by using recycled raw materials, which also reduced the impact of the increased prices of the raw materials on our result of operations. For example, we used desulfuration gypsum to replace natural gypsum in our production of cement, and construction waste to replace flyash. These measures provided us a total saving of approximately RMB49.0 million for the three years ended December 31, 2009 and the four months ended April 30, 2010 in aggregate.

Costs of coal and electricity

Costs of coal is one of the largest components of our cost of sales. The price for coal fluctuated during the Track Record Period. Our cost of coal was approximately RMB75.1 million, RMB200.2 million, RMB273.7 million, RMB71.5 million and RMB162.9 million for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2009 and 2010, respectively, representing approximately 21.4%, 36.0%, 31.2%, 36.0% and 37.9% of our total cost of sales. In order to secure adequate coal supplies at competitive prices, we have established long-term relationships with various coal suppliers.

Our cost of coal per ton of cement products sold was approximately RMB31.3, RMB58.1, RMB53.9, RMB59.4 and RMB70.6 for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2009 and 2010, respectively. The changes in the cost of coal per ton of cement products primarily reflected the changes in our average purchase price of coal during 2007, 2008 and 2009 and the first four months of 2010. The cost of coal per ton of cement products sold increased by 18.9% from RMB59.4 in the first four months in 2009 to RMB70.6 in the first four months in 2010. This increase was primarily due to an increase in our coal transportation costs, which, in turn, was primarily caused by our addition of the Zhen'an, Danfeng and Yangxian production lines in the second half of 2009, which are located further away from coal mines than our other production lines. In addition, we believe the recovery of the global economy also contributed to the increase in coal price.

Costs of electricity is also one of the largest components of our cost of sales. The price of electricity increased during the Track Record Period. Our cost of electricity was approximately RMB86.9 million, RMB122.2 million, RMB182.1 million and RMB80.0 million for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively, representing approximately 24.8%, 22.0%, 20.7% and 18.6% of our total cost of sales during those periods.

We began using the residual heat recovery system to generate electricity in October 2008. For the years ended December 31, 2008 and 2009 and the four months ended April 30, 2010, we generated approximately 8.3 GWh, 53.4 GWh and 22.0 GWh of electricity through the residual heat recovery system, respectively. As a result, we achieved cost savings of approximately RMB2.4 million, RMB18.4 million and RMB15.2 million in the years ended December 31, 2008 and 2009 and the four months ended April 30, 2010, respectively, which was calculated by multiplying the electricity generated by the residual heat recovery system by the difference between the average electricity price per KWh of the same period and the average cost of generating the electricity with the residual heat recovery system. Due to the cost savings from using the residual heat recovery system, our cost of electricity for each ton of cement products sold for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 was approximately RMB36.2, RMB35.4, RMB35.9 and RMB34.7, respectively.

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

Gross Profit and Gross Profit Margin

For the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our total gross profit was approximately RMB175.8 million, RMB310.1 million, RMB638.7 million and RMB245.6 million, respectively, and our gross profit margin was approximately 33.4%, 35.8%, 42.1% and 36.4%, respectively. Our gross profit margin increased during the three years ended December 31, 2009 primarily because the average selling price for each ton of our products increased more than the cost of sales for each ton of our products as a result of our successful pricing strategy to increase the prices of our cement products in response to the increased cost of sales. Our gross profit margin also increased as we applied more cost saving measures in our production, such as replacing more expensive raw materials with recycled materials and using residual heat recovery systems to generate electricity. Our gross profit margin decreased from 43.2% for the first four months of 2009 to 36.4% for the first four months of 2010 primarily because our cost of coal per ton of cement products sold increased as a result of global economic recovery and the addition of the Zhen'an, Danfeng and Yangxian production facilities in the second half of 2009. The average cost of coal per ton for those facilities is higher than our other production facilities because they are located further away from coal mines and the coal transportation costs are higher as a result. Our depreciation per ton of cement products sold increased from RMB14.8 for the first four months of 2009 to RMB25.2 for the first four months of 2010, which also contributed to the decrease of our gross profit margin. The increase of depreciation per ton of cement products sold is primarily due to the addition of Xunyang production facility and Danfeng production facility in 2009, which have higher investment costs per ton of production.

Selling and Marketing Expenses

The table below sets forth the major components of our selling and marketing expenses for the periods indicated.

	Year ended December 31,						Four months ended April 30,			
	2007		2008		2009		2009		2010	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
	(unaudited)									
Staff costs	2,187	0.4	3,512	0.4	4,773	0.3	1,413	0.4	2,442	0.4
Marketing expenses	5,232	1.0	5,030	0.6	3,773	0.3	1,675	0.5	1,983	0.3
Transportation expenses	554	0.1	981	0.1	2,042	0.1	690	0.2	786	0.1
Others	1,823	0.3	2,495	0.3	4,476	0.3	967	0.3	871	0.1
Total	9,796	1.9	12,018	1.4	15,064	1.0	4,745	1.4	6,082	0.9

Our selling and marketing expenses primarily consist of staff costs, marketing expenses and transportation expenses. Our sales personnel sometimes work together with experienced independent project managers, who are usually individuals with market knowledge and established relationships in the cement industry. These project managers usually introduce potential projects to our sales personnel. Our sales personnel would recommend the potential projects to us if they appear commercially suitable. We would decide whether to proceed with such projects, and agree in advance with our sales personnel on a fixed

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percentage of compensation to the project managers based on the expected revenue from the project, taking into account various factors, such as the importance of the project to us and the market knowledge of the project managers. If we are successfully engaged by the project, we would compensate the project manager in installments after we receive payments from the project. The project managers also help us develop and maintain customer relationships and assist us in collecting outstanding payments from our customers. We do not enter into any agreement with the project managers. Our marketing expenses primarily represent our compensation for these independent project managers' services.

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

Our selling and marketing expenses were approximately RMB9.8 million, RMB12.0 million, RMB15.1 million and RMB6.1 million for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. As we expand our operations, we expect to strengthen our sales efforts and our selling and marketing expenses may increase accordingly. As a percentage of revenue, our selling and marketing expenses were approximately 1.9% in 2007, approximately 1.4% in 2008, approximately 1.0% in 2009 and approximately 0.9% during the four months ended April 30, 2010, which has been continuously decreasing as a result of the economies of scale.

Administrative Expenses

The table below sets forth the major components of our administrative expenses for the periods indicated.

	Year ended December 31,						Four months ended April 30,			
	2007		2008		2009		2009		2010	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
	(unaudited)									
Staff costs	11,010	2.1	23,872	2.8	24,345	1.6	5,302	1.5	9,712	1.4
General administrative expenses	5,231	1.0	5,291	0.6	12,116	0.8	3,050	0.9	6,757	1.0
Depreciation and amortization	2,641	0.5	6,888	0.8	11,068	0.7	3,964	1.1	4,759	0.7
Government levies	3,034	0.6	5,573	0.6	7,727	0.5	1,618	0.5	1,267	0.2
Others	7,122	1.3	13,600	1.6	22,590	1.5	2,844	0.8	2,418	0.4
Total	29,038	5.5	55,224	6.4	77,846	5.1	16,778	4.8	24,912	3.7

Our administrative expenses primarily include staff costs, general administrative expenses, depreciation and amortization and government levies. Our administrative expenses were approximately RMB29.0 million, RMB55.2 million, RMB77.8 million and RMB24.9 million for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. Our administrative expenses as a percentage of revenue were approximately 5.5%, 6.4%, 5.1% and 3.7% for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively.

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Other Income and Other Gains/(Losses)

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

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Other income					
VAT refund	30,528	39,167	65,035	6,683	25,217
Government grant	<u>5,180</u>	<u>1,450</u>	<u>6,491</u>	<u>1,863</u>	<u>3,227</u>
Sub-total	<u>35,708</u>	<u>40,617</u>	<u>71,526</u>	<u>8,546</u>	<u>28,444</u>
Other gains/(losses) — net					
Payables written back	2,981	1,153	1,344	—	—
Donations	(689)	(1,499)	(825)	(5)	(390)
Net loss from disposal of property, plant and equipment .	(425)	(74)	(2,733)	—	(417)
Others	<u>406</u>	<u>236</u>	<u>1,157</u>	<u>55</u>	<u>294</u>
Sub-total	<u>2,273</u>	<u>(184)</u>	<u>(1,057)</u>	<u>50</u>	<u>(513)</u>
Total	<u><u>37,981</u></u>	<u><u>40,433</u></u>	<u><u>70,469</u></u>	<u><u>8,596</u></u>	<u><u>27,931</u></u>

Other income primarily includes VAT refunds and other government incentives. We enjoy VAT refunds for cement products that use a certain percentage of recycled materials as raw materials, such as slag and flyash. These VAT refunds are recurring in nature as we continue to use qualified recycled materials in our production. In 2007, 2008 and 2009 and the four months ended April 30, 2010, these VAT refunds amounted to approximately RMB30.5 million, RMB39.2 million, RMB65.0 million and RMB25.2 million, respectively. We submit our tax assessment and refund application on a monthly basis and the tax authority usually pays us the VAT refunds by cash in the month following our application. During the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, we received VAT refunds on sales of approximately 1.4 million, 1.7 million, 2.8 million and 1.2 million tons of cement, respectively. The cement for which we applied for VAT refund generated approximately RMB290.3 million, RMB399.4 million, RMB754.1 million and RMB287.8 million, respectively, in revenue for us for the years ended December 2007, 2008 and 2009 and the four months ended April 30, 2010, accounting for approximately 55.2%, 46.1%, 49.7% and 42.7% of our total revenue for the same respective periods. Other government incentives are non-recurring in nature and primarily include industrial development subsidy and “clean” project investment incentive, which together amounted to approximately RMB5.2 million, RMB1.5 million, RMB6.5 million and RMB3.2 million, respectively, for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010. Other gains/(losses) primarily include payables written back, donations and net loss from disposal of property, plant and equipment, which together amounted to gains of approximately RMB2.3 million in 2007 and loss of approximately RMB0.2 million, RMB1.1 million and RMB0.5 million for 2008, 2009 and the four months ended April 30, 2010, respectively.

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Finance Income

Finance income primarily includes interest income on short-term bank deposits and net foreign exchange gains on financing activities. Our finance income was RMB1.6 million, RMB2.6 million, RMB1.2 million and RMB0.1 million for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively.

Finance Cost

Finance cost primarily includes interest on bank loans and borrowings that is not capitalized and loss on redemption of Warrants held by Credit Suisse International, or the Warrantholder. Our finance costs were approximately RMB26.2 million, RMB28.1 million, RMB242.3 million and RMB58.6 million for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively. Our finance cost increased significantly in 2009 primarily as a result of the RMB168.5 million cost we recorded upon the redemption on October 21, 2009 of Warrants we issued to the Warrantholder on May 29, 2008 in connection with a US\$60.0 million loan we borrowed from the Warrantholder pursuant to the CS Facility Agreement. This RMB168.5 million cost represents the difference between the amount paid for redemption of the Warrants and the fair value of the put option feature of the Warrants, as at the date of redemption, which had previously been recognized as liabilities. Our finance cost was RMB58.6 million for the four months ended April 30, 2010 primarily as a result of our high level of bank borrowings.

Income Tax Expenses

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

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before income tax	150,273	257,729	375,147	98,449	184,092
Tax calculated at statutory enterprise income tax ⁽¹⁾	49,590	64,432	93,787	24,612	46,023
Tax effects of:					
Expenses not deductible for tax purposes	—	454	614	—	1,656
Tax effect of tax exemption and reduced tax rate under tax holiday	(53,750)	(59,654)	(101,429)	(26,688)	(28,252)
Tax credit	—	(3,772)	(4,355)	—	—
Unrecognized tax losses ⁽²⁾	4,160	2,536	56,070	9,702	10,371
Reversal of deferred tax assets arising from tax credit expired	—	7,570	—	—	—
Income tax expense	<u>—</u>	<u>11,566</u>	<u>44,687</u>	<u>7,626</u>	<u>29,798</u>

Notes:

(1) The statutory enterprise income tax rate in the PRC was 33%, 25%, 25% and 25%, respectively, for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010.

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- (2) Certain tax loss was not recognized as deferred income tax asset because in certain entities, no future taxable profit is expected to be available against which the temporary differences can be utilized. The significant increase in 2009 was because the loss relating to the redemption of warrant was not recognized as deferred tax assets.

Our income tax expenses primarily consist of provision for PRC current and deferred income tax expenses. We recorded income tax expenses of nil, approximately RMB11.6 million, RMB44.7 million and RMB29.8 million, respectively, for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010. Our effective tax rates were nil, approximately 4.5%, 11.9% and 16.2% for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, respectively.

Net Profit and Net Profit Margin

For the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, our net profit was approximately RMB150.3 million, RMB246.2 million, RMB330.5 million and RMB154.3 million, respectively, and our net profit margin was approximately 28.6%, 28.4%, 21.8% and 22.8%, respectively. The decrease of 6.6% of our net profit margin from 2008 to 2009 was primarily due to our increase in finance cost as a result of the loss of approximately RMB168.5 million incurred on the redemption of Warrants in November 2009. Without such loss, our net profit margin would be generally in line with the increase of our gross profit margin. For the first four months of 2010, in addition to the increased coal price and the increased depreciation which increased our cost of sales and impacted our net profit margin during the same period, the increased finance cost and the increased effective tax rate also impacted our net profit margin.

TAXATION

Jersey

Our Company is incorporated in Jersey with limited liability. Companies that are tax resident in Jersey (with the exception of certain Jersey based financial services companies and local utility companies) are typically subject to a zero per cent rate of income tax except on income arising from land or buildings located in Jersey. Non-resident companies are not subject to Jersey income tax except with regard to Jersey sourced income.

Dividends on Shares may be paid without withholding or deduction for or on account of Jersey income tax and holders of our Shares (other than residents of Jersey) will not be subject to any tax in Jersey in respect of the holding, sale or other disposition of such Shares.

In Jersey, no stamp duty is levied on the issue or transfer of shares except that stamp duty is payable on Jersey grants of probate and letters of administration, which will generally be required to transfer shares on the death of a holder of such shares.

Jersey does not otherwise levy taxes upon capital, inheritances, capital gains or gifts nor are there other estate duties.

For detailed information, please see Appendix V — Summary of the Constitution of our Company and Jersey Companies Law.

BVI

West China Cement Co., Ltd. (中國西部水泥有限公司), or West China BVI, is incorporated in the BVI as an exempted company and accordingly is exempt from BVI income tax.

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PRC

The PRC Enterprise Income Tax Law imposes a unified enterprise income tax rate of 25% on both domestic enterprises and foreign-invested enterprises. Under the PRC Enterprise Income Tax Law, enterprises that enjoyed a preferential tax rate prior to January 1, 2008 will gradually transition to the new tax rate over five years from January 1, 2008. Enterprises that previously enjoyed a fixed period of tax exemption and reduction will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to an absence of profit, such preferential tax treatment commenced from January 1, 2008.

We currently enjoy certain PRC tax incentives as a result of the status of certain of our PRC subsidiaries as foreign invested enterprises and the locations of all of our PRC subsidiaries in western China. Shaanxi Yaobai and Lantian Yaobai are entitled to a two-year exemption from the PRC enterprise income tax from their first profitable year on a cumulative basis, and a 50% reduction of their applicable enterprise income tax rate for the succeeding three years. Shaanxi Yaobai is entitled to this preferential treatment because it is a wholly foreign owned enterprise. According to our PRC legal counsel, Zong Heng Law Firm, Lantian Yaobai is entitled to this preferential treatment pursuant to Article 16 of the *Provisional Regulations on the Domestic Re-investment of Foreign-invested Enterprises* (關於外商投資企業境內投資的暫行規定) jointly promulgated by the then Ministry of Foreign Trade and Economic Cooperation and the State Administration of Commerce and Industry on September 1, 2000, which stipulates that a foreign-invested enterprise that invests in central and western China and has no less than 25% of accumulative foreign-invested portion in its registered capital is eligible for preferential treatment available to foreign-invested enterprises. They are currently in the 50%-reduction three-year period, which will end in 2010 for Shaanxi Yaobai and in 2011 for Lantian Yaobai.

Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai are entitled to a preferential enterprise income tax rate of 15% under the “Western Development Plan” (西部大開發), compared with the regular national enterprise income tax rate of 25%. Xixiang Yaobai is only expected to start operations after the expiration of the “Western Development Plan” (西部大開發) tax program at the end of 2010. Apart from these subsidiaries, our other subsidiaries are currently not enjoying the preferential enterprise income tax rate provided by the “Western Development Plan” (西部大開發) either because they have just commenced operation and is applying for beneficial treatment at the applicable tax authorities or because they do not satisfy the standards set forth in the “list of encouraged industry, equipment and technology” promulgated by the PRC government, which is a requirement for the beneficial treatment. The tax benefits under the “Western Development Plan” (西部大開發) are currently scheduled to expire at the end of 2010. The PRC government has not announced whether or not it intends to renew those benefits upon their expiration. The cost saved under the “Western Development Plan” (西部大開發) accounts for approximately 10% of our profit. Our Directors are of the view that the expiration of the program may have an adverse effect on our business, financial condition and results of operation.

Our PRC counsel, Zong Heng Law Firm, has confirmed that the tax authorities granting the incentive tax rates are the appropriate and competent tax authorities to grant such incentive tax rates.

Pursuant to the New Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement became effective on January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. Faithful Alliance, being a company incorporated in Hong Kong, is eligible to a 5% lower withholding tax rate for the

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dividends received from its subsidiary, Shaanxi Yaobai, established in China, according to the avoidance of double taxation arrangement between China and Hong Kong and upon PRC tax bureau's approval at the time of dividend claim. Therefore, the withholding tax is calculated at 5% on all the distributable profits generated from Shaanxi Yaobai established in China from 1 January 2008.

We have not made any relevant provision during the Track Record Period as we have not declared or paid any dividend to our Shareholders. We currently have no plan to declare or pay any dividend immediately after the Global Offering.

Hong Kong

We did not provide for any Hong Kong profit tax as we had no business operations in Hong Kong during the Track Record Period.

Our Directors confirm that as of the Latest Practicable Date, we had made all required tax filings under the relevant tax laws and regulations in the respective jurisdictions and paid all outstanding tax liabilities and that, to the best of their knowledge, we are not subject to any dispute or potential dispute with tax authorities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

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

We produce and sell cement products to government infrastructure projects, ready-mixed concrete stations, distributors and others in Shaanxi Province of the PRC. Sales of goods are recognized when we have delivered the products and transferred the significant risks and rewards of ownership of the products to the customers, when there is no unfulfilled obligation that could affect the customers' acceptance of the products and collectability of the related receivables is reasonably assured. Accordingly, our revenue for sales to

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government infrastructure projects, ready-mixed concrete stations, distributors and others are recognized when we deliver those products to the purchasers. In case where we arrange third party to transport the products to the delivery site, we still retain the risks and rewards of ownership of the products until they are delivered to the purchasers.

Property, Plant and Equipment

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

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

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

— Property and plant	20 years
— Motor vehicles	8 years
— Electronic and other equipment	5 years
— Machinery	12 years

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

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

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

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

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

(a) *Stripping costs*

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

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(b) *Decommissioning, restoration and similar liabilities*

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

According to the new regulation issued in 2009 by the Ministry of Land and Resources of the People's Republic of China, the owner of a mine should undertake the obligation of environmental restoration. A provision is recognized at the present value of costs to be incurred for the restoration of our limestone mines based on the best estimate of future expenditure by our management. However, the local Land and Resource Bureau has not issued specific rules for the restoration standard. If the restoration standard is released in the future, the estimate of restoration costs may be subject to revision. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time, and the provisions are updated accordingly.

Borrowings

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

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

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

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

Warrants

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

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Goodwill

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

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

Mining Rights

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

Impairment of Non-financial Assets

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

Inventories

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

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

Provision for Trade and Other Receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to

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collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will become bankrupt or financial reorganization, and default of payments is considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statements of comprehensive income.

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

Deferred Income Tax

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

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

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

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

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RESULTS OF OPERATIONS

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

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	525,929	866,126	1,516,766	349,421	675,309
Cost of sales	(350,165)	(556,073)	(878,087)	(198,537)	(429,710)
Gross profit	175,764	310,053	638,679	150,884	245,599
Selling and marketing expenses . . .	(9,796)	(12,018)	(15,064)	(4,745)	(6,082)
Administrative expenses	(29,038)	(55,224)	(77,846)	(16,778)	(24,912)
Other income and other gains/(losses) - net	37,981	40,433	70,469	8,596	27,931
Finance costs - net	(24,638)	(25,515)	(241,091)	(39,508)	(58,444)
Profit before income tax	150,273	257,729	375,147	98,449	184,092
Income tax expense	—	(11,566)	(44,687)	(7,626)	(29,798)
Profit for the year/period	<u>150,273</u>	<u>246,163</u>	<u>330,460</u>	<u>90,823</u>	<u>154,294</u>

Four months ended April 30, 2010 compared to four months ended April 30, 2009

Revenue

Our revenue increased by approximately 93.3% from approximately RMB349.4 million for the four months ended April 30, 2009 to approximately RMB675.3 million for the four months ended April 30, 2010. This increase was primarily due to our increased sales volume in the first four months of 2010, which was attributable to our expansion into new markets in southern Shaanxi and our increased production capacity as a result of the addition of our new production facilities in Xunyang, Zhen'an, Danfeng and Yangxian counties. The total volume of our cement sold increased by 91.7% from 1.2 million tons for the four months ended April 30, 2009 to 2.3 million tons for the four months ended April 30, 2010. Our average selling price of cement products increased by approximately 1.4%, from approximately RMB290 per ton for the four months ended April 30, 2009 to approximately RMB295 per ton for the four months ended April 30, 2010.

Cost of sales

Our cost of sales increased by approximately 116.4% from approximately RMB198.5 million for the four months ended April 30, 2009 to approximately RMB429.7 million for the four months ended April 30, 2010. This increase was primarily due to the increase of our sales volume. Our cost of sales as a percentage of revenue increased from approximately 56.8% in the four months ended April 30, 2009 to approximately 63.6% in the four months ended April 30, 2010 primarily as a result of our increased average cost of coal per ton of cement, which was primarily due to the addition of our Zhen'an, Danfeng and Yangxian production lines in the second half of 2009, which are located further away from coal mines than our other production lines and have higher transportation costs for coal. The increased price of coal also caused our cost of coal as a percentage of our cost of sales to increase from 36.0% for the four months ended April 30, 2009 to 37.9%

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for the four months ended April 30, 2010. Our depreciation cost as a percentage of our cost of sales increased from 9.0% for the four months ended April 30, 2009 to 13.5% for the four months ended April 30, 2010 primarily due to the addition of our Xunyang and Danfeng production lines in late 2009 which have higher investment costs per ton of production.

Gross Profit and Profit Margin

As a result of the foregoing, our gross profit increased by approximately RMB94.7 million, or approximately 62.8%, from approximately RMB150.9 million for the four months ended April 30, 2009 to approximately RMB245.6 million for the four months ended April 30, 2010. Our gross profit margin decreased from approximately 43.2% for the four months ended April 30, 2009 to approximately 36.4% for the four months ended April 30, 2010.

Selling and Marketing Expenses

Our selling and marketing expenses increased by approximately 28.2% from approximately RMB4.7 million for the four months ended April 30, 2009 to approximately RMB6.1 million for the four months ended April 30, 2010, primarily due to our increased sales efforts in the target markets of our newly-added Zhen'an, Danfeng and Yangxian production lines, including recruiting more sales personnel, and due to increased transportation costs to cover our expanded market in southern Shaanxi province. As a result, our selling and marketing staff costs increased by approximately 72.8% from approximately RMB1.4 million for the first four months in 2009 to approximately RMB2.4 million for the first four months in 2010 and our transportation expenses increased by approximately 13.9% from approximately RMB0.7 million for the first four months in 2009 to approximately RMB0.8 million for the first four months in 2010. Our selling and marketing expenses as a percentage of our revenue decreased from 1.4% for the four months in 2009 to 0.9% for the four months in 2010, primarily as a result of economies of scale.

Administrative Expenses

Our administrative expenses increased by approximately 48.5% from approximately RMB16.8 million for the four months ended April 30, 2009 to approximately RMB24.9 million for the four months ended April 30, 2010 primarily in connection with our newly-added Zhen'an, Danfeng and Yangxian production lines. As a result, our administrative staff costs increased by approximately 83.2% from approximately RMB5.3 million for the four months ended April 30, 2009 to approximately RMB9.7 million for the four months ended April 30, 2010. Our general administrative expenses increased by approximately 121.5% from approximately RMB3.1 million for the four months ended April 30, 2009 to approximately RMB6.8 million for the four months ended April 30, 2010. Our depreciation and amortization under administrative expenses increased by approximately 20.1% from approximately RMB4.0 million for the four months ended April 30, 2009 to approximately RMB4.8 million for the four months ended April 30, 2010, primarily because of the increase in the number of offices and office equipment due to our business expansion. Our administrative expenses as a percentage of our revenue decreased from 4.8% for the first four months in 2009 to 3.7% from the first four months in 2010, primarily as a result of the economies of scale.

Other Income and Other Gains/(Losses)

Other income and other gains/(losses) primarily represent the VAT refund we receive from the PRC government. Other income and other gains/(losses) increased by approximately 224.9% from approximately RMB8.6 million for the four months ended April 30, 2009 to approximately RMB27.9 million for the first four months in 2010. Our VAT refund recorded for the four months ended April 30, 2009 was low because there was a late approval of VAT refund by the relevant government authorities. As a result, the VAT refund that should have been recorded for the first four months of 2009 was recorded after April 30, 2009.

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Finance Income

Finance income decreased from approximately RMB0.3 million for the four months ended April 30, 2009 to approximately RMB0.1 million for the four months ended April 30, 2010 primarily as a result of the decrease in our interest-bearing short-term bank deposits.

Finance Cost

Finance cost increased from approximately RMB39.9 million for the four months ended April 30, 2009 to approximately RMB58.6 million for the four months ended April 30, 2010 primarily as a result of our increased bank and other borrowings. In addition, we recorded RMB7.5 million in early repayment charges in the four months ended April 30, 2010 in connection with our repayment of the US\$55.0 million loan under the CS Facility Agreement.

Profit Before Income Tax

As a result of the foregoing, our profit before income tax increased by approximately 87.0% from approximately RMB98.4 million for the four months ended April 30, 2009 to approximately RMB184.1 million for the four months ended April 30, 2010.

Income Tax Expense

Our income tax expenses increased from approximately RMB7.6 million for the four months ended April 30, 2009 to approximately RMB29.8 million for the four months ended April 30, 2010 as a result of our increased effective tax rate due to the profit contributed by our newly added subsidiaries that have higher income tax rates, including Xiushan Yaobai, which operates our Zhen'an production facility, and Longqiao Yaobai, which operates our Danfeng production facility, whose income tax rates are 25%, and Ankang Yaobai, which operates our Xunyang production facility, whose income tax rate is 15%.

Profit for the Period

Our net profit increased by approximately 69.9% from approximately RMB90.8 million for the four months ended April 30, 2009 to approximately RMB154.3 million for the four months ended April 30, 2010.

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

Revenue

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

Our sales volume increased primarily because of strong market demand and the addition of our Xunyang production facility, which commenced operations in January 2009 and has an annual production capacity of 2.0 million tons. Our average selling price increased primarily as a result of the substantial increase of cost of coal in the second and third quarters of 2008 which resulted in the substantial increase

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in the average selling prices of our products in August and September 2008. In addition, as a result of the economic development in Shaanxi province and the PRC government's stimulus package, demand for our products from government infrastructure projects increased in 2009, and those projects typically require high grade cement, which commanded higher selling prices.

Cost of Sales

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

Gross Profit and Profit Margin

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

Selling and Marketing Expenses

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

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

Administrative Expenses

Our administrative expenses increased by approximately 40.9% from approximately RMB55.2 million for 2008 to approximately RMB77.8 million for 2009. Our administrative expenses as a percentage of revenue decreased from approximately 6.4% for 2008 to approximately 5.1% for 2009. Our staff costs increased slightly by approximately 1.7% from approximately RMB23.9 million for 2008 to approximately RMB24.3 million for 2009 because the number of our administrative staff remained fairly stable. Our general administrative expenses increased by approximately 128.3% from approximately RMB5.3 million for 2008 to approximately RMB12.1 million for 2009 primarily because we had two additional production facilities

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in operation in 2009, our Xunyang and Zhen'an production facilities. We also incurred additional expenses in preparation for the operations of our Yangxian production facility, which was completed on December 31, 2009. Our administrative depreciation and amortization increased by approximately 60.9% from approximately RMB6.9 million for 2008 to approximately RMB11.1 million for 2009, primarily as a result of depreciation we recorded in 2009 for our Xunyang production facility, which was constructed in 2008 and commenced operations in January 2009.

Other Income and Other Gains/(Losses)

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

Finance Income

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

Finance Cost

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

Profit Before Income Tax

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

Income Tax Expense

Our income tax expenses increased from approximately RMB11.6 million for 2008 to approximately RMB44.7 million for 2009, as a result of an increase in our profit before income tax and an increase in tax rate applicable to Lantian Yaobai changed from 0.0% for 2008 to 7.5% for 2009. See “— Taxation — PRC.”

Profit for the Year

Our profit for the year increased by approximately RMB84.3 million, or approximately 34.2% from approximately RMB246.2 million for 2008 to approximately RMB330.5 million for 2009.

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

Revenue

Our revenue increased by approximately 64.7%, from approximately RMB525.9 million in 2007 to approximately RMB866.1 million in 2008. The increase in revenue was due to both an increase in sales volume and an increase in the average selling price of our cement products, which mainly resulted from high

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demand for our products due to continued economic and fixed assets investment growth in Shaanxi province. The total volume of cement sold increased by approximately 41.7%, from approximately 2.4 million tons for 2007 to approximately 3.4 million tons for 2008. Our average selling price of cement products increased by approximately 14.6%, from approximately RMB219 per ton for 2007 to approximately RMB251 per ton for 2008.

Cost of Sales

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

Gross Profit and Profit Margin

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

Selling and Marketing Expenses

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

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

Administrative Expenses

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

Our staff costs and benefits increased by approximately 117.3%, from approximately RMB11.0 million for 2007 to approximately RMB23.9 million for 2008, mainly as a result of an increase in the number of administrative staff in connection with the expansion of our operations. Our general administrative expenses increased by approximately 1.9% from approximately RMB5.2 million for 2007 to approximately RMB5.3 million

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for 2008. Our depreciation and amortization increased by approximately 165.4% from approximately RMB2.6 million for 2007 to approximately RMB6.9 million for 2008. These increases were primarily due to higher administrative and office expenses as we added our Xunyang production facility in 2008 and established a pre-operation project office for our Yangxian production facility in the last quarter of 2008.

Other Income and Other Gains/(Losses)

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

Finance Income

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

Finance Costs

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

Profit Before Income Tax

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

Income Tax Expenses

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

Profit for the Year

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

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

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

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash generated from operating activities	170,969	323,092	619,676	229,236	261,572
Net cash used in investing activities	(355,395)	(667,923)	(847,503)	(250,590)	(373,978)
Net cash generated from/(used in) financing activities	22,034	351,872	537,047	82,460	(180,128)
Net (decrease)/increase in cash and cash equivalents	(162,392)	7,041	309,220	61,106	(292,534)
Cash and cash equivalents at beginning of year/period	192,389	29,997	37,038	37,038	346,258
Cash and cash equivalents at the end of year/period	<u>29,997</u>	<u>37,038</u>	<u>346,258</u>	<u>98,144</u>	<u>53,724</u>

Net cash generated from operating activities

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

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating cash inflows before movements in working capital	221,350	350,095	724,607	160,035	306,107
Change in working capital — generated/(used)	(25,205)	(386)	(27,869)	96,166	29,140
Cash generated from operations	196,145	349,709	696,738	256,201	335,247
Interest paid	(25,176)	(26,617)	(57,975)	(21,540)	(40,954)
Income tax paid	—	—	(19,087)	(5,425)	(32,721)
Net cash generated from operating activities	<u>170,969</u>	<u>323,092</u>	<u>619,676</u>	<u>229,236</u>	<u>261,572</u>

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

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

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

Our net cash generated from operating activities was approximately RMB229.2 million in the first four months ended April 30, 2009. This net cash inflow was primarily a result of (i) profit before income tax in the amount of approximately RMB98.4 million, (ii) the adjustment of depreciation and amortization in the amount of approximately RMB21.8 million and net finance costs in the amount of approximately RMB39.5 million, and (iii) an increase in trade and other payables in the amount of approximately RMB195.0 million, which was partially offset by (i) an increase in trade and bills receivables in the amount of approximately RMB58.8 million, (ii) an increase in inventories in the amount of approximately RMB22.9 million, and (iii) an increase in other receivables and prepayments in the amount of RMB17.1 million.

Our net cash generated from operating activities was approximately RMB261.6 million in the first four months ended April 30, 2010. This net cash inflow was primarily a result of (i) profit before income tax in the amount of approximately RMB184.1 million, (ii) the adjustment of net finance costs in the amount of approximately RMB58.4 million, (iii) the adjustment of depreciation and amortization in the amount of approximately RMB62.9 million, (iv) an increase in trade and other payables in the amount of approximately RMB108.3 million, which was partially offset by (i) an increase in other receivables and prepayments in the amount of approximately RMB62.6 million, and (ii) an increase in inventories in the amount of approximately RMB14.7 million.

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Net cash used in investing activities

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

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

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

Our net cash used in investing activities was approximately RMB250.6 million for the four months ended April 30, 2009, primarily reflecting the cash used for the purchase of property, plant and equipment of approximately RMB250.9 million. The purchase of property, plant and equipment was primarily due to the construction of Xunyang production facility and Yangxian production facility.

Our net cash used in investing activities was approximately RMB374.0 million for the four months ended April 30, 2010, primarily reflecting the cash used for the purchase of property, plant and equipment of approximately RMB374.8 million. The amount for purchase of property, plant and equipment was primarily due to the construction of our Mianxian, Xixiang and Pucheng production facilities and also includes a portion of the contractual payments for our Yangxian production facility, which was completed in December 2009.

Net cash generated from/used in financing activities

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

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

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

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Our net cash generated from financing activities was approximately RMB82.5 million for the four months ended April 30, 2009, primarily due to new bank borrowings of approximately RMB180.0 million, as partially offset by a repayment of bank borrowings of approximately RMB103.0 million.

Our net cash used in financing activities was approximately RMB180.1 million for the four months ended April 30, 2010 primarily due to repayments of bank borrowings of approximately RMB598.4 million and payment of other borrowings of approximately RMB132.8 million, as partially offset by new bank borrowings of approximately RMB529.8 million.

Capital Commitments and Contingent Liabilities

Capital commitments

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

	As of December 31,			As of April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment.	556,656	449,035	558,336	502,988

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

Operating lease commitments

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

	As of December 31,			As of April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	345	484	74	—
In the second to fifth year inclusive	533	217	209	—
Over five years	504	496	446	—
Total	1,382	1,197	729	—

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Our lease commitments for leased properties decreased from RMB1.4 million as of December 31, 2007 to RMB1.2 million as of December 31, 2008. It further decreased to RMB0.8 million as of December 31, 2009 and we do not have any lease commitments as of April 30, 2010. The continued decrease of our lease commitments is primarily because through out the Track Record Period, we purchased or ceased to use such properties.

Indebtedness

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

	As of December 31,			As of April 30,	As of June 30,
	2007	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Borrowings repayable:					
Bank borrowings:					
Within 6 months or less	140,000	168,000	626,563	332,829	383,986
After 6 months but within					
12 months	115,400	85,400	540,505	386,829	427,786
After 1 year but within					
2 years	28,000	407,069	204,596	639,654	633,994
After 2 years but within					
5 years	<u>35,800</u>	<u> </u>	<u>123,462</u>	<u>85,682</u>	<u>59,405</u>
Sub-total:	319,200	660,469	1,495,126	1,444,994	1,505,170
Other borrowings:					
Within 6 months or less	16,953	15,784	92,800	—	—
After 6 months but within					
12 months	—	—	29,000	—	—
After 1 year but within					
2 years	—	—	29,000	18,000	18,000
After 2 years but within					
5 years	<u> </u>	<u> </u>	<u>3,000</u>	<u>3,000</u>	<u>6,000</u>
Sub-total:	<u>16,953</u>	<u>15,784</u>	<u>153,800</u>	<u>21,000</u>	<u>24,000</u>
Total	<u><u>336,153</u></u>	<u><u>676,253</u></u>	<u><u>1,648,926</u></u>	<u><u>1,465,994</u></u>	<u><u>1,529,170</u></u>

As of December 31, 2009, April 30, 2010 and June 30, 2010, we had total borrowings of approximately RMB1,648.9 million, RMB1,466.0 million and RMB1,529.2 million, respectively, of which approximately RMB1,495.1 million, RMB1,445.0 million and RMB1,505.2 million, respectively, were bank borrowings, which were secured by our properties, equity interests in our subsidiaries and shares of our Company. The other borrowings as of December 31, 2009 of approximately RMB153.8 million were unsecured, of which approximately RMB150.8 million was transferred from Shaanxi Danshui to Longqiao Yaobai in connection with the establishment of Longqiao Yaobai. Our other borrowing as of April 30, 2010 and June 30, 2010 of

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RMB18 million represent unsecured borrowing we inherited in connection with our investment in Longqiao Yaobai. The annual interest rate of such borrowing was 3.6%. The remaining of other borrowing RMB3 million and RMB6 million as of April 30, 2010 and June 30, 2010 represent certain interest free loans due to Shaanxi Industry Investment Limited (陝西省產業投資有限公司). For details of our bank borrowings and other borrowings, please refer to the sections headed “— Indebtedness inherited from acquisition and investment activities”, “— Indebtedness as of June 30, 2010” and “— Working Capital” below.

As of December 31, 2008, we had total borrowings of approximately RMB676.3 million, of which approximately RMB660.5 million were bank borrowings secured by our properties and equity interests in a subsidiary. The remaining borrowings of approximately RMB15.8 million were unsecured borrowings. As of December 31, 2007, we had total borrowings of approximately RMB336.2 million, of which approximately RMB319.2 million were bank borrowings secured by our properties. The remaining borrowings of approximately RMB17.0 million were unsecured borrowings.

Our bank borrowings are denominated in the following currencies:

	As of December 31,			As of April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	319,200	289,200	794,800	770,666
US\$	—	371,269	700,326	674,328
Total.	<u>319,200</u>	<u>660,469</u>	<u>1,495,126</u>	<u>1,444,994</u>

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

	As of December 31,			As of April 30,
	2007	2008	2009	2010
RMB Bank borrowings.	7.78%	8.44%	7.27%	7.12%
US\$ Bank borrowings	—	20.23%	12.94%	6.64%

Our PRC counsel, Zong Heng Law Firm, has confirmed that all outstanding loan agreements and related security agreements entered by the our PRC subsidiaries are valid and in compliance with PRC laws. Based on their due and necessary inquiry and with the confirmation by our PRC subsidiaries, Zong Heng Law Firm concluded that such loans and guarantees are being performed in ordinary course and will not trigger any potential legal liability for our PRC subsidiaries.

Indebtedness inherited from acquisition and investment activities

We formed a joint venture, Longqiao Yaobai, with Shaanxi Danshui in December 2009, in which we own an 80% interest and Shaanxi Danshui owns 20%. In connection with the establishment of Longqiao Yaobai, we incurred a total of RMB340.3 million of debt, including RMB200.0 million of borrowings owed to third parties that had been transferred from Shaanxi Danshui to Longqiao Yaobai, and a RMB140.3 million shareholder loan owed to Shaanxi Danshui, which represents the excess of the value of the net assets contributed by Shaanxi Danshui over the value of Shaanxi Danshui's portion of the registered capital of Longqiao Yaobai. This shareholders' loan was made by Shaanxi Danshui to Longqiao Yaobai in connection

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with its capital investment in Longqiao Yaobai during the establishment of Longqiao Yaobai, which was in the ordinary course of Shaanxi Danshui's investment activity as permitted by PRC Company Law and Contract Law. Our PRC counsel, Zong Heng Law Firm, has confirmed that such shareholder loan by a lawfully established company in the PRC was not one of "prohibited loans" under the General Principles of Loans (貸款通則), even though the lender is not a financial institution. See also "Business — Recent Acquisitions" and "History, Reorganization and Corporate Structure — Our Corporate Development."

Shaanxi Danshui transferred RMB365.3 million of assets together with RMB200.0 million of liabilities to Longqiao Yaobai. The liabilities assumed from Shaanxi Danshui include RMB49.2 million of borrowings from two local commercial banks and RMB150.8 million of unsecured borrowings. Of these unsecured borrowings, RMB66.4 million was borrowed from certain employees and business partners of Shaanxi Danshui, which had an annual interest rate of 10.12%, and RMB66.4 million was borrowed from Longqiao Trading for the purpose of financing the construction of the cement production line of Shaanxi Danshui, which had an annual interest rate of 8.43%. The remaining RMB18.0 million unsecured borrowing was the amount borrowed from the local government of Danfeng county, Shaanxi province, to give financial support to the construction of the cement production line of Shaanxi Danshui with the condition that the amount may only be used for such purpose. The annual interest rate of such borrowing was 3.6%. We had fully repaid the secured bank borrowings of RMB49.2 million in February 2010 and repaid RMB132.8 million of the RMB150.8 million unsecured borrowings as of June 30, 2010 by cash generated from our operations. In January 2010, we entered into supplemental agreements with the local government of Danfeng county, Shaanxi province, the lender of the outstanding RMB18.0 million unsecured borrowings, to extend the repayment date of the borrowing to December 31, 2011 at the same interest rate. For details of the supplemental agreement, see "—Working Capital."

Our PRC counsel, Zong Heng Law Firm are of the opinion that the RMB18.0 million loan from the local government of Danfeng county is a loan extended by a government authority to an enterprise, which does not constitute a loan between enterprises and therefore, does not violate the relevant PRC laws and regulations, in particular the General Principles of Loans (貸款通則). In addition, our PRC counsel, Zong Heng Law Firm, is of the opinion that the original RMB66.4 million borrowing from Longqiao Trading to Shaanxi Danshui, which was transferred to Longqiao Yaobai pursuant to the Joint Venture Agreement, was an investment by a shareholder to its subsidiary in the form of a shareholder's loan for the purpose of supporting the construction of such subsidiary, therefore, such loan does not violate General Principles of Loans (貸款通則), even though the lender of the loan is not a financial institution, as such shareholder loan was made in the ordinary course of business operation between a shareholder and an entity it invests in, does not constitute a "prohibited loan" under the General Principles of Loans (貸款通則) and is in compliance with PRC Company Law and PRC Contract Law. Zong Heng Law Firm further confirms that a borrowing extended by a non-financial institution does not by itself result in a violation of the General Principal of Loans (貸款通則).

We acquired Xiushan Yaobai in August 2009 for a consideration of approximately RMB180.7 million. We had an outstanding consideration of RMB36.1 million as of December 31, 2009 which we paid in full in January 2010. In connection with the acquisition, we assumed approximately RMB32.0 million borrowings, which were primarily bank borrowings and some borrowings mainly due to the previous shareholders of Xiushan Yaobai and third parties, and approximately RMB59.9 million trade and other receivables, which were primarily trade receivables, prepayments and other receivables.

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Indebtedness as of June 30, 2010

At the close of business on June 30, 2010, being the latest practicable date for the purpose of indebtedness statement, we had drawn down all bank facilities available to us, which totaled approximately RMB1,505.2 million.

As of June 30, 2010, we had total borrowings of approximately RMB1,529.2 million, of which the borrowings of approximately RMB1,505.2 million were secured, all of which were bank loans, and the remaining borrowings of approximately RMB24.0 million were unsecured. Of the bank loans outstanding as of June 30, 2010, (i) RMB384.0 million will be due within six months from June 30, 2010 and RMB427.8 million will be due after six months but before one year from June 30, 2010, which were primarily loans borrowed from local commercial banks, (ii) RMB634.0 million will be due after one year but before two years from June 30, 2010, which primarily represents the amount repayable during such period under a US\$50.0 million loan borrowed from ICBC (Asia) and ICBC Macau pursuant to the ICBC Facility Agreement and a US\$50.0 million loan borrowed from Superb Miles Limited pursuant to the ICBCI Facility Agreement, and (iii) approximately RMB59.4 million will be due after two years from June 30, 2010, which represents the amount repayable during such period under the loan from a syndicate of financial institutions led by Credit Suisse Shanghai Branch. We expect to repay the ICBCI Facility in full and half of the ICBC Facility upon Listing by proceeds from the Global Offering. Of the unsecured borrowings of approximately RMB24.0 million, RMB18.0 million represents the amount borrowed from the local government of Danfeng county and RMB3.0 million represents the amount due to Shaanxi Industry Investment Limited (陝西省產業投資有限公司), a government institution, which is interest free as a support from the local government to Xiushan Yaobai before we acquired Xiushan Yaobai. This loan has a term of five years and shall be repaid as to RMB1.0 million before December 2012, and RMB2.0 million before January 2013. We intend to repay such loan when it becomes due with cash generated from our operations. The remaining RMB3.0 million other borrowings represent a new interest free loan extended to us by Shaanxi Industry Investment Limited in June 2010, which shall be repaid before June 2015.

We did not have, as at the close of business on June 30, 2010, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Financial Covenant under our RMB330 Million Syndicated Loan

On November 30, 2009, Shaanxi Yaobai entered into a loan agreement with a syndicate of financial institutions led by Credit Suisse, Shanghai Branch for a loan of RMB330.0 million. This loan is for a period of 36 months from the drawdown date and the interest rate is 110% of the base rate for RMB-denominated loans for terms between one and three years as quoted by PBOC. We are required by this loan agreement to, among other things, (i) maintain a ratio of total liabilities to total assets of no more than 50% for each six-month period between December 31, 2009 and December 31, 2010 and no more than 40% from January 1, 2011 until the loan is repaid, and (ii) incur no more than RMB200 million in capital expenditures in the six months ended June 30, 2010 and in each of the two years ending December 31, 2011 and 2012 and no more than RMB450 million in capital expenditures in the year ending December 31, 2010. This loan was negotiated between us and the lenders when the full amount of the US\$60 million CS Facility was outstanding and repayable in two installments in June 2010 and June 2011. As a result, this syndicated loan contemplated the repayment of the CS Facility and required us to comply with those financial covenants in part to ensure we would have sufficient cashflows to service all of our outstanding loans. Although we repaid

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the CS Facility in full in March 2010, the financial covenants under the syndicated loan had not been renegotiated. As we increased our capital expenditures in 2010 in connection with the construction of our production facilities, the total amount of the capital expenditures we incurred in the four months ended April 30, 2010 was RMB374.8 million, which exceeded the RMB200 million limit prescribed in this loan agreement for the six months ended June 30, 2010. In addition, based on Shaanxi Yaobai's unaudited consolidated management accounts as of June 30, 2010, the ratio of total liabilities to total assets exceeded the 50% limit applicable for the six months ended June 30, 2010. We had communicated with the lenders after we discovered the non-compliance with the capital expenditure limit before April 30, 2010 and with the ratio of total liabilities to total assets on June 30, 2010. The facility agent representing the lenders of this syndicated loan provided us with a letter dated July 21, 2010 confirming that they had granted us a waiver by April 30, 2010 (in respect of the above-mentioned first non-compliance) and by June 30, 2010 (in respect of the above-mentioned second non-compliance). Our PRC legal advisor has advised us that it is within the authority of the facility agent to represent the lenders to grant the waiver and that such waiver is enforceable under PRC laws. As a result, we were not as of April 30, 2010 and June 30, 2010 and are not in breach of this loan agreement. We are currently in negotiations with the lenders to amend the covenants of this loan agreement in light of our repayment of the CS Facility. We are in the process of re-negotiating the financial covenants with our lenders. Our lenders have given us positive indications that they are amenable to amending the covenants and we currently have no reason to believe that we would not be able to obtain favorable amendments to these covenants given the change in our total outstanding loan amount. Please see "Risk Factors — Risks Relating to Our Business — Our significant level of indebtedness and our net current liabilities position expose us to liquidity risks."

We conduct periodic analysis of our historical financial information to review our compliance with the relevant covenants. However, we did not have a sophisticated budgeting system in the past to forecast the key financial ratio and other covenant requirements. We intend to strengthen our budgeting system and conduct covenant compliance forecast to ensure compliance with such covenants in the future. The Directors consider that with the budgeting system in place and the proposed amendment to the covenants, we would be able to comply with such covenants.

Since June 30, 2010, there has not been any material adverse change in our indebtedness and contingent liabilities. Our Directors confirm that there was no delay or default in repayment of bank borrowings or other borrowings during the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010. Certain of our outstanding bank loans contain cross-default provisions, including the RMB330.0 million syndicated loan mentioned above, the US\$50.0 million loan under the ICBC Facility Agreement and the US\$50.0 million loan under the ICBCI Facility Agreement. Such cross-default provisions generally provide that if any default of another material financial indebtedness has occurred or if any event of default shall cause any such indebtedness to be declared due prior to its maturity date, then an event of default is considered to have happened under the facility which contains such cross-default provision. As of June 30, 2010, we did not experience any event that triggers the cross-default provisions in our loan agreements.

In connection with the borrowings above, Mr. Zhang provided a charge over the 19,393,776 Shares held by him and a personal guarantee for the ICBCI Facility. In addition, a second charge over 19,393,776 Shares held by Mr. Zhang was created and a personal guarantee was provided by him as the guarantor to the ICBC Facility, ranking immediately behind the charge created under the ICBCI Facility. Share charges over the Shares held by Mr. Zhang and the personal guarantee provided by Mr. Zhang will be released before or upon Listing.

As of June 30, 2010, our PRC subsidiaries had not entered into any guarantee agreement to guarantee their borrowings or the borrowings of any third parties.

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As of June 30, 2010, the carrying value of the property, plant and equipment pledged to banks for the purpose of securing borrowings was approximately RMB1,811.4 million and the land use right pledged to banks for the same purpose was approximately RMB57.9 million.

CAPITAL EXPENDITURES

Historical Capital Expenditures

Our capital expenditures include expenditures for property and plant, motor vehicles, electronic and other equipment, machinery, mining equipment, land use rights and mining rights. The table below sets forth the capital expenditure as represented by the cash used for the purchase of property, plant and equipment, land use rights and mining rights for the year or period indicated.

	Year ended December, 31,			Four months ended April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Purchase of property, plan and equipment	345,515	603,246	599,998	374,800
Purchase of land use rights	1,124	61,731	27,398	—
Purchase of mining rights	12,500	4,107	1,807	—
Acquisition of subsidiary net of cash acquired .	—	—	<u>120,922</u>	—
Total	<u>359,139</u>	<u>669,084</u>	<u>750,125</u>	<u>374,800</u>

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

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

Planned Capital Expenditures

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

Based on our current plan, we estimate that an aggregate of approximately HK\$2,165 million will be required to fund the construction of our new production lines that are currently under construction, to upgrade our current production facilities and to fund our future acquisitions in 2010 and 2011. See “Future Plans and Use of Proceeds” for further information.

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WORKING CAPITAL

Details of our current assets and current liabilities as of December 31, 2007, 2008 and 2009, April 30, 2010 and June 30, 2010 are as follows:

	As of December 31,			As of April 30,	As of June 30,
	2007	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets					
Inventories	45,653	81,507	128,979	143,633	145,722
Trade and other receivables and prepayments	101,454	125,770	317,670	382,194	411,260
Cash and bank balances . . .	29,997	37,038	346,258	53,724	97,790
Restricted cash	24,336	35,999	19,582	9,415	9,420
Total current assets	<u>201,440</u>	<u>280,314</u>	<u>812,489</u>	<u>588,966</u>	<u>664,192</u>
Current liabilities					
Trade and other payables . . .	186,536	269,511	559,395	898,450	850,001
Current income tax liabilities	—	—	38,639	35,715	37,853
Borrowings	<u>272,353</u>	<u>269,184</u>	<u>1,288,868</u>	<u>719,658⁽¹⁾</u>	<u>811,773⁽¹⁾</u>
Total current liabilities . . .	<u>458,889</u>	<u>538,695</u>	<u>1,886,902</u>	<u>1,653,823</u>	<u>1,699,627</u>
Net current liabilities	<u>257,449</u>	<u>258,381</u>	<u>1,074,413</u>	<u>1,064,857</u>	<u>1,035,435</u>

Note:

(1) All the current borrowings are secured of which a maximum of RMB300.0 million may be rolled over for a new term for loans borrowed from Agricultural Bank of China Limited pursuant to a credit limit arrangement between us and Agricultural Bank of China Limited.

Historically, we have financed our operations and expansion with cash generated from our operating and financing activities. We had net current liabilities of approximately RMB257.4 million, RMB258.4 million, RMB1,074.4 million and RMB1,064.9 million as of December 31, 2007, 2008 and 2009 and April 30, 2010, respectively, primarily as result of our rapid capacity expansion during the Track Record Period, during which we primarily used short-term borrowings to finance the capital expenditures of such expansion. Our Directors consider such financing methods to be common in the industry where it is more difficult to obtain long-term financing to match long-term capital expenditures requirement.

Our net current liabilities position as of December 31, 2009 was primarily attributable to the substantial increase in our current borrowings from approximately RMB269.2 million as of December 31, 2008 to approximately RMB1,288.9 million as of December 31, 2009. Our current borrowings as of December 31, 2009 primarily consisted of (i) a bridging loan of US\$50.0 million, or approximately RMB341.4 million, under ICBCI Facility with Superb Miles Limited, an affiliate of ICBCI, (ii) the current portion of the outstanding US\$55.0 million loan we borrowed from Credit Suisse International in May 2008 in the amount of approximately US\$41.3 million or approximately RMB281.7 million, (iii) the current portion of the

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syndicate loans of RMB330.0 million we borrowed in December 2009 in the amount of RMB66.0 million, (iv) short-term loans and the current portion of long-term loans we borrowed from commercial banks in the amount of approximately RMB478.0 million and (v) other short-term borrowings of approximately RMB121.8 million in connection with the establishment of Longqiao Yaobai.

We use both short-term borrowings and long-term borrowings to finance part of our capital expenditures and to satisfy our general working capital requirements. The loan from Credit Suisse International in May 2008 was primarily for the purpose of, and has been used in, the funding of our construction of production facilities in Xunyang production facility. The ICBCI Facility was borrowed primarily for the purpose of redeeming the Warrants and was used for such purpose in November 2009. The RMB330.0 million syndicate loans borrowed in December 2009 and the other short-term loans were primarily for the purpose of satisfying our general working capital requirements and funding our expansion plan. In 2009, we acquired Xiushan Yaobai. In connection with this acquisition, we paid RMB50.0 million in the aggregate during June and July 2009, RMB50.0 million in September 2009 and RMB30.0 million in December 2009. In connection with the establishment of Longqiao Yaobai, we paid RMB50.0 million in December 2009 and RMB50.0 million in February 2010. In addition, we completed the construction of our Yangxian production facility and commenced construction of our three production lines in Mianxian, Pucheng and Xixiang counties in 2009.

As at the Latest Practicable Date, we had not defaulted on the repayment of any of our borrowings, or experienced any difficulty in raising funds with our principal banks or in rolling over short-term loans borrowed from various banks.

With an improved financial position and performance, we were able to secure a long-term bank loan of RMB330.0 million from a syndicate of financial institutions led by Credit Suisse Shanghai Branch on November 30, 2009. This syndicated loan is for a period of 36 months and the interest rate is 110% of the base rate for one to three years RMB denominated loans quoted by PBOC. Hanzhong Yaobai provided various equipment and Ankang Yaobai provided two parcels of land with a total site area of approximately 111,355 sq.m., a building with a gross floor area of approximately 3,366 sq.m. and various equipment as collaterals for this loan. The loan will be repaid by 10 installments at three-month intervals starting from the end of nine months after December 10, 2009, which was the drawdown date of the loan.

Since December 31, 2009, we have reached a number of agreements to extend our current borrowings and to obtain new credit facilities. These agreements have reduced our current liabilities.

On January 1, 2010, we entered into three supplemental agreements with each of Shaanxi Danshui, Longqiao Trading and the local government of Danfeng county, Shaanxi province, to extend certain liabilities we owed in connection with the establishment of Longqiao Yaobai. Pursuant to the supplemental agreements, the repayment date for each of the following borrowing will be extended to December 31, 2011: (i) the RMB140.3 million borrowing due to Shaanxi Danshui, of which 50% was originally due by June 30, 2010 and the other 50% was originally due by June 30, 2011, (ii) the RMB52.0 million outstanding borrowing due to Longqiao Trading which was originally due by April 26, 2010 and (iii) the RMB18.0 million outstanding borrowing due to the local government of Danfeng which was originally due by December 31, 2010. Except for the extension of the maturity date of the borrowings, no other term has been changed. We expect to repay these loans when they become due on December 31, 2011 by cash generated from our operations.

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On January 15, 2010, we entered into a credit arrangement with Agricultural Bank of China Limited, Shaanxi branch, pursuant to which we were granted a revolving working capital credit limit of RMB300.0 million which may be used to roll over our existing borrowings with this bank when such borrowing falls due. This credit limit arrangement will expire on December 31, 2011 and we intend to extend this arrangement before its expiration. We will repay the loans under this credit limit arrangement by cash generated from our operations on their respective maturity date if we cannot obtain an extension for this credit limit arrangement.

On February 26, 2010, we entered into a US\$50.0 million loan agreement with ICBC (Asia), ICBC Macau and ICBCI Holdings to refinance our CS Facility Agreement. The repayment of the ICBC Facility is to be made in four equal semi-annual installments before February 25, 2012. We are also required to repay 50% of the outstanding amount together with an accrued interest upon Listing and the remaining portion in equal amount payable in arrears semi-annually on each repayment date thereafter. On March 9, 2010, we repaid the outstanding US\$55.0 million loan we borrowed under the CS Facility Agreement with the ICBC Facility and our cash generated from operations.

On March 1, 2010, we reached an extension agreement with Superb Miles Limited, an affiliate of ICBCI, to extend the maturity date of the US\$50.0 million loan under the ICBCI Facility we borrowed on October 21, 2009 to the earlier of (i) the Listing Date and (ii) July 26, 2011. The annual interest rate of this loan will remain at LIBOR plus 5% until July 26, 2010, after which the annual interest rate will increase to LIBOR plus 7%. We paid an amendment fee of US\$500,000 and commit to pay another fee of US\$500,000 if the loan is not repaid in full on or before July 26, 2010. No other material terms have been changed and we expect to repay this loan upon Listing by proceeds raised from the Global Offering.

Our net current liabilities as of April 30, 2010 were approximately RMB1,064.9 million. We had current assets of approximately RMB589.0 million as of April 30, 2010, including trade and other receivables and prepayments of approximately RMB382.2 million, inventories of approximately RMB143.6 million and cash and bank deposit of approximately RMB53.7 million. As of April 30, 2010, we had current liabilities of approximately RMB1,653.8 million, including trade and other payables of approximately RMB898.5 million, current borrowings of approximately RMB719.7 million and current income tax liabilities of approximately RMB35.7 million.

As of June 30, 2010, we had current assets of approximately RMB664.2 million, including cash, restricted cash and bank balances of approximately RMB107.2 million, and we had current liabilities of approximately RMB1,699.6 million, including current borrowings of approximately RMB811.8 million, of which a maximum of RMB300.0 million loans with Agricultural Bank of China Limited may be rolled over for a new term pursuant to a credit limit arrangement between us and Agricultural Bank of China Limited.

Our net current liabilities as of June 30, 2010 were approximately RMB1,035.4 million. Compared to December 31, 2009, our net current liabilities position has not improved substantially, despite our reduced current borrowings. This is primarily due to a decrease in cash balance as a result of the payment we made to our contractors for the new production lines in Pucheng and Mianxian counties, which had an effect of reducing our current assets but increasing our non-current assets. At the same time, there was an increase of trade and other payables as of June 30, 2010, primarily attributable to an increase in amounts paid to construction contractors.

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As a result of the above activities to improve our financial position, our current borrowing has decreased significantly from RMB1,288.9 million as of December 31, 2009 to RMB811.8 million as of June 30, 2010.

We plan to further improve our liquidity position by funding our expansion plans with the cash generated from our operations, bank borrowings and the proceeds from the Global Offering. See “Future Plans and Use of Proceeds” in this prospectus for more information.

Our Directors are of the opinion that, taking into account the financial resources available to us including internally generated funds, the available banking facilities and the estimated net proceeds from the Global Offering, we may still record net current liabilities after the Global Offering but the working capital available to us is sufficient for our present requirements and for at least the next 12 months from the date of this prospectus.

Current Ratio and Gearing Ratio

The table below sets forth the current ratio and gearing ratio as at the dates indicated.

	As of December 31,			As of April 30,
	2007	2008	2009	2010
Financial Ratio				
Current ratio ⁽¹⁾	0.44	0.52	0.43	0.36
Gearing ratio ⁽²⁾	29%	41%	50%	49%

Notes:

- (1) Current ratio is calculated based on the current assets divided by current liabilities.
- (2) Gearing ratio is calculated based on the total debt, net of cash and cash equivalents and restricted cash, divided by total capital which comprises of net debt and total equity.

Current Ratio

As of December 31, 2007, 2008 and 2009 and April 30, 2010, our current ratio was 0.44, 0.52, 0.43 and 0.36, respectively. Our current ratio increased from 0.44 as of December 31, 2007 to 0.52 as of December 31, 2008, primarily because the increase of our inventories and receivables in 2008 outweighed the increase in current liabilities. Our inventories increased in 2008 primarily because of inventories we purchased for the Xunyang facility before it commenced operations in December 2008. Our current liabilities increased from approximately RMB458.9 million as of December 31, 2007 to approximately RMB538.7 million as of December 31, 2008. Our current assets increased from approximately RMB201.4 million as of December 31, 2007 to approximately RMB280.3 million as of December 31, 2008.

Our current ratio decreased from 0.52 as of December 31, 2008 to 0.43 as of December 31, 2009, primarily because the increase in trade and other payables and borrowings outweighed the increase in current assets. Our trade and other payables increased in 2009 primarily because we recorded amounts payable and debt assumed in connection with our acquisitions of Xiushan Yaobai and Longqiao Yaobai in 2009 and our amounts payable to construction contractors increased significantly in 2009 compared to 2008. Our cash and bank balances increased as a result of a RMB330.0 million syndicated loan we borrowed in December 2009 from a syndicate of financial institutions led by Credit Suisse Shanghai Branch for the purpose of general

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working capital. Our current liabilities increased from approximately RMB538.7 million as of December 31, 2008 to approximately RMB1,886.9 million as of December 31, 2009. Our current assets increased from approximately RMB280.3 million as of December 31, 2008 to approximately RMB812.5 million as of December 31, 2009.

Our current ratio decreased from 0.43 as of December 31, 2009 to 0.36 as of April 30, 2010 primarily due to a decrease in our cash balance as a result of our cash payment to contractors for the new production lines in Pucheng and Mianxian counties. This decrease in our cash balance reduced our current assets but increased our non-current assets. At the same time, there was an increase of trade and other payables, which was attributable to an increase of amounts payable to our construction contractors. The decrease in our current liabilities, which was attributable to the decrease in our current borrowings, reduced such impact on our current ratio.

Gearing Ratio

As of December 31, 2007, 2008 and 2009 and April 30, 2010, our gearing ratio was 29%, 41%, 50% and 49%, respectively. Our gearing ratio increased from 29% as of December 31, 2007 to 41% as of December 31, 2008, primarily due to the increase in our borrowings. Our gearing ratio increased from 41% as of December 31, 2008 to 50% as of December 31, 2009, primarily due to an increase in our borrowings at the end of 2009. Our gearing ratio decreased slightly to 49% as of April 30, 2010 primarily because our net debt slightly increased as our cash decreased and both our borrowings and our total capital slightly increased at the same time.

Cash Flow and Capital Management

We seek to effectively manage our cash flow and capital commitments. We establish an annual budget and capital expenditure plan prior to the beginning of each year. We evaluate our cash flow and plan our capital commitments on a monthly basis. We centrally manage our capital to ensure proper and efficient collection and deployment of our funds. While the capital for production ensures sufficient funding for daily operations, the capital for investment ensures that the necessary costs for investing in new projects, research and development as well as payments for projects can be met. All application and disbursement of funds require the approval of the appropriate managers.

We have improved our ability to generate cash through increasing our sales. We have also focused on strengthening our capital management through various means, including increasing our efforts to collect receivables and shortening our credit period to our customers. In addition, we manage our long-term capital commitment for the construction of our production lines through our capital expenditures and budget plan. Specifically, we evaluate the following when we plan our long-term capital commitments: (i) our current and projected operational and financial performance; (ii) our cash position and ability to obtain further financing; (iii) demand and pricing for our products and (iv) changes in government policies. We also review our capital requirements and payment schedules on a monthly basis to ensure we have secured sufficient funds.

As of June 30, 2010, our indebtedness totaled RMB1,529.2 million, which consisted of long-term and short-term borrowings. Based on our current development plan, we estimated that an aggregate of approximately HK\$659 million would be required to complete the two production lines currently under

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construction in Pucheng and Xixiang counties, an aggregate of approximately HK\$1,506 million would be required to complete our future plans, which include upgrading our current production facilities, funding possible acquisitions and pay the remainder of the construction cost of our Mianxian production line as disclosed in “Future Plans.”

We intend to finance our capital expenditures using cash generated from our operations, proceeds from the Global Offering, and funds from our bank loans. Although most of our loans are short-term, they are typically revolving credit facilities and can be renewed from time to time. We have never defaulted on our loans and we have maintained good relationships with PRC commercial banks. As a result, we believe we will be able to continue to refinance our short-term loans. We seek to obtain additional credit facilities from banks in the future to enhance our working capital adequacy and plan to lengthen our loan maturity profile by increasing the proportion of long-term bank loans.

INVENTORIES

The table below sets forth a summary of our inventories and inventory turnover days for the periods indicated.

	As of December 31,			As of April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials and consumables	28,856	51,719	81,751	87,346
Work in progress	10,515	18,585	23,618	40,943
Finished goods	8,411	13,332	25,739	17,473
Total	47,782	83,636	131,108	145,762
Provision for impairment loss:				
Raw materials	(2,129)	(2,129)	(2,129)	(2,129)
Inventories net	<u>45,653</u>	<u>81,507</u>	<u>128,979</u>	<u>143,633</u>
Inventory turnover days ⁽¹⁾⁽²⁾	36	42	44	38

Notes:

- (1) Average inventory turnover days for the years ended 2007, 2008 and 2009 equals the average of the net inventory at the beginning of the year and the net inventory at the end of the year divided by cost of sales and multiplied by 365 days.
- (2) Average inventory turnover days for the four months ended April 30, 2010 equals the average of the net inventory at the beginning of the period and the net inventory at the end of the period divided by cost of sales and multiplied by 120 days.

Our average inventory turnover days increased from 36 days for 2007 to 42 days for 2008 primarily because we accumulated large amounts of inventories at the end of 2008 in anticipation of the commencement of operations by our Xunyang production facility in January 2009. Our average inventory turnover days increased from 42 days for 2008 to 44 days for 2009 primarily because our accumulated inventories at the end of 2009 in anticipation of the commencement of operations by our Yangxian production facility on December 31, 2009. Our average inventory turnover days decreased to 38 days for the first four months of 2010 as our sales increased and we put our accumulated inventories into production.

Our inventories increased from approximately RMB45.7 million as of December 31, 2007 to approximately RMB81.5 million as of December 31, 2008, primarily due to purchases of raw materials and consumables in anticipation of the commencement of operations of our Xunyang production facility.

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Our total inventories increased from approximately RMB81.5 million as of December 31, 2008 to approximately RMB129.0 million as of December 31, 2009. The increase was primarily attributable to the purchases of raw materials and consumables for our Zhen'an production facility, which we acquired in August 2009 and our Yangxian production facility, which was completed on December 31, 2009.

Our total inventories increased from approximately RMB129.0 million as of December 31, 2009 to RMB143.6 million as of April 30, 2010. The increase was primarily attributable to our increased work in progress, as we stocked clinker to prepare for Yangxian production facility to start to operate.

As of June 30, 2010, approximately RMB92.4 million, or 64%, of our inventories as of April 30, 2010 was used or sold.

TRADE AND OTHER RECEIVABLES

The table below sets forth a breakdown of our trade receivables and our trade receivables turnover days for the periods indicated.

	As of December 31,			As of April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	56,006	69,291	95,676	92,598
Less: provision for impairment of receivables	(2,800)	(3,465)	(4,881)	(4,881)
Trade receivables - net	<u>53,206</u>	<u>65,826</u>	<u>90,795</u>	<u>87,717</u>
Trade receivable turnover days ⁽¹⁾⁽²⁾	28	25	19	16

Notes:

- (1) Average trade receivables turnover days equal the average of net trade receivables at the beginning of the year and the net trade receivables at the end of the year divided by revenue and multiplied by 365 days.
- (2) Average trade receivables turnover days for the four months ended April 30, 2010 equals the average of net trade receivables at the beginning of the period and the net trade receivables at the end of the period divided by revenue and multiplied by 120 days.

Our trade receivables are derived primarily from sales of our cement products. We generally provide credit periods of 60 to 90 days to our direct sales customers. We do not have a significant concentration risk, as our exposure is spread over a large number of customers.

Our trade receivables were approximately RMB53.2 million, RMB65.8 million, RMB90.8 million and RMB87.7 million as of December 31, 2007, 2008 and 2009 and April 30, 2010, respectively. Our average trade receivables turnover days decreased from 28 days in 2007 to 25 days in 2008, and 19 days in 2009 primarily because we required advance cash payments in a higher portion of our cement sales as a result of our effort to tighten our credit policy and as a result of strong market demand.

Our average trade receivable turnover days decreased to 16 days for the first four months of 2010 primarily because our sales to government projects were low during this period due to the winter season and the Chinese New Year holidays. We require cash payment upon delivery or pickup for sales to our distributors but we grant credit periods of 60 to 90 days to our government project customers. Our trade receivables and trade receivable turnover days decrease when our sales to government project customers decrease.

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The table below sets forth the aging analysis of trade receivables at the respective date.

	As of December 31,			As of April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	42,209	45,340	64,220	63,518
Over 90 days and within 180 days	4,189	12,651	9,198	15,598
Over 180 days and within 360 days.	3,801	4,880	6,947	6,906
Over 360 days and within 720 days.	1,607	2,923	11,365	3,546
Over 720 days.	4,200	3,497	3,946	3,030
	56,006	69,291	95,676	92,598

The table below sets forth an aging analysis of trade receivables overdue but not impaired.

	As of December 31,			As of April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Overdue for 1 to 90 days	5,331	15,578	12,731	12,286
Overdue for 91 to 180 days	4,290	6,742	6,723	11,934
Overdue for 181 to 360 days	1,342	4,091	12,045	3,482
Overdue for 360 to 720 days	674	507	—	6,102
Overdue for 720 days.	1,361	—	—	—
Total	12,998	26,918	31,499	33,804

The overdue receivables for each of the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 represented approximately 23.2%, 38.8%, 32.9% and 36.5% of the total receivables for such periods, respectively. In most occasions, our customers settle the amount owed to us within the credit period. Some of our customers, especially those contractors of government-funded infrastructure projects, may not be timely in paying their final installment or the retention amount deposited by us, as they may need to wait for funding from higher authorities. This usually results in a delayed and overdue payment. The Directors are of the opinion that these events are not unusual and are difficult to avoid in our industry. These receivables, though overdue, were usually repaid at a later stage. During the Track Record Period, the amount of bad debts were approximately RMB1.8 million, RMB0.7 million, RMB1.4 million and nil, which were very low compared to our revenue during the same period. We have made various efforts to control credit risks, such as carrying out credit assessment before entering into contracts, building up credit records of our customers in order to mitigate our credit risk and reduce the overdue receivables. The Directors are of the opinion that sufficient provisions for bad and doubtful debts have been made. We have carried out regular review on the trade receivables balance and would write off bad debts, if any.

As of June 30, 2010, we had received approximately RMB43.2 million, or approximately 49%, of our net trade receivables as of April 30, 2010.

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The table below sets forth our other receivables, prepayments, and bill receivables as of the dates indicated.

	As of December 31,			As of April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables - net	24,929	28,550	154,605	139,675
Prepayments	18,969	25,675	66,900	144,452
Bill receivables	4,350	5,719	5,370	10,350

Our other receivables primarily include VAT refunds we are eligible to receive and income tax recoverable. As of December 31, 2009 and April 30, 2010, our other receivables also included RMB100.0 million as deposits to secure exclusivity in connection with a proposed acquisition.

Our other receivables increased from approximately RMB24.9 million as of December 31, 2007 to approximately RMB28.6 million as of December 31, 2008, primarily due to an increase in our VAT refunds receivable. Our other receivables further increased to approximately RMB154.6 million as of December 31, 2009, which was primarily due to RMB100.0 million of deposit we paid to secure exclusivity in connection with the potential acquisition of 陝西安康江華水泥集團有限公司 (Shaanxi Ankang Jianghua Cement Group Co., Ltd.), or Jianghua Cement, and the advance of RMB30.0 million to Shaanxi Danshui in connection with the establishment of Longqiao Yaobai. Without taking into account of these deposits and advances, our other receivables as of December 31, 2009 would have been slightly less than our other receivables as of December 31, 2008.

The RMB30.0 million advance was initially paid to Shaanxi Danshui based on preliminary negotiations between Shaanxi Danshui and us in an attempt to secure a successful cooperation between the parties and to explore the possible approach of cooperation. Such negotiations eventually led to the execution of a Joint Venture Agreement between Shaanxi Danshui and us pursuant to which Shaanxi Danshui was not obligated to sell us any assets, but instead was to contribute certain assets together with us to set up a new entity, Longqiao Yaobai. Based on the above facts, our PRC counsel, Zong Heng Law Firm is of the opinion that Shaanxi Danshui has a legal obligation to repay the RMB30.0 million advanced to us under PRC laws and that such advance was a payment made by us and an obligation incurred by Shaanxi Danshui in the ordinary course of business activities. Therefore, such advance was not in violation of the General Principles of Loans (貸款通則), was in compliance with PRC laws and regulations and was valid and enforceable.

The receivables balance of RMB30.0 million advance to Shaanxi Danshui has been settled through an offset against our other borrowings owed to Shaanxi Danshui pursuant to the Joint Venture Agreement in January 2010. As of the Latest Practicable Date, the RMB100.0 million deposit to Jianghua Cement remains outstanding.

As of June 30, 2010, without considering the RMB100.0 million deposit paid to Jianghua Cement as described above, we had received approximately RMB36.7 million, or 92.4%, of the remaining RMB39.7 million other receivables outstanding as of April 30, 2010.

Our prepayments increased from approximately RMB25.7 million as of December 31, 2008 to approximately RMB66.9 million as of December 31, 2009, primarily due to the addition of Xunyang production line and Xiushan Yaobai, as well as the prepayments made in connection with the preparation

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activities for Listing. Our prepayment increased from approximately RMB66.9 million as of December 31, 2009 to approximately RMB144.5 million as of April 30, 2010 primarily as a result of our increased prepayment to our suppliers for the purchase of raw materials to prepare for the expected increasing demand for our cement products during summer time. The commencement of full operations of our Yangxian production facility in 2010 and the ramp up of the newly acquired Danfeng production facility in early 2010 also contributed to the increase of our prepayments to our suppliers.

As of June 30, 2010, we had received 100% of our bills receivables in the amount of approximately RMB10.4 million as of April 30, 2010.

The movements of impairment of trade receivables are as follows:

	Year ended December 31,			Four months ended April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
As of the beginning of the year/period.	(4,007)	(2,800)	(3,465)	(4,881)
Provision for impairment of trade receivables	(1,776)	(691)	(1,416)	—
Receivables written off during the year as uncollectible	—	26	—	—
Reversal of impairment of trade receivables .	2,983	—	—	—
As of the end of the year/period	<u>(2,800)</u>	<u>(3,465)</u>	<u>(4,881)</u>	<u>(4,881)</u>

The movements of impairment of other receivables are as follows:

	Year ended December 31,			Four months ended April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
As of the beginning of the year/period.	—	(191)	(414)	(370)
Provision for impairment of other receivables.	(191)	(486)	(190)	—
Reversal of impairment of other receivables	—	263	234	—
As of the end of the year/period	<u>(191)</u>	<u>(414)</u>	<u>(370)</u>	<u>(370)</u>

In determining the recoverability of the trade receivables, we assess any change in credit quality of the trade receivables from the date credit was initially granted up to the reporting date.

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TRADE AND OTHER PAYABLES

The table below sets forth a breakdown of our trade payables and trade payables turnover days as of the dates indicated.

	As of December 31,			As of April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	57,532	83,802	185,950	301,577
Trade payable turnover days ⁽¹⁾⁽²⁾	58	46	56	68

(1) Trade payables turnover days equals the average of trade payables at the beginning of the year and trade payables at the end of the year divided by the cost of sales and multiplied by 365 days.

(2) Average trade payables turnover days for the four months ended April 30, 2010 equals the average of trade payables at the beginning of the period and trade payables at the end of the period divided by cost of sales and multiplied by 120 days.

Our trade payables are derived primarily from payables relating to the purchase of raw materials. Our suppliers typically grant us credit terms ranging from 45 days to 60 days.

Our trade payables increased from approximately RMB57.5 million as of December 31, 2007 to approximately RMB83.8 million as of December 31, 2008, and further to approximately RMB186.0 million as of December 31, 2009 and approximately RMB301.6 million as at April 30, 2010, primarily due to our purchase of a larger quantity of raw materials to support the growth of our operations from 2007 to April 30, 2010. Trade payables increased by 61.2% from RMB186.0 million as of December 31, 2009 to RMB301.6 million as of April 30, 2010 primarily due to the expansion of our business and production capacity. Our Yangxian and Danfeng production facilities commenced full operations in the first four months in 2010. They contributed a substantial portion of the increase in our trade payables as at April 30, 2010. The increase in trade payables as of April 30, 2010 was also partly attributable to our Mianxian production facility, which was in preparation for commencement of operations in July 2010. In addition, in order to prepare for the increasing sales activities in the summer season, we increased our purchase of raw materials in April 2010 to support our expected production needs, thereby increasing our trade payables.

As of June 30, 2010, approximately RMB90.9 million, or approximately 30%, of our trade payables as of April 30, 2010 had been settled. Although we were granted credit terms of 45 to 60 days by our suppliers, we recognized trade payables once we receive products or materials from our suppliers while our suppliers usually commence counting credit terms after the invoice is billed to us. In general, the average time lag between the delivery of product and the invoicing by our suppliers is approximately one month. Accordingly, we have a relatively low subsequent settlement of trade payables. In addition, a portion of our trade payables is the deposit retained by us, which will not be paid until the payment conditions for such deposit have been met. This also contributed to our low subsequent settlement of account payables.

Our average trade payable turnover days decreased from 58 days in 2007 to 46 days in 2008, increased to 56 days in 2009 and increased to 68 days during the four months ended April 30, 2010. In 2007, we devoted our cash generated from operations to the construction of new production facilities and purchase of equipment and, as a result, we recorded higher trade payable turnover days as of the end of 2007. Our trade payables increased in 2009 because (i) we acquired our Zhen'an production facility and assumed its trade

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payables and (ii) we purchased raw materials for our Yangxian production facility, which was completed on December 31, 2009. Our average trade payable turnover days increased from 56 days in 2009 to 68 days for the four months in 2010 primarily because we devoted our cash generated from our operations to the construction of our production facilities and repayment of our borrowings.

The table below sets forth our other payables as at the dates indicated.

	As of December 31,			As of April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Bills payable	15,000	15,000	—	—
Payable to minority equity holder of a subsidiary	—	—	70,161	—
Acquisition consideration payable	—	—	36,050	823
Bonus payable	—	6,000	6,000	6,000
Advances from customers	20,057	22,959	56,920	91,270
Staff salaries and welfare payable	4,894	9,219	17,204	15,513
Interest payable	975	1,932	3,007	2,029
Accrued taxes other than income tax	16,000	32,021	32,288	19,897
Others	20,771	43,323	141,343	434,062
Other liabilities	51,307	55,255	10,472	27,279
Total	<u>129,004</u>	<u>185,709</u>	<u>373,445</u>	<u>596,873</u>

Other payables increased from RMB43.3 million as of December 31, 2008 to RMB141.3 million as of December 31, 2009 and further to RMB434.1 million as of April 30, 2010.

Others in the above table primarily represented payables to our construction contractors. This item increased substantially during the Track Record Period from RMB20.8 million as of December 31, 2007 to RMB434.1 million as of April 30, 2010, primarily due to our increased construction activities. As of December 31, 2008, this item was RMB43.3 million because only our Xunyang production facility was under construction then. The substantial increase of this item to approximately RMB141.3 million as of December 31, 2009 was primarily due to a significant increase in construction activities at our Yangxian, Mianxian, Xixiang and Pucheng production facilities. As of April 30, 2010, this item increased to RMB434.1 million, primarily because our Yangxian production facility completed construction and therefore recognized significant amount of payables to construction contractors. In addition, our Mianxian production facility and the second line at Pucheng production facility were both near completion, and our Xixiang production facility also completed certain construction, thereby recognizing higher amount due to the construction contractors as of April 30, 2010.

Our payable to the minority equity holder of a subsidiary of approximately RMB70.2 million as of December 31, 2009 represented the current portion of the payables Longqiao Yaobai owes to Shaanxi Danshui in connection with our capital injection in Longqiao Yaobai, a joint venture between Shaanxi Danshui and us. On January 1, 2010, we entered into a supplemental agreement with Shaanxi Danshui to extend the repayment date to December 31, 2011.

Acquisition consideration payable of approximately RMB36.1 million as of December 31, 2009 represented the outstanding payment in connection with the acquisition of Xiushan Yaobai. This amount was settled in full in January 2010. See “— Indebtedness — Indebtedness inherited from acquisition and investment activities” for more details.

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The RMB6.0 million bonus payables as of December 31, 2008 and 2009 represented the bonus allocated to our management in 2008 but not paid. It was approved by our remuneration committee in June 2008 as a gratitude to our management for achieving the target operating results. We intend to allocate the bonus to our senior management and deputy managers, comprising approximately 25 individuals. We expect to pay such bonus to our management prior to Listing.

Our acquisition consideration payable as of December 31, 2009 represented the outstanding payment for the purchase price in connection with the acquisition of Xiushan Yaobai in the amount of RMB36.1 million. The acquisition consideration payable as of April 30, 2010 was RMB0.8 million, which represented the outstanding purchase price we held as security for certain receivables assumed by us through the acquisition. We expect to repay such amount when we receive the receivables assumed by us.

OTHER INTANGIBLE ASSETS

Our other intangible assets mainly consist of goodwill, customer relationships and computer software. As of December 31, 2007, 2008 and 2009 and April 30, 2010, the carrying value of our intangible assets amounted to nil, nil, approximately RMB65.1 million and approximately RMB64.4 million, respectively.

The substantial increase of our intangible assets as of December 31, 2009 was due to our acquisition of Xiushan Yaobai, which resulted in the recognition of approximately RMB45.3 million in goodwill and approximately RMB19.8 million in customer relationships.

Goodwill

Our goodwill was nil, nil, approximately RMB45.3 million and approximately RMB45.3 million as of December 31, 2007, 2008 and 2009 and April 30, 2010, respectively. The goodwill relates to the excess of consideration over the fair market value of Xiushan Yaobai.

Customer Relationships

Our customer relationships was nil, nil, approximately RMB19.8 million and approximately RMB19.1 million as of December 31, 2007, 2008 and 2009 and April 30, 2010, respectively. The customer relationships represent the non-contractual customer relationships acquired through the acquisition of Xiushan Yaobai. As Xiushan Yaobai has provided cement products for some customers for many years, our Directors believe we will maintain such business relationship with some or all of such existing customers in the future and generate cash flows. Our Directors recognized the value of such customer relationships by estimating the net cash flows expected to be received by us from the relevant customers, which is calculated primarily based on the analysis of the frequency and nature of prior orders made by those customers. Such customers primarily include 91 distributors, customers of governmental infrastructure projects and other retail purchasers. The initial carrying value of customer relationships is amortized over a period of 10 years, which our Directors believe is the period over which we can retain the customers. The carrying amount is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount. We did not record any provision for customer relationships as of April 30, 2010.

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MINING RIGHTS

The carrying value of our mining rights amounted to approximately RMB25.5 million, RMB27.9 million, RMB46.4 million and RMB45.7 million as of December 31, 2007, 2008 and 2009 and April 30, 2010, respectively.

WARRANTS CLASSIFIED AS LIABILITIES

Our Warrants classified as liabilities represent the fair value of the put option feature of the Warrants issued pursuant to the Warrant Instrument to the Warrantholder on May 29, 2008. We only recorded Warranties classified as liabilities as of December 31, 2008 in the amount of approximately RMB32.9 million. On November 3, 2009, we redeemed the Warrants for a total payment of approximately RMB206.4 million pursuant to an Amendment Deed dated October 21, 2009.

Please see section headed “History, Reorganization and Corporate Structure — Facility Arrangements — (A) Facility Arrangement with Credit Suisse, Singapore Branch” for more details on the terms of the Warrants.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any outstanding derivative financial instruments, off-balance sheet guarantees or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

INFLATION

Inflation in China has not materially affected our results of operations. According to the PRC National Bureau of Statistics, the change in the consumer price index in China was approximately 4.8%, 5.9% and -0.7% in 2007, 2008 and 2009, respectively.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

We operate in the PRC and are subject to foreign exchange risks arising mainly from our US dollar-denominated loans. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. We do not hedge against any fluctuation in foreign currency.

FINANCIAL INFORMATION

Our financial assets are denominated in the following currencies.

Financial assets	Trade and other receivables and prepayments	Cash and cash equivalents	Restricted cash	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31,				
2007				
Denominated in RMB	101,454	24,598	24,336	150,388
Denominated in GBP	—	5,391	—	5,391
Denominated in HKD	—	8	—	8
2008				
Denominated in RMB	125,744	32,834	21,340	179,916
Denominated in US\$	—	445	14,659	15,104
Denominated in GBP	26	3,755	—	3,781
Denominated in HKD	—	5	—	6
2009				
Denominated in RMB	303,077	318,497	5,010	626,584
Denominated in US\$	—	22,380	14,572	36,952
Denominated in GBP	14,593	5,378	—	19,971
Denominated in HKD	—	3	—	3
As of April 30, 2010				
Denominated in RMB	355,751	50,693	9,415	415,859
Denominated in US\$	—	2,766	—	2,766
Denominated in GBP	26,443	264	—	26,707
Denominated in HKD	—	1	—	1
Financial liabilities	Trade and other payables and prepayments	Borrowings and warrants classified as liabilities	Other liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31,				
2007				
Denominated in RMB	185,029	336,153	13,487	534,669
Denominated in GBP	1,507	—	—	1,507
Denominated in HKD	—	—	—	—
2008				
Denominated in RMB	261,295	304,984	17,317	583,596
Denominated in US\$	—	404,177	—	404,177
Denominated in GBP	8,216	—	—	8,216
Denominated in HKD	—	—	—	—
2009				
Denominated in RMB	548,604	948,600	117,049	1,614,254
Denominated in US\$	3,007	700,326	—	700,326
Denominated in GBP	7,784	—	—	10,790
Denominated in HKD	—	—	—	—
As of April 30, 2010				
Denominated in RMB	887,232	791,666	143,539	1,820,841
Denominated in US\$	—	674,328	—	674,328
Denominated in GBP	11,218	—	—	12,813
Denominated in HKD	—	—	—	—

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As of December 31, 2008, if the RMB had weakened/strengthened by 1% against the US dollar with all other variables held constant, our net profit for the year would have been RMB3,562,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated borrowings and related warrants. Profit is more sensitive to movement in RMB/US dollar exchange rates in 2008 than 2007 because of the large amount of US dollar-denominated borrowings incurred in 2008.

At December 31, 2009, if RMB had weakened/strengthened by 1% against US\$ with all other variables held constant, our net profit for the year would have been approximately RMB6,634,000 lower/higher, mainly as a result of foreign exchange losses/gains on translation of US\$-denominated borrowings.

At April 30, 2010, if RMB had weakened/strengthened by 1% against US\$ with all other variables held constant, our net profit for the period would have been approximately RMB6,742,000 lower/higher mainly as a result of foreign exchange losses/gains on translation of US\$-denominated borrowings.

Commodity price risk

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

Interest Rate Risk

As we have no significant interest-bearing assets, our income and operating cash flows are substantially independent of changes in market interest rates. Our interest-rate risk arises from short-term and long-term borrowings. Short-term borrowings are issued at variable floated rates and expose us to cash flow interest-rate risk. Long-term borrowings are issued at fixed rates and expose us to fair value interest-rate risk. We do not have formal policies on interest rate risk. During the years ended December 31, 2007 and 2008, our borrowings at variable rate were denominated in RMB and the US dollar. The weighted average effective interest rates for our RMB bank borrowings were approximately 7.78%, 8.44%, 7.27% and 7.12% as at December 31, 2007, 2008 and 2009 and April 30, 2010, respectively. Our weighted average effective interest rates for our US\$ bank borrowings were 20.23%, 12.94% and 6.64% as at December 31, 2008, 2009 and April 30, 2010, respectively. Our weighted average effective interest rates for our other borrowings were 11.82%, 11.64%, 9.16% and 3.09% as at December 31, 2007, 2008 and 2009 and April 30, 2010, respectively. Our long-term borrowings and loans to subsidiaries were issued at fixed rates and interest free, respectively, and accordingly, exposed us to fair value interest-rate risk. As of December 31, 2007, 2008 and 2009, and April 30, 2010 if interest rates on RMB-denominated borrowings were 10% higher/lower with all other variables held constant, post-tax profit for the year would be approximately RMB2.2 million, RMB2.6 million, RMB2.6 million and RMB2.0 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowing.

Credit Risk

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

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Liquidity Risk

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

In order to enable us to meet our liabilities when they become due and to carry on our business in normal course in the foreseeable future, we have reached a number of agreements to extend our current borrowings and obtain new loan facilities. Our management has prepared our future cash flow projections for the 18-month period following December 31, 2009. Based on the projection of our profits and cash flows from operations and our ability to obtain bank financing, our Directors believe that we will continue as a going concern.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2007					
Borrowings	272,353	28,000	35,800	—	336,153
Trade and other payables	173,355	—	—	—	173,355
Other liabilities	—	1,900	11,100	487	13,487
	<u>445,708</u>	<u>29,900</u>	<u>46,900</u>	<u>487</u>	<u>522,995</u>
At December 31, 2008					
Borrowings	269,184	445,876	—	—	715,060
Warrants classified as liabilities . . .	—	46,593	—	—	46,593
Trade and other payables	241,379	—	—	—	241,379
Other liabilities	—	3,700	7,400	487	11,587
	<u>510,563</u>	<u>496,169</u>	<u>7,400</u>	<u>487</u>	<u>1,014,619</u>
At December 31, 2009					
Borrowings	1,288,868	254,888	135,000	—	1,678,756
Trade and other payables	532,421	—	—	—	532,421
Other liabilities	—	73,860	3,700	487	78,047
	<u>1,821,289</u>	<u>328,748</u>	<u>138,700</u>	<u>487</u>	<u>2,289,224</u>
At April 30, 2010					
Borrowings	719,658	662,113	102,000	—	1,483,771
Trade and other payables	878,553	—	—	—	878,553
Other liabilities	—	101,993	3,700	—	105,693
	<u>1,598,211</u>	<u>764,106</u>	<u>105,700</u>	<u>—</u>	<u>2,468,017</u>

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DIVIDEND POLICY

A decision to declare and pay any dividends on our Shares would require the approval of the Board and will be at its discretion. In addition, any final (but not interim) dividend for a financial year will be subject to our Shareholders' approval. The Board will review our dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid including our results of operations, financial condition and position, and other factors the Board may deem relevant.

PRC law requires that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including IFRS. PRC law also requires foreign-invested enterprises such as some of our subsidiaries in China, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, Jersey law requires that dividends may only be paid if our Directors authorizing the dividend give a solvency statement in the required form, prior to approving the dividend, essentially to the effect that our Company will be able to pay its debts as they fall due for the 12-month period after the payment of the dividend. Please see Appendix V — “Summary of the Constitution of our Company and Jersey Companies Law” for more information.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

TREASURY POLICY

Our management aims to maintain sufficient cash and cash equivalents or have available sources of financing, including short-term and long-term bank loans and issuance of new ordinary shares, in order to meet our capital commitments. Our treasury activities are centralized and covering borrowings management, bank deposits management and cash management. Our subsidiaries submit their cash requirement plans to our head office on monthly basis. Our head office reviews the liquidity and financial requirements, including capital expenditure requirements, and disburse cash to the subsidiaries based on our liquidity position. During the Track Record Period, financings were raised mainly through bank borrowings. We regularly and closely monitor our overall debt positions and review our funding costs and maturity profile so that we maintain sufficient cash reserves to meet our short-term and long-term liquidity requirements. Our cash is generally deposited in interest-bearing savings accounts or as restricted bank deposits pledged as security for our bills payables and bankers' guarantee or for our bank borrowing, all of which is denominated in Renminbi. We have established internal control procedures to review and monitor our treasury activities. Financial budgeting and cash requirement plan are prepared by each of our subsidiaries and are required to be reviewed and approved by our head office.

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RELATED PARTY TRANSACTIONS

During 2007 and 2008, Chen Zhixin and Li Wenyu, our directors and senior officers, provided loans to us for the purpose of funding some urgent cash requirements for the purchase of certain equipment at our Lantian production facility as we were concerned that we may not be able to obtain bank loans on a timely basis or at all due to the uncertain time frame and requirements related to the loan application process. In December 2009, we fully repaid these loans.

In 2009, three of our customers offered to settle a total of approximately RMB2.7 million of purchase price they owed to us by transferring some residential apartments to us, respectively. Of the RMB2.7 million they owed to us, approximately RMB0.7 million was due in November and December 2008, approximately RMB0.9 million was due in December 2008 and January 2009 and approximately RMB1.1 million was due in July and August 2008. As the liquidity and the value of such property was uncertain, and as there may exist potential tax issues, after negotiating with the parties, Li Yongji, one of our senior management, accepted the property and assumed the liability from the customers. Li Yongji had entered into sale and purchase agreements to dispose the relevant properties. Pursuant to these agreements, the proceeds of the sales of such properties were paid to us on June 30, 2010. Li Yongji has no other relationship with the customers except for the arrangement between them. Our PRC legal counsel, Zong Heng Law Firm, has advised that such loans and amount due from our management comply with relevant laws and regulations of the PRC and does not violate the General Principles of Loans (貸款通則) as none of such loans from or amount due from our management constitute a prohibited borrowing, such as a loan entered into based on a bad faith conspiracy that harms a third party, a loan entered into with an illegal purpose or any loan that disrupts financial markets, harms public interests or the state's interests, or violates mandatory laws or regulations of the PRC. We did not have any amount due to related parties as of April 30, 2010.

DISTRIBUTABLE RESERVES

Our distributable reserves consist of share premium and retained earnings. Under the Jersey Companies Law, our Company may make a distribution if the Directors, who authorize the distribution, make a solvency statement before approving the distribution to the effect that: (i) immediately following the date on which the distribution is proposed to be made, our Company will be able to discharge its liabilities as they fall due; and (ii) that, having regard to the prospects of our Company and to the intentions of the Directors with respect to the management of its business, and the amount and character of the financial resources that will, in their view, be available to our Company, our Company will be able to carry on its business and pay its debts as they fall due within the expiry of 12 months immediately following the date on which the distribution is proposed to be made or until our Company is dissolved (whichever is earlier). The payment of any distribution can be debited to either the share premium account or other available reserves (excluding the share capital account or any capital redemption reserve). As of April 30, 2010, our positive distributable reserves were approximately RMB424.6 million. We had a share premium of approximately RMB687.9 million and accumulated losses of approximately RMB263.3 million as of April 30, 2010. We incurred accumulated losses primarily because we incurred a loss of approximately RMB168.5 million as a result of the redemption of the outstanding Warrants in November 2009.

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NO MATERIAL ADVERSE CHANGE

There was no interruption in our business that may have or has had a significant effect on our financial condition in the last 12 months. We are not aware of any material adverse change in our financial position since April 30, 2010 (being the date as of which our latest audited consolidated financial statements were prepared as set out in the Accountant's Report in Appendix I to this prospectus).

DISCLOSURE UNDER RULE 13.13 TO 13.19 OF THE LISTING RULES

According to Rule 13.17 of the Listing Rules, a general disclosure obligation will arise where the controlling shareholder of the company has pledged its interest in shares of the company to secure debts of the company or to secure guarantees or other support of obligations of the company.

As of the Latest Practicable Date, a bridging loan under the ICBCI Facility with a subsidiary of ICBCI in the amount of US\$50.0 million was secured by a charge over the 19,393,776 Shares held by Mr. Zhang and a personal guarantee provided by Mr. Zhang. Pursuant to the terms of these loan agreements, the share charges will be released before or upon Listing. In addition, a second charge over the same amount of Shares was created as a personal guarantee was also provided by Mr. Zhang in favor of ICBCI Holdings, as guarantor to the ICBC Facility, ranking immediately behind the charge created under the ICBCI Facility. The second charge and the personal guarantee will be released before or upon Listing.

Save as disclosed, our Directors have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of our adjusted net tangible assets prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on our net tangible assets attributable to the equity holders of our Company as of April 30, 2010 as if the Global Offering had taken place on April 30, 2010 assuming the Over-allotment Option is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of April 30, 2010 or at any future dates following the Global Offering.

	Unadjusted audited consolidated net tangible assets attributable to the equity holders of our Company as of April 30, 2010 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of our Company	Unaudited pro forma adjusted net tangible assets per share	
	RMB'000	RMB'000	RMB'000	RMB ⁽³⁾	HK\$ ⁽⁶⁾
Based on an Offer Price of HK\$1.21 per share	<u>1,324,611</u>	<u>782,610</u>	<u>2,107,221</u>	<u>0.51</u>	<u>0.59</u>
Based on an Offer Price of HK\$1.69 per share	<u>1,324,611</u>	<u>1,116,919</u>	<u>2,441,530</u>	<u>0.59</u>	<u>0.68</u>

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Notes:

- (1) The unadjusted audited consolidated net tangible assets attributable to the equity holders of our Company as of April 30, 2010 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of our Company of RMB1,434,705,000 with adjustments for the mining rights of RMB45,681,000 and other intangible assets of RMB64,413,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer prices of HK\$1.21 per Share and HK\$1.69 per Share after deduction of the underwriting fees and other related expenses payable by our Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 4,115,531,850 Shares after subdivision were in issue assuming that the sub-division and the Global Offering have been completed on April 30, 2010 but takes no account of any Shares which may be issued upon the exercise of the outstanding options granted under the Share Option Scheme, the outstanding AS Warrants and the Over-allotment Option.
- (4) As of June 30, 2010, our property interests were valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation reports are set out in Appendix IV — Property Valuation. The net revaluation surplus, representing the excess of market value of the property interests over their book value, is approximately RMB7.0 million. Such revaluation surplus has not been included in our consolidated financial information as of April 30, 2010 and will not be included in our financial statements for the year ending December 31, 2010. The above adjustment does not take into account the revaluation surplus. Had the property interests been stated at such valuation, an additional depreciation of RMB0.4 million per annum would be charged against the consolidated profit and loss for the year ending December 31, 2010.
- (5) **Please note that all figures are presented on the assumption that the share subdivision (please refer to paragraphs headed "Subdivision of Shares" in the section headed "History, Reorganization and Corporate Structure" in this prospectus for details) shall have been completed.**
- (6) Except as disclosed above, no adjustment has been made to reflect any trading result or other transaction of us entered into subsequent to April 30, 2010.
- (7) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at the PBOC rate of HK\$1.00 to RMB0.8724 prevailing on July 30, 2010.

UNAUDITED PRO FORMA ESTIMATE BASIC EARNING PER SHARE

The following unaudited pro forma estimate basic earnings per Share and unaudited pro forma fully diluted estimate earnings per Share have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had been taken place on January 1, 2010. This unaudited pro forma estimate earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of financial results of us for the six months ended June 30, 2010 or any future period.

Estimated consolidated profit attributable to equity holders of our Company for the six months ended June 30, 2010 ⁽¹⁾	Not less than RMB307.0 million (equivalent to approximately HK\$351.9 million)
Unaudited pro forma estimate basic earnings per Share ⁽²⁾	Not less than RMB0.075 (equivalent to approximately HK\$0.086)
Unaudited pro forma fully diluted estimate earnings per Share ⁽³⁾	Not less than RMB0.074 (equivalent to approximately HK\$0.085)

Notes:

- (1) The estimate consolidated profit attributable to equity holders of our Company for the six months ended June 30, 2010 is extracted from the section headed "Financial Information — Profit Estimate For the Six Months Ended June 30, 2010" in this prospectus. The bases and assumptions on which the above profit estimate has been prepared are summarized in Appendix III to this prospectus. The Directors have prepared the estimate consolidated profit attributable to equity holders of our Company for the six months ended June 30, 2010 based on the audited consolidated results of the Group for the four months ended April

FINANCIAL INFORMATION

30, 2010, unaudited consolidated results of the Group based on management accounts for the one month ended May 31, 2010 and an estimate of the consolidated results of the Group for the remaining one month ended June 30, 2010. The estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 2 of Section II of the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

- (2) The unaudited pro forma estimate earnings per Share is calculated by dividing the estimate consolidated profit attributable to the equity holders of our Company for the six months ended June 30, 2010, assuming that our Company had been listed since January 1, 2010 and a total of 4,115,531,850 Shares to be in issue immediately upon completion of the Global Offering were issued and outstanding during the entire period. The calculation assumes that the outstanding options granted under the Share Option Scheme, the AS Warrants and the Over-allotment Option will not be exercised.
- (3) The unaudited pro forma fully diluted estimate earnings per Share is based on the estimate consolidated profit attributable to the equity holders of our Company for the six months ended June 30, 2010, assuming that our Company had been listed since January 1, 2010 and a total of 4,139,531,850 Shares (comprising 4,115,531,850 Shares to be in issue immediately upon completion of the Global Offering, 12,500,000 Shares to be issued upon the exercise of all of the outstanding options granted under the Share Option Scheme and 11,500,000 Shares to be issued upon the exercise of all the outstanding AS Warrants). The calculation assumes that the Over-allotment Option will not be exercised and assumes no proceeds from the exercise of any options granted under the Share Option Scheme and AS Warrants.
- (4) **Please note that all figures are presented on the assumption that the share subdivision (please refer to paragraphs headed "Subdivision of Shares" in the section headed "History, Reorganization and Corporate Structure" for details) shall have been completed.**

PROFIT ESTIMATE FOR THE SIX MONTHS ENDED JUNE 30, 2010

We estimate that, on the basis of the assumptions set out in Appendix III — "Profit Estimate" to this prospectus and in the absence of unforeseen circumstances, our consolidated profit attributable to our equity shareholders for the six months ended June 30, 2010 will not be less than RMB307.0 million. The profit estimate has been prepared by our Directors based on our consolidated results as shown in our audited consolidated financial statements for the four months ended April 30 2010, unaudited consolidated management account for the one month ended May 31, 2010 and an estimate of the consolidated results of the Group for the remaining one month ended June 30, 2010.

FINANCIAL INFORMATION

PROPERTY INTERESTS AND VALUATION ON PROPERTIES

For the purpose of Listing, Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued interests of our properties in the PRC as of June 30, 2010 at approximately RMB1,228.1 million. These property interests include land use rights. A summary of valuation and valuation certificates are set out in Appendix IV to this prospectus.

There is a net revaluation surplus, representing the excess market value of the properties over their carrying value, approximately RMB7.0 million of which will not be included in our consolidated financial statements for the four months ended June 30, 2010. In accordance with our accounting policy, all properties are stated at cost less accumulated depreciation except for investment property which is measured at fair value.

Reconciliation of net book value to valuation report

The following shows the reconciliation of the net book value of our properties as derived from our audited financial statements as of April 30, 2010 to the property valuation report in Appendix IV as of June 30, 2010, as required under Rule 5.07 of the Listing Rules:

	RMB'000
Net book value of our properties as of April 30, 2010	
- property interests included in property, plant and equipment	879,559
- construction in progress included in property, plant and equipment	160,389
- land use rights	<u>178,412</u>
	1,218,360
Add: Additions of property interests included in property, plant and equipment and land use rights	11,824
Less: Depreciation and amortization	<u>(9,049)</u>
Net book value of our properties as of June 30, 2010	1,221,135
Revaluation surplus, before income tax and non-controlling interests	<u>6,960</u>
	<u>1,228,095</u>
Capital value of properties as of June 30, 2010, as set forth in the property valuation report in Appendix IV	<u>1,228,095</u>

FUTURE PLANS

FUTURE PLANS

In order to meet the increasing demand for our products and to capture growth opportunities in the fast-growing construction industry in Shaanxi province, we plan to further expand our production capacity through construction of new production facilities and acquisitions. We completed the construction of a production line in Mianxian county in Hanzhong region in July 2010 with an annual production capacity of 1.1 million tons and are currently constructing two production lines in Pucheng and Xixiang counties in Weinan and Hanzhong regions, respectively, with a total annual production capacity of 2.2 million tons. We expect the construction of the Pucheng line to be completed by the end of September 2010 and the Xixiang production line by the end of February 2011. It normally takes 12 to 18 months to construct a cement production line and a trial run of three months to ramp up to full operation. Trial run of our production lines usually takes three months and normally commences as soon as construction is completed.

The table below sets forth the details of our two production lines currently in construction:

Production Lines Under-Construction	Location	Owned By	Planned	Target Production Commencement Date	Total	Actual	Estimated Capital Expenditure in Future
			Annual Production Capacity		Budgeted Capital Expenditure	Expenditure Incurred as of April 30, 2010	
			(in million tons)		(RMB in millions)	(RMB in millions)	(RMB in millions)
Pucheng . . .	Pucheng county	Shaanxi Yaobai	1.1	August/September 2010	330-380	164	166-216
Xixiang . . .	Xixiang county	Xixiang Yaobai	1.1	January/February 2011	370-420	57	303-363

For our production lines in Danfeng, Mianxian and Yangxian counties which have commenced operations and our production lines in construction at Pucheng and Xixiang counties, our sales personnel are already conducting marketing activities including visiting potential customers. We also plan to utilize our new production capacities to produce cement products for a number of government infrastructure projects which we have been contracted to supply cements including Shiyao-Tianshui Expressway (十堰 — 天水高速) which our Mianxian production line is expected to supply approximately 0.25 million tons of cement and Datong-Xi'an Railway (大同 — 西安鐵路) which our new Pucheng production line is expected to supply 0.6 million tons of cement. We have appointed a general manager in charge of the overall operation for each of our new production line in Mianxian and Xixiang counties, and these general managers will report to our Board and senior management. Our new production line at Pucheng county will be managed by the same management personnel of current Pucheng production line. The financial reporting of our subsidiaries for the new production line will adopt the same system and procedures we have currently adopted in our other subsidiaries and accounting personnel from our headquarter will assist the personnel of our respective subsidiaries in establishing the required financial reporting systems and procedures and supervise its operation. Our current centralized procurement of raw materials and sales management will also cover the operation of our new production lines in Pucheng, Mianxian and Xixiang counties. We have set up local sales office in Hanzhong region to handle our local sales activities in Mianxian and Xixiang counties.

Our PRC legal counsel, Zong Heng Law Firm, has confirmed that we have obtained all necessary approvals from relevant authorities in the PRC for the construction of these production lines and that these production lines are in compliance with the relevant PRC government policies regulating the cement industry.

FUTURE PLANS

We plan to use approximately HK\$499 million in total (equivalent to approximately RMB435 million) from the net proceeds of the Global Offering to install residual heat recovery systems and fund any future acquisitions. Except as disclosed in “Business — Potential Acquisition” of this prospectus we have not identified any specific acquisition targets.

For each potential acquisition, our marketing department will first prepare a market research report of the markets where the potential target operates its business. Such report will be reviewed and considered by our senior management. After a decision is made by our senior management to proceed with the potential acquisition, our investment and development personnel will commence initial contact with the potential target and negotiation of major terms of the acquisition. Such major terms are subject to approval of our Board. After such approval is obtained, our investment and development personnel, legal and financial advisors (if any) will commence due diligence on the potential target and, if the results of such due diligence are satisfactory, negotiate the remaining terms of the acquisition and enter into formal acquisition agreement.

Our expansion plan described above is based on the following considerations:

- the “Western Development Plan” (西部大開發) implemented by the PRC government and the RMB4 trillion economic stimulus package will continue to attract investment in infrastructure projects in Shaanxi province. It is important for us to maintain our leading position and expand our market coverage in Shaanxi province to benefit from these new opportunities;
- our new production lines in Mianxian, Pucheng, Xixiang and Yangxian counties are strategically located to ensure our further coverage of the southern Shaanxi markets. We expect the utilization rates of our Xunyang and Zhen’an production lines to increase in view of the completion of construction of our conveyor belt for delivery of limestone excavated from our limestone quarry to our Xunyang production line and upgrade of our Zhen’an production facilities. The commencement of operation of our new production lines in Mianxian, Pucheng, Xixiang and Yangxian counties are not expected to affect the utilization rates of our Xunyang and Zhen’an production lines as they target different markets. The cement industry is highly localized because cement is expensive to transport due to its weight. Our Board had conducted detailed analysis for each new production line including analyzing the economic growth of the region where the new production lines will be located, the competition we will face from the existing cement producers and the potential market demand of cement.

As a result of the “Western Development Plan” (西部大開發) implemented by the PRC government and the RMB4 trillion economic stimulus package, we expect that the fixed asset investment will continue to grow rapidly in Shaanxi province and the demand for cement will remain high in view of the substantial number of major government-led infrastructure projects that will commence in Shaanxi province, including Baoji Hanzhong Bazhong Railway (寶雞 — 漢中 — 巴中鐵路), Hanzhong Yangpingguan Double Track Railway (漢中 — 陽平關鐵路複線) and Hanzhong Airport (漢中機場). We believe such opportunity is important for us to capture the substantial growth in cement consumption and to establish seamless market coverage in southern Shaanxi province where we believe has significant potential for future growth.

Our new production lines in Mianxian, Xixiang and Yangxian counties are all located in Hanzhong region in southern Shaanxi province which was a new market to us prior to the commencement of our new aforesaid production lines and where we believe that the demand for cement products will continue to grow in view of the government-led infrastructure projects

FUTURE PLANS

mentioned above. According to Digital Cement Net, it is expected that the demand of cement from governmental infrastructure projects in Hanzhong region between 2010 and 2012 will amount to approximately 4.5 million tons while new production lines with approximately 2.2 million tons NSP technology cement production capacity which represents the production capacity of our Mianxian and Yangxian production lines have been added in Hanzhong region in 2010. Notwithstanding the substantial increase of new capacity, according to Digital Cement Net, Hanzhong region has approximately 0.8 million tons of obsolete clinker production capacities to be phased out between 2009 and 2010. Our Directors believe that the future demand of cement products in Hanzhong region is able to consume the additional capacity. Based on our analysis, raw materials, coal and electricity supplies are readily available and our central procurement arrangement would ensure a stable and low-cost supply of raw materials for our cement production.

Our new production line in Pucheng county is located in Weinan region in southern Shaanxi province where a number of government-led infrastructure projects will commence, including Xi'an — Hefei Double Track Railway (Shaanxi section) (西安至合肥鐵路復線(陝西境)), Huangling — Houma Railway via Hancheng (黃陵經韓城至候馬線路) and Tongguan — Xi'an Highway Extension Project (潼關至西安高速公路改擴建工程). According to Digital Cement Net, it is expected that the demand for cement from governmental infrastructure projects in Weinan region between 2010 and 2012 will amount to approximately 2.8 million tons while new production lines with approximately 4.0 million tons NSP technology cement production capacity (excluding our Pucheng production line having capacity of 1.1 million tons) will be added in Weinan region in 2010. Notwithstanding the substantial increase of new capacities, according to Digital Cement Net, Weinan region has approximately 3.7 million tons of obsolete clinker production capacities to be phased out between 2009 and 2010, being the highest amount of obsolete clinker production capacities among all regions in which we operate. Accordingly, we expect the new production capacity of our Pucheng production line will be matched with new demand in the Weinan region.

- in addition to building new production lines, we will also consider acquiring local cement producers in our existing markets to strengthen our position or in new markets to establish our presence. Our criteria for acquisition target include the target's compliance with national and industrial policy and its synergy with our current production lines. We target leading cement producers in new or existing markets to strengthen our position, as in the case of our acquisitions of our production lines located at Zhen'an and Danfeng counties. Our production lines in Zhen'an and Danfeng counties are all located in Shangluo region in southern Shaanxi province which was new market to us prior to our acquisition of the aforesaid production lines and where we believe that the demand for cement products will continue to grow in view of the government-led infrastructure projects such as Xi'an — Ankang Railway (second line) (西安 — 安康鐵路(第二線)) and Yulin — Shangzhou Expressway (榆林 — 商州高速公路). According to Digital Cement Net, it is expected that the demand of cement from governmental infrastructure projects in Shangluo region between 2010 and 2012 will amount to approximately 1.4 million tons while no new NSP technology cement production capacity will be added in this region in 2010.

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We also plan to repay part of our bank borrowings as set out below with the proceeds from the Global Offering:

- the ICBCI Facility: the bridging loan facility of US\$50.0 million with Superb Miles Limited. For details, please refer to the paragraphs headed “(B) Facility Arrangement with Superb Miles Limited” under the section “History, Reorganization and Corporate Structure” in this prospectus; and
- the ICBC Facility: US\$25.0 million among the loan facility of US\$50.0 million with ICBC (Asia) and ICBC Macau. For details, please refer to the paragraphs headed “(C) Facility Arrangement with ICBC (Asia) and ICBC Macau” under the section “History, Reorganization and Corporate Structure” in this prospectus.

USE OF PROCEEDS

USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised and assuming the Offer Price is fixed at HK\$1.45 per Share (being the mid-point of the indicative range of the Offer Price of HK\$1.21 to HK\$1.69 per Share), the net proceeds of the Global Offering, after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, are estimated to be approximately HK\$1,089 million. We intend to use the net proceeds as follows:

- approximately 46% for capacity expansion, including approximately HK\$287 million (equivalent to approximately RMB250 million) to install residual heat recovery systems, half of which is expected to be incurred in 2010 and the remaining half in 2011, and approximately HK\$212 million (equivalent to approximately RMB185 million) to fund any future acquisition (including potential acquisition of Jianghua Cement); and
- approximately 54% for repayment of our loans and related interests, including the ICBCI Facility of US\$50 million and US\$25 million of the ICBC Facility promptly after Listing.

The foregoing represents our current intentions with respect to the use of our net proceeds of the Global Offering based upon our present plans and business conditions. Pending use of any net proceeds, we intend to invest such net proceeds in short-term, interest-bearing deposits with commercial banks.

In the event that the Offer Price is finally determined at the highest end of the indicative Offer Price range, being HK\$1.69 per Offer Share, our net proceeds from the Global Offering will increase to approximately HK\$1,280 million, as compared with the above computation which is based on the mid-point of the indicative Offer Price range. We intend to apply such additional net proceeds for capacity expansion each item on a pro rata basis and general working capital purposes but in any event the amount assigned for general working capital would not be more than 10% of the net proceeds.

In the event that the Offer Price is finally determined at the lowest end of the indicative Offer Price range, being HK\$1.21 per Offer Share, our net proceeds from the Global Offering will decrease to approximately HK\$897 million, as compared with the above computation which is based on the mid-point of the indicative Offer Price range. The amount of proceeds assigned for our capacity expansion will be reduced accordingly and we intend to finance the shortfall by operation cash flow and bank borrowings.

The additional net proceeds that we would receive if the Over-allotment Option is exercised in full, are currently estimated to be (i) approximately HK\$145 million assuming an Offer Price of HK\$1.21 per Offer Share, being the lowest end of the indicative Offer Price range; (ii) approximately HK\$174 million assuming an Offer Price of HK\$1.45 per Share, being the mid-point of the proposed Offer Price range; or (iii) approximately HK\$202 million assuming an Offer Price of HK\$1.69 per Offer Share, being the highest end of the indicative Offer Price range. We intend to apply the additional net proceeds for capacity expansion each item on a pro rata basis and general working capital purposes but in any event the amount assigned for general working capital would not be more than 10% of the net proceeds.

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HONG KONG UNDERWRITERS

Joint Lead Managers

ICBC International Securities Limited
Deutsche Bank AG, Hong Kong Branch

Co-Managers

China Merchants Securities (HK) Co., Limited
Guotai Junan Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offer on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. The Joint Global Coordinators (on behalf of all the Hong Kong Underwriters) shall have the absolute right by notice in writing to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect at any time prior to 8:00 a.m. on the Listing Date (the “**Termination Time**”) if any of the following events shall occur prior to the Termination Time:

- (a) there develops, occurs, exists or comes into force:
 - (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in or representing any prospective change or development in, local, national, regional or international financial, political, military, industrial, legal, economic, currency market, credit, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, credit markets, and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United

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States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, the PRC, the Jersey, the BVI, the United States, the United Kingdom, the European Union (or any member thereof), or any other jurisdiction relevant to any member of our Group (each a “*Relevant Jurisdiction*”); or

- (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
- (iii) any event or series of events in the nature of *force majeure* (including, without limitation, acts of government, labor disputes, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, declaration of a national or international emergency, acts of war, riot, public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, pandemic, outbreak of disease (including without limitation Severe Acute Respiratory Syndromes (SARS), H5N1, H1N1)), economic sanctions, in or affecting any of the Relevant Jurisdictions; or
- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (v) (A) any moratorium, suspension, restriction or limitation on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the American Stock Exchange, the London Stock Exchange, the Shanghai Stock Exchange, the Tokyo Stock Exchange, the Shenzhen Stock Exchange, or (B) a general moratorium on commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services procedures or matters in or affecting any of the Relevant Jurisdictions; or
- (vi) any change or development or event involving a prospective change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions; or
- (vii) any imposition of economic sanction or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- (viii) any change or development or event involving a prospective change in our Group’s assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or

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- (ix) the commencement by any judicial, regulatory, governmental or political body or organization of any action, claim or proceedings against a Director or an announcement by any judicial, regulatory, governmental or political body or organization that it intends to take any such action; or
- (x) save as disclosed in this prospectus, a demand by any tax authority for payment for any tax liability for any member of our Group; or
- (xi) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xii) the chairman or chief executive officer of our Company vacating his office; or
- (xiii) an authority or a political body or organization in any jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xiv) save as disclosed in this prospectus, a contravention by any member of our Group of the Listing Rules or any applicable laws or regulations in the PRC, the Jersey, Hong Kong and the BVI; or
- (xv) an order or petition is presented for the winding up or liquidation of our Company or any of its subsidiaries, or our Company or any of its subsidiaries make any compromise or arrangement with its creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of its subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any of its subsidiaries or anything analogous thereto occurs in respect of our Company or any of its subsidiaries; or
- (xvi) a demand by any creditor for repayment or payment of any of our Company's indebtednesses or those of any of its subsidiaries or in respect of which our Company or any of its subsidiaries is liable prior to its stated maturity; or
- (xvii) any loss or damage sustained by our Company or any of its subsidiaries (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xviii) any litigation or claim being threatened or instigated against our Company or any of its subsidiaries or our Controlling Shareholders (the "Covenantors"); or
- (xix) a prohibition on our Company for whatever reason from allotting or selling the Offer Shares (including the Shares to be issued pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xx) other than with the approval of the Joint Global Coordinators, the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC,

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and which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (for each of itself and on behalf of the other Hong Kong Underwriters),

- (A) has or may have or will have or is likely to have a materially adverse effect, whether directly or indirectly, on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, trading position, results of operation, prospects, position or condition, financial or otherwise, or performance of our Company or its subsidiaries as a whole; or
 - (B) has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or
 - (C) makes, may make or will or is likely to make it impracticable or inadvisable or in expedient for any part of this Agreement, the Hong Kong Public Offer or the Global Offering to proceed or to be performed or implemented as envisaged or to market the Global Offering; or
 - (D) makes or may make or will or is likely to make it inadvisable or inexpedient to proceed with the Hong Kong Public Offer and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus.
- (b) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
- (i) that any statement contained in this prospectus and other offering documents or any announcements in the agreed form issued or used by or on behalf of our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto) was, when it was issued, or has or may become untrue or incorrect or misleading in a material respect, or that any forecast, expression of opinion, intention or expectation contained in this prospectus is not based on reasonable assumptions with reference to the facts and circumstances then subsisting; or
 - (ii) that any matter has arisen or has been discovered which, had it arisen or been discovered immediately before the date of this prospectus which would or might constitute a material omission from this prospectus or the Application Forms and/or in any notices or announcements issued or used by or on behalf of our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto); or
 - (iii) that any of the warranties given by our Company or the covenantors as defined in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (the "Covenantors") is (or would when repeated be) untrue, inaccurate or misleading or having been breached; or

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- (iv) that any matter, event, act or omission which gives or is likely to give rise to any liability of our Company or the Covenantors out of or in connection with any breach, inaccuracy and/or incorrectness of the warranties as set out in the Hong Kong Underwriting Agreement and/or pursuant to the indemnities given by our Company, the Covenantors or any of them under the Hong Kong Underwriting Agreement; or
- (v) that any breach of any of the obligations or undertakings of any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than the Hong Kong Underwriters or the International Underwriters); or
- (vi) that any material adverse change or prospective material adverse change in the condition, business, assets and liabilities, properties, profits, losses, results of operations, financial, general affairs, shareholders' equity, management, trading position, prospects, position or condition, financial or otherwise, or performance of our Company and/or its subsidiaries as a whole, whether or not arising in the ordinary course of business, as determined by the Joint Global Coordinators in their sole and absolute discretion; or
- (vii) that our Company withdraws this prospectus and/or the Application Forms; or
- (viii) that approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option, options granted under the Share Option Scheme, the AS Warrants and options which may be granted under the Post-IPO Share Option Scheme) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of approval of the Listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (ix) that any of the experts described under the paragraphs headed "Qualification of experts" whose written consents are necessary for the registration of this prospectus and the Application Forms in accordance with the applicable provisions of the Companies Ordinance has withdrawn its consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears.

Lock-up undertakings to the Hong Kong Underwriters

(a) Undertakings by our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company had undertaken to each of the Joint Global Coordinators (acting on behalf of all the Hong Kong Underwriters) that, except pursuant to the Global Offering (including the exercise of the Over-allotment Option) and the exercise of the AS Warrants, the outstanding options granted under the Share Option Scheme and options to be granted and exercised under the Post-IPO Share Option Scheme, our Company will not, and will procure that its subsidiaries will not, unless with the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and in compliance with the requirements of the Listing Rules:

- (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short

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sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of its share capital, debt capital or any securities of our Company or any of its subsidiaries or any interest therein or any voting right or any other right attaching thereto (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or interest therein) save as pursuant to the repurchase mandate granted by our Shareholders to the Directors details of which are set out in Appendix VI to this prospectus; or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequence of ownership of any Shares, debt capital or other securities of our Company or any of its subsidiaries or securities or interest therein or any voting right or any other right attaching thereto or offer to or agree to do any of the foregoing or announce any intention to do so; or
- (iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraphs (i), (ii) or (iii) above,

during a period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date (the “First Six-Month Period”).

(b) *Undertakings by our Controlling Shareholders*

Save as the transfer of Shares from Mr. Zhang to Asia Gain as disclosed under the paragraphs headed “Reorganization” in the section headed “History, reorganization and corporate structure” in this prospectus, each of the Controlling Shareholders has jointly and severally undertaken with our Company, the Joint Global Coordinators (acting on behalf of all the Hong Kong Underwriters) that, and except with the prior written consent of the Joint Global Coordinators, and unless in compliance with the requirements of the Listing Rules, each of them shall not:

- (i) at any time during the First Six-Month Period offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by him/her/it or any voting right or any other right attaching thereto (including but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of our Company or any interest therein) whether currently held or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein or any voting right or any other right attaching thereto, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so provided that the restriction shall not apply to any pledge or charge of Shares by the Controlling Shareholders in favor of an authorized institution as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) for a bona fide commercial loan;

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- (ii) at any time during the six months after the expiration of the First Six-Month Period, enter into any of the transactions described in paragraph (i) above if, immediately following such transaction, he/she/it would cease to be the Controlling Shareholder provided that the restriction shall not apply to any pledge or charge of Shares by the Controlling Shareholders in favor of an authorized institution as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) for a bona fide commercial loan; and
- (iii) in the event of a disposal by him/her/it of any share capital or any interest therein or any voting right or any other right attaching thereto during the period referred to in paragraph (ii) above, he/she/it will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for the Shares or other securities of our Company.

Lock-up undertakings to the Stock Exchange

In accordance with Rule 10.07(1) of the Listing Rules, our Controlling Shareholders have undertaken to the Stock Exchange that except pursuant to the Stock Borrowing Agreement, (i) it or he or she will not, at any time commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares in respect of which it or he or she is shown by this prospectus to be the beneficial owner; and (ii) it or he or she will not, at any time during the period of six months from the date on which the period referred to in (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it or he would cease to be our Controlling Shareholder.

Our Controlling Shareholders have further undertaken to us and the Stock Exchange that it or he will, within a period of commencing from the date of this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us and the Stock Exchange of:

- (1) any pledges or charges of any shares or securities of our Company beneficially owned by any of our Controlling Shareholders, whether directly or indirectly, in favor of any authorized institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, and the number of such shares or securities of our Company so pledged or charged; and
- (2) any indication received by it/him, either verbal or written, from any pledge or chargee of any Shares or other securities of our Company pledged or charged that any of such securities will be disposed of.

International Placing

In connection with the International Placing, it is expected that our Company will enter into the International Underwriting Agreement with, among others, the International Underwriters, on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below. Under the International Underwriting Agreement, the International Underwriters will severally agree to subscribe or purchase or procure subscribers or purchasers for the International Placing Shares being offered pursuant to the International Placing. The International Underwriting Agreement is expected to be signed on or around the Price Determination Date. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

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The Over-allotment Option is expected to be granted to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offer, to require our Company to allot and issue up to an aggregate of 123,468,000 additional Shares, representing 15% of the Offer Shares initially offered under the Global Offering, at the same price per Share under the International Placing to cover, among other things, over-allocations in the International Placing, if any, and/or the obligations of the Stabilizing Manager to return Shares which it may borrow under the Stock Borrowing Agreement.

Commissions and expenses

The Underwriters will receive an underwriting commission at the rate of 3% of the aggregate Offer Price payable for the Offer Shares (including the Shares to be issued pursuant to the Over-allotment Option), out of which they will pay any sub-underwriting commissions. ICBCI will also receive a documentation fee. The underwriting commissions, documentation fee, listing fees, Stock Exchange trading fee and SFC transaction levy, legal and printing and other professional fees and other expenses relating to the Global Offering are estimated to amount to approximately HK\$105 million in total based on the Offer Price of HK\$1.45 per Offer Share (being the mid-point of the indicative Offer Price range between HK\$1.21 and HK\$1.69), which will be payable by us.

INDEPENDENCE OF THE JOINT SPONSORS

ICBCI does not satisfy the independence test set out in Rule 3A.07 of the Listing Rules. It and its related entities had other business relationship with our Group as at the Latest Practicable Date. In particular, as disclosed in the section entitled “History, Reorganization and Corporate Structure” in this prospectus, we have entered into a bridging loan facility with a fellow subsidiary of ICBCI and another loan facility with ICBC (Asia), ICBC Macau and ICBCI Holdings, which remained outstanding as at the Latest Practicable Date.

Deutsche Bank satisfies the independence test set out in Rule 3A.07 of the Listing Rules.

JOINT SPONSORS’ AND UNDERWRITERS’ INTERESTS IN OUR COMPANY

ICBCI will receive a documentation fee. The Joint Lead Managers and other Underwriters will receive an underwriting commission. Particulars of these under underwriting commission and expenses are set out in the section headed “Underwriting — Underwriting arrangements and expenses — Commissions and expenses” above. Save for its obligations under the Hong Kong Underwriting Agreement and as disclosed in the paragraph entitled “Independence of the Joint Sponsors” above, none of the Hong Kong Underwriters has any shareholding interests in our Company or any other member of our Group or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company or any other member of our Group.

Save for their obligations under the Underwriting Agreements, none of the Joint Sponsors, the Joint Lead Managers nor the other Underwriters is interested legally or beneficially in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Global Offering.

UNDERWRITING

MINIMUM PUBLIC FLOAT

Our Directors and the Joint Global Coordinators will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer as part of the Global Offering. ICBCI and Deutsche Bank are the Joint Global Coordinators, Joint Bookrunners and Joint Sponsors, and ICBCIS and Deutsche Bank are the Joint Lead Managers.

The Global Offering consists of:

- the Hong Kong Public Offer of 82,312,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described below under the paragraphs headed “The Hong Kong Public Offer” in this section; and
- the International Placing of 740,808,000 Shares (subject to reallocation as mentioned below and the Over-allotment Option) as described below under the paragraphs headed “The International Placing” in this section.

Investors may apply for the Offer Shares under the Hong Kong Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the Offer Shares to institutional and professional investors.

The number of Offer Shares to be offered under the Hong Kong Public Offer and the International Placing respectively may be subject to reallocation as described in the paragraphs headed “Pricing and allocation” in this section.

This prospectus has been prepared on the basis that the Global Offering will be made pursuant to an exemption under the Prospectus Directive, as implemented in each Member State (each, a “**Relevant Member State**”) of the European Economic Area (“**EEA**”), from the requirement to produce a prospectus for the Global Offering. Accordingly any person making or intending to make any offer within the EEA of Offer Shares should only do so in circumstances in which no obligation arises for our Company or any of the Underwriters to produce a prospectus for such offer. Neither our Company nor the Underwriters have authorized, nor do they authorize, the making of any offer of Offer Shares through any financial intermediary, other than offers made by the Underwriters by way of the Global Offering as contemplated in this prospectus. The expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each of the Underwriters has represented and undertaken that it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the United Kingdom Financial Services and Markets Act 2000 (“**FSMA**”)) received by it in connection with the issue or sale of the Offer Shares in circumstances in which Section 21(1) of the FSMA does not apply to our Company. This prospectus and any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the Offer Shares is only directed at, and may only be communicated to, persons in the United Kingdom who fall within Article 49(2) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

Offer Price

The Offer Price will be not more than HK\$1.69 per Offer Share and is expected to be not less than HK\$1.21 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants under the Hong Kong Public Offer must pay, on application, the maximum indicative Offer Price of HK\$1.69 per Hong Kong Offer Share plus 1% brokerage, a 0.004% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$3,414.11 for one board lot of 2,000 Shares. Each Application Form includes a table showing the exact amount payable on certain number of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK\$1.69, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest. See the section headed “How to apply for Hong Kong Offer Shares — Refund of application monies” in this prospectus.

Determining the Offer Price

The International Underwriters are soliciting from prospective institutional investors indications of interest in acquiring the Offer Shares in the International Placing. Prospective institutional investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around the last day for lodging applications under the Hong Kong Public Offer.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company, on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, August 13, 2010 and in any event, no later than Sunday, August 15, 2010.

If, for any reason, our Company and the Joint Global Coordinators (on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Sunday, August 15, 2010, the Global Offering will not proceed and will lapse.

Reduction in Offer Price range and/or number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters) considers it appropriate and together with our consent, the indicative Offer Price range and/or the number of Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offer.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offer, cause to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offer.

Allocation

The Shares to be offered in the Hong Kong Public Offer and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of the Offer Shares pursuant to the International Placing will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Announcement of final Offer Price and basis of allocations

The applicable final Offer Price, the level of indications of interest in the International Placing and the basis of allocations of the Hong Kong Offer Shares are expected to be announced on Friday, August 20, 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

Results of allocations in the Hong Kong Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Hong Kong Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms, by giving **electronic application instructions** to HKSCC or applying online through the White Form eIPO Service Provider under the **White Form eIPO** service, will be made available through a variety of channels as described in the section headed “How to apply for Hong Kong Offer Shares — Publication of results, dispatch/collection of share certificates and refunds of application monies” in this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

CONDITIONS OF THE HONG KONG PUBLIC OFFER

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offer will be conditional upon, among other things:

- the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be made available pursuant to the exercise of the Over-allotment Option and any Shares which may fall to be issued upon the exercise of the options which may be granted under the Share Option Scheme, the Post-IPO Share Option Scheme and the AS Warrants);
- the Offer Price having been duly agreed on or around the Price Determination Date;
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under each of the International Underwriting Agreement and the Hong Kong Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offer and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offer will cause to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to apply for Hong Kong Offer Shares — Refund of application monies” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Friday, August 20, 2010 but will only become valid certificates of title at 8:00 a.m. on Monday, August 23, 2010, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and expenses — Hong Kong Public Offer — Grounds for termination” in this prospectus has not been exercised.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE HONG KONG PUBLIC OFFER

Number of Shares Initially Offered

Our Company is initially offering 82,312,000 Shares at the Offer Price, representing 10% of the 823,120,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Global Offering will represent 20% of the total issued share capital of our Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Hong Kong Public Offer is subject to the conditions as set out in the section headed “Structure and conditions of the Global Offering — Conditions of the Hong Kong Public Offer” above.

Allocation

For allocation purposes only, the Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offer (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offer and the International Placing) will be divided equally into two pools (subject to adjustment of odd lot size). Pool A will comprise 41,156,000 Hong Kong Offer Shares and Pool B will comprise 41,156,000 Hong Kong Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage fee, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 41,156,000 Hong Kong Offer Shares (being 50% of the initial number of Hong Kong Offer Shares).

Reallocation

The allocation of Shares between the Hong Kong Public Offer and the International Placing is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Shares initially available under the Hong Kong Public Offer, the total number of Shares available under the Hong Kong Public Offer will be increased to 246,936,000, 329,248,000 and 411,560,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

(iii)), respectively, of the total number of Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Shares allocated in the International Placing will be correspondingly reduced, in such manner as the Joint Global Coordinators deems appropriate, and such additional Shares will be allocated to Pool A and Pool B equally.

If the Hong Kong Offer Shares are not fully subscribed, the Joint Global Coordinators has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators deems appropriate.

The Offer Shares to be offered in the Hong Kong Public Offer and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Applications

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing, and who has made an application under the Hong Kong Public Offer to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offer and to ensure that it is excluded from any application for Offer Shares under the Hong Kong Public Offer.

Each applicant under the Hong Kong Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Placing.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offer.

THE INTERNATIONAL PLACING

Number of Offer Shares Offered

The number of Shares to be initially offered for subscription or purchase under the International Placing will be 740,808,000 Shares, representing 90% of the Offer Shares under the Global Offering. The International Placing is subject to the Hong Kong Public Offer being unconditional.

Allocation

Pursuant to the International Placing, the International Underwriters will conditionally place the Offer Shares with institutional and professional investors and other investors outside the United States in reliance on Regulation S and in the United States to QIBs, as defined in and in reliance on Rule 144A. Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the "book-building" process described in section headed "Structure and conditions of the Global Offering — Pricing and allocation" above and based on a number of factors, including the level and timing of demand, total size of

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares after Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

OVER-ALLOTMENT OPTION

In connection with the International Placing, our Company intends to grant the Over-allotment Option to the International Underwriters, exercisable at the discretion of the Joint Global Coordinators (on behalf of the International Underwriters) within 30 days from the last day for the lodging of applications under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, the Joint Global Coordinators will have the right to require (i) our Company to allot and issue up to an aggregate of 123,468,000 additional Shares representing 15% of the Offer Shares initially offered under the Global Offering, at the Offer Price, to cover over-allocations in the International Placing, if any, and/or the obligations of the Stabilizing Manager to return Shares which it may borrow under the Stock Borrowing Agreement. If the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$1.45 (being the mid-point of the indicative Offer Price range of HK\$1.21 and HK\$1.69), our Company would receive additional net proceeds (after deducting commission and expenses attributable to the exercise of the Over-allotment Option) of approximately HK\$174 million. A press announcement will be made in the event that the Over-allotment Option is exercised.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allotments in connection with the Global Offering, the Stabilizing Manager may choose to borrow, whether on its own or through its affiliates, up to 123,468,000 Shares from Techno Faith pursuant to the Stock Borrowing Agreement, or acquire Shares from other sources, including exercising the Over-allotment Option.

The terms of the Stock Borrowing Agreement will be in compliance with the requirements set out in Rule 10.07(3) of the Listing Rules and will therefore not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules. The principal terms of the Stock Borrowing Agreement are set out below:

- (1) such stock borrowing arrangement with Techno Faith will only be effected by the Stabilizing Manager for settlement of over-allocations in the International Placing;
- (2) the maximum number of Shares borrowed from Techno Faith will be limited to the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;
- (3) the same number of Shares so borrowed from Techno Faith will be returned to Techno Faith or its nominees (as the case maybe) on or before the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; (ii) the day on which the Over-allotment Option is exercised in full;
- (4) the arrangement under the Stock Borrowing Agreement will be effected in compliance with all the applicable laws, rules and regulatory requirements; and
- (5) no payment will be made to Techno Faith by the Stabilizing Manager under the Stock Borrowing Agreement.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

STABILIZATION AND OVER-ALLOCATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, ICBCIS, as stabilizing manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager, in consultation with Deutsche Bank, and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offer, which is expected to be on September 12, 2010. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 123,468,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the SFO includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

In connection with the Global Offering, the Joint Global Coordinators may over-allocate up to and not more than an aggregate of 123,468,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Joint Global Coordinators on behalf of the International Underwriters, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Placing, the Stabilizing Manager may borrow up to 123,468,000 Shares from Techno Faith, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, August 23, 2010, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:30 a.m. on Monday, August 23, 2010. The Shares will be traded in board lots of 2,000 Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

CHANNELS OF APPLYING FOR THE HONG KONG OFFER SHARES

There are two channels to make an application for the Hong Kong Offer Shares. You may either (i) use a **YELLOW** or **WHITE** Application Form; or (ii) electronically instruct HKSCC to cause HKSCC Nominees or through the **White Form eIPO** service to cause the White Form eIPO Service Provider to apply for the Hong Kong Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or applying online through the White Form eIPO Service Provider under the **White Form eIPO** service.

1. WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- outside the United States;
- are not a U.S. Person (as defined in Regulation S); and
- outside the European Economic Area.

If you wish to apply for Hong Kong Offer Shares online through the designated website at www.eipo.com.hk under the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of the **White Form eIPO** service.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Global Coordinators (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Our Company, the Joint Global Coordinators and the White Form eIPO Service Provider, in their capacity as its agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, our Directors, or chief executive officers or their respective associates or any other connected persons (as defined in the Listing Rules) of our Company or persons who will become connected persons of our Company immediately upon completion of the Global Offering.

You should also note that you may apply for Shares under the Hong Kong Public Offer or indicate an interest for shares under the International Placing, but may not do both.

2. APPLYING BY USING AN APPLICATION FORM

- Use a **WHITE** Application Form if you want the Shares issued in your own name; or
- Use a **YELLOW** Application Form if you want the Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

3. WHERE TO COLLECT THE PROSPECTUS AND APPLICATION FORMS

You can collect a **WHITE** Application Form and this prospectus from:

- any participant of the Stock Exchange;
- any of the following addresses of the Hong Kong Underwriters;

ICBC International Securities Limited at Levels 17 & 18, Three Pacific Place, 1 Queen's Road East, Hong Kong

Deutsche Bank AG, Hong Kong Branch at 48/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong

China Merchants Securities (HK) Co., Limited at 48/F, One Exchange Square, Central, Hong Kong

Guotai Junan Securities (Hong Kong) Limited at 27/F, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong

any of the following branches of **Industrial and Commercial Bank of China (Asia) Limited**

Branch Name	Address
Queen's Road Central Branch	122-126 Queen's Road Central, Central
Sheung Wan Branch	Shop F, G/F, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Sheung Wan
Wanchai Branch	117-123 Hennessy Road, Wanchai

HOW TO APPLY FOR HONG KONG OFFER SHARES

Branch Name	Address
Hennessy Road Branch	Shop 2A, G/F & Basement, Cameron Commercial Centre, 468 Hennessy Road, Causeway Bay
North Point Branch	G/F, 436-438 King's Road, North Point
Mongkok Branch	G/F., Belgian Bank Building, 721-725 Nathan Road, Mongkok
Hung Hom Branch	Shop 2A, G/F, Hung Hom Shopping Mall, 2-34E Tak Man Street, Hung Hom
Kwun Tong Branch	Shop 5 & 6, 1/F, Crocodile Center, 79 Hoi Yuen Road, Kwun Tong
Sha Tsui Road Branch	Shop 4, G/F., Chung On Building, 297-313 Sha Tsui Road, Tsuen Wan
Yuen Long Branch	G/F., 197-199 Castle Peak Road, Yuen Long
Shatin Branch	Shop 22J, Level 3, Shatin Centre

- or any of the following branches of **Standard Chartered Bank (Hong Kong) Limited**:

Branch Name	Address
Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
Aberdeen Branch	Shop 4A, G/F, Aberdeen Centre Site 5, No.6 Nam Ning Street, Aberdeen
Wanchai Southorn Branch	Shop C2 on G/F and 1/F, Lee Wing Building, No. 156-162 Hennessy Road, Wanchai
68 Nathan Road Branch	Basement, Shop B1, G/F Golden Crown Court, 66-70 Nathan Road, Tsimshatsui
Lok Fu Shopping Centre Branch	Shop G101, G/F., Lok Fu Shopping Centre
Cheung Sha Wan Branch	828 Cheung Sha Wan Road, Cheung Sha Wan
Metroplaza Branch	Shop No. 175-176, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung
Tai Po Branch	23 & 25 Kwong Fuk Road, Tai Po Market, Tai Po
Tseung Kwan O Branch	Shop G37-40, G/F, Hau Tak Shopping Centre East Wing, Hau Tak Estate, Tseung Kwan O

HOW TO APPLY FOR HONG KONG OFFER SHARES

Prospectuses and Application Forms will be available for collection at the above places during the following times:

- Tuesday, August 10, 2010 — 9:00 a.m. to 5:00 p.m.**
Wednesday, August 11, 2010 — 9:00 a.m. to 5:00 p.m.
Thursday, August 12, 2010 — 9:00 a.m. to 5:00 p.m.
Friday, August 13, 2010 — 9:00 a.m. to 12:00 noon

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, August 10, 2010 till 12:00 noon on Friday, August 13, 2010 from:

- the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong
- your stockbroker may also have Application Forms and this prospectus available.

4. HOW TO COMPLETE THE APPLICATION FORMS

- (a) Obtain an Application Form as described in the section headed “How to apply for Hong Kong Offer Shares — Where to collect the prospectus and Application Forms” above.
- (b) Complete the Application Form in English using blue or black ink, and sign it. There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker’s cashier order(s) to you (or the first named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.
- (c) Each Application Form must be accompanied by payment, in the form of either one cheque or one banker’s cashier order. You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the cheque or banker’s cashier order does not meet the requirements set out on the Application Form.
- (d) Lodge the Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to in paragraph (a) of the section headed “How to apply for Hong Kong Offer Shares — When may applications be made” below.
- (e) You should note that by signing on the Application Form:
 - (i) you confirm that you have only relied on the information and representations in this prospectus and the Application Form in making your application and will not rely on any other information and representations save as set out in any supplement in this prospectus;
 - (ii) you agree that our Company, our Directors, the Joint Global Coordinators, the Underwriters and other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
 - (iii) you undertake and confirm that you (if the application is made for your benefit), or the person(s) for whose benefit you have made the application, have not indicated an interest for, applied for or taken up any of the International Placing Shares; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (iv) you agree to disclose to our Company, the Hong Kong Share Registrar of our Company, the receiving bankers, the Joint Global Coordinators and their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

In order for an application made on a **YELLOW** Application Form to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- (i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - (A) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.
- (ii) **If the application is made by an individual CCASS Investor Participant:**
 - (A) the Application Form must contain the CCASS Investor Participant's name and Hong Kong identity card number; and
 - (B) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.
- (iii) **If the application is made by a joint individual CCASS Investor Participant:**
 - (A) the Application Form must contain all joint CCASS Investor Participants' names and Hong Kong identity card numbers; and
 - (B) the CCASS Participant I.D. must be inserted in the appropriate box in the Application Form.
- (iv) **If the application is made by a corporate CCASS Investor Participant:**
 - (A) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and
 - (B) the CCASS Participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of CCASS Participant I.D. or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

If your application is made through a duly authorized attorney, our Company and the Joint Global Coordinators as its agent may accept it at our discretion, and subject to any conditions our Company thinks fit, including evidence of the authority of your attorney.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Our Company and the Joint Global Coordinators in its capacity as the agent of our Company, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

5. (I) APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

(a) General

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf. You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company, the Joint Global Coordinators and the Hong Kong Share Registrar of our Company.

(b) Application for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (b) HKSCC Nominees does the following on behalf of each such person:
- (i) agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - (ii) undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - (iii) undertakes and confirms that that person has not indicated an interest for, applied for or taken up any Offer Shares under the International Placing nor otherwise participated in the International Placing;
 - (iv) (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
 - (v) (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
 - (vi) understands that the above declaration will be relied upon by our Company, our Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that person may be prosecuted if he makes a false declaration;
 - (vii) authorizes our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
 - (viii) confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
 - (ix) confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations save as set out in any supplement in this prospectus, and that person agrees that neither our Company, our Directors, the Joint Global Coordinators, the Underwriters or any of the parties involved in the Global Offering will have any liability for any such other information or representation;
 - (x) agrees that our Company, the Joint Global Coordinators, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisors are liable only for the information and representations contained in this prospectus and any supplement thereto;

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- (xi) agrees to disclose that person's personal data to our Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents and any information which they may require about that person for whose benefit the application is made;
- (xii) agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- (xiii) agrees that any application made by HKSCC Nominees on behalf of that person pursuant to the **electronic application instructions** given by that person is irrevocable before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person until the expiration of the fifth day after the opening of the application lists, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- (xiv) agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by our Company;
- (xv) agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- (xvi) agrees with our Company, for ourselves and for the benefit of each of the Shareholders (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Jersey Companies Law, the Companies Ordinance and the Articles of Association; and
- (xvii) agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

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(c) **Effect of giving electronic application instructions to HKSCC**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, and the related brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies (in each case including brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

(d) **Minimum Subscription Amount and Permitted Numbers**

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions in respect of a minimum of 2,000 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

(e) **Allocation of Hong Kong Offer Shares**

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

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(f) **Section 40 of the Companies Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

(g) **Personal Data**

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

(h) **Warning**

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Joint Global Coordinators and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems mentioned above. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either:

- (i) submit a **WHITE** or **YELLOW** Application Form; or
- (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, August 13, 2010, or such later time as described under the section headed “How to apply for Hong Kong Offer Shares — When may applications be made — Effect of bad weather conditions on the opening of the application lists” below.

(II) APPLYING THROUGH WHITE FORM eIPO

- (a) If you are an individual and meet the criteria set out above in “How to apply for Hong Kong Offer Shares — Who can apply for the Hong Kong Offer Shares”, you may apply under the **White Form eIPO** service by submitting an application to the White Form eIPO Service Provider at the designated website at www.eipo.com.hk. If you apply under the **White Form eIPO** service, the Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out in the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the White Form eIPO Service Provider and may not be submitted to our Company.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (c) In addition to the terms and conditions set out in this prospectus, the White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorized the White Form eIPO Service Provider to transfer the details of your application to our Company and the Hong Kong Share Registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application instruction in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.
- (f) You should apply through the **White Form eIPO** service at the times set out the section headed “How to apply for Hong Kong Offer Shares — When may applications be made” below.
- (g) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Friday, August 13, 2010, or such later time as described under the section headed “How to apply for Hong Kong Offer Shares — When may applications be made — Effect of bad weather conditions on the opening of the application lists” below, the White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website www.eipo.com.hk.**
- (h) Once you have completed payment in respect of any application instruction given by you or for your benefit to the designated White Form eIPO Service Provider, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an application instruction under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.
- (i) **Warning:** The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the White Form eIPO Service Provider to public investors. **Our Company, our Directors, the Joint Global Coordinators, the Underwriters and the White Form eIPO Service Provider take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

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Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 for each “WEST CHINA CEMENT LIMITED” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of the “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the White Form eIPO service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offer to submit your application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted the application instruction and completed payment in full using the payment reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit another application. See the section headed “How to apply for Hong Kong Offer Shares — How many applications may be made” below.

6. WHEN MAY APPLICATIONS BE MADE

(a) Applications on **WHITE** or **YELLOW** Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving bankers listed under the section headed “How to apply for Hong Kong Offer Shares — Where to collect the prospectus and Application Forms” above at the following times:

Tuesday, August 10, 2010 — 9:00 a.m. to 5:00 p.m.
Wednesday, August 11, 2010 — 9:00 a.m. to 5:00 p.m.
Thursday, August 12, 2010 — 9:00 a.m. to 5:00 p.m.
Friday, August 13, 2010 — 9:00 a.m. to 12:00 noon

Completed **WHITE** and **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Friday, August 13, 2010, or, if the application lists are not open on that day, then by the time and date stated in the section headed “How to apply for Hong Kong Offer Shares — When may applications be made — Effect of bad weather conditions on the opening of the application lists” below.

(b) Electronic Application Instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants should input **electronic application instructions** at the following times on the following dates:

Tuesday, August 10, 2010 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, August 11, 2010 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, August 12, 2010 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, August 13, 2010 — 8:00 a.m.⁽¹⁾ to 12:00 noon

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Note:

1. These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Tuesday, August 10, 2010 until 12:00 noon on Friday, August 13, 2010 (24 hours daily, except the last application day).

The latest time for inputting electronic application instructions will be 12:00 noon on Friday, August 13, 2010, the last application day, or if the application lists are not open on that day, by the time and date stated in the section headed “How to apply for Hong Kong Offer Shares — When may applications be made — Effect of bad weather conditions on the opening of the application lists” below.

(c) Applying online through White Form eIPO Service Provider under White Form eIPO service

You may submit your application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Tuesday, August 10, 2010 until 11:30 a.m. on Friday, August 13, 2010 or such later time as described under the section headed “How to apply for Hong Kong Offer Shares — When may applications be made — Effect of bad weather conditions on the opening of the application lists” below (24 hours daily, except on the last application day).

The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, August 13, 2010, the latest application day, or, if the application lists are not open on that day, then by the time and date stated in the section headed “How to apply for Hong Kong Offer Shares — When may applications be made — Effect of bad weather conditions on the opening of the application lists” below.

You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications under the Hong Kong Public Offer. If you have already submitted your application and obtained a payment reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications under the Hong Kong Public Offer, when the application lists close.

(d) Application lists

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, August 13, 2010, except as provided in the section headed “How to apply for Hong Kong Offer Shares — When may applications be made — Effect of bad weather conditions on the opening of the application lists” below.

Applicants should note that cheques or banker’s cashier orders will not be presented for payment before the closing of the application lists but may be presented at any time thereafter.

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(e) **Effect of bad weather conditions on the opening of the application lists**

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, August 13, 2010. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

7. HOW MANY APPLICATIONS MAY BE MADE

Multiple applications or suspect multiple applications are liable to be rejected.

You may make more than one application for the Hong Kong Offer Shares only if you are a nominee, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Circumstances in which you will not be allotted Hong Kong Offer Shares

You may not be allocated Hong Kong Offer Shares for any of the following reasons:

1. **If the conditions of the Hong Kong Public Offer remain unfulfilled:**

If the conditions of the Hong Kong Public Offer set out in the section headed “Structure and conditions of the Global Offering — Conditions of the Hong Kong Public Offer” in this prospectus are not fulfilled on or before 8:00 a.m., Monday, August 23, 2010.

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2. **At the discretion of our Company and the Joint Global Coordinators (or their respective agents and nominees), your application is rejected:**

Our Company, the Joint Global Coordinators and the **White Form eIPO** Service Provider (or their respective agents and nominees) have full discretion to reject or accept any application, or to accept only part of any application. No reason has to be given for any rejection or acceptance.

3. **You will not receive any allocation if:**

- you make multiple applications or suspected multiple applications; or
- your Application Form is not completed correctly or fully in accordance with the instructions; or
- your electronic application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.eipo.com.hk; or
- your payment is not made correctly or payment is made by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored on its first presentation; or
- you or the person for whose benefit you apply for, have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally or provisionally) International Placing Shares under the International Placing; or
- you apply for more than 41,156,000 Offer Shares, representing half of the Hong Kong Offer Shares initially made available for subscription under the Hong Kong Public Offer; or
- the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement do/does not become unconditional or are/is terminated in accordance with their/its respective terms; or
- the application for Hong Kong Offer Shares is not in one of the numbers set out in the table in the Application Form; or
- our Company and/or the Joint Global Coordinators believe that by accepting your application, this would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed.

4. **If the allotment of Hong Kong Offer Shares is void:**

Your allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists: or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing of the application lists.

HOW TO APPLY FOR HONG KONG OFFER SHARES

5. If your application is revoked:

By completing and submitting an Application Form or electronic application instructions to HKSCC you agree that you cannot revoke your application or the application made by HKSCC Nominees on your behalf on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday on public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your electronic application instructions to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that our Company will not offer any Hong Kong Offer Shares to any person until the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday on public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus.

You may only revoke your application or the application made by HKSCC Nominees on your behalf on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday on public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

8. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$1.69 per Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. This means that for one board lot of 2,000 Hong Kong Offer Shares, you will pay HK\$3,414.11. The Application Forms have tables showing the exact amount payable for certain numbers of Hong Kong Offer Shares up to 41,156,000 Hong Kong Offer Shares.

You must pay the maximum Offer Price and related brokerage, SFC transaction levy and the Stock Exchange trading fee in full when you apply for the Hong Kong Offer Shares. You must pay the amount payable upon application for Hong Kong Offer Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If your application is successful, brokerage is paid to participants of the Stock Exchange or the Stock Exchange, and the SFC transaction levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy collected by the Stock Exchange on behalf of the SFC).

9. PUBLICATION OF RESULTS, DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUNDS OF APPLICATION MONIES

(a) Publication of results

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing and the basis of allotment of the Hong Kong Offer Shares on Friday, August 20, 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

Results of allocations in the Hong Kong Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where supplied) and the number of Hong Kong Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms, or by **giving electronic application instructions** to HKSCC via CCASS or by applying online through the White Form eIPO Service Provider under the **White Form eIPO** service, will be made available at the times and dates and in the manner specified below:

- results of allocations for the Hong Kong Public Offer can be found in the announcement of our Company to be posted on the website of our Company at www.westchinacement.com and the website of the Stock Exchange at www.hkexnews.hk by no later than 9:00 a.m. on Friday, August 20, 2010;
- results of allocations will be available from our Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Friday, August 20, 2010 to Monday, August 23, 2010;
- results of allocations will be available from the results of allocation website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. Friday, August 20, 2010 to 12:00 midnight on Thursday, August 26, 2010. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result; and
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches from Friday, August 20, 2010 to Saturday, August 21, 2010 and Monday, August 23, 2010 at all the receiving bank branches at the addresses set out in the section headed “How to apply for Hong Kong Offer Shares — Where to collect the prospectus and Application Forms” in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(b) **Dispatch/collection of share certificates/e-Refund payment instructions/refund cheques**

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Offer Share (excluding brokerage fee, SFC transaction levy, and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed “Structure and conditions of the Global Offering — Conditions of the Hong Kong Public Offer” or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy, and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application.

If you apply by **WHITE** or **YELLOW** Application Form, subject as mentioned below, in due course, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) (i) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose share certificates will be deposited into CCASS as described below); and/or
- (b) refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including related brokerage fee at the rate of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% but without interest.

Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

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Subject as mentioned below, refund cheque for surplus application monies (if any) in respect of wholly and partially unsuccessful applications under **WHITE** and **YELLOW** Application Forms and share certificates for successful applicants under **WHITE** Application Forms are expected to be posted on or before Friday, August 20, 2010. The right is reserved to retain any share certificates and any surplus application monies pending clearance of cheque(s).

If you apply by giving **electronic application instructions** to HKSCC, and your application is wholly or partially successful:

- (a) your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Friday, August 20, 2010 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees; and
- (b) refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Offer Share paid on application, in each case including the related brokerage fee of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, August 20, 2010. No interest will be paid thereon.

If you apply using a WHITE Application Form:

If you have applied for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, August 20, 2010. If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) and share certificate(s) within the time period specified for collection, they will be dispatched thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Forms that you will collect your share certificate(s) and/or refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed "Structure and conditions of the Global Offering — Conditions of the Hong Kong Public Offer" in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your share certificate(s) (where applicable) and/or

HOW TO APPLY FOR HONG KONG OFFER SHARES

refund cheque(s) (where applicable) in respect of the application monies or the appropriate parties thereof, together with the related brokerage fee, Stock Exchange trading fee, and SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Friday, August 20, 2010 by ordinary post and at your own risk.

If you apply using a YELLOW Application Form:

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Friday, August 20, 2010, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer on Friday, August 20, 2010 in the manner described in the section headed "How to apply for Hong Kong Offer Shares — Publication of results, dispatch/collection of share certificates and refund of application monies — Publication of results" above. You should check the results published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, August 20, 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your **YELLOW** Application Forms that you will collect your refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Offer Shares and if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed "Structure and conditions of the Global Offering — Conditions of the Hong Kong Public Offer" in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your refund cheque(s) (where applicable) in respect of the application monies or the appropriate portion thereof, together with the related brokerage fee, Stock Exchange trading fee and SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Friday, August 20, 2010 by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply by giving electronic application instructions to HKSCC:

If you apply by giving **electronic application instructions** to HKSCC via CCASS, our Company will publish the level of applications and the basis of allotment of the Hong Kong Public Offer in the newspapers on Friday, August 20, 2010. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, August 20, 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, August 20, 2010. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

If you apply through White Form eIPO:

If you apply for 1,000,000 Hong Kong Offer Shares or more under the **White Form eIPO** service by applying online through the White Form eIPO Service Provider at designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your share certificate(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, August 20, 2010, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the White Form eIPO Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the White Form eIPO Service Provider on Friday, August 20, 2010 by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service and paid the application monies from a single bank account, refund monies (if any) will be dispatched to the your application payment bank account in the form of e-Refund payment instructions; If you apply through **White Form eIPO** service and paid the application monies from multiple bank accounts, refund monies (if any) will be dispatched to the address as specified on your **White Form eIPO** application in the form of refund cheque(s), by ordinary post at your own risk.

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Refund of application monies

If you do not receive any Hong Kong Offer Shares for any reason, our Company will refund your application monies, including related brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, our Company will refund to you the appropriate portion of your application monies (including the related brokerage fee of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Offer Share (excluding brokerage fee, SFC transaction levy, and Stock Exchange trading fee thereon) paid on application, our Company will refund to you the surplus application monies, together with the related brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of dispatch of refund will be retained for our benefit.

In a contingency situation involving a substantial over-application, at the discretion of our Company and the Joint Global Coordinators, cheques for applications made on Application Forms for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on Friday, August 20, 2010 in accordance with the various arrangements as described above.

Shares will be eligible for CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the shares to be admitted into CCASS.

Commencement of dealings in the Shares

- Dealings in the Shares on the Stock Exchange are expected to commence on Monday, August 23, 2010.
- The Shares will be traded in board lots of 2,000 Shares.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

The Directors
West China Cement Limited

ICBC International Capital Limited
Deutsche Bank AG, Hong Kong Branch

August 10, 2010

Dear Sirs,

We report on the financial information of West China Cement Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the consolidated balance sheets as at December 31, 2007, 2008 and 2009 and April 30, 2010, the balance sheets of the Company as at December 31, 2007, 2008 and 2009 and April 30, 2010, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated August 10, 2010 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Jersey with limited liability under the Companies (Jersey) Law 1991, as amended on October 16, 2006. The Company listed its shares on AIM of London Stock Exchange plc on December 4, 2006.

As at the date of this report, the Company has direct and indirect interest in its subsidiaries, as set out in Note 1 of Section II below. All of these companies are private companies. All companies comprising the Group have adopted December 31 as their financial year end date.

The directors of the Company prepared its statutory financial statements for the Relevant Periods (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards as adopted by the European Union. The 2007 and 2008 statutory financial statements were audited by PKF (UK) LLP and the 2009 statutory financial statements were audited by PricewaterhouseCoopers LLP in accordance with International Standards on Auditing (UK and Ireland) pursuant to separate terms of engagement with the Company.

The statutory financial statements or management financial statements of the subsidiaries of the Company were prepared in accordance with the local applicable accounting standards and regulations enforced in their respective places of incorporation/establishment. The statutory financial statements of these subsidiaries, where there is a statutory audit requirement, were not audited by us but by other auditors in their respective places of incorporation/establishment as stated in Note 1 of Section II below.

The financial information has been prepared based on the Underlying Financial Statements, after making such adjustments as are appropriate.

Directors' responsibility for the financial information

The directors of the Company are responsible for the preparation and the true and fair presentation of the financial information in accordance with International Financial Reporting Standards ("IFRSs"). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We performed audit procedures on the Underlying Financial Statements and carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Company as at December 31, 2007, 2008 and 2009 and April 30, 2010 and of the state of affairs of the Group as at December 31, 2007, 2008 and 2009 and April 30, 2010 and of the Group's results and cash flows for each of the Relevant Periods then ended.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the four months ended April 30, 2009 and a summary of significant accounting policies and other explanatory notes (the "Stub Period Comparative Financial Information").

The directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section I below which are in conformity with IFRSs.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of the Prospectus, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with IFRSs.

I. FINANCIAL INFORMATION

The following is the financial information of the Group as at December 31, 2007, 2008, 2009 and April 30, 2010 and for each of the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 (the "Financial Information") after making such adjustments as are appropriate.

Consolidated balance sheets

	Note	As at December 31,			As at April 30,
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	961,507	1,540,533	2,611,502	3,128,079
Land use rights	7	17,806	76,521	124,571	178,412
Mining rights	8	25,500	27,907	46,373	45,681
Other intangible assets	9	—	—	65,104	64,413
Deferred income tax assets	10	12,364	798	13,540	13,540
		<u>1,017,177</u>	<u>1,645,759</u>	<u>2,861,090</u>	<u>3,430,125</u>
Current assets					
Inventories	12	45,653	81,507	128,979	143,633
Trade and other receivables and prepayments	13	101,454	125,770	317,670	382,194
Cash and cash equivalents	14	29,997	37,038	346,258	53,724
Restricted cash	14	24,336	35,999	19,582	9,415
		<u>201,440</u>	<u>280,314</u>	<u>812,489</u>	<u>588,966</u>
Total assets		<u><u>1,218,617</u></u>	<u><u>1,926,073</u></u>	<u><u>3,673,579</u></u>	<u><u>4,019,091</u></u>
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	15	96,811	96,811	97,623	98,634
Share premium	15	662,636	662,636	672,775	687,922
Share options reserve	16	5,228	6,708	5,439	686
Reverse acquisition reserve	17	(341,304)	(341,304)	(341,304)	(341,304)
Statutory reserve	17	36,420	63,163	118,140	118,140
Retained earnings	18	222,650	442,070	717,553	870,627
		<u>682,441</u>	<u>930,084</u>	<u>1,270,226</u>	<u>1,434,705</u>
Non-controlling interests		<u>—</u>	<u>—</u>	<u>25,000</u>	<u>26,220</u>
Total equity		<u><u>682,441</u></u>	<u><u>930,084</u></u>	<u><u>1,295,226</u></u>	<u><u>1,460,925</u></u>

Consolidated balance sheets (continued)

	Note	As at December 31,			As at April 30,
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES					
Non-current liabilities					
Borrowings	19	63,800	407,069	360,058	746,336
Warrants classified as liabilities	20	—	32,908	—	—
Provisions for other liabilities and charges	21	—	—	6,265	6,389
Deferred income tax liabilities	10	—	—	8,079	8,079
Other liabilities	22	13,487	17,317	117,049	143,539
		<u>77,287</u>	<u>457,294</u>	<u>491,451</u>	<u>904,343</u>
Current liabilities					
Trade and other payables	23	186,536	269,511	559,395	898,450
Current income tax liabilities		—	—	38,639	35,715
Borrowings	19	272,353	269,184	1,288,868	719,658
		<u>458,889</u>	<u>538,695</u>	<u>1,886,902</u>	<u>1,653,823</u>
Total liabilities		<u>536,176</u>	<u>995,989</u>	<u>2,378,353</u>	<u>2,558,166</u>
Total equity and liabilities		<u>1,218,617</u>	<u>1,926,073</u>	<u>3,673,579</u>	<u>4,019,091</u>
Net current liabilities		<u>(257,449)</u>	<u>(258,381)</u>	<u>(1,074,413)</u>	<u>(1,064,857)</u>
Total assets less current liabilities		<u>759,728</u>	<u>1,387,378</u>	<u>1,786,677</u>	<u>2,365,268</u>

Balance sheets

	Note	As at December 31,			As at April 30,
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Investments in subsidiaries	11	447,285	447,285	447,285	447,285
Current assets					
Other receivables	13	287,361	658,673	741,283	716,807
Dividend receivable from a subsidiary		—	3,026	44,078	44,078
Cash and cash equivalents	14	5,391	4,200	27,758	2,958
Restricted cash	14	—	14,659	14,572	—
		292,752	680,558	827,691	763,843
Total assets		<u>740,037</u>	<u>1,127,843</u>	<u>1,274,976</u>	<u>1,211,128</u>
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	15	96,811	96,811	97,623	98,634
Share premium	15	662,636	662,636	672,775	687,922
Share options reserves	16	5,228	6,708	5,439	686
Accumulated losses	18	(26,145)	(50,705)	(211,977)	(263,254)
Total equity		<u>738,530</u>	<u>715,450</u>	<u>563,860</u>	<u>523,988</u>
LIABILITIES					
Non-current liabilities					
Borrowings	19	—	371,269	77,258	503,671
Warrants classified as liabilities . .	20	—	32,908	—	—
		—	404,177	77,258	503,671
Current liabilities					
Other payables		1,507	8,216	10,790	12,811
Borrowings	19	—	—	623,068	170,658
		1,507	8,216	633,858	183,469
Total liabilities		<u>1,507</u>	<u>412,393</u>	<u>711,116</u>	<u>687,140</u>
Total equity and liabilities		<u>740,037</u>	<u>1,127,843</u>	<u>1,274,976</u>	<u>1,211,128</u>
Net current assets		<u>291,245</u>	<u>672,342</u>	<u>193,833</u>	<u>580,374</u>
Total assets less current liabilities		<u>738,530</u>	<u>1,119,627</u>	<u>641,118</u>	<u>1,027,659</u>

Consolidated statements of comprehensive income

	Note	Year ended December 31,			Four months ended April 30,	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Revenue	5	525,929	866,126	1,516,766	349,421	675,309
Cost of sales	24	(350,165)	(556,073)	(878,087)	(198,537)	(429,710)
Gross profit		<u>175,764</u>	<u>310,053</u>	<u>638,679</u>	<u>150,884</u>	<u>245,599</u>
Selling and marketing expenses	24	(9,796)	(12,018)	(15,064)	(4,745)	(6,082)
Administrative expenses	24	(29,038)	(55,224)	(77,846)	(16,778)	(24,912)
Other income	26	35,708	40,617	71,526	8,546	28,444
Other gains/(losses) — net	27	<u>2,273</u>	<u>(184)</u>	<u>(1,057)</u>	<u>50</u>	<u>(513)</u>
Operating profit		<u>174,911</u>	<u>283,244</u>	<u>616,238</u>	<u>137,957</u>	<u>242,536</u>
Finance income	28	1,572	2,600	1,190	347	138
Finance costs						
— Loss on redemption of warrants	28	—	—	(168,451)	—	—
— Other finance costs	28	<u>(26,210)</u>	<u>(28,115)</u>	<u>(73,830)</u>	<u>(39,855)</u>	<u>(58,582)</u>
Finance costs — net		<u>(24,638)</u>	<u>(25,515)</u>	<u>(241,091)</u>	<u>(39,508)</u>	<u>(58,444)</u>
Profit before income tax		<u>150,273</u>	<u>257,729</u>	<u>375,147</u>	<u>98,449</u>	<u>184,092</u>
Income tax expense	29	—	(11,566)	(44,687)	(7,626)	(29,798)
Profit for the year/period		<u>150,273</u>	<u>246,163</u>	<u>330,460</u>	<u>90,823</u>	<u>154,294</u>
Other comprehensive income		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income for the year/period		<u>150,273</u>	<u>246,163</u>	<u>330,460</u>	<u>90,823</u>	<u>154,294</u>
Attributable to						
— Equity holders of the Company		<u>150,273</u>	<u>246,163</u>	<u>330,460</u>	<u>90,823</u>	<u>153,074</u>
— Non-controlling interests		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,220</u>
Earnings per share for profit attributable to the equity holders of the Company during the year/period (expressed in Renminbi per share)						
Basic earnings per share	30(a)	<u>2.35</u>	<u>3.84</u>	<u>5.12</u>	<u>1.42</u>	<u>2.36</u>
Diluted earnings per share	30(b)	<u>2.33</u>	<u>3.83</u>	<u>5.07</u>	<u>1.42</u>	<u>2.34</u>
Dividends		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Consolidated statements of changes in equity

	Note	Attributable to equity holders of the Company							Non-controlling interests	Total equity
		Share capital	Share premium	Reverse acquisition reserve	Share options reserve	Statutory reserve	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At January 1, 2007		96,191	655,370	(341,304)	4,646	20,463	88,334	523,700	—	523,700
Profit for the year	18	—	—	—	—	—	150,273	150,273	—	150,273
Transfer to statutory reserve	18	—	—	—	—	15,957	(15,957)	—	—	—
Share options scheme		—	—	—	1,962	—	—	1,962	—	1,962
Proceeds from shares issued	15	620	7,266	—	(1,380)	—	—	6,506	—	6,506
At December 31, 2007		96,811	662,636	(341,304)	5,228	36,420	222,650	682,441	—	682,441
At January 1, 2008		96,811	662,636	(341,304)	5,228	36,420	222,650	682,441	—	682,441
Profit for the year	18	—	—	—	—	—	246,163	246,163	—	246,163
Transfer to statutory reserve	18	—	—	—	—	26,743	(26,743)	—	—	—
Share options scheme		—	—	—	1,480	—	—	1,480	—	1,480
At December 31, 2008		96,811	662,636	(341,304)	6,708	63,163	442,070	930,084	—	930,084
At January 1, 2009		96,811	662,636	(341,304)	6,708	63,163	442,070	930,084	—	930,084
Profit for the year	18	—	—	—	—	—	330,460	330,460	—	330,460
Transfer to statutory reserve	18	—	—	—	—	54,977	(54,977)	—	—	—
Share options scheme		—	—	—	1,161	—	—	1,161	—	1,161
Proceeds from shares issued	15	812	10,139	—	(2,430)	—	—	8,521	—	8,521
Capital contribution from non-controlling interests	35	—	—	—	—	—	—	—	25,000	25,000
At December 31, 2009		97,623	672,775	(341,304)	5,439	118,140	717,553	1,270,226	25,000	1,295,226
At January 1, 2010		97,623	672,775	(341,304)	5,439	118,146	717,553	1,270,226	25,000	1,295,226
Profit for the period	18	—	—	—	—	—	153,074	153,074	1,220	154,294
Share options scheme		—	—	—	285	—	—	285	—	285
Proceeds from shares issued	15	1,011	15,147	—	(5,038)	—	—	11,120	—	11,120
At April 30, 2010		98,634	687,922	(341,304)	686	118,140	870,627	1,434,705	26,220	1,460,925

	Attributable to equity holders of the Company						
	Share capital	Share premium	Reverse acquisition reserve	Share options reserve	Statutory reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Unaudited:							
At January 1, 2009	96,811	662,636	(341,304)	6,708	63,163	442,070	930,084
Profit for the period	—	—	—	—	—	90,823	90,823
Share options scheme	—	—	—	328	—	—	328
Proceeds from shares issued	143	1,669	—	(317)	—	—	1,495
At April 30, 2009	96,954	664,305	(341,304)	6,719	63,163	532,893	1,022,730

Consolidated cash flow statements

	Note	Year ended December 31,			Four months ended April 30,	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(unaudited)
Cash flows from operating activities						
Cash generated from operations	31	196,145	349,709	696,738	256,201	335,247
Interest paid		(25,176)	(26,617)	(57,975)	(21,540)	(40,954)
Income tax paid		—	—	(19,087)	(5,425)	(32,721)
Net cash generated from operating activities		<u>170,969</u>	<u>323,092</u>	<u>619,676</u>	<u>229,236</u>	<u>261,572</u>
Cash flows from investing activities						
Proceeds from disposal of property, plant and equipment	31	2,172	138	1,899	—	684
Interest received		1,572	1,023	803	340	138
Acquisition of subsidiary, net of cash acquired	34	—	—	(120,922)	—	—
Holding deposit for a potential acquisition	13	—	—	(100,000)	—	—
Purchase of property, plant and equipment		(345,515)	(603,246)	(599,998)	(250,930)	(374,800)
Purchase of land use rights		(1,124)	(61,731)	(27,398)	—	—
Purchase of mining rights	8	(12,500)	(4,107)	(1,807)	—	—
Purchase of other intangible assets	9	—	—	(80)	—	—
Net cash used in investing activities		<u>(355,395)</u>	<u>(667,923)</u>	<u>(847,503)</u>	<u>(250,590)</u>	<u>(373,978)</u>
Cash flows from financing activities						
Proceeds from issuance of ordinary shares		6,506	—	8,521	1,495	11,120
Proceeds from bank borrowings		231,850	625,104	1,066,205	180,000	529,832
Proceeds from other borrowings		4,162	10,031	8,374	911	—
Decrease/(Increase) in restricted cash	14	(21,768)	(11,663)	16,417	4,221	10,167
Repayments of bank borrowings		(162,354)	(260,400)	(302,848)	(103,000)	(598,447)
Repayments of other borrowings		(36,362)	(11,200)	(53,167)	(1,167)	(132,800)
Redemption of the warrants	20	—	—	(206,455)	—	—
Net cash generated from/(used in) financing activities		<u>22,034</u>	<u>351,872</u>	<u>537,047</u>	<u>82,460</u>	<u>(180,128)</u>
Net (decrease)/ increase in cash and cash equivalents		<u>(162,392)</u>	<u>7,041</u>	<u>309,220</u>	<u>61,106</u>	<u>(292,534)</u>
Cash and cash equivalents at beginning of year/period	14	<u>192,389</u>	<u>29,997</u>	<u>37,038</u>	<u>37,038</u>	<u>346,258</u>
Cash and cash equivalents at end of year/period	14	<u><u>29,997</u></u>	<u><u>37,038</u></u>	<u><u>346,258</u></u>	<u><u>98,144</u></u>	<u><u>53,724</u></u>

II. NOTES TO THE FINANCIAL INFORMATION

1. General information

West China Cement Limited (the “Company”) and its subsidiaries (together the “Group”) is principally engaged in the production and sale of cement.

The Company was incorporated on October 16, 2006 in Jersey under the Companies (Jersey) Law 1991. The address of the registered office is 47 Esplanade, St Helier, Jersey JE1 0BD and the principal place of business is Unit 1903, Tower A, Gaoke Plaza, 4th Gaoxin Road, Xi’an Hi-Tech Industrial Development Zone, Xi’an, Shaanxi Province, the People’s Republic of China (the “PRC”).

The Company is an investment holding company. As at the date of this report, the Company has direct or indirect interests in the following subsidiaries:

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
			%	%	
(a) Enterprise incorporated outside the PRC					
West China Cement Co., Ltd. ^Δ (“West China BVI”)	British Virgin Islands July 14, 2006	HKD7,800	100%	—	Investment holding
Faithful Alliance Limited ^Δ (“Faithful Alliance”) 集誠有限公司	Hong Kong January 14, 2010	HKD100	—	100%	Investment holding
(b) Enterprises established by the Group and operating in the PRC					
Shaanxi Yaobai Special Cement Co., Ltd.* (“Shaanxi Yaobai”) 陝西堯柏特種水泥有限公司	Shaanxi, PRC December 21, 2000	RMB530,000,000	—	100%	Production and sale of cement
Xi’an Lantian Yaobai Cement Co., Ltd.* (“Lantian Yaobai”) 西安藍田堯柏水泥有限公司	Shaanxi, PRC December 16, 2005	RMB100,000,000	—	100%	Production and sale of cement
Ankang Yaobai Cement Co., Ltd.* (“Ankang Yaobai”) 安康堯柏水泥有限公司	Shaanxi, PRC April 12, 2007	RMB345,000,000	—	100%	Production and sale of cement
Hanzhong Yaobai Cement Co., Ltd.* (“Hanzhong Yaobai”) 漢中堯柏水泥有限公司	Shaanxi, PRC July 10, 2008	RMB135,000,000	—	100%	Production and sale of cement
Hanzhong Mianxian Yaobai Cement Co., Ltd.* (“Mianxian Yaobai”) 漢中勉縣堯柏水泥有限公司	Shaanxi, PRC December 22, 2008	RMB140,000,000	—	100%	Production and sale of cement

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
			%	%	
Xi'an Yaobai Material Co., Ltd.* ("Xi'an Yaobai") 西安市堯柏物資有限公司	Shaanxi, PRC July 27, 2009	RMB35,000,000	—	100%	Purchase and sale of raw materials
Hanzhong Xixiang Yaobai Cement Co., Ltd.* ("Xixiang Yaobai") 漢中西鄉堯柏水泥有限公司	Shaanxi, PRC August 11, 2009	RMB21,000,000	—	100%	Production and sale of cement
Shangluo Yaobai Longqiao Cement Co., Ltd. ^Δ ("Longqiao Yaobai") 商洛堯柏龍橋水泥有限公司	Shaanxi, PRC December 31, 2009	RMB75,000,000	—	80%	Production and sale of cement
(c) The subsidiary acquired by the Group in August 2009 and its operation is in the PRC					
Shangluo Yaobai Xiushan Cement Co., Ltd.* ("Xiushan Yaobai") 商洛堯柏秀山水泥有限公司	Shaanxi, PRC March 25, 2005	RMB20,000,000	—	100%	Production and sale of cement

Δ No statutory audited financial statements

* The statutory financial statements of the companies were audited by Xi'an Xigema Certified Public Accountants Co, Ltd. (西安希格瑪會計師事務所有限責任公司).

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Information of the Company has been prepared in accordance with IFRSs.

The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial instruments at fair value through profit or loss.

The preparation of the Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the directors to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

Standards, amendments and interpretations that have been issued but are not yet effective and have not been early adopted by the Group for the Relevant Periods are as follows:

	<u>Effective for accounting periods beginning on or after</u>
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
IFRS 9 Financial Instruments	January 1, 2013

The application of these standards, amendments and interpretations is not expected to have a material effect on the Group's operating results or financial position.

Going concern basis

As at April 30, 2010, the Group's current liabilities exceeded its current assets by approximately RMB1,064,857,000. The Group's current liabilities mainly included bank borrowings, trade and other payables and advances from customers. The directors have prepared cash flow projections for the period from May 1, 2010 to September 30, 2011 and have assessed the compliance of loan covenants. (Note 3.1(c) and Note 37). The directors are of the opinion that, having taken into consideration of the expected cash flows and available financial resources of the Group, the Group has sufficient financial resources to meet its liabilities as and when they fall due in the foreseeable future. On the above basis, the directors believe that the Group will continue as going concern and consequently have prepared the Financial Information on a going concern basis.

2.2 Consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of comprehensive income.

IFRS 3 (revised), 'Business combinations' is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

No acquisitions have taken place in the 4 months to April 30, 2010 which would require this standard to be applied.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the Financial Information to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(b) *Transactions with non-controlling interests*

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group and are recorded in the consolidated statement of comprehensive income. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

The Group applied IAS 27 (revised) from January 1, 2010. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss.

There have been no transactions with non-controlling interests during the Relevant Periods.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the directors that makes strategic decisions.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB"), which is the functional and the presentation currency of the Company and the subsidiaries.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains/(losses) - net'.

Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss.

2.5 Property, plant and equipment ("PPE")

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

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

Except for mining assets (see Note (a) and (b) below), depreciation on property and plant, motor vehicles, electronic and other equipment and machinery is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

— Property and plant	20 years
— Motor vehicles	8 years
— Electronic and other equipment	5 years
— Machinery	12 years

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

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

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

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

(a) *Stripping costs*

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

(b) *Decommissioning, restoration and similar liabilities (“Asset retirement obligation” or “ARO”)*

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

2.6 Lease prepayments - land use rights

Lease prepayments represent payments made to acquire land use rights. Land use rights are stated at cost less accumulated amortization and impairment losses. Amortization of land use rights is charged to the consolidated statement of comprehensive income on a straight-line basis over the respective periods of the land use rights.

2.7 Mining rights

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

2.8 Other intangible assets

(a) *Goodwill*

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

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

(b) *Computer software*

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire the specific software. These costs are amortized over five years.

(c) *Customer relationships*

Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. Customer relationships have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationships.

2.9 Impairment of investments in subsidiaries and non-financial assets

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

Impairment testing of investments in subsidiaries is required when a company becomes entitled to dividends from the investments and the dividend exceeds the total comprehensive income of the subsidiary in the period in which the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Financial Information of the investee's net assets including goodwill.

2.10 Financial assets - loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents' and 'restricted cash' in the balance sheet (Note 2.12, 2.13 and 2.14). Loans and receivables are carried at amortized cost using the effective interest method.

2.11 Inventories

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

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.14 Restricted cash

Restricted cash is short-term cash deposits held in a separate reserve account to be used only for a specific purpose. These monies are pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee; and as security deposits under bank borrowing agreement. Restricted cash cannot be withdrawn until the relevant trade facilities or loan are repaid.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Borrowings

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

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

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

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

2.18 Derivative

Derivative financial instrument are recognized at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement of fair value is charged immediately to the consolidated statement of comprehensive income.

2.19 Current and deferred income tax

The tax expense for the Relevant Periods comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is recognized directly in equity.

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

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

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

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

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

2.20 Employee benefits

(a) *Pension obligations*

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. The non-PRC employees are not covered by the pension plans.

(b) *Housing benefits*

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing benefits.

(c) *Share-based compensation*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognized as an expense on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. These share-based payments are measured at fair value at the date of grant. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognizes the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income with a corresponding adjustment to equity.

For equity-settled transactions with non-employees, the costs are recognized through the consolidated statement of comprehensive income (or where they relate to issue costs, taken against the share premium account if appropriate) with measurement based on the fair value of goods or services received.

2.21 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are recognized in the consolidated statement of comprehensive income they are intended to compensate on a systematic basis, which otherwise, grants with no future related costs are recognized in the statement of comprehensive income over the periods in which the Group recognizes the costs they are intended to compensate on receipt basis.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

2.22 Revenue recognition

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

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sale of goods*

The Group produces and sells cement products to customers in the Shaanxi Province of the PRC. Customers include distributors, constructors and property development companies. Sales of goods are recognized when a group entity has delivered products and transferred the significant risks and rewards of ownership of the product to the customers, when there is no unfulfilled obligation that could affect the customers' acceptance of the products, and collectability of the related receivables is reasonably assured.

(b) *Interest income*

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

2.23 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

2.25 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, the outflow of benefits is then recognized as a provision.

3. Financial risk management

The Group's major financial instruments include cash and bank deposits, trade and other receivables and prepayments, trade and other payables, borrowings, other liabilities and warrants classified as liabilities. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how the Group mitigates these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) *Market risk*

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The Group does not hedge against any fluctuation in foreign currency.

At December 31, 2007, the Group did not have significant assets or liabilities denominated in foreign currency.

At December 31, 2008, if RMB had weakened/strengthened by 1% against US\$ with all other variables held constant, post-tax profit for the year would have been approximately RMB3,562,000 lower/higher, mainly as a result of foreign exchange losses/gains on translation of US\$-denominated borrowings and related warrants.

At December 31, 2009, if RMB had weakened/strengthened by 1% against US\$ with all other variables held constant, post-tax profit for the year would have been approximately RMB6,634,000 lower/higher, mainly as a result of foreign exchange losses/gains on translation of US\$-denominated borrowings.

At April 30, 2010, if RMB had weakened/strengthened by 1% against US\$ with all other variables held constant, post-tax profit for the period would have been approximately RMB6,742,000 lower/higher mainly as a result of foreign exchange losses/gains on translation of US\$-denominated borrowings.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from short-term and long-term borrowings. Short-term borrowings are issued at variable floating rates and expose the Group to cash flow interest-rate risk. Long-term borrowings are issued at fixed rates and expose the Group to fair value interest-rate risk. The group does not have formal policies on interest rate risk. During the Relevant Periods, the Group's borrowings at variable rate were denominated in RMB and the US dollar (Note 19).

The Group's long-term borrowings and loans to subsidiaries were issued at fixed rates and interest free respectively, and expose the Group to fair value interest-rate risk (Note 19).

At December 31, 2007, 2008, 2009 and April 30, 2010, if interest rates on borrowings had been 10 percent higher/lower with all other variables held constant, post-tax profit for the year/period would have been approximately RMB2,214,000, RMB2,567,000, RMB2,649,000 and RMB2,042,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowing.

(b) *Credit risk*

The Group's credit risk is primarily attributable to its trade receivables. The Group has adopted a policy of only dealing with creditworthy counterparties. The credit risk on trade receivables is low. Based on past experience, the customer payment default rate is low.

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. Ongoing credit evaluation is performed on accounts receivable balances. The Group does not hold any collateral for trade and other receivables.

(c) *Liquidity risk*

The directors of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing including short-term and long-term bank loans

and issuance of new ordinary shares to meet its construction commitments. Due to the dynamic nature of the underlying business, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through ensuring availability of appropriate sources of financing.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping, based on the remaining period from the balance sheet date to the contractual maturity date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2007					
Borrowings	272,353	28,000	35,800	—	336,153
Trade and other payables	173,355	—	—	—	173,355
Other liabilities	—	1,900	11,100	487	13,487
	<u>445,708</u>	<u>29,900</u>	<u>46,900</u>	<u>487</u>	<u>522,995</u>
At December 31, 2008					
Borrowings	269,184	445,876	—	—	715,060
Warrants classified as liabilities	—	46,593	—	—	46,593
Trade and other payables	241,379	—	—	—	241,379
Other liabilities	—	3,700	7,400	487	11,587
	<u>510,563</u>	<u>496,169</u>	<u>7,400</u>	<u>487</u>	<u>1,014,619</u>
At December 31, 2009					
Borrowings	1,288,868	254,888	135,000	—	1,678,756
Trade and other payables	532,421	—	—	—	532,421
Other liabilities	—	73,860	3,700	487	78,047
	<u>1,821,289</u>	<u>328,748</u>	<u>138,700</u>	<u>487</u>	<u>2,289,224</u>
At April 30, 2010					
Borrowings	719,658	662,113	102,000	—	1,483,771
Trade and other payables	878,553	—	—	—	878,553
Other liabilities	—	101,993	3,700	—	105,693
	<u>1,598,211</u>	<u>764,106</u>	<u>105,700</u>	<u>—</u>	<u>2,468,017</u>

The Group has entered into a loan agreement for syndicated bank borrowings of RMB330,000,000. The agreement stipulates a capital expenditures limit for the six months ended June 30, 2010 (the "Limit"). During the four months ended April 30, 2010, the Group's capital expenditure incurred exceeded the Limit. As at April 30, 2010, the carrying amount of the syndicated bank borrowings was RMB320,665,000 which comprises current portion amounting to RMB99,000,000 and non-current portion of RMB221,665,000. The Group has obtained a waiver letter dated July 21, 2010 from the facility agent representing the lenders confirming that they had granted the Group a waiver from compliance with the Limit by April 30, 2010. This is sufficient pursuant to the agreement for the Limit to be waived, and therefore the non-current bank borrowings of RMB221,665,000 have not been reclassified as current bank borrowings. The waiver received in connection with the syndicated loan also means that capital expenditure in excess of the Limit do not trigger any cross default events of other borrowings.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents and restricted cash. Total capital is calculated as net debt plus equity as shown in the consolidated balance sheet.

The gearing ratios at December 31, 2007, 2008, 2009 and April 30, 2010 were as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings and warrants (Note 19 and 20)	336,153	709,161	1,648,926	1,465,994
Less: Cash and cash equivalents and restricted cash (Note 14)	(54,333)	(73,037)	(365,840)	(63,139)
Net debt	281,820	636,124	1,283,086	1,402,855
Total equity	682,441	930,084	1,295,226	1,460,925
Total capital	964,261	1,566,208	2,578,312	2,863,780
Gearing ratio	29%	41%	50%	49%

The increase in the gearing ratio during 2008 resulted primarily from the new bank borrowing of US\$ 60 million and accompanying warrants (Notes 19 and 20). The bank borrowings in 2008 were specifically used for the construction of Ankang Yaobai. The increase in the gearing ratio during 2009 resulted primarily from the new bank borrowings of US\$50 million and RMB330 million (Note 19). The bank borrowings in 2009 were mainly used for redemption of the warrant, the construction of new plants and working capital funding. As the cement industry is a capital intensive industry and the competition is fierce, the directors consider it reasonable to increase the gearing ratio to support the high growth of the Group.

3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date, quoted market prices or dealer quotes for similar instruments or estimated discounted cash flows.

The carrying amounts of trade and other receivables, trade and other payables, and current borrowings approximate to their fair value due to their short term maturity.

The fair values of non-current borrowings and warrants classified as liabilities are estimated by discounting the future cash flows at the current market interest rate available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The directors make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) *Carrying value of non-current assets*

Non-current assets, including property, plant and equipment, land use rights, mining rights and other intangible assets, are carried at cost less accumulated depreciation/amortization. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts are revised, and this may have an impact on the Group's results of operations or financial position.

(b) *Useful lives of property, plant and equipment*

The directors determine the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. These estimates may change in the future as a result of technical innovations and competitor actions. The directors will increase depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units to which goodwill has been allocated have been determined based on fair value less costs to sell using the purchase price paid in August 2009 as the estimate of fair value. The purchase price assumed that economies of scale would be achieved from combining the acquired business with the Group's existing activities. If these economies of scale are not achieved then an impairment of goodwill may arise in future years.

(d) *Income tax*

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the year in which such determination is made.

(e) *Fair value of derivatives and other financial instruments*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for various financial instruments that are not traded in active markets.

(f) *Allowance for bad and doubtful debts*

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customers' current credit-worthiness, as determined by a review of current credit information.

(g) *Estimated impairment of inventories*

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

(h) *Environmental provision*

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, the Group is presently not involved in any environmental remediation and has not incurred any amounts for environmental remediation relating to its operations. The environmental provision is based on the directors' best estimate in accordance with the information provided by a third party (Note 21). Under existing legislation, the directors believe that there are no further probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, may move further towards the adoption of more stringent environmental standards, which could require increased expenditure in the future.

(i) *Operating licenses*

The Group's licences to operate at each of mines expire at various dates from August 2010 to December 2022. Management believes that the Group will be able to renew these licenses at their option and at minimal cost, provided the Group complies with the terms of the license. The useful life of some of the Group's tangible and intangible assets would be reduced and the Group's operation results would be affected accordingly if any licenses could not be renewed.

5. Revenue and segment information

The Group's subsidiaries are engaged in the production and sale of cement. The chief operating decision maker reviews the results of individual plants to make decisions about the allocation of resources. These have similar economic characteristics and are therefore presented as a single reportable segment in these financial statements. All of the revenue and operating results of the Group is derived in Shaanxi Province, the PRC. The revenue represents the sale of cement during the Relevant Periods.

6. Property, plant and equipment

Group	Property and plant	Motor Vehicles	Electronic and other equipment	Machinery	Mining Assets	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007							
Cost	171,305	4,503	2,094	222,250	20,066	300,461	720,679
Accumulated depreciation	(39,452)	(1,108)	(945)	(55,973)	(2,302)	—	(99,780)
Net book amount	<u>131,853</u>	<u>3,395</u>	<u>1,149</u>	<u>166,277</u>	<u>17,764</u>	<u>300,461</u>	<u>620,899</u>
Year ended December 31, 2007							
Opening net book amount	131,853	3,395	1,149	166,277	17,764	300,461	620,899
Transfer in from CIP	167,324	—	—	304,653	9,389	(481,366)	—
Additions	263	7,795	3,096	3,568	17,180	356,409	388,311
Disposals	(1,356)	(381)	(537)	(323)	—	—	(2,597)
Depreciation	(13,199)	(1,153)	(693)	(28,873)	(1,188)	—	(45,106)
Closing net book amount	<u>284,885</u>	<u>9,656</u>	<u>3,015</u>	<u>445,302</u>	<u>43,145</u>	<u>175,504</u>	<u>961,507</u>
At December 31, 2007							
Cost	336,670	11,296	4,596	529,031	46,635	175,504	1,103,732
Accumulated depreciation	(51,785)	(1,640)	(1,581)	(83,729)	(3,490)	—	(142,225)
Net book amount	<u>284,885</u>	<u>9,656</u>	<u>3,015</u>	<u>445,302</u>	<u>43,145</u>	<u>175,504</u>	<u>961,507</u>
Year ended December 31, 2008							
Opening net book amount	284,885	9,656	3,015	445,302	43,145	175,504	961,507
Transfer in from CIP	8,261	—	31	60,456	—	(68,748)	—
Additions	796	2,231	754	6,363	15,510	616,183	641,837
Disposals	—	(183)	—	(29)	—	—	(212)
Depreciation	(16,597)	(1,591)	(844)	(41,014)	(2,553)	—	(62,599)
Closing net book amount	<u>277,345</u>	<u>10,113</u>	<u>2,956</u>	<u>471,078</u>	<u>56,102</u>	<u>722,939</u>	<u>1,540,533</u>
At December 31, 2008							
Cost	345,727	13,103	5,382	595,809	62,145	722,939	1,745,105
Accumulated depreciation	(68,382)	(2,990)	(2,426)	(124,731)	(6,043)	—	(204,572)
Net book amount	<u>277,345</u>	<u>10,113</u>	<u>2,956</u>	<u>471,078</u>	<u>56,102</u>	<u>722,939</u>	<u>1,540,533</u>
Year ended December 31, 2009							
Opening net book amount	277,345	10,113	2,956	471,078	56,102	722,939	1,540,533
Acquisition of a subsidiary (Note 34)	69,827	1,905	3,809	52,308	11,500	1,126	140,475
Transferred in and contributed from minority equity holder of a subsidiary (Note 35)	176,591	1,869	4,827	153,939	—	—	337,226
Transfer in from CIP	291,232	—	—	487,695	85,923	(864,850)	—
Additions	1,108	9,902	7,813	5,319	7,878	665,662	697,682
Disposals	(1,962)	(2,093)	(65)	(512)	—	—	(4,632)
Depreciation	(15,404)	(2,061)	(2,548)	(72,902)	(6,867)	—	(99,782)
Closing net book amount	<u>798,737</u>	<u>19,635</u>	<u>16,792</u>	<u>1,096,925</u>	<u>154,536</u>	<u>524,877</u>	<u>2,611,502</u>
At December 31, 2009							
Cost	874,493	23,511	21,742	1,293,466	167,446	524,877	2,905,535
Accumulated depreciation	(75,756)	(3,876)	(4,950)	(196,541)	(12,910)	—	(294,033)
Net book amount	<u>798,737</u>	<u>19,635</u>	<u>16,792</u>	<u>1,096,925</u>	<u>154,536</u>	<u>524,877</u>	<u>2,611,502</u>

Group	Property and plant	Motor Vehicles	Electronic and other equipment	Machinery	Mining Assets	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Four months ended April 30, 2010							
Opening net book amount	798,737	19,635	16,792	1,096,925	154,536	524,877	2,611,502
Transfer in from CIP	98,105	386	23,577	248,335	33,316	(403,719)	—
Additions	121	2,890	3,278	8,826	—	563,669	578,784
Disposals	—	(1,101)	—	—	—	—	(1,101)
Depreciation	(17,404)	(1,053)	(3,422)	(37,956)	(1,271)	—	(61,106)
Closing net book amount	<u>879,559</u>	<u>20,757</u>	<u>40,225</u>	<u>1,316,130</u>	<u>186,581</u>	<u>684,827</u>	<u>3,128,079</u>
At April 30, 2010							
Cost	972,719	25,686	48,597	1,550,627	200,762	684,827	3,483,218
Accumulated depreciation	(93,160)	(4,929)	(8,372)	(234,497)	(14,181)	—	(355,139)
Net book amount	<u>879,559</u>	<u>20,757</u>	<u>40,225</u>	<u>1,316,130</u>	<u>186,581</u>	<u>684,827</u>	<u>3,128,079</u>

The carrying amounts of the Group's construction in progress included capitalized interest of RMB513,000, RMB39,607,000, RMB40,789,000 and RMB10,017,000 (Note 28) for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 respectively.

Interest was capitalized at a weighted average effective interest rate of 12%, 19%, 13% and 9% for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 respectively (Note 28).

Certain items within property, plant and equipment with aggregated carrying amounts of RMB430,296,000, RMB389,109,000, RMB1,627,328,000 and RMB1,423,384,000 for the years ended 2007, 2008, 2009 and four months ended April 30, 2010 respectively were pledged to banks for securing borrowings (Note 19).

Depreciation of property, plant and equipment has been charged to cost of sales, administrative expenses and capitalized in construction in progress as follows:

	Year ended December 31			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost of sales	42,307	57,496	92,035	17,786	58,111
Administrative expenses	2,346	4,821	7,251	3,175	2,841
Capitalized in construction in progress (Note (a))	453	282	496	68	154
	<u>45,106</u>	<u>62,599</u>	<u>99,782</u>	<u>21,029</u>	<u>61,106</u>

Note (a)

The depreciation of certain items of property, plant and equipment charged during the course of plant construction was capitalized in construction in progress.

7. Land use rights

Group

	<u>RMB'000</u>
At January 1, 2007	
Cost	15,068
Accumulated amortization	(833)
Net book amount	<u>14,235</u>
Year ended December 31, 2007	
Opening net book amount	14,235
Additions	3,775
Amortization charges	(204)
Closing net book amount	<u>17,806</u>
At December 31, 2007	
Cost	18,843
Accumulated amortization	(1,037)
Net book amount	<u>17,806</u>
Year ended December 31, 2008	
Opening net book amount	17,806
Additions	59,081
Amortization charges	(366)
Closing net book amount	<u>76,521</u>
At December 31, 2008	
Cost	77,924
Accumulated amortization	(1,403)
Net book amount	<u>76,521</u>
Year ended December 31, 2009	
Opening net book amount	76,521
Additions	27,397
Acquisition of a subsidiary (Note 34)	6,924
Contributed by a minority equity holder of a subsidiary (Note 35)	15,165
Amortization charges	(1,436)
Closing net book amount	<u>124,571</u>
At December 31, 2009	
Cost	127,410
Accumulated amortization	(2,839)
Net book amount	<u>124,571</u>
Four months ended April 30, 2010	
Opening net book amount	124,571
Additions	54,375
Amortization charges	(534)
Closing net book amount	<u>178,412</u>
At April 30, 2010	
Cost	181,785
Accumulated amortization	(3,373)
Net book amount	<u>178,412</u>

Certain land use rights with aggregate carrying amounts of RMB7,556,000, nil, RMB41,527,000 and RMB38,763,000 for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 respectively were pledged to secure bank borrowings (Note 19) to the Group.

Land use rights are amortized over periods ranging between 36 years to 50 years.

8. Mining rights

Group

	<u>RMB'000</u>
Year ended December 31, 2007	
Opening net book amount	—
Additions	25,500
Amortization charges	—
Closing net book amount	<u>25,500</u>
At December 31, 2007	
Cost	25,500
Accumulated amortization	—
Net book amount	<u>25,500</u>
Year ended December 31, 2008	
Opening net book amount	25,500
Additions	4,107
Amortization charges	(1,700)
Closing net book amount	<u>27,907</u>
At December 31, 2008	
Cost	29,607
Accumulated amortization	(1,700)
Net book amount	<u>27,907</u>
Year ended December 31, 2009	
Opening net book amount	27,907
Additions	1,807
Acquisition of a subsidiary (Note 34)	5,250
Transfer in from minority equity holder of a subsidiary (Note 35)	12,930
Amortization charges	(1,521)
Closing net book amount	<u>46,373</u>
At December 31, 2009	
Cost	49,594
Accumulated amortization	(3,221)
Net book amount	<u>46,373</u>
Four months ended April 30, 2010	
Opening net book amount	46,373
Amortization charges	(692)
Closing net book amount	<u>45,681</u>
At April 30, 2010	
Cost	49,594
Accumulated amortization	(3,913)
Net book amount	<u>45,681</u>

Mining rights are granted from the respective Land and Resource Bureaus in Shaanxi Province. The useful lives of the mining rights range from 10 years to 40 years.

For the mining right of RMB25,500,000, it was acquired in December 2007, and the related exploitation commenced in 2008. Amortization of mining rights is calculated on a unit of production method, and thus no amortization was made in 2007.

9. Other intangible assets

Group

	Goodwill	Customer relationships	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007, December 31, 2007 and 2008				
Cost	—	—	45	45
Accumulated amortization	—	—	(45)	(45)
Net book amount	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Year ended December 31, 2009				
Opening net book amount	—	—	—	—
Additions	—	—	80	80
Acquisition of a subsidiary (Note 34)	45,274	20,610	—	65,884
Amortization charges	—	(859)	(1)	(860)
Closing net book amount	<u>45,274</u>	<u>19,751</u>	<u>79</u>	<u>65,104</u>
At December 31, 2009				
Cost	45,274	20,610	80	65,964
Accumulated amortization	—	(859)	(1)	(860)
Net book amount	<u>45,274</u>	<u>19,751</u>	<u>79</u>	<u>65,104</u>
Four months ended April 30, 2010				
Opening net book amount	45,274	19,751	79	65,104
Amortization charges	—	(687)	(4)	(691)
Closing net book amount	<u>45,274</u>	<u>19,064</u>	<u>75</u>	<u>64,413</u>
At April 30, 2010				
Cost	45,274	20,610	80	65,964
Accumulated amortization	—	(1,546)	(5)	(1,551)
Net book amount	<u>45,274</u>	<u>19,064</u>	<u>75</u>	<u>64,413</u>

The customer relationships amounting to RMB20,610,000 are non-contractual customer relationships acquired through the acquisition of Xiushan Yaobai. In the past few years, Xiushan Yaobai has provided cement service for some large companies. Management estimated the Group will keep their business relationship with some or all of the existing customers in the future. It is believed by the management that the customer relationships will bring in net future cash flows to the Group, and is thus identified as an intangible asset. They are amortized over a period of 10 years, which the directors believe is the period over which the Group can retain the customers.

The goodwill arising on the acquisition of Xiushan Yaobai in 2009 was tested for impairment at the end of the year. The impairment test was carried out using fair value less costs to sell and no impairment was identified as being necessary. Management believes that the fair value of the subsidiary has not fallen since the acquisition.

10. Deferred income tax

Group

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
— to be recovered after more than 12 months	—	—	8,874	8,874
— to be recovered within 12 months	12,364	798	4,666	4,666
	<u>12,364</u>	<u>798</u>	<u>13,540</u>	<u>13,540</u>
Deferred tax liabilities:				
— to be settled after more than 12 months	—	—	(7,366)	(7,366)
— to be settled within 12 months	—	—	(713)	(713)
	<u>—</u>	<u>—</u>	<u>(8,079)</u>	<u>(8,079)</u>

Deferred tax assets:

	Unused tax credit Note(a)	Allowance & provision	Deferred income	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007 and December 31, 2007	11,342	1,022	—	—	12,364
Charged to the consolidated statement of comprehensive income	(11,342)	(224)	—	—	(11,566)
At December 31, 2008	—	798	—	—	798
Credited to the consolidated statement of comprehensive income	—	2,679	9,357	706	12,742
At December 31, 2009 and April 30, 2010	<u>—</u>	<u>3,477</u>	<u>9,357</u>	<u>706</u>	<u>13,540</u>

(a) Unused tax credit represents the remaining balance of deferred tax assets arising from acquiring domestic equipment on an investment project.

Deferred tax liabilities:

	<u>Assets booked at fair value on acquisition</u>
	RMB'000
At December 31, 2008	—
Acquisition of a subsidiary (Note 34)	(8,376)
Credited to the consolidated statement of comprehensive income	<u>297</u>
At December 31, 2009 and April 30, 2010	<u>(8,079)</u>

11. Investments in subsidiaries**Company**

	<u>As at December 31,</u>			<u>As at April 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investment	<u>447,285</u>	<u>447,285</u>	<u>447,285</u>	<u>447,285</u>

Unlisted investment represents the investment cost of acquiring West China BVI (Note 17).

12. Inventories**Group**

	<u>As at December 31,</u>			<u>As at April 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
Raw materials	28,856	51,719	81,751	87,346
Work in progress	10,515	18,585	23,618	40,943
Finished goods	<u>8,411</u>	<u>13,332</u>	<u>25,739</u>	<u>17,473</u>
	<u>47,782</u>	<u>83,636</u>	<u>131,108</u>	<u>145,762</u>
Provision for impairment loss:				
Raw materials	<u>(2,129)</u>	<u>(2,129)</u>	<u>(2,129)</u>	<u>(2,129)</u>
Inventories, net	<u>45,653</u>	<u>81,507</u>	<u>128,979</u>	<u>143,633</u>

The cost of inventories recognized as an expense and included in 'cost of sales' amounted to approximately RMB281,968,000, RMB467,713,000, RMB742,513,000 and RMB348,088,000 for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 respectively.

13. Trade and other receivables and prepayments

Group

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable	4,350	5,719	5,370	10,350
Trade receivables (Note (a))	56,006	69,291	95,676	92,598
Less: provision for impairment of receivables (Note (c))	(2,800)	(3,465)	(4,881)	(4,881)
	<u>57,556</u>	<u>71,545</u>	<u>96,165</u>	<u>98,067</u>
Other receivables (Note (b))	25,120	28,964	54,975	40,045
Holding deposit for a potential acquisition (Note (d))	—	—	100,000	100,000
Less: provision for impairment of receivables (Note (c))	(191)	(414)	(370)	(370)
	<u>24,929</u>	<u>28,550</u>	<u>154,605</u>	<u>139,675</u>
Prepayments	<u>18,969</u>	<u>25,675</u>	<u>66,900</u>	<u>144,452</u>
Trade and other receivables and prepayments — net.	<u>101,454</u>	<u>125,770</u>	<u>317,670</u>	<u>382,194</u>

The carrying amounts of trade and other receivables and prepayments approximate to their fair values.

Note (a)

Trade receivables are all due from third parties. The ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	42,209	45,340	64,220	63,518
Over 90 days and within 180 days	4,189	12,651	9,198	15,598
Over 180 days and within 360 days	3,801	4,880	6,947	6,906
Over 360 days and within 720 days	1,607	2,923	11,365	3,546
Over 720 days	4,200	3,497	3,946	3,030
	<u>56,006</u>	<u>69,291</u>	<u>95,676</u>	<u>92,598</u>

The average credit period taken on sale of goods is between 60-90 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sale of goods. This provision has been determined by reference to past default experience.

As at December 31, 2007, 2008, 2009 and April 30, 2010 respectively, trade receivables of RMB2,800,000, RMB3,465,000, RMB4,881,000 and RMB4,881,000 were impaired.

As at December 31, 2007, 2008, 2009 and April 30, 2010, the trade receivables that were neither past due nor impaired were RMB40,208,000, RMB38,908,000, RMB59,296,000 and RMB53,913,000 respectively.

The ageing analysis of trade receivables overdue but not impaired is as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Overdue for 1 to 90 days	5,331	15,578	12,731	12,286
Overdue for 91 to 180 days	4,290	6,742	6,723	11,934
Overdue for 181 to 360 days	1,342	4,091	12,045	3,482
Overdue for 360 to 720 days	674	507	—	6,102
Overdue for 720 days	1,361	—	—	—
	<u>12,998</u>	<u>26,918</u>	<u>31,499</u>	<u>33,804</u>

Note (b)

Details of other receivables are as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Value-added tax, government incentive and income tax receivable	11,705	20,307	17,839	30,264
Receivable from minority equity holder of a subsidiary (Note 35(c))	—	—	30,000	—
Others	13,415	8,657	7,136	9,781
	<u>25,120</u>	<u>28,964</u>	<u>54,975</u>	<u>40,045</u>

Note (c)

Movements in impairment of trade receivables are as follows:

	Year ended December 31,			Four months ended April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	(4,007)	(2,800)	(3,465)	(4,881)
Provision for impairment of trade receivables . .	(1,776)	(691)	(1,416)	—
Receivables written off during the year/period as uncollectible	—	26	—	—
Reversal of impairment of trade receivables . . .	2,983	—	—	—
At end of the year/period	<u>(2,800)</u>	<u>(3,465)</u>	<u>(4,881)</u>	<u>(4,881)</u>

Movements in impairment of other receivables are as follows:

	Year ended December 31,			Four months ended April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	—	(191)	(414)	(370)
Provision for impairment of other receivables . .	(191)	(486)	(190)	—
Reversal of impairment of other receivables . . .	—	263	234	—
At end of the year/period	<u>(191)</u>	<u>(414)</u>	<u>(370)</u>	<u>(370)</u>

Impairment provision for trade and other receivables is charged to administrative expenses in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering of additional cash.

Note (d)

On October 31, 2009, Shaanxi Yaobai entered into a non-binding memorandum of understanding (the "MOU") for the proposed acquisition of 100% of the registered capital of Ankang Jianghua Cement Co. Ltd. (the "Target") (the "Proposed Acquisition"). The MOU was effective until December 31, 2009. As the deposit for the Proposed Acquisition, Shaanxi Yaobai made a payment of RMB 100 million without interest to the third party to secure exclusivity.

As no formal acquisition agreement for Proposed Acquisition was signed before December 31, 2009. On January 25, 2010, Shaanxi Yaobai entered into an extension agreement (the "Extension Agreement") with the Target, whereby the two parties agreed to extend the exclusive negotiation until December 31, 2010. The acquisition would be subject to legal and financial due diligence of the Target satisfactory to the Group. The Target will repay Shaanxi Yaobai the RMB 100 million deposit if the Company decides to cease the negotiation or Shaanxi Yaobai does not enter into formal acquisition agreement with the Target within the exclusive negotiation period.

Company

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from subsidiary undertakings				
(Note (a))	287,361	658,647	726,691	690,323
Others	—	26	14,592	26,484
	<u>287,361</u>	<u>658,673</u>	<u>741,283</u>	<u>716,807</u>

(a) Amounts due from subsidiary undertakings

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from West China BVI	189,143	410,063	417,866	417,873
Amounts due from Shaanxi Yaobai	98,218	248,584	308,825	272,450
	<u>287,361</u>	<u>658,647</u>	<u>726,691</u>	<u>690,323</u>

The amounts due from subsidiaries are unsecured, interest free and repayable on demand. The carrying amounts of loans to subsidiaries approximate to their fair value.

14. Cash and cash equivalents and restricted cash

Group

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand (Note (a)) . .	54,333	73,037	365,840	63,139
Less: Restricted cash (Note (b))	<u>(24,336)</u>	<u>(35,999)</u>	<u>(19,582)</u>	<u>(9,415)</u>
Cash and cash equivalents	<u>29,997</u>	<u>37,038</u>	<u>346,258</u>	<u>53,724</u>

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand is denominated in:				
— RMB	24,598	32,832	318,497	50,693
— GBP	5,391	3,755	5,378	2,766
— US\$	—	445	22,380	264
— HKD	8	6	3	1
	<u>29,997</u>	<u>37,038</u>	<u>346,258</u>	<u>53,724</u>
Restricted cash is denominated in:				
— RMB	24,336	21,340	5,010	9,415
— US\$	—	14,659	14,572	—
	<u>24,336</u>	<u>35,999</u>	<u>19,582</u>	<u>9,415</u>

Company

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand (Note (a)) . .	5,391	18,859	42,330	2,958
Less: restricted cash (Note (b))	—	(14,659)	(14,572)	—
Cash and cash equivalents	<u>5,391</u>	<u>4,200</u>	<u>27,758</u>	<u>2,958</u>
	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand is denominated in:				
— GBP	5,391	3,755	5,378	2,766
— US\$	—	445	22,380	192
	<u>5,391</u>	<u>4,200</u>	<u>27,758</u>	<u>2,958</u>

The restricted cash of the Company is all denominated in US\$.

- (a) Bank deposits bear interests at rates based on bank deposit rates as agreed with banks for each of the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 respectively. The weighted average effective interest rate on deposits was 1.26%, 1.61%, 0.37% and 0.20% per annum for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010, respectively.
- (b) Restricted cash represents cash set aside as a result of issuance of trade facilities such as bills payable and bankers' guarantee, and a security deposit pledged to a bank under a bank borrowing agreement.
- (c) Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

15. Share capital and premium

Group and Company

	Number of issued shares	Ordinary shares	Share premium	Total
	thousand	RMB'000	RMB'000	RMB'000
At January 1, 2007	63,688	96,191	655,370	751,561
Employee share option scheme:				
— proceeds from shares issued	<u>425</u>	<u>620</u>	<u>7,266</u>	<u>7,886</u>
At December 31, 2007 and 2008	64,113	96,811	662,636	759,447
Employee share option scheme:				
— proceeds from shares issued	<u>749</u>	<u>812</u>	<u>10,139</u>	<u>10,951</u>
At December 31, 2009	64,862	97,623	672,775	770,398
Employee share option scheme:				
— proceeds from shares issued	<u>986</u>	<u>1,011</u>	<u>15,147</u>	<u>16,158</u>
At April 30, 2010	<u>65,848</u>	<u>98,634</u>	<u>687,922</u>	<u>786,556</u>

On incorporation, the authorized share capital of the Company was GBP 10,000 divided into 10,000 ordinary shares of GBP 1 each.

On October 27, 2006, each ordinary share of GBP 1 was subdivided into 10 ordinary shares of 10p each and the authorized share capital of the Company was increased from GBP 10,000 to GBP 20,000,000 by the creation of an additional 199,900,000 ordinary shares of 10p each. The Company issued new ordinary shares of 42,735,965 pursuant to the acquisition of West China BVI. On December 4, 2006, the Company issued new ordinary shares of 20,952,381 of 10p each by way of placement on AIM.

The total authorized number of ordinary shares is 200 million shares with a par value of GBP 0.1 per share throughout the Relevant Periods. All issued shares are fully paid.

The balance in share premium represents the premium arising on the issue of ordinary shares to acquire West China BVI, the premium arising on the issue of ordinary shares on AIM of GBP 1.05 each, less expenses incurred and the premium arising on the exercise of share option.

Pursuant a shareholders' resolution dated July 20, 2010, each ordinary shares of GBP0.1 will be subdivided into 50 ordinary shares of GBP0.002 each, which will take effect upon Listing. Since the subdivision has not been effected at the date of this report, the number of shares and earnings per share as disclosed in this report have not taken into account the subdivision.

16. Share-based payment

Group and Company

Share options and warrants are granted to brokers, advisors and directors of the Company. The options and warrants are exercisable immediately or starting after two years from the grant date. The options and warrants have a contractual option term of three or five years. The Group has no legal or constructive obligation to repurchase or settle the options and warrants in cash. The existing share options and warrants will not be cancelled or replaced upon Listing.

Movements in the number of share options and warrants outstanding and their related weighted average exercise prices are as follows:

	Year ended December 31,						Four months ended April 30,	
	2007		2008		2009		2010	
	Average exercise price in GBP per share	Options (thousands)	Average exercise price in GBP per share	Options (thousands)	Average exercise price in GBP per share	Options (thousands)	Average exercise price in GBP per share	Options (thousands)
At beginning of the year/period	1.05	2,070	1.05	1,645	1.13	1,965	1.22	1,466
Granted	—	—	1.56	320	1.42	250	—	—
Exercised	1.05	(425)	—	—	1.05	(749)	1.10	(986)
At end of the year/period	1.05	<u>1,645</u>	1.13	<u>1,965</u>	1.22	<u>1,466</u>	1.49	<u>480</u>

The related weighted average share price in the market at the time of exercise in years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 was GBP 1.61, N/A, GBP 2.15 and GBP 6.50 per share respectively.

Share options and warrants outstanding at the end of the year/period have the following expiry dates and exercise prices:

Expiry date	Exercise price in GBP per share	Options (thousands)			
		As at December 31,			As at April 30,
		2007	2008	2009	2010
2009.	1.05	849	849	—	—
2010.	1.05	—	—	100	—
2011.	1.05	796	796	796	—
2013.	1.56	—	320	320	230
2014.	1.42	—	—	250	250
		<u>1,645</u>	<u>1,965</u>	<u>1,466</u>	<u>480</u>

The weighted average fair value of options and warrants granted during years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 was N/A, GBP 0.26, GBP 0.64 and N/A per option, determined using the Black-Scholes valuation model. The significant inputs into the model were as follows:

	Year ended December 31,	
	2008	2009
Weighted average share price	GBP 0.96	GBP 1.39
Exercise price	GBP 1.56	GBP 1.42
Expected volatility	42%	51%
Expected dividend yield	0%	0%
Expected option life	5 years	5 years
Annual risk-free interest rate	4.09%	2.55%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the past years.

17. Other reserves

Group

Reverse acquisition reserve

The acquisition of West China BVI by the Company on October 27, 2006 was accounted for as a reverse acquisition, in accordance with IFRS 3, 'Business Combinations'.

The Company became the legal parent of West China BVI by way of a share exchange agreement. According to the share exchange agreement, the shareholders of West China BVI transferred the entire issued share capital of West China BVI to the Company in consideration for 42,735,965 ordinary shares of GBP 10p each. This business combination is regarded as a reverse acquisition whereby West China BVI, the legal subsidiary, is the acquirer and has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities.

The reverse acquisition reserve represents the difference between the fair value and carrying amount of net assets of West China BVI at the acquisition date.

Statutory reserve

In accordance with relevant rules and regulations in the PRC and provision of the articles of association of the group companies established in the PRC, the group companies in the PRC are required to appropriate 10% of the profit-after-taxation determined under PRC Accounting Standards to the statutory reserve until the balances reach 50% of their respective paid-in capital. The reserve can be used to offset losses incurred or to increase their respective paid-in capital. Except for offset of losses incurred, any other usage should not result in the reserve balance falling below 25% of registered capital. The appropriation of statutory reserve is based on certain percentages of the companies' profit of the year, which is based on the figures reported in the statutory financial statements, so there was no appropriation to statutory reserve for the four months period ended April 30, 2010.

Dividends distribution

According to the relevant PRC regulations, retained earnings available for distribution by the Group's PRC subsidiaries should be the retained earnings recorded in the statutory financial statements that are prepared under the accounting principles and financial regulations applicable in the PRC.

China withholding tax ("WHT") for dividend paid to foreign investors

According to the PRC Corporate Income Tax law and the detailed implementation regulations, foreign shareholders are subject to a 10% WHT for the dividend repatriated by the Group's PRC subsidiaries starting from January 1, 2008. For certain treaty jurisdictions such as Hong Kong which has signed tax treaties with the PRC, the WHT rate is 5%.

According to Cai Shui [2008] Circular 1 jointly issued by the Ministry of Finance and the State Administration of Taxation of China on February 22, 2008, where the Group's PRC subsidiaries declare dividend in 2008 and beyond out of the cumulative retained earnings as at December 31, 2007 (i.e. 2007 retained earnings), such dividends earned by the foreign shareholders are exempted from WHT. For dividend which arises from the Group's PRC subsidiaries' profit earned after January 1, 2008, WHT is levied on the foreign shareholders.

18. Retained earnings/(accumulated losses)**Group**

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Retained earnings:					
At beginning of the year/period . .	88,334	222,650	442,070	442,070	717,553
Profit for the year/period	150,273	246,163	330,460	110,904	153,074
Appropriation to statutory reserve (a)	(15,957)	(26,743)	(54,977)	—	—
At end of the year/period	<u>222,650</u>	<u>442,070</u>	<u>717,553</u>	<u>552,974</u>	<u>870,627</u>

Company

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Accumulated losses:					
At beginning of the year/period . .	(5,114)	(26,145)	(50,705)	(50,705)	(211,977)
Loss for the year/period	(21,031)	(24,560)	(161,272)	(13,340)	(51,277)
At end of the year/period	<u>(26,145)</u>	<u>(50,705)</u>	<u>(211,977)</u>	<u>(64,045)</u>	<u>(263,254)</u>

(a) The appropriation to statutory reserve is requested annually, and accordingly there is no transfer to statutory reserve in the four months ended April 30, 2010.

19. Borrowings

Group

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Bank borrowings-secured (Note (a)) . . .	88,800	430,069	704,522	994,994
Other borrowings (Note (b))	—	—	32,000	21,000
Less: Current portion of non-current borrowings	(25,000)	(23,000)	(376,464)	(269,658)
	<u>63,800</u>	<u>407,069</u>	<u>360,058</u>	<u>746,336</u>
Current				
Bank borrowings-secured (Note (a)) . . .	230,400	230,400	790,604	450,000
Other borrowings (Note (b))	16,953	15,784	121,800	—
Current portion of non-current borrowings	25,000	23,000	376,464	269,658
	<u>272,353</u>	<u>269,184</u>	<u>1,288,868</u>	<u>719,658</u>
Total borrowings	<u>336,153</u>	<u>676,253</u>	<u>1,648,926</u>	<u>1,465,994</u>

(a) Bank borrowings

The Group's bank borrowings are denominated in the following currencies:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
RMB				
- borrowed by subsidiaries	319,200	289,200	745,600	770,666
- transferred in from a minority equity holder of a subsidiary (Note 35) . . .	—	—	49,200	—
US\$				
- US\$60 million (iii)	—	371,269	358,921	—
- US\$50 million from Superb Miles Limited (iv)	—	—	341,405	339,496
- US\$50 million from financial institutions (v)	—	—	—	334,832
	<u>319,200</u>	<u>660,469</u>	<u>1,495,126</u>	<u>1,444,994</u>

Bank borrowings were secured as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Jointly secured by land use rights and PPE (i)	319,200	289,200	478,000	450,000
Jointly secured by land use rights, PPE and equity interests of subsidiaries (ii)	—	—	316,800	320,666
Secured by a subsidiary's equity interests (iii)	—	371,269	358,921	—
Secured by the Company's shares (iv)	—	—	341,405	339,496
Secured by subsidiaries equity interests and the Company's shares (v)	—	—	—	334,832
	<u>319,200</u>	<u>660,469</u>	<u>1,495,126</u>	<u>1,444,994</u>

- (i) The bank borrowings were secured by certain land use rights (Note 7) and property and plant and equipment (Note 6) of the Group, with total carrying amounts of RMB437,852,000, RMB389,109,000, RMB681,764,000 and RMB 496,091,000 as at December 31, 2007, 2008, 2009 and April 30, 2010 respectively.
- (ii) The Group's bank borrowings of RMB330,000,000 as at December 31, 2009 and April 30, 2010 were jointly secured by certain land use rights (Note 7), property and plant and equipment (Note 6) of the Group with total carrying values of RMB987,091,000 as at December 31, 2009 and RMB966,056,000 as at April 30, 2010, and secured by 100% of equity interests of Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai and Mianxian Yaobai. The loan was also guaranteed by Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai and Mianxian Yaobai. During the four months ended April 30, 2010, the Group incurred capital expenditures exceeded the limit stipulated in the loan agreement. The Group has obtained the waiver from compliance with the limit from the facility agent representing the majority of the lenders (Note 3.1 (c)).
- (iii) The Group's bank borrowings of US\$60,000,000 (Note 20) as at December 31, 2008 and 2009 were secured by 100% of the equity interest of its subsidiary Shaanxi Yaobai. The facility was fully repaid on March 9, 2010 and all the securities have been discharged.
- (iv) The Group's bank borrowings of US\$50,000,000 as at December 31, 2009 were guaranteed by Mr. Jimin Zhang and secured by 19,393,776 ordinary shares of the Company held by Mr. Jimin Zhang. Pursuant to an extension agreement entered into on March 1, 2010, the borrowing will be due on July 26, 2011 or Listing or any other internationally recognized stock exchange whichever is earlier.
- (v) On February 26, 2010, the Company entered into a US\$50 million term loan facility agreement ("ICBC Facility") with financial institutions with the intention to utilise this loan to repay the US\$60 million facility. The US\$50 million loan was drawn down on March 9, 2010, and the US\$60 million facility has been fully repaid.

The ICBC Facility is secured by (a) a share charge over West China BVI provided by the Company; (b) a share charge over Faithful Alliance provided by West China BVI; (c) an equity pledge over Shaanxi Yaobai provided by Faithful Alliance; (d) an assignment of shareholders' loan borrowed by West China BVI from the Company; (e) charges over the accounts of the Company; and (f) corporate guarantee in favor of Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)") and Industrial and Commercial Bank of China (Macau) Limited ("ICBC Macau"), provided by ICBC International Holdings Limited ("ICBCI Holdings"). ICBCI Holdings also granted to the lenders a put option, upon the exercise of which ICBCI Holdings is required to purchase the ICBC Facility from ICBC (Asia) and ICBC Macau together with all rights attached thereto. Such put option may only be exercised at any time after the occurrence of an event of default as set out in the ICBC Facility Agreement.

In addition, a second charge over 19,393,776 Shares held by Mr. Zhang, was created and a personal guarantee was provided by Mr. Zhang in favor of ICBCI Holdings, as the guarantor to the ICBC Facility, ranking immediately behind the charge created under the ICBCI Facility. The second charge over the Shares held by Mr. Zhang and the personal guarantee will be released before or upon Listing.

The exposure of the Group's bank borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
6 months or less	140,000	168,000	626,563	332,829
6-12 months	115,400	85,400	540,505	386,829
1-2 years	28,000	407,069	204,596	639,654
2-5 years	35,800	—	123,462	85,682
	<u>319,200</u>	<u>660,469</u>	<u>1,495,126</u>	<u>1,444,994</u>

The fair value of current bank borrowings equal their carrying amount as the discounting impact is not significant.

The carrying amounts and fair value of the non-current bank borrowings are as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount				
— US\$ bank borrowings (i)	—	371,269	77,258	503,671
— RMB bank borrowings (ii)	63,800	35,800	250,800	221,665
	<u>63,800</u>	<u>407,069</u>	<u>328,058</u>	<u>725,336</u>
Fair value				
— US\$ bank borrowings (i)	—	371,269	114,819	503,671
— RMB bank borrowings (ii)	63,800	35,800	250,800	221,665
	<u>63,800</u>	<u>407,069</u>	<u>365,619</u>	<u>725,336</u>

- (i) The carrying amount of US\$ bank borrowings represented the non-current portion of US\$60,000,000 loan (Note 20) and the ICBC Facility as at December 31, 2008, 2009 and April 30, 2010. The fair values are estimated based on discounted cash flows using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates.
- (ii) The fair values of non-current RMB bank borrowings approximate their carrying amounts at each of the balance sheet dates as all non-current RMB bank borrowings carry floating interest rates.

The weighted average effective interest rates at each balance sheet date were as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
RMB bank borrowings	7.78%	8.44%	7.27%	7.12%
US\$ bank borrowings	—	20.23%	12.94%	6.64%

(b) Other borrowings

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Loan from employees	16,953	15,784	—	—
Loan from third parties				
— transferred in from a minority equity holder of a subsidiary (Note 35) . . .	—	—	150,800	18,000
— other	—	—	3,000	3,000
	<u>16,953</u>	<u>15,784</u>	<u>153,800</u>	<u>21,000</u>

Other borrowings are all unsecured and denominated in RMB.

Other borrowings are repayable as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
6 months or less ⁽ⁱ⁾	16,953	15,784	92,800	—
6-12 months ⁽ⁱ⁾	—	—	29,000	—
1-2 years	—	—	29,000	18,000
2-5 years	—	—	3,000	3,000
	<u>16,953</u>	<u>15,784</u>	<u>153,800</u>	<u>21,000</u>

The fair values of other borrowings approximate to their carrying amount at each of the balance sheet date because the impact of discounting is not significant.

Other borrowings of RMB3,000,000 as at December 31, 2009 and April 30, 2010 are interest free. The weighted average effective interest rates for the remaining other borrowings as at December 31, 2007, 2008, 2009 and April 30, 2010 were 11.82%, 11.64%, 9.16% and 3.09% respectively.

Company

The borrowings of the Company represent all the US\$ bank borrowings of the Group.

20. Loan facility and warrants classified as liabilities

Bank borrowing of US\$60 million

On May 29, 2008, the Company entered into a loan facility agreement for US\$60 million with a financial institution. The interest rate was 13.5% per annum, 50% of the loan was repayable on a date falling 24 months from the date of utilization and the remaining 50% on a date falling 36 months from the date of utilization of the facility.

According to the loan facility agreement, the Company should use its commercially reasonable efforts to achieve a "Qualifying Re-listing" ("QRL") with various other conditions within 30 months from the date of utilization of the facility.

No assurance is, however, given by the Company as to the achievability of this undertaking. However, should such a QRL not take place, the Company must repay the principal of the loan outstanding together with accrued interests and break costs on the date falling 30 months from the date of agreement. If the Company issues any equity interest upon a QRL, the Company must pay 50% of the outstanding loan together with accrued interest and break costs immediately after QRL.

QRL means any initial public offering and/or secondary offering of shares of the Company with a resulting listing of shares in the Company on (i) the Hong Kong Stock Exchange, the Singapore Stock Exchange, the London Stock Exchange, the New York Stock Exchange and the Frankfurt Stock Exchange or (ii) any other internationally recognized stock exchange provided that such stock exchange shall have reasonably sufficient liquidity which is acceptable to the lender.

Warrant instrument agreement

On May 29, 2008, the Company also entered into a warrant agreement as part of the loan facility. According to the warrant agreement, the warrant holders had the following rights:

(1) *Rights to subscribe warrant shares and strike price ("subscription right")*

The warrant holders received warrants to subscribe for 7,802,142 ordinary shares in the Company at a strike price of US\$2.6916, representing a 15% premium to the average equivalent closing price per share over the 20 trading days immediately preceding the date of the warrant agreement, subject to strike price resets under certain circumstances. The warrants could have been exercised at any time up to 36 months after the issuance.

(2) *Cash settlement option*

The warrant holders had the option to require the Company to pay cash to it in lieu of issuing warrant shares. The warrant holder could only elect for cash settlement in respect of all, but not only part, of the warrant shares in respect of which such subscription rights are exercised.

(3) *Put option*

The warrant holders were also given the option to put the outstanding warrants ("Put Option") for an amount that would provide an internal rate of return of 19% on the bank borrowing of US\$60 million. The Put Option could have been exercised after 30 months in certain circumstances, or earlier in the event of default.

As the exercise price of the warrant is denominated in a currency (“US\$”) other than the Group’s functional currency (“RMB”), IFRS requires that it be classified as a liability in the Group’s balance sheet and adjusted to fair value at each balance sheet date, with the change in fair value recorded within the consolidated statement of comprehensive income.

The directors have identified that the warrants attached to the bank borrowing of US\$60 million are embedded derivatives. The value of the warrants was derived from the strike price, the Company’s share performance and the cash flow relating to the Put Option. The warrants are therefore a financial derivative, classified as a financial liability at fair value through profit and loss.

Redemption of warrants

On October 21, 2009, the Company agreed an amendment deed with the warrant holder. Under the amendment deed, the Company redeemed the warrants by paying the warrant holder with total amount of approximately US\$30,188,000. On November 3, 2009, the Company completed the settlement of warrant redemption with total payment of RMB206,435,000.

The difference between the redemption amount and fair value of the Put Option as at the date of redemption was recognized as finance costs in the consolidated statement of comprehensive income.

Carrying amount of the bank borrowing of US\$60 million and the warrant

As at December 31, 2008, the directors concluded that the QRL was not within the control of the Company, the bank borrowings of US\$60 million and warrants (put option) were the obligations to the Company that arose 30 months from the date of utilization of the bank borrowing of US\$60 million. Accordingly the bank borrowing of US\$60 million was initially recorded at cost of US\$53,106,000, being the fair value, and subsequently at amortized cost. The Put Option was recognized as an other liability at cost, US\$4,414,000, being the fair value, and amortized over a 30 month period. The fair values of the bank borrowing of US\$60 million and Put Option were calculated by discounting the future cash flow of the loan and interest payments. Directly attributable transaction costs were debited to the loan liability.

IAS 39 does not permit the initial value of the derivative to be recognized as a loss at initiation. The Group’s accounting policy in respect of this initial loss is to recognize it through the statement of comprehensive income on a straight-line basis except to the extent of any subsequent reversal (if higher). Given the considerably lower share price at the 2008 year end, the directors were of the opinion that the value of the derivative at the 2008 year end was approximately nil, and consequently no net gain or loss had been recognized in this respect in the year and an insignificant amount has been deferred as a loss to future periods.

After the redemption of the warrants, the warrants classified as liabilities were derecognized.

As at December 31, 2009, 75% of the bank borrowings of US\$60 million were classified as current liabilities.

The carrying amount and effective interest rate of bank borrowings of US\$60 million and the Put Option as at December 31, 2008 and 2009 are as follows:

	<u>December 31, 2008</u>	<u>December 31, 2009</u>
	RMB'000	RMB'000
Carrying amount of bank borrowing of US\$60 million	371,269	358,921
Carrying amount of Put Option	32,908	N/A
	<u>December 31, 2008</u>	<u>December 31, 2009</u>
Effective interest rate of bank borrowing of US\$60 million	20.23%	20.23%
Effective interest rate of Put Option	17.78%	N/A

The Company repaid bank borrowings principal of US\$5 million in December 2009 and repaid the remaining balance in full with the accrued interest and early repayment charges in March 2010.

21. Provisions for other liabilities and charges

	<u>Environmental Restoration</u>
	RMB'000
At December 31, 2008	—
Provision for the year	<u>6,265</u>
At December 31, 2009	6,265
Unwinding of discount for the period (Note 28)	<u>124</u>
At April 30, 2010	<u><u>6,389</u></u>

According to the new regulation issued in 2009 by the Ministry of Land and Resources of the People's Republic of China, the owner of a mine should undertake the obligation of environmental restoration. A provision is recognized for the present value of costs to be incurred for the restoration of the limestone mines of the Group based on the best estimate of future expenditure by the management. However, so far the local Land and Resource Bureau has not issued specific rules for the restoration standard, and if the restoration standard is released, the estimate of restoration costs may be subject to revision in the future. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time, and the provisions are updated accordingly.

22. Other liabilities**Group**

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Long-term payables for mining rights (Note (a))	13,000	11,100	7,400	7,400
Deferred income for purchase of equipment (Note (b))	—	5,730	39,002	37,846
Payable to a minority equity holder of a subsidiary (Note 35(b))	—	—	70,160	98,293
Others	487	487	487	—
	<u>13,487</u>	<u>17,317</u>	<u>117,049</u>	<u>143,539</u>

(a) Long-term payables represent amounts payable for the purchase of mining rights from the Ministry of Land and Resource of Lantian County, which is interest free and repayable in installments up to 2012. The carrying amount of the payable approximates to its fair value.

(b) Deferred income represents government grants to the Company's subsidiaries for the purchase of domestic equipment. The balance will be amortized based on the useful life of the equipment.

23. Trade and other payables**Group**

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Bills payable	15,000	15,000	—	—
Trade payables	57,532	83,802	185,950	301,577
Other payables	20,771	43,323	141,343	434,062
Payable to a minority equity holder of a subsidiary (Note 35(b))	—	—	70,161	—
Acquisition consideration payable (Note 34(b)).	—	—	36,050	823
Bonus payable	—	6,000	6,000	6,000
Advances from customers	20,057	22,959	56,920	91,270
Staff salaries and welfare payables . . .	4,894	9,219	17,204	15,513
Interest payable	975	1,932	3,007	2,029
Accrued taxes other than income tax (Note (a))	16,000	32,021	32,288	19,897
Other liabilities	51,307	55,255	10,472	27,279
	<u>186,536</u>	<u>269,511</u>	<u>559,395</u>	<u>898,450</u>

The carrying amounts of trade and other payables approximate to their fair values.

The ageing analysis of the trade payables were as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	41,663	56,622	147,187	247,076
Over 90 days and within 180 days . . .	6,825	9,198	21,926	51,309
Over 180 days and within 360 days. . .	4,012	9,821	12,851	825
Over 360 days and within 720 days. . .	1,365	8,161	3,967	2,324
Over 720 days.	3,667	—	19	43
	<u>57,532</u>	<u>83,802</u>	<u>185,950</u>	<u>301,577</u>

(a) Accrued taxes other than income tax are analyzed as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Value added tax ("VAT") (i)	11,065	24,453	20,433	3,461
Resource tax, bulk cement special funds and other taxes	4,935	7,568	11,855	16,436
	<u>16,000</u>	<u>32,021</u>	<u>32,288</u>	<u>19,897</u>

(i) The sales of self-manufactured products of the PRC subsidiaries are subject to VAT. The applicable tax rate for domestic sales is 17%.

Input VAT on purchases of raw materials, fuel, utilities and other production materials can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT. Effective from January 1, 2009, the input VAT on purchased equipment can be offset against the output VAT.

24. Expenses by nature

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Changes in inventories of finished goods and work in progress (Note 12)	(13,519)	(12,991)	(17,440)	(17,032)	(9,059)
Raw materials and consumables used.	133,044	157,641	303,015	67,165	114,618
Employee benefit expenses (Note 25)	30,207	44,870	57,653	14,304	25,479
Depreciation and amortization (Notes 6, 7, 8 and 9)	44,857	64,383	103,103	21,750	62,869
Utilities and electricity	162,443	323,063	456,938	117,187	244,349
Marketing expense	5,232	5,030	3,773	1,674	1,983
Transportation expenses	3,765	6,259	7,500	2,978	3,668
Vehicle expenses	1,644	2,669	2,959	916	1,271
(Write-back)/provision for impairment loss on receivables (Note 13)	(1,016)	914	1,372	—	—
Administration and advertising expenses	6,717	7,937	17,190	3,855	7,150
Auditor remuneration	1,170	1,480	1,898	649	108
Taxes and levies	6,727	11,805	16,220	3,929	4,833
Operating lease payments	194	488	1,556	719	58
Other expenses	7,534	9,767	15,260	1,966	3,377
Total cost of sales, selling and marketing and administrative expenses	<u>388,999</u>	<u>623,315</u>	<u>970,997</u>	<u>220,060</u>	<u>460,704</u>

25. Employee benefit expenses

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Wages and salaries	27,262	38,111	51,685	12,363	20,582
Pension costs — defined contribution plans	577	997	1,983	167	871
Other social security costs	32	632	552	120	289
Share options granted to directors (Note (a))	1,962	1,480	976	266	226
Other allowances and benefits	374	3,650	2,457	1,388	3,511
Total including director's emoluments	<u>30,207</u>	<u>44,870</u>	<u>57,653</u>	<u>14,304</u>	<u>25,479</u>

The numbers of employees are 788, 1,353, 2,606 and 2,978 as at December 31, 2007, 2008, 2009 and April 30, 2010 respectively.

- (a) On December 4, 2006, 796,104 share options were granted to non-executive directors (Note 16). The exercise price of the options is equal to the market price on the date of the grant. On April 23, 2009, 250,000 share options were granted to the director and the Chief Financial Officer of the Company (Note 16).
- (b) Directors' emoluments

Directors' emoluments for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2009 and 2010 are set out below:

Name of Director	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Robert Sinclair Robertson					
— Salaries.	761	960	801	244	264
— Share options scheme accrued	1,570	1,184	567	189	90
Brett Lance Miller					
— Salaries.	532	673	561	171	185
— Share options scheme accrued	392	296	144	48	23
Po Ling Low (i)					
— Salaries.	—	153	720	247	264
— Share options scheme accrued	—	—	265	29	113
Jimin Zhang					
— Salaries, bonus and pension scheme	602	3,466	1,200	405	408
Jianli Wang					
— Salaries, bonus and pension scheme	300	641	450	74	76
Zhenjun Tian (ii)					
— Salaries, bonus and pension scheme	300	587	—	—	—
	<u>4,457</u>	<u>7,960</u>	<u>4,708</u>	<u>1,407</u>	<u>1,423</u>

No director has waived or agreed to waive any emoluments.

Notes:

- (i) Appointed as director on October 21, 2008.
- (ii) Resigned as director on October 21, 2008. Mr. Zhenjun Tian maintained as general manager of Lantian Yaobai.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2009 and 2010 are as follows:

	Number of individuals			Four months ended April 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
Directors	4	4	5	5	5
Non-director individuals	1	1	—	—	—

The details of emoluments paid to the five highest individuals who were directors of the Company during the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2009 and 2010 have been included in Note (b) above. Details of emoluments paid to the remaining non-director individuals are as follows:

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	388	638	—	—	—

- (d) During the Relevant Periods, no director or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

26. Other income

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Tax refund (Note (a))	30,528	39,167	65,035	6,683	25,217
Government grants	5,180	1,450	6,491	1,863	3,227
	35,708	40,617	71,526	8,546	28,444

- (a) The tax refund mainly represents the refund of VAT for sales of certain types of cement where wasted natural materials have been used.

27. Other gains/(losses) — net

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Write-back of aged payables	2,981	1,153	1,344	—	—
Donations	(689)	(1,499)	(825)	(5)	(390)
Net loss from disposal of PPE . . .	(425)	(74)	(2,733)	—	(417)
Others	406	236	1,157	55	294
	<u>2,273</u>	<u>(184)</u>	<u>(1,057)</u>	<u>50</u>	<u>(513)</u>

28. Finance income and costs

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Finance income					
— Interest income on short-term bank deposits	1,572	1,023	803	340	138
— Net foreign exchange gains on financing activities (Note (a))	—	1,577	387	7	—
	<u>1,572</u>	<u>2,600</u>	<u>1,190</u>	<u>347</u>	<u>138</u>
Finance costs					
— Interest expense on bank borrowings	(23,688)	(65,816)	(113,443)	(34,837)	(58,704)
— Interest expense on other borrowings	(3,035)	(1,906)	(1,176)	(391)	(2,010)
— Early repayment charges	—	—	—	—	(7,479)
— Unwinding of discount (Note 21)	—	—	—	—	(124)
— Net foreign exchange loss on financing activities (Note (a))	—	—	—	—	(282)
— Fair value loss on financial instruments	—	—	—	(10,949)	—
Less: amounts capitalized (Note (b))	513	39,607	40,789	6,322	10,017
	<u>(26,210)</u>	<u>(28,115)</u>	<u>(73,830)</u>	<u>(39,855)</u>	<u>(58,582)</u>
Loss on redemption of warrants (Note 20)	—	—	(168,451)	—	—
	<u>(26,210)</u>	<u>(28,115)</u>	<u>(242,281)</u>	<u>(39,855)</u>	<u>(58,582)</u>
Net finance costs	<u>(24,638)</u>	<u>(25,515)</u>	<u>(241,091)</u>	<u>(39,508)</u>	<u>(58,444)</u>

(a) Net foreign exchange gains or loss mainly relate to the translation of the bank borrowings from US\$ to RMB during the Relevant Periods. The US\$ currency was depreciating as compared to RMB during the Relevant Periods.

- (b) Interest expense was capitalized as construction in progress at the rate of 12%, 19%, 13% and 9% per annum for each of the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 respectively (Note 6).

29. Income tax expense

The Group is subject to income tax on an entity basis on profits arising on or derived from the jurisdictions in which members of the Group are domiciled and operate.

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax	—	—	57,429	7,626	29,798
Deferred tax (Note 10)	—	11,566	(12,742)	—	—
Income tax expense	—	11,566	44,687	7,626	29,798

Tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group as follows:

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax	150,273	257,729	375,147	98,449	184,092
Tax calculated at statutory income tax	49,590	64,432	93,787	24,612	46,023
Tax effects of:					
Expenses not deductible for tax purposes	—	454	614	—	1,656
Tax effect of tax exemption and reduced tax rate under tax holiday (Note (a))	(53,750)	(59,654)	(101,429)	(26,688)	(28,252)
Tax credit (Note (b))	—	(3,772)	(4,355)	—	—
Unrecognized tax losses	4,160	2,536	56,070	9,702	10,371
Reversal of deferred tax assets arising from tax credit expired	—	7,570	—	—	—
Tax charge	—	11,566	44,687	7,626	29,798

Pursuant to the rules and regulations of Jersey Island and the British Virgin Islands, the Company and West China BVI are not subject to any income tax in those jurisdictions.

The income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the Relevant Periods based on existing legislations, interpretations and practices.

For the year ended December 31, 2007, PRC corporate income tax ("CIT") is provided at the rate of 33% of the profits for the PRC statutory financial reporting purposes, adjusted for those items which are not assessable or deductible for the PRC corporate income tax purpose.

On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which was effective from January 1, 2008. Under the new CIT Law, the corporate income tax rate applicable to the Group's subsidiaries located in Mainland China from January 1, 2008 is 25%, replacing the applicable tax rate of 33%.

Since the deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and liabilities of the Group's subsidiaries located in the PRC.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% upon the PRC tax bureau's approval at the time of dividend claim. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of their earnings generated from January 1, 2008.

- (a) Shaanxi Yaobai and Lantian Yaobai are foreign invested enterprises. They can enjoy a preferential national enterprise income tax rate of 15% and a tax holiday of a two-year exemption from national corporate income tax, followed by a three-year of a 50% tax reduction commencing from the first profit-making year net of losses carried forward from previous 5 years.

In addition, given that Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai are established in the western development zone of China, they are entitled to the preferential tax treatment for Western Development Policy ("WDP Policy") if they are engaged in projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000) as their principal business and the revenue from the principal operations accounts for over 70% of their total revenue. The applicable reduced preferential CIT rate under the WDP Policy is 15%. The operations of Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai have met the requirements under the WDP Policy and have obtained approval.

The actual CIT rates of Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai during the Relevant Periods are as follows:

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
Shaanxi Yaobai	0%	7.5%	7.5%	7.5%	7.5%
Lantian Yaobai	0%	0%	7.5%	7.5%	7.5%
Ankang Yaobai	33%	25%	15%	15%	15%

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC during the Relevant Periods.

- (b) Tax credit represents credit on corporate income tax for purchase of domestically produced equipment or environment protection related equipment pursuant to the applicable PRC tax laws and regulations.

30. Earnings per share(a) *Basic*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods.

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit attributable to equity holders of the Company	<u>150,273</u>	<u>246,163</u>	<u>330,460</u>	<u>90,823</u>	<u>153,074</u>
Weighted average number of ordinary shares in issue (thousands)	<u>63,979</u>	<u>64,113</u>	<u>64,531</u>	<u>64,116</u>	<u>64,996</u>
Basic earnings per share (RMB per share)	<u>2.35</u>	<u>3.84</u>	<u>5.12</u>	<u>1.42</u>	<u>2.36</u>

(b) *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options as well as warrants. For the share options and warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit attributable to equity holders of the Company	<u>150,273</u>	<u>246,163</u>	<u>330,460</u>	<u>90,823</u>	<u>153,074</u>
Profit used to determine diluted earnings per share	<u>150,273</u>	<u>246,163</u>	<u>330,460</u>	<u>90,823</u>	<u>153,074</u>
Weighted average number of ordinary shares in issue (thousands)	<u>63,979</u>	<u>64,113</u>	<u>64,531</u>	<u>64,116</u>	<u>64,996</u>
Adjustments for share options and warrants (thousands)	<u>388</u>	<u>81</u>	<u>653</u>	<u>—</u>	<u>460</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>64,367</u>	<u>64,194</u>	<u>65,184</u>	<u>64,116</u>	<u>65,456</u>
Diluted earnings per share (RMB per share)	<u>2.33</u>	<u>3.83</u>	<u>5.07</u>	<u>1.42</u>	<u>2.34</u>

31. Cash generated from operations

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit for the year/period before income tax	150,273	257,729	375,147	98,449	184,092
Adjustments for:					
— Depreciation and amortization (Notes 6, 7, 8 and 9)	44,857	64,383	103,103	21,750	62,869
— Loss on disposal of PPE (Note 27)	425	74	2,733	—	417
— (Write-back)/provision for impairment loss for receivables (Note 13) . . .	(1,016)	914	1,372	—	—
— Provision for impairment loss for inventories	211	—	—	—	—
— Share-based payment	1,962	1,480	1,161	328	285
— Finance costs — net (Note 28)	24,638	25,515	241,091	39,508	58,444
Changes in working capital (excluding the effects of acquisition):					
— Inventories	(21,674)	(35,854)	(29,881)	(22,909)	(14,654)
— Trade and bills receivables	(29,234)	(14,654)	(4,936)	(58,843)	(1,901)
— Other receivables and prepayments	(30,326)	(10,954)	(52,632)	(17,059)	(62,622)
— Trade and other payables	56,029	61,076	59,580	194,977	108,317
Cash generated from operations	<u>196,145</u>	<u>349,709</u>	<u>696,738</u>	<u>256,201</u>	<u>335,247</u>

In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net book amount (Note 6)	2,597	212	4,632	—	1,101
Loss on disposal of property, plant and equipment (Note 27)	<u>(425)</u>	<u>(74)</u>	<u>(2,733)</u>	<u>—</u>	<u>(417)</u>
Proceeds from disposal of property, plant and equipment	<u>2,172</u>	<u>138</u>	<u>1,899</u>	<u>—</u>	<u>684</u>

32. Contingencies

During the Relevant Periods, the Company and the Group did not have any contingent liabilities.

33. Commitments*(a) Capital commitments*

Capital expenditure contracted for at the balance sheet date, but not yet incurred was as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment.	<u>556,656</u>	<u>449,035</u>	<u>558,336</u>	<u>502,988</u>

(b) Operating lease commitments — Group companies as lessee

The Group leases various buildings as offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the Relevant Periods at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
No later than 1 year.	345	484	74	—
Later than 1 year and no later than 5 years	533	217	209	—
Later than 5 years	<u>504</u>	<u>496</u>	<u>446</u>	<u>—</u>
	<u>1,382</u>	<u>1,197</u>	<u>729</u>	<u>—</u>

34. Business combinations*(a) Acquisition of Xiushan Cement*

Shaanxi Yaobai, a wholly owned subsidiary of the Company, entered into Equity Transfer Agreements with Shaanxi Xiushan Cement Group Limited (“Xiushan Cement”) to acquire 100% of its equity interest on August 15, 2009 (the “Equity Transfer Agreement”). The sellers of Xiushan Yaobai are Mr. Changshui Zhang (who owned 36% interest) and other 41 individuals, they are not related parties of the Group. The total consideration for the acquisition of Xiushan Cement was RMB180,700,000 according to the Equity Transfer Agreements. There is no contingent consideration.

On August 1, 2009, the Group took control of Xiushan Cement, and therefore the acquisition date was August 1, 2009. After the acquisition, Xiushan Cement was renamed to Xiushan Yaobai.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
— Cash paid	130,000
— Consideration payable to Xiushan Yaobai (Note (a))	14,650
— Consideration payable (Note (b), Note 23)	<u>36,050</u>
Total purchase consideration	180,700
Provisional fair value of assets acquired (see below)	<u>135,426</u>
Goodwill	<u><u>45,274</u></u>

(a) According to the Equity Transfer Agreement and revised agreements between Shaanxi Yaobai and the original equity holders of Xiushan Cement, certain trade and other receivables due from original equity holders or third parties were transferred as amounts due from Shaanxi Yaobai on the acquisition date. This balance is eliminated in the consolidated balance sheet.

(b) The balance represents the outstanding payables to the original equity holders of Xiushan Cement.

The goodwill is attributable to the economies of scale anticipated as a result of combining the operations within the Group.

Management considers the fair value of the business acquired has not changed since acquisition and accordingly value of goodwill is not impaired. The fair values of the acquired assets and liabilities as of August 1, 2009 are as follows:

	Provisional fair value	Acquiree's carrying amount
	RMB'000	RMB'000
Cash and cash equivalents	9,078	9,078
Property, plant and equipment (Note 6)	140,475	130,542
Land use rights (Note 7)	6,924	5,176
Trademarks	—	461
Mining rights (Note 8)	5,250	3,576
Customer relationship (Note 9)	20,610	—
Long-term deferred expenditures	266	266
Inventories	17,591	17,591
Trade and other receivables	35,555	35,555
Trade and other payables	(59,938)	(59,938)
Borrowings	(32,009)	(32,009)
Deferred tax liabilities (Note 10)	(8,376)	—
Fair value of net assets acquired	<u>135,426</u>	<u>110,298</u>
Goodwill (Note 9)	45,274	—
Total purchase consideration	<u><u>180,700</u></u>	<u><u>110,298</u></u>
Purchase consideration settled in cash	—	130,000
Cash and cash equivalents in subsidiary acquired	—	<u>(9,078)</u>
Cash outflow on acquisition	<u><u>—</u></u>	<u><u>120,922</u></u>

Following acquisition, Xiushan Yaobai contributed revenue of RMB86,329,000, RMB46,539,000 and net profit of RMB15,773,000, RMB5,483,000 to the Group for the five months ended December 31, 2009 and four months ended April 30, 2010.

There were no acquisitions in the years ended December 31, 2007, 2008 and four months ended April 30, 2010 respectively.

35. Formation of a subsidiary

On December 28, 2009, Shaanxi Yaobai entered into an agreement with Shaanxi Danshui Construction Materials Co., Ltd. ("Shaanxi Danshui") to form a new company, Longqiao Yaobai. The registered paid-in capital of Longqiao Yaobai is RMB125,000,000, each of Shaanxi Yaobai and Shaanxi Danshui holds 80% and 20% of the equity interests of Longqiao Yaobai respectively. According to the agreement, Shaanxi Yaobai is required to contribute cash amounting to RMB100,000,000 and Shaanxi Danshui is required to contribute certain plant and equipment with a fair value of RMB25,000,000. In addition to the capital contribution, Shaanxi Danshui also transferred a number of assets valued at RMB340,321,000 and liabilities valued at RMB200,000,000 to Longqiao Yaobai. The value of the transferred assets over liabilities was recorded as amounts due to Shaanxi Danshui.

As at December 31, 2009, Longqiao Yaobai received the following assets and liabilities:

	RMB'000
As registered capital:	
Cash contributed from Shaanxi Yaobai (Note (a))	50,000
PPE contributed from Shaanxi Danshui (Note 6)	25,000
	<u>75,000</u>
Other assets transferred from Shaanxi Danshui:	
PPE (Note 6).	312,226
Land use rights (Note 7)	15,165
Mining rights (Note 8)	12,930
	<u>340,321</u>
Liabilities transferred from Shaanxi Danshui:	
Bank borrowings (Note 19)	(49,200)
Other borrowings (Note 19)	(150,800)
	<u>(200,000)</u>
Amount due to Shaanxi Danshui (Note (b))	<u>(140,321)</u>

(a) Shaanxi Yaobai contributed another RMB 50,000,000 of cash to Longqiao Yaobai in February 2010.

(b) The amount due to Shaanxi Danshui represented the value of the assets over the liabilities transferred from Shaanxi Danshui, and was recorded as a non-interest bearing amount due to minority equity holder of a subsidiary. On January 1, 2010, Longqiao Yaobai entered into a supplementary agreement with Shaanxi Danshui. Pursuant to the supplementary agreement, the amount due to Shaanxi Danshui will be fully repaid on December 31, 2011, and therefore the amount due to Shaanxi Danshui of RMB98,293,000 as at April 30, 2010 was classified as non-current liabilities.

(c) In November and December 2009, Shaanxi Yaobai paid RMB 30 million to Shaanxi Danshui as advance (Note 13(b)). This receivable balance was offset with other borrowings in January 2010.

36. Related-party transactions(a) *Key management compensation*

Key management includes directors (executive and non-executive) and senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and other short-term employee benefits	3,167	4,632	5,821	1,461	1,548
Bonus	—	3,600	—	—	—
Share-based payments	1,962	1,480	976	266	226
	<u>5,129</u>	<u>9,712</u>	<u>6,797</u>	<u>1,727</u>	<u>1,774</u>

(b) *Loans from key management*

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Zhixin Chen	900	900	—	—
Wenyu Li	580	580	—	—
	<u>1,480</u>	<u>1,480</u>	<u>—</u>	<u>—</u>

The loans from key management are interest free, unsecured and repayable within 12 months.

(c) *Amount due from key management*

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Yongji Li	—	—	2,662	2,662
	<u>—</u>	<u>—</u>	<u>2,662</u>	<u>2,662</u>

The amount due from Mr. Yongji Li is relating to one of our customers in 2009 offered to settle its debts it owed to the Company by transferring its real property to the Company. Mr. Yongji Li accepted the property and assumed the liability from the customer to the Company. The amount is interest free, unsecured and repayable by June 15, 2010. The amount has been fully paid in June 2010.

(d) The details of security provided by Mr. Jimin Zhang for bank borrowings are set out in Note 19(a)(iv) and Note 19(a)(v).

37. Events after the balance sheet date

On March 30, 2010, Shaanxi Yaobai entered into a loan facility agreement with a local financial institution. According to the loan facility arrangement, Shaanxi Yaobai has been granted a working capital loan of RMB 60,000,000. The loan was drawn down in May 2010. The loan was jointly secured by certain land use rights, property, plant and equipment of Xiushan Yaobai and Longqiao Yaobai.

As at June 30, 2010, the Group did not meet one of the covenants stipulated in the loan agreement for the syndicated bank borrowings of RMB330,000,000 regarding the ratio of total liabilities to total assets (the "Ratio"). The agreement stipulates the ratio of total liabilities to total assets should not be more than 50%. The Group has obtained a waiver letter dated July 21, 2010 from the facility agent representing the lenders confirming that they had granted the Group a waiver from compliance with such ratio by June 30, 2010. This is sufficient pursuant to the agreement for the Ratio to be waived. The waiver received in connection with the syndicated loan means that it would not trigger any cross default events of other borrowings.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements of the Group have been prepared for the Company and its subsidiaries in respect of any period subsequent to April 30, 2010. Up to the date of this report, no dividend or distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to April 30, 2010.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I in this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountant's Report" set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of the Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Group attributable to the equity holders of the Company as of April 30, 2010 as if the Global Offering had taken place on April 30, 2010 assuming the Over-allotment Option is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as of April 30, 2010 or at any future dates following the Global Offering.

	Unadjusted audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as of April 30, 2010 <i>(Note 1)</i>	Estimated net proceeds from the Global Offering <i>(Note 2)</i>	Unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company	Unaudited pro forma adjusted net tangible assets per share	
	RMB'000	RMB'000	RMB'000	RMB <i>(Note 3)</i>	HK\$ <i>(Note 7)</i>
Based on an Offer Price of HK\$1.21 per share	<u>1,324,611</u>	<u>782,610</u>	<u>2,107,221</u>	<u>0.51</u>	<u>0.59</u>
Based on an Offer Price of HK\$1.69 per share	<u>1,324,611</u>	<u>1,116,919</u>	<u>2,441,530</u>	<u>0.59</u>	<u>0.68</u>

Notes:

- (1) The unadjusted audited consolidated net tangible assets attributable to the equity holders of the Company as of April 30, 2010 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company of RMB1,434,705,000 with adjustments for the mining rights of RMB45,681,000 and other intangible assets of RMB64,413,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK\$1.21 per Share and HK\$1.69 per Share after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 4,115,531,850 Shares after subdivision were in issue assuming that the sub-division and the Global Offering have been completed on April 30, 2010 but takes no account of any Shares which may be issued upon the exercise of the outstanding options granted under the Share Option Scheme, the outstanding AS Warrants and the Over-allotment Option.
- (4) As at June 30, 2010, the Group's property interests were valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation reports are set out in Appendix IV — Property Valuation. The net revaluation surplus, representing the excess of market value of the property interests over their book value, is approximately RMB7.0 million. Such revaluation surplus has not been included in the Group's consolidated financial information as of April 30, 2010 and will not be included in the Group's financial statements for the year ending December 31, 2010. The above adjustment does not take into account the above revaluation surplus. Had the property interests been stated at such valuation, an additional depreciation of RMB0.4 million per annum would be charged against the consolidated profit and loss for the year ending December 31, 2010.

- (5) Please note that all figures are presented on the assumption that the share subdivision (please refer to paragraphs headed “Subdivision of Shares” in the section headed “History, Reorganization and Corporate Structure” in this prospectus for details) shall have been completed.
- (6) Except as disclosed above, no adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to April 30, 2010.
- (7) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at the PBOC rate of HK\$1.00 to RMB0.8724 prevailing on July 30, 2010.

B. UNAUDITED PRO FORMA ESTIMATE EARNINGS PER SHARE

The following unaudited pro forma estimate basic earnings per Share and unaudited pro forma fully diluted estimate earnings per Share have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had been taken place on January 1, 2010. This unaudited pro forma estimate earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of financial results of the Group for the six months ended June 30, 2010 or any future period.

Estimate consolidated profit attributable to equity holders of the Company for the six months ended June 30, 2010 (<i>Note 1</i>)	Not less than RMB307.0 million (equivalent to approximately HK\$351.9 million)
Unaudited pro forma estimate basic earnings per Share (<i>Note 2</i>)	Not less than RMB0.075 (equivalent to approximately HK\$0.086)
Unaudited pro forma fully diluted estimate earnings per Share (<i>Note 3</i>)	Not less than RMB0.074 (equivalent to approximately HK\$0.085)

Notes:

- (1) The estimate consolidated profit attributable to equity holders of the Company for the six months ended June 30, 2010 is extracted from the section headed “Financial Information — Profit Estimate For the Six Months Ended June 30, 2010” in this prospectus. The bases and assumptions on which the above profit estimate has been prepared are summarized in Appendix III to this prospectus. The Directors have prepared the estimate consolidated profit attributable to equity holders of the Company for the six months ended June 30, 2010 based on the audited consolidated results of the Group for the four months ended April 30, 2010, unaudited consolidated results of the Group based on management accounts for the one month ended May 31, 2010 and an estimate of the consolidated results of the Group for the remaining one month ended June 30, 2010. The estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 2 of Section II of the Accountant’s Report, the text of which is set out in Appendix I to this prospectus.
- (2) The unaudited pro forma estimate earnings per Share is calculated by dividing the estimate consolidated profit attributable to the equity holders of the Company for the six months ended June 30, 2010, assuming that the Company had been listed since January 1, 2010 and a total of 4,115,531,850 Shares to be in issue immediately upon completion of the Global Offering were issued and outstanding during the entire period. The calculation assumes that the outstanding options granted under the Share Option Scheme, the AS warrants and the Over-allotment Option will not be exercised.
- (3) The unaudited pro forma fully diluted estimate earnings per Share is based on the estimate consolidated profit attributable to the equity holders of the Company for the six months ended June 30, 2010, assuming that our Company had been listed since January 1, 2010 and a total of 4,139,531,850 Shares (comprising 4,115,531,850 Shares to be in issue immediately upon completion of the Global Offering, 12,500,000 Shares to be issued upon the exercise of all of the outstanding options granted under the Share Option Scheme and 11,500,000 Shares to be issued upon the exercise of all the outstanding AS Warrants). The calculation assumes that the Over-allotment Option will not be exercised and assumes no proceeds from the exercise of any options granted under the Share Option Scheme and AS Warrants.
- (4) Please note that all figures are presented on the assumption that the share subdivision (please refer to paragraphs headed “Subdivision of Shares” in the section headed “History, Reorganization and Corporate Structure” for details) shall have been completed.

C. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF WEST CHINA CEMENT LIMITED

We report on the unaudited pro forma financial information of West China Cement Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-2 under the headings of "Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" and "Unaudited Pro Forma Estimate Earnings Per Share" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated August 10, 2010 (the "Prospectus"), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 of the Prospectus.

Respective Responsibilities of Directors of the Company and Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted audited consolidated net assets of the Group as of April 30, 2010 with the accountant's report as set out in Appendix I to the

Prospectus, comparing the unaudited estimate profit attributable to equity holders of the Company for the six months ended June 30, 2010 with the profit estimate as set out in the subsection headed “Profit Estimate for the Six Months Ended June 30, 2010” in the section headed “Financial Information” in the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the adjusted net tangible assets of the Group as of April 30, 2010 or any future date, or
- the earnings per share of the Group for the six months ended June 30, 2010 or any future periods.

Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, August 10, 2010

Our estimated consolidated profit attributable to equity holders of our Company for the six months ended June 30, 2010 is set out in the section headed “Financial Information — Profit Estimate for the Six Months Ended June 30, 2010” in this prospectus.

A. BASES AND ASSUMPTIONS

Our Directors have prepared the estimate of the consolidated profit attributable to our equity holders for the six months ended June 30, 2010, based on the audited consolidated results of our Group for the four months ended April 30, 2010, the unaudited consolidated results of our Group based on management accounts for the one month ended May 31, 2010 and an estimate of the consolidated results of our Group for the remaining one month ended June 30, 2010. The estimate has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by our Group as summarized in the Accountant’s Report of our Company as set out in Appendix I to this prospectus. The profit estimate has been prepared on the following principal bases and assumptions:

- there will be no material changes in the existing rules, laws, regulations, or government policies (economic, political or legal), including changes in legislation or rules, regulatory, fiscal, economic or market conditions in the PRC, Hong Kong, Jersey, the British Virgin Islands, or any of the countries in which members of our Group currently operates or are established;
- there will be no material changes in inflation rate, interest rate or foreign currency exchange rate in the countries, regions or industries applicable to the business activities of our Group from those presently prevailing;
- there will be no material changes in the bases or rates of taxation or duties in the PRC, Hong Kong, Jersey, the British Virgin Islands, or any of the countries in which members of our Group operate or are established, except as otherwise disclosed in this prospectus;
- there will be no wars, military incidents, pandemic diseases or natural disasters that would have a material impact on our Group’s business and operating activities;
- our Group’s operations and financial performance will not be materially and adversely impacted by any of the risk factors set out in the section headed “Risk Factors” in this prospectus;
- our Group’s production and operation will not be significantly affected by interruptions as a result of shortage of coal supply, electricity supply, labor disputes, technical barrier and any other reasons that are beyond the control of our Directors; and
- there will be no changes in technology, industry, safety standards, and environmental protection regulations in connection with the cement products that would have a significant negative impact on our Group’s operation in the PRC, Hong Kong, Jersey, the British Virgin Islands, any of the countries in which members of our Group currently operate or are established.

B. LETTER FROM PRICEWATERHOUSECOOPERS



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

The Directors
West China Cement Limited

ICBC International Capital Limited
Deutsche Bank AG, Hong Kong Branch

August 10, 2010

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the estimate of the consolidated profit attributable to equity holders of West China Cement Limited (the “Company”) for the six months ended 30 June 2010 (the “Profit Estimate”) as set out in the subsection headed “Profit Estimate For The Six Months Ended June 30, 2010” in the section headed “Financial Information” in the prospectus of the Company dated August 10, 2010 (the “Prospectus”).

We conducted our work in accordance with Auditing Guideline 3.341 on “Accountants’ report on profit forecasts” issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Estimate, for which the directors of the Company are solely responsible, has been prepared by them based on the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as “the Group”) for the four months ended April 30, 2010, the unaudited consolidated results of the Group based on management accounts for the one month ended May 31, 2010 and an estimate of the consolidated results of the Group for the remaining one month ended June 30, 2010.

In our opinion, the Profit Estimate, so far as the calculations and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company as set out on page III-1 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies adopted by the Group as set out in Note 2 of section II of the financial information section in Appendix I to the Prospectus.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

C. LETTER FROM THE JOINT SPONSORS

The following is the text of a letter, prepared for inclusion in this prospectus, received by our Directors from the Joint Sponsors, in connection with the estimate of the consolidated profit attributable to our equity holders for the six months ended June 30, 2010.

August 10, 2010



ICBC International Capital Limited

Levels 17 & 18
Three Pacific Place
1 Queen's Road East
Hong Kong

Deutsche Bank



Deutsche Bank AG, Hong Kong Branch

48/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

The Directors
West China Cement Limited

Dear Sirs

West China Cement Limited — Profit Estimate

We refer to the estimate of the consolidated profit attributable to equity holders of West China Cement Limited (the "**Company**") for the six months ended June 30, 2010 (the "**Profit Estimate**") as set out in the section headed "Financial Information — Profit Estimate for the Six Months Ended June 30, 2010" in the prospectus issued by the Company dated August 10, 2010 (the "**Prospectus**").

We have discussed with you the bases and assumptions made by the Directors of the Company as set out in section A of Appendix III to the Prospectus upon which the Profit Estimate has been made. We have also considered the letter dated August 10, 2010 addressed to yourselves and ourselves from PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, we are of the opinion that the Profit Estimate, for which you as Directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of

ICBC International Capital Limited

Adrian Tsang

Managing Director

Co-Head of Investment Banking

Joseph Wan

Executive Director

For and on behalf of

Deutsche Bank AG, Hong Kong Branch

Heidi Yang

Managing Director

Wei Sun

Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at June 30, 2010 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

August 10, 2010

The Board of Directors
West China Cement Limited
Room 1903, Building A, Gaoke Plaza
Hi-Tech Industrial Development Zone
Xi'an city
Shaanxi province
The PRC

Dear Sirs,

In accordance with your instructions to value the properties in which West China Cement Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at June 30, 2010 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interests of property nos. 1 and 2 in Group I and Group III by the direct comparison approach assuming sales of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of the properties (excluding a portion under construction and property nos. 1 and 2) in Group I and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales available, the property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacing the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the property interests of the portion in Group I and properties in Group II which are currently under development, we have assumed that they will be developed and completed in accordance with the latest development proposals provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the costs and fees to be expended to complete the development.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisors — Zong Heng Law Firm, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at June 30, 2010 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at June 30, 2010 <i>RMB</i>
1.	Units 12001 and 12002 on Level 20 Penghao Plaza No. 1 South Hanguang Road Xi'an city Shaanxi province The PRC	2,006,000	100%	2,006,000
2.	Unit 1903, Building A Gaoke Plaza Hi-Tech Industrial Development Zone Xi'an city Shaanxi province The PRC	5,547,000	100%	5,547,000
3.	3 parcels of land, 31 buildings and various structures located at Fuyang village Shangwang town Pucheng county Weinan city Shaanxi province The PRC	107,402,000	100%	107,402,000
4.	4 parcels of land, 27 buildings and various structures together with a cement plant property under construction located at Shandong village Hanjing town Pucheng county Weinan city Shaanxi province The PRC	63,431,000	100%	63,431,000

No.	Property	Capital value in existing state as at June 30, 2010 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at June 30, 2010 <i>RMB</i>
5.	A parcel of land, 21 buildings and various structures located at Dakong village Dakong town Pucheng county Weinan city Shaanxi province The PRC	17,619,000	100%	17,619,000
6.	A parcel of land, 25 buildings and various structures located at the fifth group of Miaopo village Yongle town Zhen'an county Shangluo city Shaanxi province The PRC	56,352,000	100%	56,352,000
7.	A parcel of land and 3 buildings located at the fourth group of Miaopo village Yongle town Zhen'an county Shangluo city Shaanxi province The PRC	416,000	100%	416,000
8.	2 parcels of land, 22 buildings and various structures located at Liucun village Bailiu town Xunyang county Ankang city Shaanxi province The PRC	216,042,000	100%	216,042,000

APPENDIX IV

PROPERTY VALUATION

No.	Property	Capital value in existing state as at June 30, 2010 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at June 30, 2010 <i>RMB</i>
9.	A parcel of land, 8 buildings and various structures located at Heyan village Ganxi town Xunyang county Ankang city Shaanxi province The PRC	12,024,000	100%	12,024,000
10.	3 parcels of land, 27 buildings and various structures located at Xipo village Xiaozhai town Lantian county Xi'an city Shaanxi province The PRC	215,674,000	100%	215,674,000
11.	A parcel of land located at Xipo village Xiaozhai town Lantian county Xi'an city Shaanxi province The PRC	5,099,000	100%	5,099,000
12.	A parcel of land, 9 buildings and various structures located at Youfangjie village Liuxianping town Danfeng county Shangluo city Shaanxi province The PRC	184,566,000	80%	147,653,000
13.	A parcel of land, 18 buildings and various structures located at Xiecun village Xiecun town Yangxian county Hanzhong city Shaanxi province The PRC	187,642,000	100%	187,642,000
	Sub-total:	<u>1,073,820,000</u>		<u>1,036,907,000</u>

Group II — Property interests held under development by the Group in the PRC

No.	Property	Capital value in existing state as at June 30, 2010 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at June 30, 2010 <i>RMB</i>
14.	A cement plant property under construction located at Yongxi village Jinquan town Mianxian county Hanzhong city Shaanxi province The PRC	92,431,000	100%	92,431,000
15.	A cement plant property under construction located at Lihe Industrial Area Yanghe town Xixiang county Hanzhong city Shaanxi province The PRC	61,533,000	100%	61,533,000
	Sub-total:	<u>153,964,000</u>		<u>153,964,000</u>

Group III — Property interest held for future development by the Group in PRC

No.	Property	Capital value in existing state as at June 30, 2010 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at June 30, 2010 <i>RMB</i>
16.	A parcel of land located at the sixth group of Xiaoguang village Dakong town Pucheng county Weinan city Shaanxi province The PRC	311,000	100%	311,000
	Sub-total:	<u>311,000</u>		<u>311,000</u>
	Total:	<u>1,228,095,000</u>		<u>1,191,182,000</u>

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
1.	Units 12001 and 12002 on Level 20 Penghao Plaza No. 1 South Hanguang Road Xi'an city Shaanxi province The PRC	<p>The property comprises 2 units on Level 20 of a 23-storey building known as Penghao Plaza for residential and commercial purposes completed in about December 2002.</p> <p>The units have a total gross floor area of approximately 364.82 sq.m.</p>	The property is currently occupied by the Group for office purpose.	<p>2,006,000</p> <p>100% interest attributable to the Group: RMB2,006,000</p>

Notes:

1. Pursuant to 2 Building Ownership Certificates — Xi'an Shi Fang Quan Zheng Yan Ta Qu Zi Di Nos. 1100104017-21-1-12001-1 and 1100104017-21-1-12002-1, 2 units with a total gross floor area of approximately 364.82 sq.m. are owned by Shaanxi Yaobai Special Cement Co., Ltd. ("Shaanxi Yaobai"), a wholly-owned subsidiary of the Company.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. Shaanxi Yaobai has legally and validly obtained the Building Ownership Certificates of the property; and
 - b. Shaanxi Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
2.	Unit 1903, Building A Gaoke Plaza Hi-Tech Industrial Development Zone Xi'an city Shaanxi province The PRC	The property comprises an office unit on Level 19 of a 28-storey building known as Gaoke Plaza completed in about 2003. The unit has a gross floor area of approximately 853.34 sq.m.	The property is currently occupied by the Group for office purpose.	5,547,000 100% interest attributable to the Group: RMB5,547,000

Notes:

1. Pursuant to a Building Ownership Certificate – Xi'an Shi Fang Quan Zheng Gao Xin Qu Zi Di No. 1075106011-20-1-A1603, an office unit with a gross floor area of approximately 853.34 sq.m. is owned by Shaanxi Yaobai Special Cement Co., Ltd. ("Shaanxi Yaobai"), a wholly-owned subsidiary of the Company.
2. Pursuant to a Tenancy Agreement, a portion of the office unit with a gross floor area of approximately 260 sq.m. is rented to Xi'an Yaobai Material Co., Ltd. (a subsidiary of the Company) for free for a term of 30 years commencing from 16 January 2010. The remaining portion of the unit is currently occupied by Shaanxi Yaobai.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. Shaanxi Yaobai has legally and validly obtained the Building Ownership Certificate of the property;
 - b. Shaanxi Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property; and
 - c. the Tenancy Agreement has been registered with Bureau of Housing Management of Xi'an City, which is legal and valid.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
3.	3 parcels of land, 31 buildings and various structures located at Fuyang village Shangwang town Pucheng county Weinan city Shaanxi province The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 228,582.66 sq.m. and 31 buildings and various structures erected thereon which were completed in various stages between May 2004 and November 2009.</p> <p>The buildings have a total gross floor area of approximately 13,044.88 sq.m.</p> <p>The buildings mainly include an office building, industrial buildings, a central control building, a dormitory, a canteen, a boiler room and guardhouses.</p> <p>The structures mainly include warehouses, motor cycle shed, kilns, roads and cement silos.</p> <p>The land use rights of the property have been granted for terms expiring on 12 July 2043 and 17 June 2053 for industrial use.</p>	<p>The property is currently occupied by the Group for production, office and ancillary purposes.</p>	<p>107,402,000</p> <p>100% interest attributable to the Group: RMB107,402,000</p>

Notes:

1. The property is currently occupied by Shaanxi Yaobai Special Cement Co., Ltd. ("Shaanxi Yaobai"), a wholly-owned subsidiary of the Company.
2. Pursuant to 3 State-owned Land Use Rights Certificates – Pu Guo Yong (2008) Di No. 00182 and Pu Guo Yong (2010) Di Nos. 10294 and 10295, the land use rights of 3 parcels of land with a total site area of approximately 228,582.66 sq.m. have been granted to Shaanxi Yaobai for terms expiring on 12 July 2043 and 17 June 2053 for industrial use. As advised by the Group, the land premium of the 2 parcels of land stipulated by Pu Guo Yong (2008) Di No. 00182 and Pu Guo Yong (2010) Di No. 10294 was RMB742,025.
3. Pursuant to 26 Building Ownership Certificates – Pu Fang Quan Zheng Cheng Deng You Zi Di No.12252, Pu Cheng Fang Quan Zheng Deng Zi Di Nos. 0012501 to 0012505, 0013601 to 0013604, 0013711 to 0013714, 0013801 to 0013805, 0013808, 0022101 to 0022103 and 0025301 to 0025303, 31 buildings with a total gross floor area of approximately 13,044.88 sq.m. are owned by Shaanxi Yaobai.
4. Pursuant to a Mortgage Contract entered into between Shaanxi Yaobai and Agricultural Bank of China Limited Pucheng County Branch (the "Bank") dated 1 July 2009, 5 buildings of the property with a total gross floor area of approximately 2,324.75 sq.m. under the Building Ownership Certificate of Pu Fang Quan Zheng Cheng Deng You Zi Di No.12252 and various machinery & equipment assets are subjected to a mortgage as security to guarantee the principal obligation under a loan contract entered into between Shaanxi Yaobai and the Bank for a maximum loan amount of RMB140,000,000 for a term of 2 years from 2 July 2009 to 1 July 2011.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. pursuant to a confirmation letter issued by Pucheng County Land Bureau dated 2 March 2010, the land premium of the parcel of land stipulated by Pu Guo Yong (2010) Di No. 10295 was RMB10,792,000 that should be fully paid before 31 August 2010, and the other land premium mentioned in note 2 has been fully paid by Shaanxi Yaobai. Therefore Shaanxi Yaobai has legally and validly been granted the State-owned Land Use Rights Certificates of the property;
 - b. the property is neither subject to expropriation, lawsuit, dispute nor other circumstances which have material adverse effect on it;

- c. Shaanxi Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property; and
- d. both signing parties Shaanxi Yaobai, as the exclusive legal owner of the property, and Agricultural Bank of China Limited Pucheng County Branch registered for foresaid mortgage, therefore the execution of mortgage is legal and valid.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
4.	4 parcels of land, 27 buildings and various structures together with a cement plant property under construction located at Shandong village Hanjing town Pucheng county Weinan city Shaanxi province The PRC	<p>The property comprises 4 parcels of land with a total site area of approximately 48,000 sq.m. and 27 buildings and various structures erected thereon which were completed in June 2001.</p> <p>The buildings have a total gross floor area of approximately 8,633.38 sq.m.</p> <p>The buildings mainly include office buildings, a laboratory, a dormitory, a canteen and a transformer substation.</p> <p>The structures mainly include warehouses, water pools and gates.</p> <p>The property also services for a cement production line with a planned production capacity of 2,500 tons per day, which is being constructed on the aforesaid land (the "CIP") as at the date of valuation. The CIP is scheduled to be completed by the end of August 2010. Upon completion, the total gross floor area of the CIP will be approximately 24,556.34 sq.m.</p> <p>The total construction cost of the CIP is estimated to be approximately RMB57,852,900, of which approximately RMB52,067,610 had been paid up to the date of valuation.</p> <p>The land use rights of the property have been granted for a term expiring on 20 November 2049 for welfare area and enterprise uses.</p>	<p>The property is currently occupied by the Group for production, office and ancillary purposes except for the CIP which is under construction.</p>	<p>63,431,000</p> <p>100% interest attributable to the Group: RMB63,431,000</p>

Notes:

1. The property is currently occupied by Shaanxi Yaobai Special Cement Co., Ltd. ("Shaanxi Yaobai"), a wholly-owned subsidiary of the Company.
2. Pursuant to 4 State-owned Land Use Rights Certificates – Pu Guo Yong (2008) Di Nos. 00183 to 00186, the land use rights of 4 parcels of land with a total site area of approximately 48,000 sq.m. have been granted to Shaanxi Yaobai for a term expiring on 20 November 2049 for welfare area and enterprise uses. As advised by the Group, the land premium of the 4 parcels of land stipulated by Pu Guo Yong (2008) Di No. 00183 to 00186 was RMB2,928,001.
3. Pursuant to 12 Building Ownership Certificates – Pu Fang Quan Zheng Cheng Deng You Zi Di No.12250, Pu Cheng Fang Quan Zheng Deng Zi Di Nos. 0186501 to 0186505, 0131101 to 0131104, 0131601 and 0131602, 27 buildings with a total gross floor area of approximately 8,633.38 sq.m. are owned by Shaanxi Yaobai.
4. Pursuant to a Construction Work Planning Permit – Pu Gui Jian Zi Di [2010] No. 026 in favor of Shaanxi Yaobai, a cement production line (with a planned production capacity of 2,500 tons per day) comprising a total gross floor area of approximately 24,556.34 sq.m. has been approved for construction.

5. Pursuant to a Construction Work Commencement Permit – Pu Jian Xu Zi [2010] Di No. 006 in favor of Shaanxi Yaobai, permission by the relevant local authority was given to commence the construction work of the cement production line mentioned in note 4.
6. Pursuant to a Mortgage Contract entered into between Shaanxi Yaobai and Bank of China Limited Pucheng County Branch (the “Bank”) dated 10 May 2010, 4 parcels of land with a total site area of approximately 40,053 sq.m. under the State-owned Land Use Rights Certificates of Pu Guo Yong (2008) Di Nos. 00181 (refer to property no. 16) and 00184 to 00186 and various machinery & equipment assets are subject to a mortgage as security to guarantee the principal obligation under a loan contract entered into between Shaanxi Yaobai and the Bank for a loan amount of RMB50,000,000 with the loan term from 14 May 2010 to 13 May 2011.
7. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisors, which contains, *inter alia*, the following:
 - a. pursuant to a Confirmation Letter issued by Pucheng County Land Bureau dated 2 March 2010, the land premium has been fully paid by Shaanxi Yaobai. Therefore Shaanxi Yaobai has legally and validly been granted the State-owned Land Use Rights Certificates of the property;
 - b. the property is neither subject to expropriation, lawsuit, dispute nor other circumstances which have material adverse effect on it;
 - c. Shaanxi Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property;
 - d. Shaanxi Yaobai has legally and validly obtained Construction Work Planning Permit and Construction Work Commencement Permit and has the rights to use, occupy, transfer, mortgage or otherwise dispose of the CIP; and
 - e. both signing parties Shaanxi Yaobai, as the exclusive legal owner of the property, and Bank of China Limited Pucheng County Branch registered for foresaid mortgage, therefore the execution of mortgage is legal and valid.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
5.	A parcel of land, 21 buildings and various structures located at Dakong village Dakong town Pucheng county Weinan city Shaanxi province The PRC	<p>The property comprises a parcel of land with a site area of approximately 49,917.80 sq.m. and 21 buildings and various structures erected thereon which were completed in various stages between October 1996 and November 2000.</p> <p>The buildings have a total gross floor area of approximately 9,045.6 sq.m.</p> <p>The buildings mainly include an office building, a finished production warehouse and a drying workshop.</p> <p>The structures mainly include water pools and gates.</p> <p>The land use rights of the property have been granted for a term expiring on 4 November 2049 for industrial use.</p>	<p>The property is currently occupied by the Group for production, office and ancillary purposes.</p>	<p>17,619,000</p> <p>100% interest attributable to the Group: RMB17,619,000</p>

Notes:

1. The property is currently occupied by Shaanxi Yaobai Special Cement Co., Ltd. ("Shaanxi Yaobai"), a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate – Pu Guo Yong (2008) Di No. 00180, the land use rights of a parcel of land with a site area of approximately 49,917.80 sq.m. have been granted to Shaanxi Yaobai for a term expiring on 4 November 2049 for industrial use. As advised by the Group, the land premium of the parcel of land stipulated by Pu Guo Yong (2008) Di No. 00180 together with a parcel of land of property no. 16 stipulated by Pu Guo Yong (2008) Di No. 00181 was RMB4,922,345.
3. Pursuant to 5 Building Ownership Certificates – Pu Fang Quan Zheng Cheng Deng You Zi Di No. 12253 and Pu Cheng Fang Quan Zheng Deng Zi Di Nos. 0136201 to 0136204, 21 buildings with a total gross floor area of approximately 9,045.6 sq.m. are owned by Shaanxi Yaobai.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. pursuant to a Confirmation Letter issued by Pucheng County Land Bureau dated 2 March 2010, the land premium has been fully paid by Shaanxi Yaobai. Therefore Shaanxi Yaobai has legally and validly been granted the State-owned Land Use Rights Certificate of the property;
 - b. the property is neither subject to expropriation, lawsuit, dispute nor other circumstances which have material adverse effect on it; and
 - c. Shaanxi Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
6.	A parcel of land, 25 buildings and various structures located at the fifth group of Miaopo village Yongle town Zhen'an county Shangluo city Shaanxi province The PRC	<p>The property comprises a parcel of land with a site area of approximately 48,554 sq.m. and 25 buildings and various structures erected thereon which were completed in various stages between July 2005 and July 2009.</p> <p>The buildings have a total gross floor area of approximately 13,656.02 sq.m.</p> <p>The buildings mainly include an office building, industrial buildings and a laboratory building.</p> <p>The structures mainly include fences, sheds and roads.</p> <p>The land use rights of the property have been granted for a term expiring on 4 December 2057 for industrial use.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	56,352,000 100% interest attributable to the Group: RMB56,352,000

Notes:

1. The property is currently occupied by Shangluo Yaobai Xiushan Cement Co., Ltd. ("Xiushan Yaobai"), a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate – Zhen Tu Guo Yong (2010) Di No. 001, the land use rights of a parcel of land with a site area of approximately 48,554 sq.m. have been granted to Xiushan Yaobai for a term expiring on 4 December 2057 for industrial use. As advised by the Group, the land premium of the parcel of land stipulated by Zhen Tu Guo Yong (2010) Di No. 001 together with a parcel of land of property no. 7 stipulated by Zhen Tu Guo Yong (2010) Di No. 0021 was RMB4,900,575.88.
3. Pursuant to a Building Ownership Certificate – Zhen'an Xian Fang Quan Zheng (2009) Zi Di No. 00005806-0280, 25 buildings with a total gross floor area of approximately 13,656.02 sq.m. are owned by Xiushan Yaobai.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. pursuant to a Confirmation Letter issued by Zhen'an County Land Bureau dated 4 March 2010, the land premium has been fully paid by Xiushan Yaobai. Therefore Xiushan Yaobai has legally and validly been granted the State-owned Land Use Rights Certificate of the property;
 - b. the property is neither subject to expropriation, lawsuit, dispute nor other circumstances which have material adverse effect on it; and
 - c. Xiushan Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, lease, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
7.	A parcel of land and 3 buildings located at the fourth group of Miaopo village Yongle town Zhen'an county Shangluo city Shaanxi province The PRC	<p>The property comprises a parcel of land with a site area of approximately 3,680 sq.m. and 3 buildings erected thereon which were completed in July 2005.</p> <p>The buildings have a total gross floor area of approximately 74.43 sq.m. The buildings include 2 warehouses and an office building.</p> <p>The land use rights of the property have been granted for a term expiring on 4 December 2057 for industrial use.</p>	The property is currently occupied by the Group for office and ancillary purposes.	<p>416,000</p> <p>100% interest attributable to the Group: RMB416,000</p>

Notes:

1. The property is currently occupied by Shangluo Yaobai Xiushan Cement Co., Ltd. ("Xiushan Yaobai"), a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate - Zhen Tu Guo Yong (2010) Di No. 002, the land use rights of a parcel of land with a site area of approximately 3,680 sq.m. have been granted to Xiushan Yaobai for a term expiring on 4 December 2057 for industrial use. As advised by the Group, the land premium of the parcel of land stipulated by Zhen Tu Guo Yong (2010) Di No. 002 together with a parcel of land of property no. 6 stipulated by Zhen Tu Guo Yong (2010) Di No. 001 was RMB4,900,575.88.
3. Pursuant to a Building Ownership Certificate - Zhen'an Xian Fang Quan Zheng (2009) Zi Di No. 00005807-0281, 3 buildings with a total gross floor area of approximately 74.43 sq.m. are owned by Xiushan Yaobai.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. pursuant to a Confirmation Letter issued by Zhen'an County Land Bureau dated 4 March 2010, the land premium has been fully paid by Xiushan Yaobai. Therefore Xiushan Yaobai has legally and validly been granted the State-owned Land Use Rights Certificate of the property;
 - b. the property is neither subject to expropriate, lawsuit, dispute nor other circumstances which have material adverse effect on it; and
 - c. Xiushan Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
8.	2 parcels of land, 22 buildings and various structures located at Liucun village Bailiu town Xunyang county Ankang city Shaanxi province The PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 111,355.05 sq.m. and 22 buildings and various structures erected thereon which were completed in various stages between June 2008 and October 2009.</p> <p>The buildings have a total gross floor area of approximately 8,439.87 sq.m.</p> <p>The buildings mainly include office building, industrial buildings and boiler building.</p> <p>The structures mainly include fence, gate, and road.</p> <p>The land use rights of the property have been granted for various terms expiring on 19 December 2057 and 14 April 2059 for industrial use.</p>	<p>The property is currently occupied by the Group for production, office and ancillary purposes.</p>	<p>216,042,000</p> <p>100% interest attributable to the Group: RMB216,042,000</p>

Notes:

1. The property is currently occupied by Ankang Yaobai Cement Co., Ltd. ("Ankang Yaobai"), a wholly-owned subsidiary of the Company.
2. Pursuant to 2 State-owned Land Use Rights Certificates – Xun Guo Yong (2007) Di No. 186 and Xun Guo Yong (2009) Di No. 37, the land use rights of 2 parcels of land with a total site area of approximately 111,355.05 sq.m. have been granted to Ankang Yaobai for various terms expiring on 19 December 2057 and 14 April 2059 for industrial use. As advised by the Group, the land premium of the 2 parcels of land stipulated by Xun Guo Yong (2007) Di No. 186 and Xun Guo Yong (2009) Di No. 37 was RMB10,385,000.
3. Pursuant to 16 Building Ownership Certificates – Xun Fang Quan Zheng Bai Liu Zi Di Nos. 0800077 and 0800079 to 0800093, 22 buildings with a total gross floor area of approximately 8,439.87 sq.m. are owned by Ankang Yaobai.
4. Pursuant to a Mortgage Contract entered into between Ankang Yaobai and Credit Suisse Shanghai Branch (the "Bank") dated 30 November 2009, 2 parcels of land with a total site area of approximately 111,355.05 sq.m. under the State-owned Land Use Rights Certificate of Xun Guo Yong (2007) Di No. 186 and Xun Guo Yong (2009) Di No. 37, a building with a gross floor area of approximately 3,365.72 sq.m. under the Building Ownership Certificate of Xun Fang Quan Zheng Bai Liu Zi Di No. 0800077 and various machinery & equipment assets are subjected to a mortgage as security to guarantee the principal obligation under a loan contract entered into between Ankang Yaobai and the Bank for a maximum loan amount of RMB330,000,000 for a term from 30 November 2009 to 30 May 2013.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. pursuant to a Confirmation Letter issued by Xunyang County Land Bureau dated 4 March 2010, the land premium has been fully paid by Ankang Yaobai. Therefore Ankang Yaobai has legally and validly been granted the State-owned Land Use Rights Certificates of the property;
 - b. the property is neither subject to expropriate, lawsuit, dispute nor other circumstances which have material adverse effect on it;
 - c. Ankang Yaobai is the exclusive legal owner and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property; and
 - d. both signing parties Ankang Yaobai, as the exclusive legal owner of the property, and Credit Suisse Shanghai Branch registered for foresaid mortgage, therefore the execution of the mortgage is legal and valid.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
9.	A parcel of land, 8 buildings and various structures located at Heyan village Ganxi town Xunyang county Ankang city Shaanxi province The PRC	<p>The property comprises a parcel of land with a site area of approximately 16,120.53 sq.m. and 8 buildings and various structures erected thereon which were completed in October 2005 and October 2007.</p> <p>The buildings have a total gross floor area of approximately 2,121.3 sq.m.</p> <p>The buildings mainly include office building, industrial buildings and dormitories.</p> <p>The structures mainly include fence, gate, and road.</p> <p>The land use rights of the property have been granted for a term expiring on 5 June 2042 for industrial use.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	<p>12,024,000</p> <p>100% interest attributable to the Group: RMB12,024,000</p>

Notes:

1. The property is currently occupied by Ankang Yaobai Cement Co., Ltd. ("Ankang Yaobai"), a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate – Xun Guo Yong (2010) Di No. 10576, the land use rights of a parcel of land with a site area of approximately 16,120.53 sq.m. have been granted to Ankang Yaobai for a term expiring on 5 June 2042 for industrial use. As advised by the Group, the land premium of the parcel of land stipulated by Xun Guo Yong (2010) Di No. 10576 was RMB961,371.76.
3. Pursuant to 8 Building Ownership Certificates – Xun Yang Fang Quan Zheng Deng Zi Di Nos. 0162101 to 0162106, 0163001 and 0163002, 8 buildings with a total gross floor area of approximately 2,121.3 sq.m. are owned by Ankang Yaobai.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. pursuant to a Confirmation Letter issued by Xunyang County Land Bureau dated 4 March 2010, the land premium has been fully paid by Ankang Yaobai. Therefore Ankang Yaobai has legally and validly been granted the State-owned Land Use Rights Certificate of the property;
 - b. the property is neither subject to expropriate, lawsuit, dispute nor other circumstances which have material adverse effect on it; and
 - c. Ankang Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
10.	3 parcels of land, 27 buildings and various structures located at Xipo village Xiaozhai town Lantian county Xi'an city Shaanxi province The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 506,129.39 sq.m. and 27 buildings and various structures erected thereon which were completed in June 2007 and December 2008.</p> <p>The buildings have a total gross floor area of approximately 19,905.48 sq.m.</p> <p>The buildings mainly include office building, central control building, dormitory, canteen and guardhouses.</p> <p>The structures mainly include fence, gate, warehouse and road.</p> <p>The land use rights of the property have been granted for a term expiring on 30 September 2043 and 30 December 2046 for industrial use.</p>	<p>The property is currently occupied by the Group for production, office and ancillary purposes.</p>	<p>215,674,000</p> <p>100% interest attributable to the Group: RMB215,674,000</p>

Notes:

- The property is currently occupied by Xi'an Lantian Yaobai Cement Co., Ltd. ("Lantian Yaobai") is a wholly-owned subsidiary of the Company.
- Pursuant to a State-owned Land Use Rights Grant Contract dated 21 November 2007 entered into between Lantian County Bureau of Land and Resources and Lantian Yaobai, the land use rights of 2 parcels of land with a total site area of approximately 215,574.60 sq.m. were contracted to be granted to Lantian Yaobai for a term of 40 years for industrial use. The land premium was RMB11,642,400.
- Pursuant to 3 State-owned Land Use Rights Certificates – Lan Guo Yong (2010) Di No. 10202 and Lan Guo Yong (2007) Zi Di Nos. 1276 and 1277, the land use rights of 3 parcels of land with a total site area of approximately 506,129.39 sq.m. have been granted to Lantian Yaobai for terms expiring on 30 September 2043 and 30 December 2046 for industrial use.
- Pursuant to 8 Building Ownership Certificates – Xi'an Shi Fang Quan Zheng Lan Zi Di Nos.1003 and 1004, Xi'an Fang Quan Zheng Lan Tian Zi Di Nos. 2009122401-1 to 2009122401-6, 27 buildings with a total gross floor area of approximately 19,905.48 sq.m. are owned by Lantian Yaobai.
- Pursuant to a Mortgage Contract – No. 61101200900004285 entered into between Lantian Yaobai and Agricultural Bank of China Limited Pucheng County Branch (the "Bank") dated 22 October 2009. 2 parcels of land with a total site area of approximately 215,574.60 sq.m. under the State-owned Land Use Rights Certificates of Lan Guo Yong (2007) Zi Di Nos. 1276 and 1277, 2 buildings of the property with a total gross floor area of approximately 5,405.87 sq.m. under the Building Ownership Certificates of Xi'an Shi Fang Quan Zheng Lan Zi Di Nos. 1003 and 1004, limestone crushing and transportation, limestone prehomogenizing and storing and various machinery & equipment assets are subjected to a mortgage as security to guarantee the principal obligation under a loan contract entered into between Lantian Yaobai and the Bank for a maximum loan amount of RMB46,000,000 for a term of one year from 22 October 2009 to 21 October 2010.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
- a. pursuant to a Confirmation Letter issued by Lantian County Land Bureau dated 4 March 2010, the land premium of the parcel of land stipulated by Lan Guo Yong (2010) Di No. 10202 was RMB43,583,000 that should be fully paid before 31 August 2010 and the other land premium has been fully paid by Lantian Yaobai. Therefore Lantian Yaobai has legally and validly been granted the State-owned Land Use Rights Certificates;
 - b. the property is neither subject to expropriation, lawsuit, dispute nor other circumstances which have material effect on it;
 - c. Lantian Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property; and
 - d. both signing parties Liantian Yaobai, as the exclusive legal owner of the property, and Agricultural Bank of China Limited Pucheng County Branch registered for foresaid mortgage, therefore the execution of mortgage is legal and valid.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
11.	A parcel of land located at Xipo village Xiaozhai town Lantian county Xi'an city Shaanxi province The PRC	The property comprises a parcel of land with a site area of approximately 55,425.44 sq.m. The land use rights of the property have been granted for a term expiring on 30 December 2046 for industrial use.	The property is currently occupied by the Group for placement of equipment foundations purpose.	5,099,000 100% interest attributable to the Group: RMB5,099,000

Notes:

1. The property is currently occupied by Xi'an Lantian Yaobai Cement Co., Ltd. ("Lantian Yaobai"), a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate - Lan Guo Yong (2010) Di No. 10201, the land use rights of a parcel of land with a site area of approximately 55,425.44 sq.m. have been granted to Lantian Yaobai for a term expiring on 30 December 2046 for industrial use. As advised by the Group, the land premium of the parcel of land stipulated by Lan Guo Yong (2010) Di No. 10201 was RMB6,468,000.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. pursuant to a Confirmation Letter issued by Lantian County Land Bureau dated 4 March 2010, the land premium has been fully paid by Lantian Yaobai. Therefore Lantian Yaobai has legally and validly been granted the Land Use Rights Certificates of the property;
 - b. the property is neither subject to expropriation, lawsuit, dispute nor other circumstances which have material adverse effect on it; and
 - c. Lantian Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
12.	A parcel of land, 9 buildings and various structures located at Youfangjie village Liuxianping town Danfeng county Shangluo city Shaanxi province The PRC	<p>The property comprises a parcel of land with a site area of approximately 72,163.89 sq.m. and 9 buildings and various structures erected thereon which were completed in August 1998 and August 2007.</p> <p>The buildings have a total gross floor area of approximately 5,713.76 sq.m.</p> <p>The buildings mainly include an office building, a dormitory and a central control building.</p> <p>The structures mainly include a coal shed and a retaining wall.</p> <p>The land use rights of the property have been granted for a term expiring on 22 October 2048 for industrial use.</p>	<p>The property is currently occupied by the Group for production, office and ancillary purposes.</p>	<p>184,566,000</p> <p>80% interest attributable to the Group: RMB147,653,000</p>

Notes:

1. The property is currently occupied by Shangluo Yaobai Longqiao Cement Co., Ltd. ("Longqiao Yaobai"), an 80% interest owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate - Dan Guo Yong (2010) Di No. 10551, the land use rights of a parcel of land with a site area of approximately 72,163.89 sq.m. have been granted to Longqiao Yaobai for a term expiring on 22 October 2048 for industrial use.
3. Pursuant to 9 Building Ownership Certificates - Dan Feng Fang Quan Zheng Deng Zi Di Nos. 0138000 to 0138008, 9 buildings with a total gross floor area of approximately 5,713.76 are owned by Longqiao Yaobai.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. pursuant to a Confirmation Letter issued by Danfeng County Land Bureau dated 1 March 2010, the land premium has been fully paid by Longqiao Yaobai. Therefore Longqiao Yaobai has legally and validly been granted the State-owned Land Use Rights Certificates of the property;
 - b. the property is neither subject to expropriation, lawsuit, dispute nor other circumstances which have material adverse effect on it; and
 - c. Longqiao Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
13.	A parcel of land, 18 buildings and various structures located at the Xiecun village Xiecun town Yangxian county Hanzhong city Shaanxi province The PRC	<p>The property comprises a parcel of land with a site area of approximately 199,576.60 sq.m., 18 buildings and various ancillary structures erected thereon which were completed in June 2010.</p> <p>The buildings have a total gross floor area of approximately 12,819.92 sq.m.</p> <p>The buildings mainly include industrial buildings, a dormitory, a canteen and an office building.</p> <p>The structures mainly include mixture silos, kilns and warehouses.</p> <p>The land use rights of the property have been granted for a term expiring on 30 November 2049 for industrial use.</p>	<p>The property is currently occupied by the Group for production, office and ancillary purposes.</p>	<p>187,642,000</p> <p>100% interest attributable to the Group: RMB 187,642,000</p>

Notes

1. The property is currently occupied by Hanzhong Yaobai Cement Co., Ltd. ("Hanzhong Yaobai"), a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate — Yang Guo Yong (Tu) Di No. 094623, the land use rights of a parcel of land with a site area of approximately 199,576.60 sq.m. have been granted to Hanzhong Yaobai for a term expiring on 30 November 2049 for industrial use. As advised by the Group, the land premium of the parcel of land stipulated by Yang Guo Yong (Tu) Di No. 09462 was RMB19,420,782.50.
3. Pursuant to 8 Building Ownership Certificates — Fang Quan Zheng Yang Fang Zi Di Nos. 016772 to 016779, 18 buildings with a total gross floor area of approximately 12,819.92 are owned by Hanzhong Yaobai.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. pursuant to a Confirmation Letter issued by Yangxian County Land Bureau dated 3 March 2010, the land premium has been fully paid by Hanzhong Yaobai. Therefore Hanzhong Yaobai has legally and validly been granted the State-owned Land Use Rights Certificate of the property;
 - b. the property is neither subject to expropriate, lawsuit, dispute nor other circumstances which have material adverse effect on it; and
 - c. Hanzhong Yaobai is the exclusive legal owner of the property and has rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

Group II — Property interests held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB										
14.	A cement plant property under construction located at Yongxi village Jinqian town Mianxian county Hanzhong city Shaanxi province The PRC	<p>The property services for a cement production line with a planned production capacity of 2,500 tons per day, which was being constructed on a parcel of land with a site area of approximately 148,314 sq.m. (the “CIP”) as at the date of valuation.</p> <p>The property is scheduled to be completed by the end of July 2010. Upon completion, the buildings of the property will have a total gross floor area of approximately 107,514 sq.m., the details of which are set out as follows:</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;">Use</th> <th style="text-align: right;">Planned Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Residential</td> <td style="text-align: right;">6,090</td> </tr> <tr> <td>Office</td> <td style="text-align: right;">1,226.42</td> </tr> <tr> <td>Industrial</td> <td style="text-align: right;">100,197.58</td> </tr> <tr> <td>Total:</td> <td style="text-align: right;"><u>107,514</u></td> </tr> </tbody> </table> <p>The total construction cost is estimated to be approximately RMB76,264,700, of which RMB67,821,460 had been paid up to the date of valuation.</p> <p>As at the date of report, the property was completed.</p> <p>The land use rights of the property have been granted for a term expiring on 26 November 2048 for industrial use.</p>	Use	Planned Gross Floor Area (sq.m.)	Residential	6,090	Office	1,226.42	Industrial	100,197.58	Total:	<u>107,514</u>	The property is currently under construction.	92,431,000 100% interest attributable to the Group: RMB92,431,000
Use	Planned Gross Floor Area (sq.m.)													
Residential	6,090													
Office	1,226.42													
Industrial	100,197.58													
Total:	<u>107,514</u>													

Notes:

- The property is currently occupied by Hanzhong Mianxian Yaobai Cement Co., Ltd. (“Mianxian Yaobai”), a wholly-owned subsidiary of the Company.
- Pursuant to a State-owned Land Use Rights Certificate – Mian Guo Yong (2010) Di No. 10238, the land use rights of a parcel of land with a site area of approximately 148,314 sq.m. have been granted to Mianxian Yaobai for a term expiring on 26 November 2048 for industrial use. As advised by the Group, the land premium of the parcel of land stipulated by Mian Guo Yong (2010) Di No. 10238 was RMB11,878,408.
- Pursuant to a Construction Work Planning Permit – Jian Zi Di No. 0017051 in favor of Mianxian Yaobai, a cement production line comprising a total gross floor area of approximately 107,514 sq.m. has been approved for construction.
- Pursuant to a Construction Work Commencement Permit – Mian Jian Shi Xu Zi (2009) No. 102 in favor of Mianxian Yaobai, permission by the relevant local authority was given to commence the construction work of the cement production line with a planned production capacity of 2,500 tons per day.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
- a. pursuant to a Confirmation Letter issued by Mianxian Country Land Bureau dated 3 March 2010, the land premium has been fully paid by Mianxian Yaobai. Therefore Mianxian Yaobai has legally and validly been granted the State-owned Land Use Rights Certificate of the property;
 - b. the property is neither subject to expropriation, lawsuit, dispute nor other circumstances which have material adverse effect on the property;
 - c. Mianxian Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the land use rights of the property; and
 - d. Mianxian Yaobai has legally and validly obtained Construction Work Planning Permit and Construction Work Commencement Permit, and has the rights to use, occupy, transfer, mortgage or otherwise dispose of the CIP.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB										
15.	A cement plant property under construction located at Lihe Industrial Area Yanghe town Xixiang county Hanzhong city Shaanxi province The PRC	<p>The property services for a cement production line with a planned production capacity of 2,500 tons per day, which was being constructed on a parcel of land with a site area of approximately 153,330 sq.m. (the "CIP") as at the date of valuation.</p> <p>The property is scheduled to be completed in January 2011. Upon completion, the buildings of the property will have a total gross floor area of approximately 64,300 sq.m., the details are set out as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">Use</th> <th style="text-align: right;">Planned Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Residential</td> <td style="text-align: right;">7,000</td> </tr> <tr> <td>Office</td> <td style="text-align: right;">2,600</td> </tr> <tr> <td>Industrial</td> <td style="text-align: right;">54,700</td> </tr> <tr> <td>Total</td> <td style="text-align: right;"><u>64,300</u></td> </tr> </tbody> </table> <p>The total construction cost is estimated to be approximately RMB93,955,100, of which RMB46,812,983 had been paid up to the date of valuation.</p> <p>The land use rights of the property have been granted for a term expiring on 17 December 2049 for industrial use.</p>	Use	Planned Gross Floor Area (sq.m.)	Residential	7,000	Office	2,600	Industrial	54,700	Total	<u>64,300</u>	The property is currently under construction.	<p>61,533,000</p> <p>100% interest attributable to the Group: RMB61,533,000</p>
Use	Planned Gross Floor Area (sq.m.)													
Residential	7,000													
Office	2,600													
Industrial	54,700													
Total	<u>64,300</u>													

Notes:

1. The property is currently occupied by Hanzhong Xixiang Yaobai Cement Co.,Ltd. ("Xixiang Yaobai"), a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate – Xi Guo Yong (2010) Di No. 10248, the land use rights of a parcel of land with a site area of approximately 153,330 sq.m. have been granted to Xixiang Yaobai for a term expiring on 17 December 2049 for industrial use.
3. Pursuant to a Construction Work Planning Permit – Jian Zi Di No. 6107242009000268 in favor of Xixiang Yaobai, a cement production line (with a planned production capacity of 2,500 tons per day) has been approved for construction. As advised by the Group, the buildings of the cement production line has a total planned gross floor area of approximately 64,300 sq.m.
4. Pursuant to a Construction Work Commencement Permit – Xi Jian Shi Xu Zi No. (2009) 89 in favor of Xixiang Yaobai, permission by the relevant local authority was given to commence the construction work of the cement production line mentioned in note 3.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. pursuant to a Confirmation Letter issued by Xixiang County Land Bureau dated 2 March 2010, the land premium has been fully paid by Xixiang Yaobai. Therefore Xixiang Yaobai has legally and validly been granted the State-owned Land Use Rights Certificate of the property;
 - b. the property is neither subject to expropriation, lawsuit, dispute nor other circumstances which have material adverse effect on it;
 - c. Xixiang Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the land use rights of the property; and
 - d. Xixiang Yaobai has legally and validly obtained Construction Work Planning Permit and Construction Work Commencement Permit, and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the CIP.

VALUATION CERTIFICATE

Group III — Property interest held for future development by the Group in PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2010 RMB
16.	A parcel of land located at the sixth group of Xiaoguang village Dakong town Pucheng county Weinan city Shaanxi province The PRC	The property comprises a parcel of land with a site area of approximately 9,333 sq.m. The land use rights of the property have been granted for a term expiring on 4 November 2049 for industrial use.	The property is currently vacant.	311,000 100% interest attributable to the Group: RMB311,000

Notes:

1. The property is held by Shaanxi Yaobai Special Cement Co., Ltd. (“Shaanxi Yaobai”), a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate – Pu Guo Yong (2008) Di No. 00181, the land use rights of a parcel of land with a site area of approximately 9,333 sq.m. have been granted to Shaanxi Yaobai for a term expiring on 4 November 2049 for industrial use. As advised by the Group, the land premium of the parcel of land stipulated by Pu Guo Yong (2008) Di No. 00181 together with a parcel of land of property no. 5 stipulated by Pu Guo Yong (2008) Di No. 00180 was RMB4,922,345.
3. The parcel of land is a mound of clay excavated for cement production as raw material. As advised by Shaanxi Yaobai after the clay is used up, the parcel of land will be used for construction purpose.
4. Pursuant to a Mortgage Contract entered into between Shaanxi Yaobai and Bank of China Limited Pucheng County Branch (the “Bank”) dated 10 May 2010, the parcel of land mentioned in note 2, 3 parcels of land under the State-owned Land Use Rights Certificates of Pu Guo Yong (2008) Zi Di Nos. 00184 to 00186 (refer to property No.4) and various machinery & equipment assets are subject to a mortgage as security to guarantee the principal obligation under a contract entered into between Shaanxi Yaobai and the Bank for a loan amount of RMB50,000,000 with the loan term from 14 May 2010 to 13 May 2011.
5. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisors, which contains, *inter alia*, the following:
 - a. pursuant to a Confirmation Letter issued by Pucheng County Land Bureau dated 2 March 2010, the land premium has been fully paid by Shaanxi Yaobai. Therefore Shaanxi Yaobai has legally and validly been granted the State-owned Land Use Rights Certificate of the property;
 - b. the property is neither subject to expropriation, lawsuit, dispute nor other circumstances which have material adverse effect on it;
 - c. Shaanxi Yaobai is the exclusive legal owner of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property; and
 - d. both signing parties Shaanxi Yaobai, as the exclusive legal owner of the property, and Bank of China Limited Pucheng County Branch registered for foresaid mortgage, therefore the execution of mortgage is legal and valid.

Set out below is a summary of certain provisions of the Memorandum and the Articles of the Company and of certain aspects of Jersey company law.

The Company was incorporated in Jersey as a private company with limited liability on 16 October 2006 under the Jersey Companies Law and was converted to a public limited company on 27 October 2006. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

1.1 Conditional upon and with effect from the admission of Shares to trading on the Main Board of the Stock Exchange the Memorandum states, inter alia, that:

1.1.1 the name of the Company is West China Cement Limited 中國西部水泥有限公司;

1.1.2 the liability of a member arising from the holding of a share in the Company is limited to the amount (if any) unpaid on it;

1.1.3 the Company is a par value company;

1.1.4 the Company is a public company; and

1.1.5 The share capital of the Company is UK£20,000,000 divided into 10,000,000,000 ordinary shares of £0.002 each.

1.2 The Company may by special resolution alter its Memorandum.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 31 March 2010 conditional upon and with effect from the admission of Shares to trading on the Main Board of the Stock Exchange. The following is a summary of certain provisions of the Articles:

2.1 Directors

2.1.1 Compensation or payments for loss of office

The Directors shall obtain the approval of the Company in general meeting before making any payment to any Director or past Director of the Company by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being payment to which the Director is contractually entitled).

2.1.2 Loans to Directors

There are certain provisions in the Articles prohibiting the making of loans to Directors.

2.1.3 *Giving of financial assistance to purchase the shares of the Company or any of its subsidiaries*

The Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company in any manner authorized or not prohibited by the Jersey Companies Law, provided always that for so long as the shares are listed on the Stock Exchange, any such provision of financial assistance shall also comply with the requirements of the Companies Ordinance (Cap.32 of the Laws of Hong Kong) from time to time in force as if the Company was incorporated in Hong Kong unless the Stock Exchange waives this requirement for companies incorporated outside Hong Kong (in which case the Company shall then comply with the requirements of the Stock Exchange from time to time in force, if any).

2.1.4 *Disclosure of interests in contracts with the Company or any of its subsidiaries*

- (a) A Director who, to his knowledge, is in any way (directly or indirectly) interested in any contract, arrangement, transaction or proposal to be entered into or proposed to be entered into by the Company and such interest conflicts or may conflict to a material extent with the interests of the Company shall declare the nature of his interest at the earliest meeting of the Directors at which it is practicable for him to do so, either specifically or by way of a general notice in writing delivered to the secretary, at the earliest meeting of the Directors after he knows that he is or has become so interested.
- (b) For the purpose of the above:
 - (i) a general notice given to the Directors by a Director that he is to be regarded as having an interest (of the nature and extent specified in the notice) in any contract, transaction, arrangement or proposal in which a specified person or class of persons is interested shall be deemed to be a sufficient disclosure under the Articles in relation to such contract, transaction, arrangement or proposal; and
 - (ii) an interest of which a Director has no knowledge and of which it is unreasonable to expect him to have knowledge shall not be treated as an interest of his.
- (c) Save in limited circumstances, a Director shall not vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors or of a committee of the Directors concerning any contract, transaction, arrangement, or any other proposal whatsoever to which the Company is or is to be a party and in which he or any of his associates has an interest which is to his knowledge a material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company.

2.1.5 *Remuneration*

- (a) The Directors shall be entitled to such remuneration as the Directors may determine subject to any limitation as the Company may by ordinary resolution determine.

- (b) The Directors shall be paid out of the funds of the Company their travelling hotel and other expenses properly and necessarily incurred by them in connection with their attendance at meetings of the Directors or members or otherwise in connection with the discharge of their duties.

2.1.6 Retirement, appointment and removal

- (a) Any Director holding office prior to the adoption of the Articles shall continue to hold office until he resigns or is disqualified or removed in accordance with the provisions of the Articles.
- (b) The Directors shall have power at any time and from time to time to appoint any person (other than one disqualified or ineligible by law to act as a director of a company) to be a Director either to fill a casual vacancy or as an addition to the existing Directors provided that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles as the maximum number of Directors. Any Director so appointed shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at such meeting (but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation).
- (c) The Company may by ordinary resolution:
 - (i) appoint any person (other than one disqualified or ineligible by law to act as a director of a company) as a Director; and
 - (ii) remove any Director from office before the expiration of his period in office (without prejudice to a claim for damages for breach of contract or otherwise).
- (d) The office of a Director shall be vacated if the Director:
 - (i) resigns his office by notice to the Company;
 - (ii) ceases to be a Director by virtue of any provision of the Jersey Companies Law or he becomes prohibited or disqualified by law from being a Director;
 - (iii) becomes bankrupt or makes any arrangement or composition with his creditors generally;
 - (iv) becomes of unsound mind; or
 - (v) is removed from office by ordinary resolution.
- (e) There is no shareholding qualification for Directors nor is there any specified age limit for Directors.
- (f) At every annual general meeting one-third of the Directors or, if their number is not three or a multiple of three, the number nearest to one-third shall retire from office; but if any Director has at the start of the annual general meeting been in office for three years or more since his last appointment or re-appointment, he shall retire at that annual general meeting.

- (g) Subject to the provisions of the Jersey Companies Law and the Articles, the Directors to retire by rotation shall be, first, those who wish to retire and not be re-appointed to office, and, second, those who have been longest in office since their last appointment or re-appointment. As between persons who became or were last re-appointed directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. The Directors to retire on each occasion (both as to number and identity) shall be determined by the composition of the Directors at the date of the notice convening the annual general meeting. No Director shall be required to retire or be relieved from retiring or be retired by reason of any change in the number or identity of the Directors after the date of the notice but before the close of the meeting.
- (h) If the Company does not fill the vacancy at the meeting at which a Director retires by rotation or otherwise, the retiring Director shall, if willing to act, be deemed to have been re-appointed unless at the meeting it is resolved not to fill the vacancy or unless a resolution for the re-appointment of the Director is put to the meeting and lost.
- (i) No person other than a Director retiring by rotation shall be appointed a Director at any general meeting unless he is recommended by the Directors or during a period, being not less than seven days, between a day that is not less than seven days before the date appointed for the meeting and the day after the dispatch of the notice of such meeting, notice by a Member qualified to vote at the meeting (not being the person to be proposed) has been received by the Company of the intention to propose that person for appointment stating the particulars which would, if he were so appointed, be required to be included in the Company's register of Directors, together with notice by that person of his willingness to be appointed.

2.1.7 Borrowing powers

The Directors may exercise all such powers of the Company as are not by the Jersey Companies Law or the Articles required to be exercised by the Company in general meeting. The Company has unrestricted corporate capacity.

2.1.8 Delegation of powers

The Directors may delegate any of their powers to committees consisting of such Director or Directors or such other persons as they think fit.

2.1.9 Quorum for board meetings

The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed at any other number shall be two. An alternate Director shall be counted in a quorum but so that not less than two individuals will constitute the quorum. A resolution in writing signed by all of the Directors entitled to receive notice of a meeting of Directors or of a committee of Directors shall be as valid and effectual as if it had been passed at a meeting of the Directors or of a committee of Directors duly convened and held.

2.2 Alterations to constitutional documents

The Memorandum and the Articles are only capable of being amended by the passing of a special resolution.

2.3 Variation of rights of existing shares or classes of shares

Whenever the capital of the Company is divided into different classes of shares the special rights attached to any class may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding up with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of shares of that class.

2.4 Special resolutions — majority required

A special resolution is defined in the Articles as a resolution of the Company passed as a special resolution by a majority of not less than three quarters of members who (being entitled to do so) vote in person, or by proxy, at a general meeting of the Company.

2.5 Voting rights (generally and on a poll)

2.5.1 Subject to any special rights restrictions or prohibitions as regards voting for the time being attached to any shares as may be specified in the terms of issue thereof or the Articles:

- (a) on a show of hands, every member present in person shall have one vote and every proxy who has been appointed by a member entitled to vote on the resolution has one vote (except where multiple proxies have been appointed by a member); and
- (b) on a poll, every member present in person or by proxy shall have one vote for each share of which he is the holder.

2.5.2 In the case of joint holders of any share such persons shall not have the right of voting individually in respect of such share but shall elect one of their number to represent them and to vote whether personally or by proxy in their name. In default of such election the person whose name appears first in order in the register in respect of such share shall be the only person entitled to vote in respect thereof.

2.5.3 No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company of which he is holder or one of the joint holders have been paid.

2.5.4 Where any shares of the Company are held in trust for the Company, such shares shall not, for so long as they are so held, confer any right to vote at meetings of the Company.

2.5.5 For as long as the shares of the Company are admitted to trading on the Stock Exchange, at any general meeting a resolution put to the meeting shall be decided in the manner as prescribed in the Listing Rules.

2.5.6 Where any member under the Listing Rules is required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

2.6 Requirements for annual general meetings

The Company shall in each calendar year hold a general meeting as its annual general meeting at such time and place as may be determined by the Directors. Not more than 15 months (or such longer period as the Stock Exchange or the Jersey Companies Law may authorize) shall elapse between subsequent annual general meetings.

2.7 Accounts and audit

2.7.1 The Company shall keep accounting records, prepared in accordance with and subject to the provisions of the Jersey Companies Law, which are sufficient to show and explain the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company at that time and enable the Directors to ensure that any accounts prepared by the Company comply with requirements of the Jersey Companies Law.

2.7.2 The Directors shall prepare accounts of the Company made up to such date in each year as the Directors shall from time to time determine in accordance with and subject to the provisions of the Jersey Companies Law.

2.7.3 No member shall (as such) have any right to inspect any accounting records or other book or document of the Company except as conferred by the Jersey Companies Law or authorized by the Directors or by ordinary resolution of the Company.

2.7.4 Subject to the Jersey Companies Law, copies of either (i) the Company's balance sheet (including every document required by the Jersey Companies Law to be annexed thereto) and profit and loss account, together with a copy of the Directors' report for that financial year and the auditors' report on those accounts, or (ii) the summary financial report shall, at least 21 clear days before the date of the meeting at which copies of those documents are to be laid in accordance with the provisions of the Jersey Companies Law, be delivered or sent by post to every member and to every holder of the Company's debentures of whose address the Company is aware and to every other person who is entitled to receive notice of meetings of the Company under the provisions of the Jersey Companies Law or the Articles, or in the case of joint holders of any share or debenture to one of the joint holders. Copies need not be sent to a person for whom the Company does not have a current address.

2.7.5 The Directors or the Company by ordinary resolution shall appoint auditors to hold office until the conclusion of the next annual general meeting for any period or periods to examine the accounts of the Company and to report thereon in accordance with the Jersey Companies Law. A Director, officer or any employee of such Director and officer shall not be appointed the auditors of the Company.

2.8 Notice of meetings and business to be conducted thereat*2.8.1 Notice of Meetings*

- (a) At least 20 clear business days' notice shall be given of every annual general meeting and of every general meeting called for the passing of a special resolution and at least 10 clear business days' notice shall be given of all other general meetings.
- (b) A meeting of the Company shall notwithstanding that it is called by shorter notice than that specified above be deemed to have been duly called if it is so agreed in the case of an annual general meeting by all the members entitled to attend and vote thereat and in the case of any other meeting by a majority in number of the members having a right to attend and vote at the meeting being a majority together holding not less than 95% in nominal value of the shares giving that right.
- (c) Every notice shall specify the place the day and the time of the meeting and the general nature of the business to be transacted and in the case of an annual general meeting shall specify the meeting as such.
- (d) Subject to the provisions of the Articles and to any restrictions imposed on any shares, notice of every general meeting shall be given to all the members, to all persons entitled to a share in consequence of the death, bankruptcy or incapacity of a member, to the auditors (if any) and to every Director who has notified the secretary in writing of his desire to receive notice of general meetings.
- (e) In every notice calling a meeting of the Company there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not also be a member.
- (f) The accidental omission to give notice of a meeting to or the non-receipt of notice of a meeting by any person entitled to receive notice shall not invalidate the proceedings at that meeting.
- (g) Where the Company gives notice of its intention to move a resolution at a general meeting of the Company or a meeting of any class of members, the notice shall include or be accompanied by a statement containing such information and explanation, if any, as is reasonably necessary to indicate the purpose of the resolution and disclosing any material interests of any Director in the matter dealt with by the resolution so far as the resolution affects those interests differently from the interests of other members.

2.8.2 Business of general meetings

The business of an annual general meeting shall be to receive and consider the accounts of the Company and the reports of the Directors and auditors, to elect Directors (if proposed), to elect auditors and fix their remuneration, to sanction a dividend (if thought fit so to do) and to transact any other business of which notice has been given.

2.9 Transfer of shares

- 2.9.1 Save as otherwise permitted under the provisions of the Jersey Companies Law, all transfers of shares shall be affected using an instrument of transfer. The instrument of transfer of any share shall be in writing in any usual common form or in any form approved by the Stock Exchange or any form approved by the Directors and may be under hand or, if the transferor or the transferee is a clearing house or its nominee(s), by hand or machine imprinted signature or by such other manner of execution as the board of Directors may approve from time to time. The instrument of transfer of any share shall be signed by or on behalf of the transferor and in the case of an unpaid or partly paid share by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. A Shareholder may transfer all or any uncertificated Shares in accordance with the Companies (Uncertificated Securities) (Jersey) Order 1999, as amended.
- 2.9.2 Fully paid shares of the Company shall be free from any restriction on transfer (except where permitted by the Stock Exchange) and shall also be free from all liens. The Directors may in their absolute discretion and without assigning any reason therefor refuse to register the transfer of a certificated share which is not fully paid up including without limitation a transfer of such shares to a person of whom they do not approve and a transfer of a certificated share on which the Company has a lien. The Directors may also refuse to register the transfer of a share unless the instrument of transfer is lodged at the Company's registered office or at such other place as the Directors may appoint accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer, is in respect of only one class of shares and is in favor of not more than four transferees.
- 2.9.3 If the Directors refuse to register a transfer of a share they shall within two months after the date on which the instrument of transfer was lodged with the Company send to the proposed transferor and transferee notice of the refusal.
- 2.9.4 The registration of transfers of shares or of transfers of any class of shares may be suspended at such times and for such periods as the Directors may determine, provided always that such registration shall not be suspended for more than 30 days in any calendar year. Unless otherwise permitted by the Companies (Uncertificated Securities) (Jersey) Order 1999, as amended, the Company may not close any register relating to a participating security without the consent of the approved operator of the relevant system.
- 2.9.5 Unless otherwise decided by the Directors in their sole discretion no fee shall be charged in respect of the registration of any instrument of transfer or other document relating to or affecting the title to any share. To the extent that the Directors decide to charge a fee in respect of the registration, the fee shall be the same or less than the maximum amount prescribed by the Stock Exchange from time to time.
- 2.9.6 In respect of any allotment of any share the Directors shall have the same right to decline to approve the registration of any renounee of any allottee as if the application to allot and the renunciation were a transfer of a share under the Articles.

2.10 Power for the Company to purchase its own shares

Subject to the provisions of the Jersey Companies Law, the Company may purchase its own shares (including redeemable shares) in any manner authorized or not prohibited by the Jersey Companies Law, provided always that for so long as the shares are listed on the Stock Exchange, any such purchase shall also comply with the requirements of the Companies Ordinance (Cap.32 of the Laws of Hong Kong) from time to time in force as if the Company was incorporated in Hong Kong unless the Stock Exchange waives this requirement for companies incorporated outside Hong Kong (in which case the Company shall then comply with the requirements of the Stock Exchange from time to time in force, if any).

2.11 Dividends and other methods of distribution

- 2.11.1 Subject to the provisions of the Jersey Companies Law, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members but no dividend shall exceed the amount recommended by the Directors. The Directors may also if they think fit from time to time pay to the members such interim dividends as they may determine. If at any time the share capital of the Company is divided into different classes the Directors may pay such interim dividends in respect of those shares which confer on the holders thereof deferred or non-preferred rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend. Furthermore, subject to the Jersey Companies Law, the Directors may also pay half-yearly or at other suitable intervals to be settled by them any dividend which may be payable at a fixed rate. Provided the Directors act bona fide they shall not incur any personal liability to the holders of shares conferring a preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferred rights.
- 2.11.2 Subject to any particular rights or limitations as to dividend for the time being attached to any shares as may be specified in the Articles or upon which such shares may be issued, all dividends shall be declared apportioned and paid pro rata according to the amounts paid up on the shares on which the dividend is paid (otherwise than in advance of calls) provided that if any share is issued on terms providing that it shall rank for dividend as if paid up (in whole or in part) or as from a particular date (either past or future) such share shall rank for dividend accordingly.
- 2.11.3 The Directors may before recommending any dividend set aside such sums as they think proper as a reserve or reserves which shall at the discretion of the Directors be applicable for any purpose to which such sums may be properly applied and pending such application may at the like discretion be employed in the business of the Company or be invested in such investments as the Directors may from time to time think fit. The Directors may carry forward to the accounts of the succeeding year or years any balance which they do not think fit either to dividend or to place to reserve.
- 2.11.4 A general meeting declaring a dividend may upon the recommendation of the Directors direct that payment of such dividend shall be satisfied wholly or in part by the distribution of specific assets and in particular of paid-up shares or debentures of any other company and the Directors shall give effect to such resolution. Where any difficulty arises in regard to the distribution the Directors may settle the same as they think expedient.

- 2.11.5 Any resolution declaring a dividend on the shares of any class whether a resolution of the Company in general meeting or a resolution of the Directors or any resolution of the Directors for the payment of a fixed dividend on a date prescribed for the payment thereof may specify that the same shall be payable to the persons registered as the holders of shares of the class concerned at the close of business on a particular date notwithstanding that it may be a date prior to that on which the resolution is passed (or as the case may be that prescribed for payment of a fixed dividend) and thereupon the dividend shall be payable to them in accordance with their respective holdings so registered but without prejudice to the rights inter se in respect of such dividend of transferors and transferees of any shares of the relevant class.
- 2.11.6 The Directors may deduct from any dividend or other monies payable to any member on or in respect of a share all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in relation to the shares of the Company.
- 2.11.7 All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. No dividend shall bear interest as against the Company. Any dividend which has remained unclaimed for a period of ten years from the date of declaration thereof shall if the Directors so resolve be forfeited and cease to remain owing by the Company and shall thenceforth belong to the Company absolutely.

2.12 Proxies

- 2.12.1 On a show of hands or a poll votes may be given either personally or by proxy. The Directors may at the expense of the Company send by post or otherwise to the members instruments of proxy (with or without provision for their return prepaid) for use at any general meeting or at any separate meeting of the holders of any class of shares of the Company either in blank or nominating in the alternative any one or more of the Directors or any other persons. A member may appoint more than one proxy to attend on the same occasion provided that each such proxy is appointed to exercise the rights attached to a different share or shares held by that member. If for the purpose of any meeting invitations to appoint as proxy a person or one or more of a number of persons specified in the invitations are issued at the Company's expense they shall be issued to all (and not to some only) of the members entitled to be sent a notice of the meeting and to vote thereat by proxy.
- 2.12.2 The instrument appointing a proxy shall be in writing in any common form or as approved by the Directors and shall be under the hand of the appointer or of his attorney duly authorized in writing or if the appointer is a corporation either under seal or under the hand of a duly authorized officer, attorney or other representative. A proxy need not be a member. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority shall:
- (a) be deposited at the registered office of the Company or at such other place as is specified for that purpose by the notice convening the meeting not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote;

- (b) in the case of a poll taken more than 48 hours after it is demanded, be deposited as aforesaid after the poll has been demanded and not less than 24 hours before the time appointed for taking the poll; or
- (c) where the poll is not taken forthwith but is taken not more than 48 hours after it was demanded, be delivered at the meeting at which the poll was demanded to the chairman or the secretary or to any Director.

2.12.3 An instrument of proxy which is not deposited in the manner so required shall be valid only if it is approved by all the other members who are present at the meeting.

2.12.4 Unless the contrary is stated thereon the instrument appointing a proxy shall be as valid as well for any adjournment of the meeting as for the meeting to which it relates. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, provided that no notice in writing of such death, insanity or revocation shall have been received by the Company at its registered office before the commencement of the meeting or adjourned meeting at which such vote is cast.

2.13 Calls on shares and forfeiture of shares

2.13.1 Calls on shares

- (a) The Directors may subject to the provisions of the Articles and to any conditions of allotment from time to time make calls upon the members in respect of any monies unpaid on their shares (whether on account of the nominal value of the shares or by way of premium) and each member shall (subject to being given at least 14 clear days' notice specifying the time or times and place of payment) pay to the Company at the time or times and place so specified the amount called on his shares. A call may be required to be paid by installments. A call may before receipt by the Company of any sum due thereunder be revoked in whole or in part and payment of a call may be postponed in whole or in part. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the shares in respect whereof the call was made. A call shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and all other payments to be made in respect of such share.
- (b) If a sum called in respect of a share is not paid before or on the day appointed for payment thereof the person from whom the sum is due may be required to pay interest on the sum from the day appointed for payment thereof to the time of actual payment at a rate determined by the Directors but the Directors shall be at liberty to waive payment of such interest wholly or in part.

- (c) Any sum which by or pursuant to the terms of issue of a share becomes payable upon allotment or at any fixed date whether on account of the nominal value of the share or by way of premium shall for the purposes of the Articles be deemed to be a call duly made and payable on the date on which by or pursuant to the terms of issue the same becomes payable and in case of non-payment all the relevant provisions of the Articles as to payment of interest, forfeiture, surrender or otherwise shall apply as if such sum had become due and payable by virtue of a call duly made and notified.
- (d) The Directors may on the issue of shares differentiate between the holders as to the amount of calls to be paid and the times of payment.
- (e) The Directors may if they think fit receive from any member an advance of monies which have not yet been called on his shares or which have not yet fallen due for payment. Such advance payments shall, to their extent, extinguish the liability in respect of which they are paid. The Company may pay interest on any such advance, at such rate as the Directors think fit, for the period covering the date of payment to the date when the monies would have been due had they not been paid in advance. For the purposes of entitlement to dividends, monies paid in advance of a call or installment shall not be treated as paid until the due date.

2.13.2 Forfeiture of shares

- (a) If a member fails to pay any call or installment of a call on or before the day appointed for payment thereof the Directors may at any time thereafter during such time as any part of such call or installment remains unpaid serve a notice on him requiring payment of so much of the call or installment as is unpaid together with any interest which may have accrued and any costs, charges and expenses which may have been incurred by the Company by reason of such non-payment. The notice shall name a further day (not earlier than the expiration of 14 clear days from the date of service of such notice) on or before which the payment required by the notice is to be made and the place where payment is to be made and shall state that in the event of non-payment at or before the time appointed and at the place appointed the shares in respect of which the call was made will be liable to be forfeited.
- (b) If the requirements of any such notice as aforesaid are not complied with any share in respect of which such notice has been given may at any time thereafter before payment of all calls and interest due in respect thereof has been made be forfeited by a resolution of the Directors to that effect and such forfeiture shall include all dividends which shall have been declared on the forfeited shares and not actually paid before the forfeiture.
- (c) A forfeited or surrendered share shall become the property of the Company and may be sold, re-allotted or otherwise disposed of either to the person who was before forfeiture or surrender the holder thereof or entitled thereto or to any other person upon such terms and in such manner as the Directors think fit and at any time before a sale, re-allotment or other disposition the forfeiture or surrender may be cancelled on such terms as the Directors think fit.

- (d) A member whose shares have been forfeited or surrendered shall cease to be a member in respect of the forfeited or surrendered shares and shall (if he has not done so already) surrender to the Company for cancellation the certificate for the shares forfeited or surrendered. Notwithstanding the forfeiture or the surrender such member shall remain liable to pay to the Company all monies which at the date of forfeiture or surrender were presently payable by him in respect of those shares with interest thereon at the rate at which interest was payable before the forfeiture or surrender or at such rate as the Directors may determine from the date of forfeiture or surrender until payment, provided that the Directors may waive payment wholly or in part or enforce payment without any allowance for the value of the shares at the time of forfeiture or surrender or for any consideration received on their disposal.

2.14 Inspection of register of members

The register of members and any overseas branch register of members as the case may be, shall be open to inspection by the members and other persons in accordance with the Jersey Companies Law. Subject to applicable law, the register of members including any overseas or local or other branch register of members may, after notice has been given by advertisement in an appointed newspaper or any other newspapers in accordance with the requirements of the Stock Exchange, be closed at such times or for such periods not exceeding in the whole 30 days in each year as the Directors may determine and either generally or in respect of any class of shares. The period of 30 days may be subsequently extended in respect of any year in relation to the register of members by an ordinary resolution passed at a general meeting of the Company in that year, provided that the said period shall not be extended beyond 60 days in any year. The Company shall, on demand, furnish any person seeking to inspect the register of members or part of the register of members which is closed with a certificate under the hand of the secretary stating the period for which, and by whose authority, it is closed.

2.15 Quorum for meetings and separate class meetings

2.15.1 No business shall be transacted at any general meeting except the adjournment of the meeting unless a quorum of members is present at the time when the meeting proceeds to business. Such quorum shall consist of not less than two members present in person or by proxy but so that not less than two individuals will constitute a quorum provided that if at any time all the issued shares are held by one member such quorum shall consist of that member present.

2.15.2 To every separate meeting of the holders of a class of shares all the provisions of the Articles and of the Jersey Companies Law relating to general meetings of the Company or to the proceedings thereat shall apply *mutatis mutandis* except that whenever the share capital of the Company is divided into different classes of share the necessary quorum in respect of a class meeting to vary the rights attaching to a class of shares shall be two persons holding or representing at least one third in nominal amount of the issued shares of that class but so that if at any adjourned meeting of such holders a quorum as above defined is not present those holders who are present shall be a quorum.

2.16 Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Jersey law, as summarized in paragraph 3.7 of this Appendix.

2.17 Procedures on liquidation

2.17.1 Subject to any particular rights or limitations for the time being attached to any shares as may be specified in the Articles or upon which such shares may be issued if the Company is wound up, the assets available for distribution among the members shall be applied first in repaying to the members the amount paid up on their shares respectively and if such assets shall be more than sufficient to repay to the members the whole amount paid up on their shares the balance shall be distributed among the members in proportion to the amount which at the time of the commencement of the winding up had been actually paid up on their said shares respectively.

2.17.2 If the Company is wound up, the Company may with the sanction of a special resolution and any other sanction required by the Jersey Companies Law divide the whole or any part of the assets of the Company among the members in specie and the liquidator or where there is no liquidator the Directors may for that purpose value any assets and determine how the division shall be carried out as between the members or different classes of members and with the like sanction vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator or the Directors (as the case may be) with the like sanction determine but no member shall be compelled to accept any assets upon which there is a liability.

2.18 Other provisions material to the Company or its shareholders*2.18.1 Alteration of share capital*

- (a) The Company may by special resolution:
- (i) increase its share capital by such sum to be divided into shares of such amount and in such currency or currencies as the resolution prescribes;
 - (ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
 - (iii) convert all or any of its fully paid shares into stock, and reconvert that stock into fully paid shares of any denomination;
 - (iv) subject to the provisions of the Jersey Companies Law, sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum and the resolution may determine that, as between the shares resulting from the sub-division, any of them may have any preference or advantage as compared with the others;
 - (v) subject to the provisions of the Jersey Companies Law convert or denominate any of its shares the nominal value of which is expressed in one currency into shares of a nominal value of another currency; and
 - (vi) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.
- (b) Any new shares created on an increase or other alteration of share capital shall be issued upon such terms and conditions as the Company may by ordinary resolution determine.

- (c) Subject to the provisions of the Jersey Companies Law, the Company may by special resolution reduce its share capital and its share premium account in any way.

2.18.2 *Lien*

- (a) The Company shall have a first and paramount lien on every share (not being a fully paid share) for all monies (whether presently payable or not) called or payable at a fixed time in respect of that share and the Company shall also have a first and paramount lien on all shares (other than fully paid shares) registered in the name of a single member for all the debts and liabilities of such member or his estate to the Company whether the period for the payment or discharge of the same shall have actually commenced or not and notwithstanding that the same are joint debts or liabilities of such member or his estate and any other person whether a member or not. The Company's lien (if any) on a share shall extend to all dividends or other monies payable thereon or in respect thereof. The Directors may resolve that any share shall for such period as they think fit be exempt from such provisions.
- (b) The Company may sell in such manner as the Directors think fit any shares on which the Company has a lien but no sale shall be made unless the monies in respect of which such lien exists or some part thereof are or is presently payable nor until 14 clear days have expired after a notice stating and demanding payment of the monies presently payable and giving notice of intention to sell in default shall have been served on the holder for the time being of the shares or the person entitled thereto by reason of the death, bankruptcy or incapacity of such holder.
- (c) The net proceeds of such sale after payment of the costs of such sale shall be applied in or towards payment or satisfaction of the debt or liability in respect of which the lien exists so far as the same is presently payable and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares at the time of the sale.

2.18.3 *Untraceable members*

- (a) Subject to the Companies (Uncertificated Securities) (Jersey) Order 1999, as amended, the Company shall have the power to sell, in such manner as the Directors think fit, any shares of a member who is untraceable, but no such sale shall be made unless:
 - (i) all cheques or warrants in respect of dividends of the shares in question, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period (which is the period commencing 12 years before the date of publication of the advertisement referred to at (iii) below and ending at the expiry of the period referred to at (iii) below) in the manner authorized by the Articles have remained uncashed;
 - (ii) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and

- (iii) the Company, if so required by the Listing Rules has given notice to, and caused advertisement in newspapers in accordance with the requirements of, the Stock Exchange to be made of its intention to sell such shares in the manner required by the Stock Exchange, and a period of three months or such shorter period as may be allowed by the Designated Stock Exchange has elapsed since the date of such advertisement.
- (b) The net proceeds of the sale will belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds. No trust shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any such sale shall be valid and effective notwithstanding that the member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

2.18.4 Capitalization of profits

The Directors may with the authority of an ordinary resolution of the Company:

- (a) subject as provided below, resolve that it is desirable to capitalize any undistributed profits of the Company (including profits carried and standing to any reserve or reserves) not required for paying any fixed dividends on any shares entitled to fixed preferential dividends with or without further participation in profits or to capitalise any sum carried to reserve as a result of the sale or revaluation of the assets of the Company (other than goodwill) or any part thereof or to capitalise any sum standing to the credit of the Company's share premium account or capital redemption reserve fund;
- (b) appropriate the profits or sum resolved to be capitalized to the members in the proportion in which such profits or sum would have been divisible amongst them had the same been applicable and had been applied in paying dividends and to apply such profits or sum on their behalf either in or towards paying up any amount for the time being unpaid on any shares held by such members respectively or in paying up in full either at par or at such premium as the said resolution may provide any unissued shares or debentures of the Company such shares or debentures to be allotted and distributed credited as fully paid up to and amongst such members in the proportions aforesaid or partly in one way and partly in the other provided that the share premium account and the capital redemption reserve fund and any unrealized profits may for these purposes only be applied in the paying up of unissued shares to be allotted to members credited as fully paid up;
- (c) make all appropriations and applications of the profits or sum resolved to be capitalized thereby and all allotments and issues of fully paid shares or debentures if any and generally shall do all acts and things required to give effect thereto with full power to the Directors to make such provision by the issue of certificates representing part of a shareholding or fractions of shares or by payments in cash or otherwise as they think fit in the case of shares or debentures becoming distributable in fractions; and

- (d) authorize any person to enter on behalf of all the members entitled to the benefit of such appropriations and applications into an agreement with the Company providing for the allotment to them respectively credited as fully paid up of any further shares or debentures to which they may be entitled upon such capitalization and any agreement made under such authority shall be effective and binding on all such members.

2.18.5 Indemnity of directors

- (a) In so far as the Jersey Companies Law allows, every present or former officer of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him by reason of being or having been such an individual.
- (b) The Directors may without sanction of the Company in general meeting authorize the purchase or maintenance by the Company for any officer or former officer of the Company of any such insurance as is permitted by the Jersey Companies Law in respect of any liability which would otherwise attach to such individual or former individual.

2.18.6 Director's qualification shares

A director need not be a member of the Company.

2.18.7 Corporate members

If a clearing house (or its nominee(s)), being a corporation, is a member, it may authorize such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of members provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such representative is so authorized. Each person so authorized shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares in the Company held by the clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

2.18.8 Power to allot and issue shares and warrants

- (a) Without prejudice to any special rights for the time being conferred on the holders of any shares or class of shares, any share or class of shares in the capital of the Company may be issued with such preferred, deferred or other special rights or such restrictions whether in regard to dividends, return of capital, voting or otherwise as the Company may from time to time by ordinary resolution determine. The Directors may issue warrants to subscribe for any class of shares or other securities of the Company, which warrants may be issued on such terms as the Directors may from time to time determine.
- (b) Subject to the provisions of the Jersey Companies Law, the Company may from time to time:
 - (i) issue; or

- (ii) convert any existing non-redeemable shares (whether issued or not) into, shares which are to be redeemed or are liable to be redeemed at the option of the Company or at the option of the holder thereof and on such terms and in such manner as may be determined by special resolution.

- (c) Subject to the provisions of the Articles and any direction that may be given by the Company in general meeting and where applicable the rules of the Stock Exchange, the unissued shares for the time being in the capital of the Company shall be at the disposal of the Directors who may allot, grant options over or otherwise dispose of them to such persons at such times and generally on such terms and conditions as they think fit.

- (d) Subject to the Jersey Companies Law, the Companies (Uncertificated Securities) (Jersey) Order 1999, as amended, and the Listing Rules and requirements of the Stock Exchange, the Directors may permit any class of shares to be held in uncertificated form and to be transferred by means of a relevant system and may revoke any such permission.

2.18.9 Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The business of the Company shall be managed by the Directors who may pay all expenses incurred in promoting and registering the Company and may exercise all such powers of the Company as are not by the Jersey Companies Law or the Articles required to be exercised by the Company in general meeting.

3. JERSEY COMPANY LAW

The Company is incorporated in Jersey subject to the Jersey Companies Law and, therefore, operates subject to Jersey law. Set out below is a summary of certain provisions of Jersey company law. This summary does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Jersey company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

3.1 Operations

3.1.1 The Company is restricted from trading in Jersey insofar as, if it wanted to carry out business activities in Jersey (including, in particular, employing staff in Jersey), it may need to obtain a license pursuant to the Regulation of Undertakings and Development (Jersey) Law 1973, as amended.

3.1.2 The Company is required to file an annual return each year with the Jersey Registrar of Companies. The current filing fee is £150.

3.2 Share Issues

The Jersey Companies Law does not confer statutory pre-emption rights on shareholders relating to new share issues. Jersey companies are also prohibited from issuing shares unless they have the consent of the Jersey Financial Services Commission pursuant to Article 2 of the Control of Borrowing (Jersey) Order 1958.

3.3 Share capital

3.3.1 Alteration of share capital

The Articles provide substantially similar provisions in relation to alteration of share capital as those set out in the Jersey Companies Law.

3.3.2 Share premium accounts

- (a) The Jersey Companies Law sets out what is meant by share premium and what share premium may be used for. If the Company allots shares at a premium (whether for cash or otherwise) where the premiums arise as a result of the issue of a class of limited shares, a sum equal to the aggregate amount or value of those premiums over and above the nominal value of the relevant shares, shall be transferred, as and when the premiums are paid up, to a share premium account for that class.
- (b) A share premium account may be applied by the Company for any of the following purposes:
 - (i) in paying up unissued shares to be allotted to members as fully paid bonus shares;
 - (ii) in writing off the Company's preliminary expenses;
 - (iii) in writing off the expenses of and any commission paid on any issue of shares of the Company;
 - (iv) in the redemption or purchase of shares under Part 11 of the Jersey Companies Law (Redemption and Purchase of Shares); and
 - (v) in the making of a distribution in accordance with Part 17 of the Jersey Companies Law (see 3.6 (Dividends and distributions) below).
- (c) Subject to the above, the provisions of the Jersey Companies Law relating to a reduction of the Company's share capital apply as if each of its share premium accounts were part of its paid up share capital.

3.3.3 Reductions of capital

The Jersey Companies Law provides that, subject to confirmation by the Royal Court of Jersey except in certain limited circumstances, the Company may by special resolution reduce its capital accounts in any way. The redemption, purchase or cancellation by a Jersey company of its shares under Part 11 of the Jersey Companies Law is not, for the purposes of Part 12 of the Jersey Companies Law, a reduction of capital. A reduction of capital is not for the purposes of Part 17 of the Jersey Companies Law a distribution.

3.3.4 Variation of rights

The Jersey Companies Law provides for variation of class rights in accordance with the Articles or, where this is not specified in the Articles, with the consent in writing of holders of not less than 2/3rds in nominal value of the issued shares of that class or by a special resolution of the members of that class. The Articles provide for a higher majority for written consent by holders of three-fourths of the issued shares of the class.

3.3.5 Treasury shares

The Jersey Companies Law provides that the Company may hold as treasury shares any of the limited shares that it has redeemed or purchased under the Jersey Companies Law, to the extent that it is not prohibited by the Memorandum or Articles and it is authorized by a resolution of the Company to hold shares as treasury shares.

3.4 Financial assistance to purchase shares of a company or its holding company

There is no specific restriction under the Jersey Companies Law on the provision of financial assistance by the Company to another person for the purchase of, or subscription for, its own or its holding company's shares. However, the Articles contain a prohibition on financial assistance (as mentioned above). Accordingly, subject to the restrictions under the Articles, the Company may provide financial assistance if the Directors of the Company consider, in discharging their fiduciary duties, that such assistance can properly be given. The Directors will need to be mindful of their statutory obligations in relation to making distributions (as set out below) if any financial assistance is made by way of a payment to a member in their capacity as a member and such payment constitutes (which it may not), as a matter of law, a distribution of the Company's assets.

3.5 Purchase of shares and warrants by a company and its subsidiaries

3.5.1 Redemptions

- (a) Subject to the provisions of the Jersey Companies Law, the Company may, if authorized by the Articles (which the Company's articles so provide), issue or convert existing non-redeemable limited shares, whether issued or not, into, limited shares which are to be redeemed, or are liable to be redeemed, either in accordance with their terms or at the option of the Company or the shareholder. The Articles provide for the issue of redeemable shares (or conversion of non-redeemable shares) on such terms and in such manner as may be determined by special resolution.

- (b) The redeemable limited shares of the Company shall be capable of being redeemed from any source, but only if they are fully paid up.
- (c) The redeemable limited shares are not capable of being redeemed unless all the directors of the Company who authorize the redemption make a statement as to the solvency of the Company at the time of redemption which is forward looking for a 12 month period following the redemption.
- (d) Any shares redeemed under the Jersey Companies Law (other than shares that are, immediately after being purchased or redeemed, held as treasury shares) are treated as cancelled on redemption.

3.5.2 *Share purchases*

- (a) In addition, the Company may purchase its own shares (including any redeemable shares). Such a purchase shall be sanctioned by a special resolution of the Company.
- (b) If the shares are to be purchased otherwise than on a stock exchange, they may only be purchased in pursuance of a contract approved in advance by a resolution of the Company and they shall not carry the right to vote on the resolution sanctioning the purchase or approving the contract.
- (c) If the shares are to be bought on a stock exchange, the resolution authorising the purchase shall specify the maximum number of shares to be purchased, the maximum and minimum prices which may be paid for them and a date, not being later than 18 months after the passing of the resolution, on which the authority to purchase is to expire.
- (d) A purchase also requires the authorising Directors to make a solvency statement in the same terms as that required for a redemption.

3.5.3 *Warrants*

The Jersey Companies Law does not contain specific provisions relating to the issue, redemption or purchase of share warrants although the Articles provide that the Directors may issue warrants to subscribe for any class of shares or other securities of the Company, which warrants may be issued on such terms as the Directors may from time to time determine.

3.6 Dividends and distributions

Pursuant to the Jersey Companies Law, the Company may make a distribution (which includes dividends) at any time which shall be debited to the share premium account or any other account other than the capital redemption reserve or nominal capital account. In order for a distribution to be legally valid, the Directors authorising the distribution must make a prior statement as to the solvency of the Company immediately following payment of the distribution. As above, the solvency statement is forward looking for a 12 month period following the payment in the form set out in the Jersey Companies Law.

3.7 Protection of minorities

3.7.1 The principle under English case law (which is not binding but, in respect of the Jersey Companies Law, can be of persuasive authority) that, if any wrong is done to a company (e.g. if the directors have acted in breach of duty in some way), the proper claimant in any legal action for breach of such duty is the company itself has been held to form a part of Jersey law. However, in exceptional situations a minority shareholder is permitted to bring a derivative action in a company's name, and on a company's behalf, in particular where:

- (a) the majority cannot ratify what has been done (e.g. where the company acts illegally or where a resolution has been improperly passed); or
- (b) where it would be unfair not to allow a derivative action (e.g. where there exists fraud on the minority or unfairly prejudicial conduct of the directors or the majority shareholder(s)).

3.7.2 Under the Jersey Companies Law, a member of the Company may apply to the Royal Court of Jersey for an order that the Company's affairs are being or have been conducted in a manner which is unfairly prejudicial to the interests of its members generally or of some part of its members (including at least the member) or that an actual or proposed act or omission of the Company (including an act or omission on its behalf) is or would be so prejudicial. If the Royal Court of Jersey is satisfied that such an application is well founded, it may make such order as it thinks fit for giving relief in respect of the matters complained of.

3.7.3 Under the Jersey Companies Law, inspectors may be appointed to investigate the affairs of the Company, whether or not the Company is being wound up, on the following basis:

- (a) The Minister for Economic Development (the "Minister") or the Jersey Financial Services Commission (the "Commission") may appoint one or more competent inspectors to investigate the affairs of the Company and to report on them as the Minister or the Commission may direct.
- (b) The appointment may be made on the application of the registrar, the Company or a member, officer or creditor of the Company.
- (c) The Minister or the Commission may, before appointing inspectors, require the applicant, other than the registrar, to give security, to an amount not exceeding £10,000 or such other sum as may be prescribed for payment of the costs of the investigation.

3.7.4 Any member of the Company may apply to the Royal Court of Jersey to wind up the Company up on just and equitable grounds.

3.8 Management

Except in relation to distributions, reductions of capital, share buybacks and share redemptions, as mentioned above and in respect of a solvent winding up or in situations of insolvency, the Jersey Companies Law contains no materially specific restrictions on the power of the Directors in respect of the assets of the Company. However, under the Jersey Companies Law, the Directors, in exercising their powers and discharging their duties, must (a) act honestly and in good faith with a view to the best interests of the

Company; and (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Under the Jersey Companies Law, a Director will not be held to have breached his duties if all of the members of the Company authorize or ratify his act or omission and after the act or omission the Company will be able to discharge its liabilities as they fall due.

3.9 Accounting and auditing requirements

Under the Jersey Companies Law, the Company must keep accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy, at any time, the financial position of the Company. Accounts must be prepared in accordance with generally accepted accounting principles (although none are prescribed under the Jersey Companies Law unless the Company is a market traded company for the purposes of the Jersey Companies Law) and audited accounts must show a true and fair view of, or be presented fairly in all material respects, so as to show the company's profit or loss for the period covered by the accounts and the state of its affairs at the end of the period.

3.10 Exchange control

There are no exchange control regulations or currency restrictions under Jersey law.

3.11 Taxation

3.11.1 The following summary of the anticipated treatment of the Company and holders of Shares (other than residents of Jersey) is based on Jersey taxation law and practice as they are understood to apply at the date of this document and is subject to changes in such taxation law and practice. It does not constitute legal or tax advice and does not address all aspects of Jersey tax law and practice (including such tax law and practice as they apply to any land or buildings situate in Jersey). Prospective investors in the Shares should consult their professional advisors on the implications of acquiring, buying, selling or otherwise disposing of Shares in the Company under the laws of any jurisdiction in which they may be liable to taxation.

3.11.2 Jersey companies, with the exception of certain Jersey based financial services companies and local utility companies (which are generally subject to income tax at 10% and 20% respectively) are typically subject to a zero per cent rate of income tax on the basis of being Jersey tax resident. Under Article 123 of the Income Tax (Jersey) Law 1961, a company shall not be regarded as tax resident in Jersey if its business is centrally managed and controlled outside Jersey in a country or territory where the highest rate at which any company may be charged tax on any part of its income is 20% or higher and the company is resident for tax purposes in that country or territory. If the Company is not regarded as tax resident in Jersey it will not be liable to Jersey income tax other than on Jersey source income (except where such income is exempted from income tax pursuant to the Income Tax (Jersey) Law 1961, as amended). If the Company is regarded as tax resident in Jersey it will be subject to income tax in Jersey at a rate of zero per cent (other than on any income arising from land or buildings situate in Jersey).

3.11.3 Dividends on Shares may be paid by the Company without withholding or deduction for or on account of Jersey income tax and holders of Shares (other than residents of Jersey) will not be subject to any tax in Jersey in respect of the holding, sale or other disposition of such Shares.

3.11.4 In Jersey, no stamp duty is levied on the issue or transfer of shares except that stamp duty is payable on Jersey grants of probate and letters of administration, which will generally be required to transfer shares on the death of a holder of such shares. In the case of a grant of probate or letters

of administration, stamp duty is levied according to the size of the estate (wherever situate in respect of a holder of shares domiciled in Jersey, or situate in Jersey in respect of a holder of shares domiciled outside Jersey) and is payable on a sliding scale at a rate of up to 0.75% of such estate.

3.11.5 Jersey does not otherwise levy taxes upon capital, inheritances, capital gains or gifts nor are there other estate duties.

3.12 Loans to directors

There is no express provision in the Jersey Companies Law prohibiting the making of loans by the Company to any of the Directors. However, the Articles include certain prohibitions on such loans.

3.13 Inspection of corporate records

Under the Jersey Companies Law, the Company's register of members shall during business hours be open to the inspection of a member of the Company without charge and any other person, on the payment of such sum (if any), not exceeding the published maximum, as the Company may require. On submission to the Company of a declaration under the Jersey Companies Law (as to the use of the copy) a person may require a copy of the register and the Company shall, within 10 days after receipt of the payment and the declaration, cause the copy so required to be available at the place where the register is kept for collection by that person during business hours.

3.14 Winding up

3.14.1 The Company may be placed into liquidation under Jersey law by a summary or creditors' winding up, by order of the Royal Court of Jersey on just and equitable grounds or following a declaration "en désastre" by the Royal Court of Jersey pursuant to Jersey bankruptcy law.

3.14.2 The Company may be wound up summarily if the company is solvent and the Directors make a statement to that effect. The winding up would commence upon the members passing a special resolution to wind the Company up summarily.

3.14.3 A creditors' winding up would commence if the members passed a special resolution to wind the Company up by way of creditors' winding up or if the Company is being summarily wound up and becomes insolvent. The Jersey Companies Law sets out comprehensive provisions with regard to, amongst other things, meetings of creditors and procedures thereat, appointment, powers and duties of liquidators, the involvement of the Royal Court of Jersey and the disposal and clawback of the Company's property. Pursuant to the Jersey Companies Law, a liquidator must report possible criminal offences relating to the Company, those involved with it or the Directors. As soon as the affairs of the Company in a creditors' winding up were fully wound up, the liquidator would make up an account of the winding up, showing how it had been conducted and how the Company's property had been disposed of, and then call a general meeting of the Company and a meeting of the creditors for the purpose of laying the account before the meetings and giving an explanation of it.

3.14.4 Jersey bankruptcy law allows for the Company to be declared "en désastre" by the Royal Court of Jersey upon an application by the Company or by a creditor with a claim of not less than £3,000 against the Company and if the Royal Court of Jersey considers it just and equitable to do so. The

Company would have the ability to recall the declaration if it was not insolvent (i.e. not unable to pay its debts as they fell due). The Royal Court of Jersey would, on such a declaration, appoint the Viscount of Jersey to administer the liquidation of the Company and all the worldwide property and assets of the Company would vest in the Viscount. The Viscount has similar powers to a liquidator under a creditor's winding up. In a désastre, the first duty of the Viscount is to liquidate the estate for the benefit of the creditors who prove their claims. Co-extensive with the Viscount's duty to protect and realize the Company's property would be a duty requiring him to investigate the circumstances giving rise to the désastre. The Viscount also has a duty to report possible misconduct. The Viscount would have an obligation to supply all the creditors with a report and accounts relating to the désastre when he had realized all the Company's property.

3.15 Reconstructions

Under the Jersey Companies Law, the Company has the power to compromise with creditors and members. Where a compromise or arrangement is proposed between the Company and its creditors, or a class of them, or between the Company and its members, or a class of them, the Royal Court of Jersey may on the application of the Company or a creditor or member of it or, in the case of the Company being wound up, of the liquidator, order a meeting of the creditors or class of creditors, or of the members of the Company or class of members (as the case may be), to be called in a manner as the Royal Court of Jersey directs. If a majority in number representing:

3.15.1 3/4ths in value of the creditors or class of creditors; or

3.15.2 3/4ths of the voting rights of the members or class of members,

as the case may be, present and voting either in person or by proxy at the meeting, agree to a compromise or arrangement, the compromise or arrangement, if sanctioned by the Royal Court of Jersey, is binding on:

3.15.1 all creditors or the class of creditors; or

3.15.2 all the members or class of members,

as the case may be and also on the Company or, in the case of the Company in the course of being wound up, on the liquidator and contributories of the Company.

3.16 Compulsory acquisition

3.16.1 Under the Jersey Companies Law, if, following a takeover offer (which is defined as “an offer to acquire all the shares, or all the shares of any class or classes, in a company (other than shares which at the date of the offer are already held by the offeror), being an offer on terms which are the same in relation to all the shares to which the offer relates or, where those shares include shares of different classes, in relation to all the shares of each class”), an offeror has acquired or contracted to acquire not less than nine-tenths in nominal value of the shares to which the offer relates, the offeror may give notice, in accordance with the Jersey Companies Law, to the holders of those shares to which the offer relates which the offeror has not acquired or contracted to acquire, that it desires to acquire those shares. Subject to the provisions of the Jersey Companies

Law, upon service of the notice by the offeror, it shall become entitled and be bound to acquire the shares. A minority shareholder also has a similar right, pursuant to the Jersey Companies Law, to be bought out by an offeror where such threshold (i.e. acquisition of 9/10ths in nominal value of all the shares to which the offer relates) has been met.

3.16.2 Where a notice as set out in 3.16.1 above is given under the Jersey Companies Law to a holder of any shares the Royal Court of Jersey may, on an application made by such shareholder within 6 weeks from the date on which the notice was given, order that the offeror shall not be entitled and bound to acquire the shares or specify terms of acquisition different from those of the offer.

3.17 Indemnification

3.17.1 Subject to the exceptions in 3.17.2 below, the Jersey Companies Law prohibits any provision whether contained in the Articles or in a contract with the Company or otherwise whereby the Company or any of its subsidiaries or any other person, for some benefit conferred or detriment suffered directly or indirectly by the Company, agrees to exempt any person from, or indemnify him against, any liability which by law would otherwise attach to him by reason of the fact that he is or was an officer of the Company.

3.17.2 The above prohibitions do not apply to a provision for exempting a person from or indemnifying him against:

- (a) any liabilities incurred in defending any proceedings (whether civil or criminal):
 - (i) in which judgment is given in his favor or he is acquitted; or
 - (ii) which are discontinued otherwise than for some benefit conferred by him or on his behalf or some detriment suffered by him; or
 - (iii) which are settled on terms which include such benefit or detriment and, in the opinion of a majority of the Directors (excluding any Director who conferred such benefit or on whose behalf such benefit was conferred or who suffered such detriment), he was substantially successful on the merits in his resistance to the proceedings;
- (b) any liability incurred otherwise than to the Company if he acted in good faith with a view to the best interests of the Company; or
- (c) any liability incurred in connection with an application made under the Jersey Companies Law in which relief is granted to him by the Royal Court of Jersey; or
- (d) any liability against which the Company normally maintains insurance for persons other than Directors.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Establishment of our Company**

Our Company was incorporated in Jersey as a private company with limited liability on October 16, 2006 and re-registered as a public company on October 27, 2006. Our Company has established a principal place of business in Hong Kong at Units 3401-2, 34th Floor, AIA Tower, 183 Electric Road, North Point, Hong Kong and was registered on May 25, 2010 as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance, with Mr. Sin Lik Man, appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was established in Jersey, it operates subject to the relevant laws and regulations of Jersey and to its constitution which comprises the Memorandum and Articles of Association. Certain relevant aspects of the relevant laws and regulations of Jersey and a summary of certain relevant parts of the Articles of Association are set out in Appendix V to this prospectus.

2. Changes in the share capital of our Company

The authorized share capital of our Company as at the date of its incorporation was £10,000 divided into 10,000 shares of £1.00 each.

On October 27, 2006, one subscriber share with par value of £1.00 of our Company was transferred to each of Mr. Zhang and Mr. Ma Zhaoyang.

On the same date, we passed Shareholders' resolutions to approve (a) the subdivision of our authorized and issued share capital from 10,000 shares of £1.00 each to 100,000 shares of £0.10 each; (b) the increase of our authorized share capital to £20,000,000 by the creation of a further 199,900,000 shares of £0.10 each. On October 27, 2006, we allotted and issued 42,735,965 shares of £0.10 each to West China BVI.

On July 20, 2010, we passed Shareholders' resolutions to approve the subdivision of each existing issued and unissued shares of £0.10 each in the share capital of our Company into 50 new ordinary shares of £0.002 each so that the authorized share capital of our Company is 10,000,000,000 Shares of £0.002 each which is conditional on and with effect from Listing.

Immediately following completion of the Global Offering but not taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or the Post-IPO Share Option Scheme, the issued share capital of our Company will be £8,231,063.70 divided into 4,115,531,850 Shares, all fully paid or credited as fully paid and 5,884,468,150 Shares will remain unissued.

Save for aforesaid and as mentioned in the paragraph entitled "— 3. Resolutions of our Shareholders" below, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions of our Shareholders

- (i) Pursuant to the resolutions passed by our Shareholders on March 31, 2010:
 - (a) we conditionally adopted the Articles of Association which will become effective on the Listing Date;

- (b) we adopted the rules of the Post-IPO Share Option Scheme, the principal terms of which are set out in the sub-section entitled “— D. Other Information — 2. Post-IPO Share Option Scheme” in this Appendix, were approved and adopted.
- (ii) Pursuant to the resolutions passed by our Shareholders on July 20, 2010:
- (a) we conditionally subdivided each existing issued and unissued share of £0.10 each in the share capital of the Company into 50 new ordinary shares of £0.002 each; and
 - (b) a general unconditional mandate was given to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued including the Shares to be issued pursuant to the Global Offering), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to a specific authority granted by our Shareholders in general meeting, unissued Shares with a total nominal value not exceeding 20% of the aggregate number of (i) the issued Shares in the capital of our Company immediately following completion of the Global Offering (but taking no account of any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme or the Post-IPO Share Option Scheme) plus (ii) the number of Shares repurchased by the Company in accordance with the authority detailed in paragraph (c) below, such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or until revoked, renewed or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first;
 - (c) a general unconditional mandate was given to our Directors authorizing them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate number of the issued share capital of our Company immediately following completion of the Global Offering (but taking no account of any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme or the Post-IPO Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period of 15 months from July 20, 2010, or until revoked, renewed or varied by a special resolution of our Shareholders in general meeting, whichever occurs first.

4. Corporate reorganization

The companies comprising our Group underwent the Reorganization in preparation for Listing. For information relating to the Reorganization, please refer to the section “History, Reorganization and Corporate Structure.”

5. Changes in share capital of subsidiaries

Our principal subsidiaries are referred to in the Accountants' Report for our Company, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants' Report in Appendix I to this prospectus, our Company has no other subsidiaries.

The following sets out the changes to the share capital made by the subsidiaries of our Company during the two years preceding the date of this prospectus:

- (a) On November 4, 2008, the registered capital of Ankang Yaobai was increased from RMB135,000,000 to RMB345,000,000.
- (b) On December 3, 2009, the registered capital of Mianxian Yaobai was increased from RMB105,000,000 to RMB140,000,000.

Save as set out above, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Repurchase of our Shares

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board of Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) *Shareholders' approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

(Note: Pursuant to the resolutions passed by our Shareholders on July 20, 2010, a general unconditional mandate (the "**Buyback Mandate**") was granted to our Directors authorizing the repurchase by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering, at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period of 15 months from July 20, 2010 or when such mandate is revoked or varied by a special resolution of our Shareholders in general meeting, whichever is the earliest.)

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of Jersey. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and its assets and/or its earnings per Share.

(c) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws of Jersey. It is presently proposed that any repurchase of Shares will be made out of the profits of our Company or the proceeds of a fresh issue of shares made for the purpose of the purchase or, if authorized by the Articles and subject to the Jersey Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorized by the Articles and subject to the Jersey Companies Law, out of capital.

Our Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) *Share capital*

Exercise in full of the Buyback Mandate, on the basis of 4,115,531,850 Shares in issue immediately after the listing of the Shares (but taking no account of Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme or Post-IPO Share Option Scheme), could accordingly result in up to 411,553,185 Shares being repurchased by our Company during the period until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period of 15 months from July 20, 2010; or
- (iii) the date on which the Buyback Mandate is revoked or varied by a special resolution of our Shareholders in general meeting, whichever occurs first.

(e) *General*

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or its subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of Jersey. Our Company has not repurchased any Shares in the previous six months.

No connected person (as defined in the Listing Rules) has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

If as a result of a securities repurchase pursuant to the Buyback Mandate, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). Accordingly, a shareholder, or a group of shareholders acting in concert, depending on the level of increase of the shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. Our Directors are not aware of any other consequences which may arise under the Code if the Buyback Mandate is exercised.

If the Buyback Mandate is fully exercised immediately following completion of the Global Offering but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or pursuant to the exercise of the any options which may be granted under the Share Option Scheme or the Post-IPO Share Option Scheme, the total number of Shares which will be repurchased pursuant to the Buyback Mandate shall be 411,553,185 Shares (being 10% of the issued share capital of our Company based on the aforesaid assumptions). Save as aforesaid, our Directors are not aware of any consequences of the repurchases that would arise under the Codes. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. However, our Directors do not propose to exercise the Buyback Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts, considered material and not being contracts entered into in the ordinary course of business, have been entered into by us and/or our subsidiaries within the two years preceding the date of this prospectus:



- (a) an equity transfer agreement dated August 15, 2009 entered into between Zhang Changshui (張長水), Deng Yuanhui (鄧遠輝), Yang Beijin (楊倍金), Lian Jie (連杰), Hui Dajun (惠大軍), Han Shengli (韓生利), Zhang Bo (張波), Xu Deming (徐德明), Wang Zhenping (王鎮平), Fan Hongxi (范洪喜), Zhang Jinqi (張晉祺), Wu Xiaoqi (吳曉祺), Han Zishui (韓自水), Zhang Wenji (張文記), Ji Fangnao (冀芳瑙), Tang Lingling (唐玲玲), Du Zhengfu (杜正福), Guo Tai (郭泰), Zhang Changhai (張長海), Zhang Dianyao (張典耀), Liu Zongwang (劉宗旺), Pang Shijie (龐世杰), Shi Shengbao (石生寶), Xu Jiwen (徐吉穩), Zhu Qiaogen (朱巧根), Zhang Changxiu (張長秀), Shen Xiaohong (沈曉宏), Pan Xiaoli (潘小力), Wang Change (汪常娥), Zhao Shimei (趙世美), Shi Xiurong (石秀嵘), Chen Xiuying (陳秀英), Zhang Chenghao (張誠浩), Zhang Yongshui (張永水), Li Xianlan (李先蘭), Xiao Qi (肖祺), Lu Yuqin (盧玉琴), Zhang Changjiang (張長江), Wang Lexian (王樂仙), Li Xianxiu (李先秀), Wang Zhigang (王志剛) and Wang Xinfang (王新芳) (the "Original Shareholders") as transferors and Shaanxi Yaobai as transferee regarding the transfer of a 100% equity interest in Xiushan Yaobai from the Original Shareholders to Shaanxi Yaobai at a consideration of RMB180,699,527.36;

- (b) a facility agreement dated October 21, 2009 entered into between our Company as borrower, Mr. Zhang as guarantor and Superb Miles Limited as lender in relation to a term loan facility of up to a principal amount of US\$50,000,000;
- (c) a deed of amendment dated October 21, 2009 entered into between our Company and West China BVI relating to the instrument constituting warrants to subscribe for Shares in our Company dated May 29, 2008 and acknowledgement of secured obligations;
- (d) a joint venture agreement dated December 28, 2009 entered into between Shaanxi Yaobai and Shaanxi Danshui pursuant to which Shaanxi Yaobai and Shaanxi Danshui agreed to contribute 80% and 20% of the registered capital of Longqiao Yaobai, respectively;
- (e) an instrument of transfer dated January 25, 2010 entered into between Ready-Made Incorporations Limited as transferor and West China BVI as transferee pursuant to which Ready-Made Incorporations Limited transferred one share of HK\$1.00 each in Faithful Alliance to West China BVI at a consideration of HK\$1.00 and one bought and sold notes dated January 25, 2010 entered into between Ready-Made Incorporations Limited as transferor and West China BVI as transferee in relation to one share of HK\$1.00 each in the issued share capital of Faithful Alliance at a consideration of HK\$1.00;
- (f) an equity transfer agreement dated March 1, 2010 entered into between West China BVI as transferor and Faithful Alliance as transferee regarding the transfer of a 100% equity interest in Shaanxi Yaobai from West China BVI to Faithful Alliance at a consideration of RMB530,000,000 and satisfied by the allotment and issue of 99 shares in the share capital of Faithful Alliance to West China BVI;
- (g) the Deed of Non-Competition dated July 29, 2010 between our Controlling Shareholders and our Company pursuant to which our Controlling Shareholders have unconditionally undertaken to us that he/she/it will not directly or indirectly participate in, hold any right or interest, or otherwise be involved in, any business which may be in competition with our businesses and those of our subsidiaries;
- (h) the deed of indemnity dated July 29, 2010 given by the indemnifiers named therein in favor of our Company and our subsidiaries in respect of, amongst others, Hong Kong estate duty, taxation and other indemnities referred to in the sub-section entitled “— D. Other Information — 3. Estate duty, tax and other indemnities” in this Appendix; and
- (i) the Hong Kong Underwriting Agreement.

2. Intellectual property

(a) Trademarks

(i) As of the Latest Practicable Date, we had registered the following trademarks:

Trademark	Name of Registrant	Place of Registration	Class	Registration Number	Expiry Date
	Shaanxi Yaobai	PRC	19	901015	November 20, 2016
	Shaanxi Yaobai	PRC	19	5158040	June 20, 2019
Trademark	Name of Registrant	Place of Registration	Class	Registration Number	Expiry Date
	Shaanxi Yaobai	Hong Kong	19	301490689	December 2, 2019
					
	Shaanxi Yaobai	Hong Kong	19	301490661	December 2, 2019
					
	Shaanxi Yaobai	Hong Kong	19	301490652	December 2, 2019

(b) *Domain names*

As of the Latest Practicable Date, we were the registered owner of the following domain name:

<u>Domain Name</u>	<u>Name of Proprietor</u>	<u>Date of Registration</u>	<u>Expiry Date</u>
westchinacement.com	our Company	October 19, 2006	October 19, 2015
yaobo.com.cn	Shaanxi Yaobai	November 5, 2004	November 5, 2018
中国西部水泥有限公司.中国	Shaanxi Yaobai	July 6, 2007	July 6, 2017
中国西部水泥有限公司.中國			
中国西部水泥有限公司.cn			
中國西部水泥有限公司.中国			
中國西部水泥有限公司.中國			
中國西部水泥有限公司.cn			
中国西部水泥.中国	Shaanxi Yaobai	December 19, 2006	December 19, 2016
中国西部水泥.中國			
中国西部水泥.cn			
中國西部水泥.中国			
中國西部水泥.中國			
中國西部水泥.cn			

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

- (a) *Disclosure of interest — interests and short positions of our Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following completion of the Global Offering and subdivision of Shares taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of any options granted under the Share Option Scheme or the Post-IPO Share Option Scheme, the interest or short position of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies, once the Shares are listed are as follows.

- (i) *Interest in Shares of our Company*

<u>Name of Director</u>	<u>Nature of Interest</u>	<u>Number of Securities</u>	<u>Approximate Percentage of Shareholding</u>
Zhang Jimin (<i>Notes 1 and 2</i>).	Interest of a controlled corporation	1,738,873,900(L)	42.25%
Ma Zhaoyang (<i>Notes 1 and 3</i>).	Interest of a controlled corporation	213,679,950(L)	5.19%

Notes:

- The letter "L" denotes the person's long position in such securities.
- Asia Gain is beneficially and wholly-owned by Zhang Jimin.
- Techno Faith is beneficially and wholly-owned by Ma Zhaoyang.

- (ii) *Interest in the underlying shares of our Company*

<u>Name of Director</u>	<u>Nature of Interest</u>	<u>Adjusted number of Ordinary Shares subject to options granted under the Share Option Scheme</u>	<u>Approximate percentage of issued share capital of our Company immediately following completion of the Global Offering and Subdivision of Shares</u>
Low Po Ling	Beneficial interest	12,500,000	0.30%

(iii) *Interest in associated corporation of our Company*

Name of Director	Name of Associated Corporation	Number of Shares	Percentage of Shareholding
Zhang Jimin	Asia Gain	100	100%
Ma Zhaoyang	Techno Faith	100	100%

(b) *Particulars of service contracts*

Each of our executive Director and the non-executive Director has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for a term of one year commencing from the Listing Date. The appointments are subject to the provisions of retirement and rotation of Directors under our Articles of Association.

(c) *Directors' remuneration*

Each of our existing executive Directors is entitled to the following respective amount of annual emolument for acting as the director and committee member of and/or holding other positions with our Company or other members of the Group:

Name	Annual Emolument
	(RMB)
Zhang Jimin	1,200,000
Wang Jianli	450,000
Low Po Ling	720,000
Tian Zhenjun	500,000

Each of Mr. Wang Jianli and Mr. Tian Zhenjun shall also be entitled to a bonus for each financial year of our Company which is at the discretion of the Board and determined by reference to the performance of each Director concerned and our Group's performance for the financial year concerned and based on the recommendation from the remuneration committee of our Company.

Our existing non-executive Director has been appointed for a term of three years. Our Company intends to pay a director's fee of HK\$200,000 per annum to our existing non-executive Director.

Our existing independent non-executive Directors have been appointed for a term of one year. Our Company intends to pay a director's fee of HK\$200,000 per annum to each of our existing independent non-executive Directors.

Under the arrangement currently in force, the aggregate amount of emoluments, excluding any discretionary bonus payable by our Group to our Directors (excluding Mr. Robert Sinclair Robertson and Mr. Brett Lance Miller who resigned on July 29, 2010), for the year ending December 31, 2010 will be approximately RMB3,130,000.

Further details of the terms of the above service contracts are set out in the paragraph entitled “— (b) Particulars of service contracts” in the sub-section entitled “— 1. Directors” in this Appendix.

2. Substantial Shareholders

- (a) So far as our Directors are aware, immediately following completion of the Global Offering and subdivision of Shares taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of any options granted under the Share Option Scheme or the Post-IPO Share Option Scheme, the following persons (other than our Directors and chief executives of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO:

<u>Name</u>	<u>Capacity</u>	<u>Number of Shares</u>	<u>Percentage of Shareholding</u>
Asia Gain (<i>Notes 1 and 2</i>)	Beneficial owner	1,738,873,900 (L)	42.25%
Zhang Jimin (<i>Notes 1 and 2</i>).	Interest of a controlled corporation	1,738,873,900 (L)	42.25%
Techno Faith (<i>Notes 1 and 3</i>)	Beneficial owner	213,679,950 (L)	5.19%
Ma Zhaoyang (<i>Notes 1 and 3</i>).	Interest of a controlled corporation	213,679,950 (L)	5.19%

Notes:

1. The letter "L" denotes the person's long position in such securities.
 2. Asia Gain is beneficially and wholly-owned by Zhang Jimin.
 3. Techno Faith is beneficially and wholly-owned by Ma Zhaoyang.
- (b) As of the Latest Practicable Date, so far as is known to our Directors, the following person was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such capital:

<u>Name of shareholder</u>	<u>Name of company</u>	<u>Approximate percentage shareholding</u>
Shaanxi Danshui	Longqiao Yaobai	20%

3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

4. Disclaimers

Save as disclosed herein:

- (a) none of our Directors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;

- (b) none of our Directors or experts referred to under the heading “— D. Other Information — 10. Consents of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the Global Offering, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (f) none of the experts referred to under the heading “— D. Other Information — 10. Consents of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules) or our Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

D. OTHER INFORMATION

1. Share Option Scheme

On October 27, 2006, our Company adopted the Share Option Scheme, the principal terms of which are as follows:

(a) *Grant of options*

Our Company may, at its absolute discretion, from time to time grant an option consisting of the right to acquire Shares by subscription or invite or permit a person to grant an option consisting of the right to acquire Shares by purchase in each case to individuals, selected by the Board on such terms as the Board may determine.

The grant of the options under the Share Option Scheme shall be effected by the grantor and the option holder entering into an option agreement which shall state:

- (i) the date on which the option is granted;
- (ii) the number, or maximum number of Shares that may be acquired;
- (iii) the price (if any) payable by the option holder to acquire the option, or the method by which that price is to be determined;
- (iv) when and how the option under the Share Option Scheme may be exercised;
- (v) any conditions, such as performance conditions, affecting the terms or extent of the option holder's entitlement; and
- (vi) where the Shares which are subject of the option are restricted shares, details of the restrictions and for these purposes the Shares are restricted shares if there is any contract, agreement, arrangement or condition which imposes a restriction on the owner of the Shares from disposing of the Shares, enjoying the proceeds of sale of such Shares or from enjoying any other rights attaching to the Shares.

Subject to the above, the option agreement shall be in such form as the Board shall prescribe from time to time. No option may be granted later than the tenth anniversary of the date of adoption by the Board of the Share Option Scheme nor to an option holder within 6 months of his anticipated retirement date.

(b) ***Time of exercise of option and duration of the Share Option Scheme***

The grantees to whom an option has been granted under the Share Option Scheme will not be entitled to exercise his/her option prior to the third anniversary of the date of grant unless such anniversary is preceded by the sale of more than 75% of the issued share capital of our Company or a substantial change of ownership in which case the option becomes exercisable upon the occurrence of such event even if it precedes the third anniversary of the date of grant.

The options granted under the Share Option Scheme are not capable of transfer, assignment or other disposal by the option holder save that the option shall be transmitted to the personal representatives of the option holder on his death. Options not exercised within the exercise period above will lapse and cease to be of further effect.

(c) ***Lapse of option***

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (1) the expiry of the respective stated exercise period in the Share Option Scheme;

- (2) the passing of an effective resolution or the making of an order by the court for the winding-up of the Company;
- (3) in the case of an option holder who is an employee, director or consultant of the Company or its subsidiary, the date on which the grantee ceases to be an employee, director or consultant of the Company or its subsidiaries; or
- (4) the date of completion of a sale of more than 75% of the issued share capital of our Company or a substantial change in ownership of our Company.

(d) *Adjustment of option*

In the event of any variation in the share capital of the Company by way of capitalization, rights issue, consolidation, sub-division, reduction or otherwise, the Company can adjust the number of Shares which are subject to options, and the exercise price for such options.

(e) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that in respect of options which have already been granted, such alteration shall first be approved by the grantees in accordance with the terms of the Share Option Scheme.

(f) *Termination of the Share Option Scheme*

Subject to the conditions to the Listing being fulfilled or waived, the Share Option Scheme will be terminated with effect from Listing. No further options may be granted under the Share Option Scheme after such termination. The provisions of the Share Option Scheme will continue to apply to options granted before such termination. Our Directors have agreed not to grant any further options under the Share Option Scheme after the Latest Practicable Date.

(g) *Administration of our Board*

The Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on the holders of the options.

(h) *Disclosure in annual and interim reports*

We will disclose details of the Share Option Scheme in our annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

Our Directors confirm that they will not exercise any options granted under the Share Option Scheme if as a result of the conversion our Company would not be able to comply with the minimum public float requirement of the Listing Rules.

(i) *Outstanding options*

As of the Latest Practicable Date, our Company had the following outstanding share options granted under the Share Option Scheme:

Grant Date	Exercisable		Name	Residential Address	Adjusted number of Ordinary Shares subject to options granted under the Share Option Scheme/ approximate percentage of issued share capital of our Company immediately following completion of the Global Offering and subdivision of Shares	Adjusted Exercise Price
	From	To				
April 23, 2009	April 23, 2011	April 23, 2014	Low Po Ling	Unit 1021, Block 1 The Park, South Taoyuan Road, Lianhu District, Xi'an, Shaanxi Province, PRC	12,500,000 0.30%	0.028 (£)

(ii) *Exercised options*

Grant Date	Exercise Date	Name	Residential Address	Adjusted number of Ordinary Shares acquired/approximate percentage of issued share capital of our Company immediately following completion of the Global Offering and subdivision of Shares	Adjusted Exercise Price
December 4, 2006	March 8, 2010	Robert Sinclair Robertson	The Village House, Bradfield, Berks, United Kingdom RG7 6BH	31,844,150 0.77%	0.021 (£)
December 4, 2006	March 8, 2010	Brett Lance Miller	5 A Gilston Road, London, United Kingdom SW10 9SJ	7,961,050 0.19%	0.021 (£)

There was no consideration paid by the relevant grantee at the time of grant of the relevant share options under the Share Option Scheme. The total number of Shares granted under the Share Option Scheme are 52,305,200 Shares, representing approximately 1.27% of the total issued share capital of our Company immediately following completion of the Global Offering and subdivision of Shares.

On July 20, 2010, we passed Shareholders' resolutions to approve the subdivision of each issued and unissued shares of £0.10 each in the share capital of the Company into 50 new ordinary shares of £0.002 each so that the authorized share capital of the Company is 10,000,000,000 shares of £0.002 each, which is conditional on and with effect from Listing. As a result of such subdivision of Shares, the exercise prices and the total number of Shares to be issued upon the exercise of the outstanding share options are adjusted as follows:

Grant Date	Exercisable		Name	Residential Address	Adjusted number of Ordinary Shares subject to options granted under the Share Option Scheme/ approximate percentage of issued share capital of our Company immediately following completion of the Global Offering and subdivision of Shares	Adjusted Exercise Price
	From	To				
April 23, 2009	April 23, 2011	April 23, 2014	Low Po Ling	Unit 1021, Block 1 The Park, South Taoyuan Road, Lianhu District, Xi'an, Shaanxi Province, PRC	12,500,000 0.30%	0.0283 (£)

There will be a dilutive effect on the shareholding of our Company and earnings per Share associated with the Share Option Scheme upon Listing. Based on the profit estimate prepared on the basis and assumptions set out in Appendix III to this prospectus and a total of 4,115,531,850 Shares in issue during the entire six months ended June 30, 2010 (not taking into account any Shares which may be issued under the Share Option Scheme and the Post-IPO Share Option Scheme), the issue of 12,500,000 new Shares under the Share Option Scheme and 11,500,000 new Shares upon the exercise of all the outstanding AS Warrants would cause the unaudited estimate basic earnings per Share attributable to our Company's equity holders to decrease from RMB0.075 to RMB0.074.

2. Post-IPO Share Option Scheme

The following is a summary of the principal terms of the Post-IPO Share Option Scheme conditionally adopted by the resolutions of our Shareholders passed on March 31, 2010.

(a) Purpose

The Post-IPO Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to recognize and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) had or may have made to our Group. The Post-IPO Share Option Scheme will provide the Eligible Participants with an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of our Group; and

- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

(b) *Who may join*

The Board may, at its discretion, offer to grant an option to the following persons (collectively the “**Eligible Participants**”) to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below to:

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries; and
- (iii) any advisors, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the Board will contribute or have contributed to our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) *Acceptance of an offer of options*

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the grantee, together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such

notice must be accompanied by a remittance for the full amount of the Exercise Price (as defined in the Post-IPO Share Option Scheme) for the Shares in respect of which the notice is given. Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to our Company or the approved independent financial advisor as the case may be pursuant to paragraph (r), our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the Grantee certificates in respect of the Shares so allotted.

The exercise of any Option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorized share capital of our Company.

(d) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering and subdivision of Shares taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of any options granted under the Share Option Scheme or the Post-IPO Share Option Scheme, being 411,553,185 Shares, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Post-IPO Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by our Shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing and subject to paragraph (r) below, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Post-IPO Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial advisor shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (r) below whether by way of consolidation, rights issue, subdivision or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

(e) *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and
- (ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. Our Board shall forward to such Eligible Participant an offer document in such form as our Board may from time to time determine (or, alternatively, documents accompanying the offer document which state), among others:
 - (aa) the Eligible Participant's name, address and occupation;
 - (bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;
 - (cc) the date upon which an offer for an option must be accepted;
 - (dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);
 - (ee) the number of Shares in respect of which the option is offered;
 - (ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;
 - (gg) the date of the notice given by the grantee in respect of the exercise of the option; and
 - (hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c).

(f) *Price of Shares*

Subject to any adjustments made as described in paragraph (r) below, the subscription price of a Share in respect of any particular option granted under the Post-IPO Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price must be at least the higher of:

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(g) *Granting options to connected persons*

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If our Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favor, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before the Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;

- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

(h) ***Restrictions on the times of grant of options***

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of our Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's annual results half-year, quarterly or other interim period (whether or not required under the Listing Rules);
- (ii) the deadline for our Company to publish an announcement of its annual results or half-year, or quarterly or other interim period (whether or not required under the Listing Rules) and ending on the date of actual publication of the results announcement, and where an option is granted to a Director;
- (iii) no options shall be granted during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (iv) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(i) ***Rights are personal to grantee***

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Post-IPO Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) ***Time of exercise of option and duration of the Share Option Scheme***

An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be

determined by our Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Post-IPO Share Option Scheme. Subject to earlier termination by our Company in general meeting or by our Board, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

(k) *Performance target*

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Post-IPO Share Option Scheme can be exercised.

(l) *Rights on ceasing employment or death*

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries:

- (i) by any reason other than death or termination of his employment on the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month from such cessation; or
- (ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation,

which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

(m) *Rights on dismissal*

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of our Group (if so determined by our Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, or has been convicted of any criminal offense involving his integrity or honesty, his option will lapse and not be exercisable after the date of termination of his employment.

(n) *Rights on takeover*

If a general offer is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) *Rights on winding-up*

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee

(or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

(p) *Rights on compromise or arrangement between our Company and its members or creditors*

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by our Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(q) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise.

(r) *Effect of alterations to capital*

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of rights issue, open offer, consolidation, sub-division or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial advisor shall certify in writing to the Board to be in their/his

opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on September 5, 2005 and any future guidance and interpretation of the Listing Rules issued by the Stock Exchange from time to time and the note thereto. The capacity of the auditors of our Company or the approval independent financial advisor, as the case may be, in this paragraph is that of experts and not arbitrations and their certificate shall, in absence of manifest error, be final and conclusive and binding on our Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(s) *Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (m), (n), (o) or (p);
- (iii) the date on which the scheme of arrangement of our Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of our Company;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offense involving his or her integrity or honesty, or in relation to an employee of our Group (if so determined by the Board), or has been insolvent, bankrupt or has made compositions with his/her creditors generally or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which our Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are canceled in accordance with paragraph (u) below.

(t) *Alteration of the Post-IPO Share Option Scheme*

The Post-IPO Share Option Scheme may be altered in any respect by resolution of our Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Post-IPO Share Option Scheme or any change to the terms of options granted,

shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Post-IPO Share Option Scheme. The amended terms of the Post-IPO Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

(u) *Cancellation of options*

Subject to paragraph (i) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event any Option is cancelled pursuant to paragraph (m).

(v) *Termination of the Post-IPO Share Option Scheme*

Our Company may by resolution in general meeting or the Board at any time terminate the Post-IPO Share Option Scheme and in such event no further option shall be offered but the provisions of the Post-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Post-IPO Share Option Scheme.

(w) *Administration of our Board*

The Post-IPO Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters arising in relation to the Post-IPO Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all holders of the options.

(x) *Condition of the Post-IPO Share Option Scheme*

The Post-IPO Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in our Shares which may fall to be issued pursuant to the exercise of options to be granted under the Post-IPO Share Option Scheme;

- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise;
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within two calendar months from the date of adoption:

- (i) the Post-IPO Share Option Scheme shall forthwith determine;
 - (ii) any option granted or agreed to be granted pursuant to the Post-IPO Share Option Scheme and any offer of such a grant shall be of no effect; and
 - (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Post-IPO Share Option Scheme or any option granted thereunder.
- (y) *Disclosure in annual and interim reports*

Our Company will disclose details of the Post-IPO Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

(z) *Present status of the Post-IPO Share Option Scheme*

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Post-IPO Share Option Scheme.

Application has been made to the Listing Committee for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Post-IPO Share Option Scheme, being 411,553,185 Shares in total.

3. Estate duty, tax and other indemnities

Our Controlling Shareholders have entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (h) of the sub-section entitled “— B. Further Information about Our Business — 1. Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received as well as any claim to which our Company may be subject on or before the Global Offering becomes unconditional (the “**Effective Date**”) which might be payable by any member of our Group on or before the Effective Date.

4. **Litigation**

As of the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

5. **Joint Sponsors**

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, our Shares to be issued as mentioned herein, including any Shares falling to be issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme and the Post-IPO Share Option Scheme. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

6. **Preliminary expenses**

Our preliminary expenses were approximately £5,000.00 and have been paid by us.

7. **Promoter**

There are no promoters of our Company. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

8. **Taxation of holders of Shares**

(a) ***Hong Kong***

The sale, purchase and transfer of Shares registered with our Company's Hong Kong register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

(b) ***Jersey***

Under present Jersey law, there is no stamp duty payable in Jersey on transfers of Shares. There is no capital gains tax or estate duty (except in relation to a grant of probate as set out elsewhere in this prospectus) in Jersey.

(c) ***Consultation with professional advisors***

Intending holders of the Shares are recommended to consult their professional advisors if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasized that none of our Company, our Directors or the other parties

involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

9. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
ICBCI	Licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, acting as one of the Joint Sponsors of the Global Offering
Deutsche Bank	Licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO, and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) acting as one of the Joint Sponsors of the Global Offering
PricewaterhouseCoopers	Certified public accountants
Jones Lang LaSalle Sallmanns Limited	An independent firm of chartered surveyors
Zong Heng Law Firm	PRC legal advisors
Carey Olsen	Jersey legal advisors
Memery Crystal LLP	Legal advisors as to English law

10. Consents of experts

Each of the Joint Sponsors, PricewaterhouseCoopers, Jones Lang LaSalle Sallmanns Limited, Zong Heng Law Firm, Carey Olsen and Memery Crystal LLP has previously given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

11. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

12. Miscellaneous

- (a) Save as disclosed herein, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
 - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries;
- (b) save as disclosed in this prospectus, there are no founder, management or deferred shares nor any debentures in our Company or any of its subsidiaries;
- (c) none of the persons named in the sub-section entitled “— D. Other Information — 10. Consents of experts” in this Appendix is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;
- (d) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since April 30, 2010 (being the date to which the latest audited consolidated financial information of our Group were made up);
- (e) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (f) the principal register of members of our Company will be maintained in Jersey by Computershare Investor Services (Channel Islands) Limited and a branch register of members of our Company will be maintained in Hong Kong by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar. All necessary arrangements have been made to enable our Shares to be admitted to CCASS;

- (g) apart from our Shares which were admitted to trading on AIM as at the date of this prospectus, no company within our Group is presently listed on any stock exchange or traded on any trading system; and
- (h) our Directors have been advised that, under the Jersey Companies Law, the use of a Chinese name by our Company does not contravene the Jersey Companies Law.

13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in “D. Other Information — 10. Consents of experts” in Appendix VI to this prospectus, and copies of the material contracts referred to in “B. Further Information about Our Business — 1. Summary of material contracts” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Sidley Austin at Level 39, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles of Association;
- (b) the Accountant’s Report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus and the statement of adjustments in relation to the Accountant’s Report as set out in Appendix I to this prospectus;
- (c) the report from PricewaterhouseCoopers in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the letters from PricewaterhouseCoopers and the Joint Sponsors relating to the profit estimate, the texts of which are set out in Appendix III to this prospectus;
- (e) the audited consolidated financial statements of the companies comprising our Group for each of the three years ended December 31, 2009 and the four months ended April 30, 2010 (or for the period since their respective dates of incorporation where it is shorter);
- (f) the letter, summary of values and valuation certificates relating to our property interests prepared by Jones Lang LaSalle Sallmanns Limited, the texts of which are set out in Appendix IV to this prospectus;
- (g) the PRC legal opinions issued by Zong Heng Law Firm, our PRC legal advisors in respect of our Group’s business operations and property interests in the PRC;
- (h) the letter of advice prepared by Carey Olsen, our Jersey legal advisors, summarizing certain aspects of the Jersey Companies Law as referred to in Appendix V to this prospectus;
- (i) the material contracts referred to in “— B. Further Information about Our Business — 1. Summary of material contracts” in Appendix VI to this prospectus;
- (j) the written consents referred to in “— D. Other information — 10. Consents of experts” in Appendix VI to this prospectus;
- (k) the rules of the Share Option Scheme;

- (l) the rules of the Post-IPO Share Option Scheme;
- (m) the service contracts referred to in “ C. Further Information about Directors and Substantial Shareholders — 1. Directors — (b) Particulars of service contracts” in Appendix VI to this prospectus; and
- (n) the Jersey Companies law.



中國西部水泥有限公司
WEST CHINA CEMENT LIMITED