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## REGULATORY ENVIRONMENT

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This section summarises 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, labour 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

#### Consolidation of Cement Industry

Pursuant to the “Twelfth Five-Year Development Plan of Cement Industry” (水泥工業“十二五”發展規劃) (the “Plan”) promulgated by the Ministry of Industry and Information Technology on 8 November 2011, it is expected that by 2015, the number of cement producers will be reduced by one third as compared to 2010; and the aggregate cement production volume of the top 10 cement producers, in terms of production capacity, should account for at least 35% of the total cement production capacity of the PRC. The PRC government has started to take measures to plan for the healthy development of the cement industry and to endorse cement producers with leading market positions to merge with and acquire other small-scale cement producers in order to optimise the industrial environment. The State encourages and supports the merger and reorganisation in different locations, different industries and for different forms of companies, as well as the consolidation of small-scale and medium-scale enterprises and cement grinding mills in order to enhance concentration. The State will control the increase of production capacity in the provinces where the capacity of new dry process production exceeds 900 kilograms per person. For the provinces where the capacity of new dry process production is 900 kilograms or below per person, it is required to enhance technology, eliminate obsolete production capacity and speed up merger and reorganisations. The production capacity in the area of Shanghai shall not be increased in principle. In view that the production scale is large in Shandong Province, the State will control the increase of production capacity and will emphasise the technological improvement of cement producers.

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 which became effective on 17 October 2006, the State encourages the consolidation of the cement industry through mergers and reorganisations.

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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 which became effective on October 17, 2006, the number of cement producers shall be reduced from 5,000 to 2,000 by 2020. The number of cement producers with annual production capacity of 30 million tons or above shall be 10 and that of 5 million tons or above shall be 40.

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

### 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 2011” (產業結構調整指導目錄(2011年本)) promulgated by the NDRC on 27 March 2011, disposal of industrial waste, urban mud and non-industrial waste using the existing new dry process cement furnace with a daily production capacity of 2,000 tons or more and energy-saving modifications to grinding system belong to the “encouraged” category of business. Newly-built new dry process clinker production lines with a daily production capacity of 2,000 tons or below and newly constructed cement grinding systems with annual production capacity of 0.6 million tons or below belong to the “restricted” category of business. Vertical kiln cement production lines of 3 metres in diameter or less (2012), dry hollow kilns, Lepol kilns, wet process kilns and cement grinding equipment of 3 metres in diameter or less 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 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 pollutant discharge permits 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 which became effective on 17 October 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 State supports projects for the construction of cement production plants with a daily clinker production capacity of 4,000 tons or above 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 rationalise the production capacities of enterprises with annual production capacity of less than 200,000 tons or are not in compliance with

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environmental protection requirements or which cement quality is not up to the standards in accordance with the law. By the end of 2008, cement producers shall cease using production technology and equipment with less-advanced technologies, including dry hollow kilns and wet kilns; further reduce the production capacity of vertical kilns, and where possible, eliminate all vertical kilns.

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 which became effective on 17 October 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. 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. As the new dry process cement production in western region does not develop well, 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 the western region. According to this plan, goals of the development of cement industry are that the proportion of new dry process cement shall be above 70% and the technical equipment, energy consumption, environmental protection and resource utilisation of new dry process cement shall reach the level of moderately developed countries by 2010. Cement industry shall achieve basic modernisation and have stronger international competitive capacity by 2020; new dry process cement and clinker production volume shall be controlled at about 700 million tons; the number of enterprises shall decrease from currently 5,000 to 2,000; the number of enterprises with a production capacity of 30 million tons shall be 10 and the number of those with production capacity of 5 million shall be 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 31 October 2007, cement production project is listed in the “permissible” 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, the People’s Bank of China, 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 26 September 2009, the industrial policies on the cement industry in China are to control additions of cement capacities and to suspend and review the construction of projects that have yet to commence construction before 30 September 2009. Projects which are not in compliance with the above principles are forbidden to commence the construction. Each province, district and city shall put in place a schedule to eliminate obsolete capacities within three years. Enterprises are encouraged to generate power by using waste heat recovery systems, increasing the efficiency of grinding systems and re-utilising industrial wastes. Heat consumption of cement and clinker burning of newly constructed projects shall be lower than 105 kg of standard coal per ton of clinker and the electricity consumption for cement shall be lower than 90 KWh per ton of cement; the limestone reserve life shall be over 30 years; the density of waste gas and dust content shall be lower than 50 mg per standard cubic metre.

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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 6 February 2010, cement, iron and steel and electricity are the key industries which are subject to the elimination of obsolete capacities in the short term. Obsolete cement production capacities including mechanised shaft kiln cement production lines with a kiln diameter below 3.0 metres, dry process hollow kiln production line (excluding those for producing high alumina cement) with a kiln diameter below 2.5 meters and wet process kiln cement production lines (excluding those mainly used for disposing sludge, carbide slag) with a kiln diameter below 2.5 metres, cement mills with a diameter below 3.0 meters (excluding those for producing special cement), cement earth kilns (egg-shape) and ordinary shaft kilns, shall be eliminated before 2012. All cement production lines currently operated by us are new dry process kilns.

According to the “Entrance Conditions for Cement Industry” (水泥行業准入政策) promulgated by the Ministry of Industry and Information Technology on 16 November 2010 and which became effective on 1 January 2011, the construction of new cement (clinker) production line should use NSP technology with daily clinker production capacity of 4,000 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 3000 tons is not allowed (exclusive of special cement and the cement made of carbide slag). Newly constructed cement (clinker) production line is required to have low temperature waste heat power generation. Limestone reserve should have life of over 30 years and in compliance with the laws of exploration, design and prospection of mines. The scale of newly constructed cement grinding system is required to achieve 600,000 tons or above and the scale of those in outlying areas should not be less than 300,000 tons. The construction of cement grinding system shall be located close to its target market, provided with the sufficient and stable supply source of clinker and equipped with over 70% bulk capacity. The construction of cement (clinker) production line shall be assigned to contractors who possess related qualification in the fields of project inspection, design, construction and supervision.

### **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) (the “Production License Regulations”)", promulgated by the State Council on 9 July 2005 and which became effective on 1 September 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 21 April 2010 and which became effective on 1 June 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 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.

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Pursuant to the Production License Regulations and “Catalogue of Implementation of Production License Managements” (實行生產許可證制度管理的產品目錄), 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 centralised administration of the production licenses of industrial products across the PRC. Authorities at the county level and above which are 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.

### Waste Heat Recovery System

Pursuant 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), enterprises are encouraged to generate power by using waste heat recovery technology.

Pursuant to the Entrance Conditions, newly constructed cement production lines shall be equipped with a set of devices for pure low temperature waste heat power generation.

Pursuant to the “Guiding Catalogue of Industrial Structure Adjustment 2011” (產業結構調整指導目錄(2011年本)), the production of clinker with a daily production capacity of 2,000 tons or above using the new dry process and with waste heat recovery system belongs to the “encouraged” category.

### CONSTRUCTION OF DOCK

New construction projects, extension projects, reconstruction projects including the construction of docks in river course shall be in compliance with the Regulation of Construction Projects Management in River Course (河道管理範圍內建設項目管理的有關規定) which was approved by the State Council and promulgated by the NDRC (formerly the Planning Commission) on 3 April 1992. Prior to applying for the approval from the NDRC or the local NDRC units, the construction projects in river course shall be approved by the Ministry of Water Resources or local Water Resources units in accordance with the authority of management of river course. The construction projects in the river course shall fulfil the requirements of flood control and other criteria of technology, maintain the safety of embankments, and keep traffic clear. Construction projects in river course shall be subject to inspection and acceptance by the Ministry of Water Resources or the local Water Resources units upon completion.

Pursuant to the “Regulation of River Course Management” (中華人民共和國河道管理條例) approved and promulgated by the State Council on 10 June 1988, the owner of the dock shall pay maintenance and management fees in accordance with the rules stipulated by the local governments, in respect of the area of embankments, bank revetment, sluice, seawall and drainage facilities which are within the area of the dock.

### 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 19 March 1986 and amended on 29 August 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 26 March 1994 by the State Council, a licensing system is adopted by the State for the exploration and exploitation of 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.

The Ministry of Land and Resources is responsible for the supervision and administration of exploration and development of mineral resources throughout the PRC. The departments of land and resources at the provincial level are in charge of supervising and administering the exploration and exploitation of mineral resources in their relevant jurisdiction. The PRC government has adopted a unified registration system for mineral exploration areas. The Ministry of Land and Resources is responsible for the registration of mineral resources exploration. The State Council may authorise relevant departments to be responsible for the registration of the exploration of special types of mineral resources.

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 12 February 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 large-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.

Pursuant to the “Administration Measures of the Transfer of Exploration and Exploitation Rights” (探礦權採礦權轉讓管理辦法) promulgated by the State Council on 12 February 1998 and the “Interim Provisions on the Administration of the Transfer of Mineral Property Rights” (礦業權出讓轉讓管理暫行規定) promulgated by the Ministry of Land and Resources on 1 November 2000, exploration rights and exploitation rights are property rights. The entity with exploration rights has priority in obtaining exploitation rights in the area it explores and may transfer its exploitation rights upon approval by relevant authorities in the event of merger or separation, joint venture or co-operation, sale of assets or other circumstances leading to the change of ownership of real property. The entity with exploration rights, after minimum amount of investment in the exploration, may transfer its exploration rights upon approval by relevant authorities. Except for the above restrictions, the owner of mining rights may transfer its rights through sale, contribution as capital, establishment of joint exploration or exploitation arrangement, and other means as permitted by the regulations.

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### WASTE HEATING GENERATING

#### License for Electric Power Business

Pursuant to the “Provisions on the Administration of Electric Power Business Licenses” (電力業務許可證管理規定) promulgated by the State Electricity Regulatory Commission on 28 September 2005 and which became effective on 1 December 2005; except for special situation authorised by the State Electricity Regulatory Commission, any enterprise or person shall not engage in electric power business without a license.

### 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 which became effective on 26 December 1989, the State Administration for Environmental Protection is empowered to formulate national environmental quality standards. The environmental protection administration of the 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 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 the State Administration for Environmental Protection for 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 28 February 2008 and which became effective from 1 June 2008, construction projects or other water facilities which are newly constructed, reconstructed and expanded, and which discharge pollutants into water system 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 are required to obtain pollutant discharge permits. Enterprises which discharge pollutants directly or indirectly into the water system are required to report to and register with the relevant environmental protection administrative departments level. The reports are to include the types, quantities and concentrations of water pollutants discharged under normal operating conditions. These enterprises are also required to provide technical information on their measures to prevent and control water pollution. Enterprises which discharge pollutants directly into the water system are required to 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 29 April 2000 and which took effect from 1 September 2000 requires newly constructed, expanded or reconstructed projects which discharge pollutants into air to comply with certain regulations relating to environmental protection. Enterprises which discharge pollutants into air is required to report to the local environmental protection administrative department. The reports are to include the types, quantities and concentrations of the pollutants discharged under normal operating conditions. They are also required to provide technical

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information on their measures to prevent and control air pollution. The PRC government has implemented a system on levying fees for discharging pollutants into air based on the type and quantity of pollutants discharged. The standards on levying pollution discharge fees have been based on the requirements for strengthening the prevention and control of air 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 29 December 2004 and which became effective from 1 April 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) which became effective from 1 March 1997, enterprises which cause noise pollution as a result of industrial production is required to report to the local environmental protection administrative department with regard 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 are also required to provide technical information on their measures to prevent and control noise pollution. Units causing noise pollution should adopt remedial measures and pay discharge fees for exceeding the standards according to the PRC regulations.

### **Coal**

According to the “Technical Condition of Coal for Cement Rotary Kiln” (水泥回轉窯用煤技術條件) (National Standard of the PRC GB/T7563-2000 ) promulgated on 16 March 2000, the PRC government has stipulated certain requirements relating to using coal for cement rotary kiln and has also imposed restrictions on the utilisation of lower quality coal, namely, by stipulating that the heat content should be greater than 21MJ/kg.



### **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), promulgated by the National People’s Congress on 16 March 2007 and which took effect on 1 January 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 they expire.

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 26 December 2007 and which became effective on the same day; since 1 January 2008, enterprises originally enjoying fixed term preferential tax treatment such as “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) may continue to enjoy the preferential treatment in accordance with the original tax law, administrative regulations and related documents after the implementation of the new tax law until their expiry. For enterprises that have not made any profits and thus have not enjoyed such preferential treatments, their preferential term shall start from 2008. Enterprises which are entitled to transitional preferential policies are those established before 16 March 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 income is not connected with the abovementioned 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), 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. The “Notice of How to Interpret and Identify the “Beneficial Owners” in the Tax

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Arrangement” (國家稅務總局關於如何理解和認定稅收協定中「受益所有人」的通知) sets out the criteria of interpreting and identifying beneficial owners which are qualified to enjoy the preferential withholding tax rate under this arrangement.

### ***Value Added Tax***

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

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

Pursuant to the “Notice on Value Added Tax Policy Regarding Comprehensive Utilization of Resources and Other Products” (關於資源綜合利用及其他產品增值稅政策的通知) and “Supplemental Notice on Value Added Tax Policy Regarding Comprehensive Utilization of Resources and Other Products” promulgated by the Ministry of Finance and the State Administration of Taxation on 9 December 2008 and December 29, 2009 respectively, cement (including cement clinker) 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 (exclusive of waste) + quantity of blending of waste at stages of raw meal calcining and clinker grinding + quantity of other materials) x 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).

Enterprises applying for certificates of comprehensive utilization of resources have to meet the following conditions: (1) its production process, technology or products conform to the national industrial policies and relevant standards; (2) the profit and loss of the products 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; (4) environmental protection requirements are satisfied, without causing secondary pollution. Certificates of comprehensive utilization of resources are valid for two years. Shanghai SAC had previously obtained the certificates of comprehensive utilization of resources, which was valid until December 2010. 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%. So long as an enterprises is able to obtain the certificates of comprehensive utilization of resources on a continuous basis, it shall be able to enjoy the VAT rebate benefits.

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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, high-tech enterprises which are encouraged and supported by the State are entitled to a reduced income tax rate of 15%. Shanghai SAC has previously obtained the “Certificate of High and New Tech Enterprises” and was qualified to enjoy the tax benefits in accordance with the “Notice of the Ministry of Science and Technology, Ministry of Finance and State Administration of Taxation on Issuing the Administrative Measures for Determination of High and New Tech Enterprises” (科學技術部、財政部、國家稅務總局關於印發《高新技術企業認定管理辦法》的通知).

### **Labour, Social Insurance and Production Safety**

#### *Labour Law and Labour Contract Law*

Pursuant to the “Labour Law of the People’s Republic of China” (中華人民共和國勞動法) effective as of 1 January 1995, labourers 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 safe workplace and health protection, rights to receive vocational skill training, rights to enjoy social insurance and social benefits, rights to submit labour disputes for handling as well as other entitlements prescribed by law. Labourers shall fulfill their labour tasks, improve their vocational skills, follow rules on occupational safety and health, and observe labour discipline and professional ethics.

Pursuant to the “Labour 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 1 January 2008, labour contracts shall be entered into if labour relationships are to be established between the enterprises and the labourers. The enterprises shall not require the labourers to work in excess of stipulated time limit and shall provide wages which are not lower than local standards on minimum wages to the labourers. The enterprises shall establish systems for labour safety and sanitation, strictly abide by rules and standards on labour safety and sanitation, and educate labourers on safety. Labour safety and sanitation facilities shall meet the required standard. The enterprises shall provide labourers with labour safety and sanitation conditions meeting stipulations and necessary articles of labour protection.

#### *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) which became effective on 22 January 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) which became effective on 19 March 1999; employers in the PRC shall conduct registration of social insurance with the relevant competent authorities, and make contributions to basic pension insurance, basic medical insurance and unemployment insurance for their employees. Social insurance premiums shall be collected in a way that three types of social insurance premiums are collected centrally and uniformly. The 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 labour 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 on their behalf by their employers. Social insurance premiums may not be reduced or exempted.

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Pursuant to the “Regulations on Occupational Injury Insurance” (工傷保險條例) effective as of 1 January 2004 and amended on 20 December 2010, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance and maternity leave insurance. These payments are made to local administrative authorities.

Pursuant to the “Interim Measures concerning Maternity Insurance” (企業職工生育保險試行辦法) which became effective as of 1 January 1995, employers in the PRC shall pay the maternity insurance fees for their employees. The percentage of maternity insurance fees shall be determined by the local government based on factors such 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 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 over the 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 Provident Fund” (住房公積金管理條例) implemented since 3 April 1999 and amended on 24 March 2002, employers in the PRC must register with the housing provident fund management center. Employers are required to open housing provident 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 during the previous year.

### **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 1 August 2008 by the State Council and implemented since 5 August 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 income and payments under current account shall be based on authentic and lawful transactions. Foreign exchange income under 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 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.

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### OUR GROUP'S PREVIOUS NON-COMPLIANCE

#### Cement production permit of Shandong SAC

Shandong SAC was approved to operate business of manufacture and sale of cement and cement products and had obtained the National Industrial Products Production Permit (全國工業產品生產許可證) issued by State Administration of Quality Supervision, Inspection and Quarantine on 15 August 2003 (the "Permit"). The Permit was valid until 14 August 2008. Under the Permit, Shandong SAC was allowed to manufacture cement of grade 42.5 and grade 32.5.

Under Trial Regulations on Manufacturing License for Industrial Products (1984) and Cement Production Permit Replacement (Issuance) Implementation Details (水泥生產許可證換(發)證實施細則(2000年)), Shandong SAC is prohibited to manufacture cement products without the Permit. In view that the production facility of Shandong SAC has become aged and Shandong SAC will likely face difficulty in renewing the Permit which expired in August 2008, Shandong SAC's management team considered that the continuation of cements manufacturing was uneconomical and inefficient and it would be in the interest of Shandong SAC to cease operating the production line in order to maximize shareholders' return. Shandong SAC had thus proposed to cease operating the cement production line.

For the purpose of development of local economy and maintenance of stable livelihood, the local government requested Shandong SAC to continue carrying out manufacturing activities. The Directors noted that in support, the local government of Taierzhuang initiated a rental concession plan so that Shandong SAC was not required to pay the landlord, Zaozhuang City Taierzhuang District Cement Co., Ltd. (棗莊市台兒莊區水泥有限公司) which is a state-owned enterprise of Taierzhuang, full rental starting from January 2004. Since October 2008, Shandong SAC was no longer required to pay any rental for utilisation of the Shandong SAC plant. The rental is waived for the remaining lease period until the termination of the leasing agreement in May 2021.

Bureau of Quality and Technical Supervision of Taierzhuang District, Zaozhuang City (棗莊市質量技術監督局台兒莊分局) ("QTS"), issued a confirmation on 2 April 2011 confirming that it was aware that Shandong SAC has continued manufacturing activity without the Permit at the request of local government and it has continued carrying out routine sample checking as well as ordinary supervision over the Shandong SAC plant and facility since August 2008. It is confirmed that the cements manufactured during the period without the Permit was under their due supervision in respect of national standard on cement quality and that Shandong SAC had not been involved in any incidents caused by substandard cement. No penalty has been imposed by the government on Shandong SAC due to any non-compliance of production laws, rules and regulations. QTS therefore agreed and confirmed that it will not pursue any action against the fact that Shandong SAC had operated without the Permit. The PRC legal advisers have confirmed that QTS is a competent authority to supervise, carry out inspection and decide on administrative penalty where necessary against Shandong SAC in respect of cement production. Shandong SAC plant had ceased to produce cement since April 2011 and the Group confirmed that it currently has no plan to resume cement production at the Shandong SAC plant. Currently, the grinding systems at the Shandong SAC plant are being used for the production of slag. The PRC legal advisers have confirmed that the Group is not required to obtain any production permit for the production of slag.

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The PRC legal advisers have noted the confirmations that the manufacturing of cement products were agreed and encouraged by local government and during the period without the Permit, the cements products are up to the prescribed national standard. Accordingly, there is no practical risk that Shandong SAC is subject to imminent liability as to the cements quality or possible administrative penalty from relevant government authorities. The PRC legal advisers agreed that we have taken reasonable remedial measures and that the risk of Shandong SAC being penalised is low.

### **Pollutant Discharge Permit of Shandong SAC**

According to the Law on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法) and the Law on the Prevention and Control of Air Pollution (中華人民共和國大氣污染防治法), it is stipulated that a permit is required before discharging pollutant into air or water system.

Shandong SAC did not obtain such permit for its previous production activity of cement since commencement of operation and is therefore in breach of the aforesaid rules and regulations. Shandong SAC has taken remedial measure by submitting application for Pollutant Discharge Permit forthwith. Shandong SAC has ceased the production of cement since April 2011. The current operation at Shandong SAC is production of slag, where the major pollutant it discharges is dust (粉塵) which does not require Pollutant Discharge Permit under the regulatory regime currently in operation. The pollutant to be discharged into water system is also negligible, if any. Therefore Shandong SAC is not required to obtain the Pollutant Discharge Permit for its current slag production. The Group confirmed that it currently has no plan to resume cement production at the Shandong SAC plant and Shandong SAC is not crucial in generating revenue for the Group.

The management of Shandong SAC confirmed that the Environment Protection Bureau of Zaozhuang City (棗莊市環境保護局) had not issued Pollutant Discharge Permit in general for discharging pollutants into air before April 2011. For the same reason as disclosed above, Pollutant Discharge Permit for discharging pollutant into water system was not applicable to Shandong SAC.

Pollutant Discharge Permit cannot be obtained retrospectively for our previous cement production. Based on the above, the PRC legal advisers are of the view that since (i) the Environment Protection Bureau of Zaozhuang City had not issued Pollutant Discharge Permit in general and that rendered Shandong SAC not having held any Pollutant Discharge Permit in respect of cement production activity prior to April 2011; (ii) Shandong SAC has been abiding by the relevant rules and regulation in respect of environment protection; and (iii) Shandong SAC has already ceased to produce cement, it is unlikely that the relevant PRC authorities would impose retrospective penalty for Shandong SAC's previous lack of Pollutant Discharge Permit.

## REGULATORY ENVIRONMENT

### LIST OF PERMITS AND APPROVALS FOR OUR OPERATIONS

For reference, a list of permits and approvals required for our operation is summarised as follows:

Name of the plant	Permits/Approvals	Permits/Approvals Number	Issuer	Status
Shanghai SAC	1. Business licence (企業法人營業執照)	310000400071249	Shanghai Administration for Industry & Commerce (上海市工商行政管理局)	Obtained
	2. Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hongkong, Macao and Overseas Chinese in the People's Republic of China (台港澳僑投資企業批准證書)	外經貿滬合資字[1993] 2888號	Shanghai Municipal People's Government (上海市人民政府)	Obtained
	3. National Industrial Products Production Permits (全國工業產品生產許可證)	XK08-001-00176	General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (國家質量監督檢驗檢疫總局)	Obtained (Not applicable as the plant has ceased production)
	4. Certificate for a qualified laboratory for cement enterprise (水泥企業化驗室合格證書)	(05)中建協標質字(015)號	The Association of China Building Material Industry (中國建築材料工業協會)	Obtained (Not applicable as the plant has ceased production)
	5. Project establishment approval for the construction of a cement production line with a daily clinker production capacity of approximately 4,000 tons at Bailonggang (日產4000噸水泥熟料生產線(白龍港項目)立項批覆)	N/A	National Development and Reform Commission (國家發展與改革委員會)	The development plan of the new plant is currently under review
	6. Replacement site at Bailonggang (白龍港項目土地)	N/A	Shanghai Municipal Bureau of Planning and Land Resources (上海規劃和土地資源管理局)	To be applied after approval of project establishment (item 5 above)
	7. Certificate of Trademarks Registration (商標註冊證)	第904806號/第3458451號/第3028102號	The State Administration for Industry and Commerce (國家工商行政管理總局)	Obtained
	8. Patent (發明專利證書(一種採用鋼渣配料製得的水泥熟料及生產方法))	ZL0316681.4	State Intellectual Property Office of the People's Republic of China (國家知識產權局)	Obtained

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Name of the plant	Permits/Approvals	Permits/Approvals Number	Issuer	Status
	9. Patent (發明專利證書(一種採用脫水污泥配料製得的水泥熟料及水泥的生產方法))	ZL200820009584.9	State Intellectual Property Office of the People's Republic of China (國家知識產權局)	Obtained
	10. Tax Registration Certificate (稅務登記證)	國/地稅滬字 310104607260714號	Shanghai Municipal Office, State Shanghai Local Taxation Bureau (上海市國家稅務局/上海市地方稅務局)	Obtained
	11. Foreign Exchange Registration Certificate (外匯登記證外匯業務IC卡)	00150085號	State Administration of Foreign Exchange, Shanghai Branch (上海市外匯管理局)	Obtained
	12. Social Insurance Registration Certificate (社會保險登記證)	00070209號	Ministry of Labour and Social Security, Shanghai Branch (上海市勞動和社會保障局)	Obtained
	13. Pollutant Discharge Permit (排污許可證)	N/A	N/A	Not applicable as the plant has ceased production
Shandong SAC	1. Business licence (企業法人營業執照)	370400400000170	Administration for Industry & Commerce, Zaozhuang City (棗莊市工商行政管理局)	Obtained
	2. Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hongkong, Macao and Overseas Chinese in the People's Republic of China (台港澳僑投資企業批准證書)	外經貿魯府棗字[2001]0606號	Shandong Provincial People's Government (山東省人民政府)	Obtained
	3. Tax Registration Certificate (稅務登記證)	魯稅棗字 370405728631307號	State Administration of Taxation, Taierzhuang District, Zaozhuang City, Shandong Province (山東省棗莊市台兒莊區國家稅務局)	Obtained
	4. Foreign Exchange Registration Certificate (外匯登記證外匯業務IC卡)	00074292號	State Administration of Foreign Exchange, Zaozhuang City (棗莊市外匯管理局)	Obtained



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Name of the plant	Permits/Approvals	Permits/Approvals Number	Issuer	Status
	5. Social Insurance Registration Certificate (社會保險登記證)	728631130	Ministry of Labour and Social Security, Taierzhuang District, Zaozhuang City (棗莊市台兒莊區社會勞動保險事業分處)	Obtained
Allied Wangchao	1. Business licence (企業法人營業執照)	370400400000717	Administration for Industry & Commerce, Zaozhuang City (棗莊市工商行政管理局)	Obtained
	2. Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hongkong, Macao and Overseas Chinese in the People's Republic of China (台港澳僑投資企業批准證書)	商外資魯府棗字[2003]3218號	Shandong Provincial People's Government (山東省人民政府)	Obtained
	3. National Industrial Products Production Permits (全國工業產品生產許可證(通用水泥52.5))	XK08-001-05112	General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (國家質量監督檢驗檢疫總局)	Obtained
	4. Certificate for a qualified laboratory (化驗室合格證)	(06)中建協標質字(023)號	The Association of China Building Material Industry (中國建築材料工業協會)	Obtained
	5. Approval for change of production technology (企業技術改造項目核准通知書)	魯經貿改核[2009]059號	Shandong Economy and Information Technology Commission (山東省經濟和信息化委員會)	Obtained
	6. Approval for change of production technology (企業技術改造項目核准通知書)	魯經貿改核[2007]038號	Shandong Economy and Information Technology Commission (山東省經濟和信息化委員會)	Obtained

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Name of the plant	Permits/Approvals	Permits/Approvals Number	Issuer	Status
7.	Electric Power Business Licenses for waste heat recovery system (電力業務許可證(2,500噸/日水泥熟料生產線自備純低溫餘熱發電工程))	1010611-00015	State Electricity Regulatory Commission (國家電力監管委員會)	Obtained
8.	Tax Registration Certificate (稅務登記證)	魯稅棗字 370405757480405號	State Administration of Taxation, Taierzhuang District, Zaozhuang City, Shandong Province (山東省棗莊市台兒莊區國家稅務局)	Obtained
9.	Foreign Exchange Registration Certificate (外匯登記證外匯業務IC卡)	00074291號	State Administration of Foreign Exchange, Zaozhuang City (棗莊市外匯管理局)	Obtained
10.	Social Insurance Registration Certificate (社會保險登記證)	3704050209	Ministry of Labour and Social Security, Taierzhuang District, Zaozhuang City (棗莊市台兒莊區社會勞動保險事業分處)	Obtained
11.	Major Air Pollutant Discharge Permit (排放重點廢氣污染物許可證)	棗環許字 第201106101號	Environmental Protection Bureau of Zaozhuang City (棗莊市環境保護局)	Obtained
12.	Opinion on the construction of the self-own dock by Allied Wangchao (關於山東聯合王晁水泥有限公司自備碼頭工程建設項目的審查意見)	淮委建管許准[2004] 第13號	Huaihe Water Resources Commission, Ministry of Water Resources (水利部淮河水利委員會)	Obtained
13.	Confirmation on final acceptance of the dock (竣工驗收鑒定書)	N/A	A commission formed by representatives from Water Resources Administration Bureau of Nansihu, People's Government of Taierzhuang District, Water Resources Administration Bureau of Beijing-Hangzhou Canal etc. (南四湖水利管理局、台兒莊區人民政府、韓莊運河水利管理局等相關人員組成自備碼頭竣工驗收委員會)	Obtained

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Name of the plant	Permits/Approvals	Permits/ Approvals Number	Issuer	Status
14.	Project establishment approval of the dock (自備碼頭工程立項審批)	N/A	N/A	Under examination
15.	Mining licence (採礦權證)	C370000201009 7120075079	Shandong Provincial Department of Land & Resources (山東國土資源廳)	Obtained

The PRC legal advisers confirmed that except as disclosed above and in the paragraph headed “Our Group’s previous non-compliance” in this section headed “Regulatory environment”, our Group has (a) complied with relevant PRC laws and regulation in all material respects for conducting our businesses; and (b) obtained the relevant licences, approvals, permits and certificates from relevant authorities, for conducting our businesses during the Track Record Period up to the Latest Practicable Date.

To prevent recurrence of non-compliance, a Credit and Risks Management Committee has been established under the Board. Further details of the Credit and Risks Management Committee is set out in the paragraph headed “Credit and Risks Management Committee” under the section headed “Directors, senior management and employees”.