OVERVIEW

Our business

We are a quality-focused clinker and cement company with operations in Shandong Province and Shanghai in the PRC. Our manufacturing plants are located in Taierzhuang District, Zaozhuang City, Shandong Province. Prior to our Premises Vacation in December 2009, we owned and operated a plant in Shanghai. Since our Premises Vacation, our Shanghai operations are involved in trading activities only. Our products are mainly sold to customers in the provinces of Shandong, Jiangsu and Anhui as well as Shanghai under the trademark "泰立" (Titan) and are primarily used in infrastructure projects including roads, highways, bridges, railways and building constructions. Our subsidiary, Shanghai SAC, has renewed the registration of the trademark "泰立" (Titan) for 10 years up to November 2016 and also owns patents for certain of its production technologies.

During the Track Record Period, our revenue was mainly derived from manufacture and sale of cement and clinker, trading of cement and provision of technical services. The breakdown of the source of our revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Manufacture and sale of cement and clinker	552,847	490,116	296,309	118,261	217,065
Trading of cement	—	—	154,380	43,588	174,594
Provision of technical services	3,068	—	755	—	—
Total	555,915	490,116	451,444	161,849	391,659

Manufacture and sale of cement and clinker was the main contributor to our revenue during the Track Record Period. Trading of cement has become one of our sources of revenue mainly from our Shanghai operations following the Premises Vacation. The details of the Premises Vacation and our current plans and accordingly the changes in our production facilities are described in the paragraph headed "Our facilities" below and the changes in our products are described in the paragraph headed "Our products and services" below. We also occasionally provide technical services.

Our products and services

Manufacture and sale of cement and clinker

Our principal products are cement and clinker. Our cement is sold under the trademark "泰立" (Titan) 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 revising the formulas of different proportions of raw materials.

Our cement is categorised into different grades as 32.5, 42.5 and 52.5 based on its compression strengths in accordance with National Standard GB175-2007 for Common Portland Cement issued by the PRC Government. As higher grade cement can be used to produce high grade concrete, the higher the compression strengths, the higher market price the cement can command.

We store our cements in a silo upon the completion of the production process. We usually do not sell our cements in bags, instead we sell them to our customers mainly as a bulk powder stored and blown from a bulk cement truck into the customer's silo.

Our clinker is sold without any brandname or trademark and is sold in bulks.

Trading of cement

Following the complete cessation of production of cement in Shanghai due to the Premises Vacation, our operation in Shanghai is currently engaging in trading of cement only. Under the operation in Shanghai, cement is traded under the brands of other cement manufacturers instead of our own brand. Despite our own cement products are not offered to our customers, we have been able to retain many of our customers in Shanghai by conducting cement trading whereby we resell the cement we purchased from other cement producers to our existing customers.

We intend to maintain a long term and continuing relationship with our customers by resuming to sell them our own manufactured and branded cement products upon the commencement of operation of our new plant in Shanghai. We provide value added services such as logistic arrangements services on customers' request. Moreover, we are familiar with the cement trading and practice in Shanghai with our experience in sales of cement for more than 17 years and we provide a longer credit period to our customers. In view of the above, our customers in Shanghai have continued to purchase cement products from us instead of purchasing directly from other cement suppliers, despite our cessation of production of our own branded cement products in Shanghai. We may continue to engage in trading of cement after the completion of our new plant depending on availability of business opportunities.

Provision of technical services

We also occasionally provide technical services. During the Track Record Period, we had assisted Sinoma International Engineering Co. Ltd. (中國中材國際工程股份有限公司), a cement production facility design and installation company, to start up production facilities for its clients in return for service fees. Our services included assistance in running in of machinery, conducting initial trial run and troubleshooting as necessary.

Our facilities

The tables below show our production capacity and the revenue generated by our three plants during the Track Record Period.

Production capacity

		Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
Shanghai plant	cement (tons per annum)	1,000,000	1,000,000	—	—	—
	clinker *(note 1)* *(tons per day)*	2,000	2,000	—	—	—
Allied Wangchao plant	cement (tons per annum)	—	—	1,000,000	—	1,000,000
	clinker *(note 1)* *(tons per day)*	2,500	2,500	2,500	2,500	2,500
Shandong SAC plant	cement (tons per annum)	700,000	700,000	700,000	700,000	700,000 *(note 2)*
	slag (tons per annum)	—	—	—	—	160,000

Notes:

1. It is the practice of the PRC government to quantify the production capacity of clinker on a daily basis and that of cement on an annual basis.

2. The production capacity of cement of Shandong SAC plant represents its production capacity before April 2011, where afterwards, it ceased to produce cement and engaged in production of slag only.

Revenue

		Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Shanghai plant	cement	322,783	242,298	154,380	43,588	174,594
	clinker	20	—	—	—	—
Allied Wangchao plant	cement	—	—	18,092	—	157,358
	clinker	154,610	103,038	125,787	48,889	30,761
Shandong SAC plant	cement	75,260	144,780	152,430	69,372	28,946
	clinker	174	—	—	—	—
	slag	—	—	—	—	—

Our current operation

We have three operation units, namely Shanghai plant, Allied Wangchao plant and Shandong SAC plant. Shanghai plant has ceased manufacture of cement and clinker since December 2009 and is now engaging in cement and clinker trading. Allied Wangchao plant is currently manufacturing cement and clinker while Shandong SAC is currently manufacturing slag, a raw material for cement manufacturing.

(1) *Shanghai plant*

Shanghai plant was set up in December 1993. It had a cement and clinker production line with production capacity of approximately 1.0 million tons per annum and clinker production capacity of approximately 2,000 tons per day. Apart from using the clinker produced by itself for cement production, we also purchased additional clinker required from clinker suppliers. Cement produced was sold in bulks and manufacture and sale of cement was the principal and sole business of Shanghai plant. This plant had ceased operations as a result of the Premises Vacation as described below.

The production capacity, actual production volume and utilisation rate during the Track Record Period are set out as follows:

	Shanghai plant						
	Cement			**Clinker**			
	Production capacity (tons per annum/ semi-annum)	**Actual production volume (tons)**	**Utilisation rate**	**Production capacity (tons/day)**	**Actual production volume (tons)**		**Utilisation rate**
	(note 1)				**For sales**	**For own use**	*(note 2)*
For the year ended 31 December							
2008	1,000,000	916,507	91.7%	2,000	N/A	641,190	103.4%
2009	1,000,000	846,111	84.6%	2,000	N/A	597,448	96.4%
2010 *(note 3)*	—	—	—	—	—	—	—
For the six months ended 30 June							
2010 *(note 3)*	—	—	—	—	—	—	—
2011 *(note 3)*	—	—	—	—	—	—	—

Notes:

1. It is the practice of the PRC government to quantify the production capacity of clinker on a daily basis and that of cement on an annual basis. An annual production capacity of cement of approximately 1,000,000 tons is being estimated by the Group taking into account the approved daily production capacity of clinker, which is 2,000 tons per day and the number of operation days, being 310 days.

2. Our Group has estimated production capacity on the basis that downtime of 1.5 months would be required for maintenance every year. According to the Directors, as the actual downtime required was less than 1.5 months, we have been able to produce in excess of the estimated production capacity, resulting in utilisation rate higher than 100%. There is neither legal requirements governing the method in arriving at the designed production capacity nor restriction on producing in excess of the designed production capacity.

3. Clinker and cement production ceased in December 2009 due to the Premises Vacation as described in the paragraphs headed "The Premises Vacation" and "The Bailonggang Project" below.

The Premises Vacation

As part of city planning and to facilitate the organisation of World Expo 2010 in Shanghai, we had vacated from our Shanghai plant in Xuhui District (徐滙區), Shanghai for the redevelopment of the central district of Shanghai. In connection with the city planning arrangements of the government, we entered into a site relocation compensation agreement with Shanghai Xuhui Binjiang, a local government entity, for land resumption on 27 November 2009 and the cement production at our Shanghai plant ceased in December 2009.

Following the complete cessation of production, our Shanghai operations currently engage in trading of cement only. Despite the cessation of production in Shanghai, we have been able to retain many of our customers in Shanghai by conducting cement trading activities whereby we resell the cement we purchased from other cement producers to our existing customers.

For the above Premises Vacation, we are entitled to a total compensation of RMB799.9 million from Shanghai Xuhui Binjiang, of which RMB749.9 million had been received by 30 June 2011. The total compensation amount of RMB799.9 million was determined after taking into account the loss on disposal of fixed assets including mainly the land and factory premises and production facilities, loss on inventory, staff layoff compensation and other operating and administrative expenses directly attributable to the Premises Vacation. Loss in profit for the Group and loss of the VAT refund status of the Shanghai plant in relation to the Premises Vacation are not part of the consideration of the compensation. Meanwhile, a replacement site at Bailonggang (白龍港), Pudong, Shanghai is being negotiated with the Shanghai Municipal Government for us to construct a new plant at the periphery of Shanghai Sewage Treatment Plant (上海污水處理廠).

Change in our Shanghai operations after the Premises Vacation

For better understanding of potential investors, details of the various impacts to the Group in connection with the Premises Vacation are described as follows:

Cement trading has become one of our sources of revenue

Our Shanghai operation is currently engaged in trading of cement only, which commenced in early 2010. The gross profit and gross profit margin for each of the Group's products for the manufacturing and trading business during the Track Record Period are set out as follows:

	Year ended 31 December			Six months ended 30 June		Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011	2008	2009	2010	2010	2011
	Gross profit					Gross profit margin				
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	(%)				
Manufacturing										
Manufacture and sale of clinker	20,422	9,121	22,894	2,116	9,525	13.2	8.9	18.2	4.3	31.0
Manufacture and sale of cement	23,304	21,937	22,734	1,085	46,478	5.9	5.7	13.3	1.6	25.0
Trading										
Trading of cement	N/A	N/A	5,885	1,116	5,962	N/A	N/A	3.8	2.6	3.4

We trade cement under the brands of the respective cement producers. Generally, the quality requirements of the cement are stated in the sales and purchase agreements. The product liability risk in relation to the quality of the cement products is borne by the cement sellers in the event of any product quality claims from purchasers. To ensure the quality of cement manufactured by third party, each of these manufacturers is required to produce quality assurance reports for their cement to be supplied to the Group. Further, we also conduct sample checks on the cement which we purchase from these manufacturers. Under our sales contract, the customer is required to acknowledge the quality of the products sold when taking delivery of the cements.

The Company can pursue action against the cement producers when there are claims from customers in connection with the quality of the traded cement products. We have been able to retain many of our customers in Shanghai by conducting cement trading activities and we may continue to engage in trading of cement in addition to manufacture and sale of our own cement after the completion of our new plant, depending on availability of business opportunities.

Financial and operational impacts to the Group

Our Shanghai operation was involved primarily in manufacture and sale of cement and clinker, with cement being its major product, prior to the Premises Vacation, and is currently involved primarily in cement trading after the Premises Vacation. For illustrative purpose only, the following sets out the revenue and profit attributable to our Shanghai operation during the Track Record Period.

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	HK$'000	as a % of the Group	HK$'000	as a % of the Group	HK$'000	as a % of the Group *(Note 2)*	HK$'000	as a % of the Group *(Note 2)*	HK$'000	as a % of the Group *(Note 2)*
Revenue	322,803	58.1	242,298	49.4	154,380	34.2	43,588	26.9	174,594	44.6
Gross profit	14,301	30.6	2,829	9.1	5,885	11.4	1,116	25.9	5,962	9.6
Profit before tax	17,012	29.5	3,817	40.2	19,093 *(Note 1)*	33.7	6,482 *(Note 1)*	N/A *(Note 3)*	12,213 *(Note 1)*	19.0
Goodwill written off	—	—	—	—	69,479	—	69,479	—	—	—
Gross profit margin	4.4%		1.2%		3.8%		2.6%		3.4%	

Notes:

1. The profit before tax for the year ended 31 December 2010, for the six months ended 30 June 2010 and 2011 did not include the gain on land resumption exercise of HK$528.4 million, HK$528.4 million (unaudited) and HK$5.8 million, respectively attributable to the Premises Vacation.

2. The calculation of profit before tax as a percentage of the Group for the year ended 31 December 2010, for the six months ended 30 June 2010 and 2011 did not include the respective gain on land resumption exercise and goodwill written off attributable to the Premises Vacation.

3. The profit before tax as a percentage of the Group from Shanghai operations amounted to over 100% for the six months ended 30 June 2010 as the Group (excluding its Shanghai operations) incurred a loss.

Gross profit margin of our Shanghai operation decreased from 4.4% for the year ended 31 December 2008 to 1.2% for the year ended 31 December 2009, whereas the Group's overall gross profit margin from manufacture and sale of cement remained stable at 5.9% and 5.7% respectively for the corresponding years. Details of analysis of the Group's gross profit margin are set out in the paragraph headed "Gross profit" under the section headed "Financial information". During the year ended 31 December 2009, there was a significant decrease in our average selling price of cement in Shanghai from RMB289.4 per ton in previous year to RMB246.4 per ton, representing a decrease of approximately 14.9%. Whilst there was a reduction in our overall cost of sales as described in the aforesaid paragraph "Gross profit", the increase in cost of electricity in 2009 which particularly affected the Shanghai operation due to its higher electricity consumption resulted in a relatively smaller reduction in the cost of sales of the Shanghai operation compared with the Group's overall reduction in cost of sales. Accordingly, gross profit margin of the Shanghai operation fell by a larger extent compared with that of the Group.

We act as a distributor of cement after the cessation of production of cement and clinker in early 2010. We purchase cement from cement producers and resell to our customers in Shanghai, providing us with a trading profit margin. In contrast to the sale of self-manufactured clinker and cement, the gross margin for trading of cement is typically lower. The particularly lower gross profit margin of 1.2% of Shanghai operation for the year ended 31 December 2009 from the manufacture and sale of cement and clinker, compared with a gross profit margin of 3.8% achieved from trading of cement during the year ended 31 December 2010 was mainly due to the significant drop in our average selling price of cement in 2009 which was in line with the market trend and the increase in cost of electricity as described above. Compared with gross profit margin of 4.4% from manufacture and sale of cement for the year ended 31 December 2008, gross profit margin from trading of cement for the year ended 31 December 2010 was lower.

Since the commencement of our cement trading business, we have been maintaining business relationships with our major customers in the Shanghai area.

As we no longer carry out any clinker or cement manufacturing in Shanghai after the Premises Vacation, we have relocated some of the production equipment previously used in our Shanghai plant to the Allied Wangchao plant, which commenced trial production since October 2010.

As a result of the Premises Vacation, our Group has recognised a one-off gain on land resumption exercise of approximately HK$528.4 million. This gain was partly offset by the goodwill written off of HK$69.5 million and tax attributable to the gain on land resumption exercise of HK$132.1 million. The Directors confirm that all relevant liabilities consequential to the Premises Vacation, including compensation to employees made redundant and settlement of payables, have been properly discharged.

Compared with the six months ended 30 June 2010, gross profit margin increased to 3.4% for the six months ended 30 June 2011, as our trading business, which commenced in early 2010, gradually improved.

In addition, the Group recognised approximately HK$69.5 million of goodwill written off as a result of the Premises Vacation for the year ended 31 December 2010. Goodwill represented the excess of the cost of business combination over the fair value of the identifiable assets and liabilities of Shanghai SAC attributable to the interest acquired. The assets classified as held for sale including (i) property, plant and equipment (approximately HK$237.9 million), (ii) prepaid lease payments on land use rights (approximately HK$8.9 million) and (iii) other assets (approximately HK$13.2 million) were set off against the total compensation of RMB799.9 million received and to be received in relation to the Premises Vacation, details of which are set out in note 27 of Appendix I to this prospectus.

For further details of the financial impact of the Premises Vacation and for details of analysis of net profit margin during the Track Record Period, please refer to the paragraph headed "Net profit margin" under the section headed "Financial information".

The Bailonggang Project

This is an environmental strategy of the Shanghai government to bring together cement plants to treat and recycle the mud disposed of by the neighbouring Shanghai Sewage Treatment Plant and other wastes. The replacement site at Bailonggang is proposed by the local government after various discussions with us and other relevant government entities. As we vacated from our original plant for the purpose of city planning arrangements of the local government, notwithstanding the legal requirement on bidding for acquisition of land use rights, it is possible that the replacement site can be granted by the local government to us without going through such process which will expedite the development of our new plant. As at the Latest Practicable Date, we have yet to obtain the legal title to the replacement site, nor have we entered into any agreement or letter of intent with the relevant government authority in relation to the replacement site. The replacement site at Bailonggang consists of a large site which will house several plants. Besides our proposed plant, there will also be plants owned by about three other cement companies. Discussions with these other companies on details such as co-ordination of construction plans and possible sharing of certain activities are also ongoing.

The location of the replacement site has been agreed in principle among different government entities and us but is subject to the formal approval by the competent authorities, while the surveying works on the replacement site have been completed. The Bailonggang Project is currently being reviewed by the Shanghai Municipal Government and preparation works including the determination of the coastal lines and the environment assessment reports of the replacement site, are currently being processed by the various government entities. The new plant is expected to be equipped with two production lines with sludge treatment system (污泥處理系統), with a total daily clinker production capacity of approximately 4,000 tons and an annual cement production capacity of not more than 1.35 million tons, the capacity of which is larger than our previous daily clinker production capacity of approximately 2,000 tons and an annual cement production capacity of 1.0 million tons prior to the Premises Vacation.

Details of the construction plans

We expect that we can obtain the legal title to the land by late 2012.

Set out below is the plan regarding the Bailonggang Project in respect of obtaining relevant government approvals for our development plan as well as legal title to the land. As shown below, we have completed most of the steps in "preparation stage" and the only remaining item (item 7) is now being processed by Shanghai Municipal Bureau of Planning and Land Resources (上海市規劃和國土資源管理局).

We understand through our negotiations and dealings with government officials that additional time is required to process and coordinate with various departments given the scale of Bailonggang Project. Accordingly, we expect the preparation stage can be completed by mid 2012 and our Bailonggang Project application can then be submitted for formal vetting. Thereafter, it is expected that approximately 2 months are required for obtaining formal approval of our application. Once approved, we shall be able to obtain relevant land use right for our new plant. Accordingly, we expect that we can obtain the legal title to the land by late 2012.

Stage		Major processes		Major parties involved	Current Status
Preparation stage	1	Obtaining initial consent in principle (批文) for Bailonggang Project (上海建材資源綜合利用示範基地) from each of the relevant government authorities in Shanghai	i.	The Economic & Information Bureau of Shanghai (上海市經濟和資訊化委員會)	Obtained
			ii.	Shanghai Municipal Bureau of Planning and Land Resources (上海市規劃和國土資源管理局)	Obtained
			iii.	the National Development and Reform Commission of Shanghai Municipal (上海市發展改革委員會)	Obtained
			iv.	Shanghai Municipal Environmental Protection Bureau (上海市環境保護局)	Obtained
			v.	Shanghai Municipal People's Government Industrial Restructuring Office (上海市產業結構協調推進聯席會議辦公室)	Obtained
	2	Public announcement for the relocation site and dock of Bailonggang Project http://www.shgtj.gov.cn/hdpt/gzcy/sj/201010/t20101027_420693.htm		Shanghai Municipal Bureau of Planning and Land Resources (上海市規劃和國土資源管理局)	Announced 27 October 2010
	3	Public announcement for the Report on Environmental Impact of Bailonggang Project Construction (《上海建材資源綜合利用示範基地環境影響報告書》) http://www.envir.gov.cn/info/2010/201012313374.htm		Shanghai Academy of Environmental Sciences (上海市環境科學研究院)	Announced on 27 December 2010
	4	Preparation of Feasibility Study on Bailonggang Project (《上海建材資源綜合利用示範基地可行性研究報告》)		Tianjin Cement Design & Research Institute Co. Ltd. (天津水泥工業設計研究院有限公司)	Completed

Stage		Major processes	Major parties involved	Current Status
	5	Surveying of dock site and preparation of Research Report on Planning of Dock for Bailonggang Project (《上海建材資源綜合利用示範基地碼頭規模專題研究報告》)	CCCC Second Harbor Consultants Co., Ltd. (中交第二航務工程勘察院有限公司)	Completed
	6	Preparation of Research Report on the Scale of Dock for Bailonggang Project (《上海建材資源綜合利用示範基地項目用地和碼頭規模專題研究評估報告》)	Shanghai Pudong Xinqu Investment Consultation Company (上海浦東新區投資諮詢公司)	Completed
	7	Obtaining Opinion on Land Use Planning for Bailonggang Project (《上海建材資源綜合利用示範基地規劃選址意見書》)	Shanghai Municipal Bureau of Planning and Land Resources (上海市規劃和國土資源管理局)	Outstanding
Vetting stage	8	Obtaining approval for Bailonggang Project from relevant authorities at national level	i. National Development and Reform Commission (國家發展和改革委員會)	Outstanding
			ii. Ministry of Land Resources (國土資源部)	Outstanding
			iii. Ministry of Environmental Protection (國家環境保護總局)	Outstanding
			iv. Ministry of Commerce (商務部)	Outstanding
			v. Ministry of Industry and Information Technology (工業和信息化部)	Outstanding
			vi. China Cement Association (中國水泥協會)	Outstanding
Implementation stage	9	Obtaining the title of land use right for Bailonggang Project either by allocation of land (土地劃撥) or in pursuance of a sales and purchase contract	Shanghai Municipal Bureau of Planning and Land Resources (上海市規劃和國土資源管理局)	To be carried out after approval of the Bailonggang Project
	10	Open tender for contract of design, construction & supervision etc.	Companies with relevant qualification	To be carried out after approval of the Bailonggang Project

Stage		Major processes	Major parties involved	Current Status
	11	Final acceptance (竣工驗收) of the Bailonggang Project construction	Final acceptance by relevant authorities in respect of planning, fire control, environmental protection, construction quality etc.	To be carried out after completion of the construction of Bailonggang Project

Pending the completion of various assessments and the final approval from various government authorities, we expect the development plan of our new production facilities will commence by late 2012 at Bailonggang. The development of our new cement production facilities involved the construction of raw materials storage and processing facilities, the raw mixture crushing facilities, the raw mill, the rotary kiln system, the cement mills and the storage facilities of clinker and cement. The estimated total cost budgeted for the new cement production facilities is approximately RMB800.0 million (including estimated land cost of about RMB200.0 million) and will be funded by our internal resources (mainly from the land resumption compensation attributable to the Premises Vacation) and bank borrowings.

According to our development plan in line with the operation of Shanghai Sewage Treatment Plant, the construction works will take approximately 18 months to complete. We expect the initial production line inspection and testing will be carried out in 2014 and the Group will arrange for the application of the final acceptance of the production facilities from all relevant government entities thereafter.

Our PRC legal advisers have advised that they are not aware of any legal impediments as at the Latest Practicable Date in obtaining the relevant approvals taking into account the measures implemented by the PRC government to curb the over-expansion of the cement industry in China as described in the paragraph headed "Key industry trends in the PRC" under the section headed "Industry overview". Furthermore, our Directors are of the view that our development plan in Shanghai will be able to meet the criteria and requirements stipulated under the Criteria for Entry to Cement Industry issued by the Ministry of Industry and Information Technology in January 2011.

Our alternative business plans

We recorded a gain of approximately HK$528.4 million in relation to the Premises Vacation recognised for the year ended 31 December 2010 as land resumption compensation. In the event that the approval for Bailonggang Project is not granted, we may consider acquisition opportunities in the current business or we may apply for the construction of the plant on another suitable site using our internal resources and bank borrowings. Our Directors are of the view that we will have sufficient resources to carry out our alternative business plans in the event that the relevant approvals cannot be obtained.

We expect the new plant will cost approximately RMB800.0 million (including estimated land cost of about RMB200 million) and we anticipate the construction would commence by late 2012 if the negotiation is successful and there is no other unforeseen difficulties. The PRC legal advisers have advised that they are not aware of any legal impediments as at the Latest Practicable Date in obtaining the relevant approvals. If approved, the Bailonggang Project is intended to be financed by internal resources and bank borrowings.

The Directors are aware that the Bailonggang Project may not materialise. In particular, bidding may be required for the replacement site and if bidding is required, there is no guarantee that the Group will be successful in the bidding process. In the event that the Bailonggang Project does not materialise, we may consider other acquisition opportunities in the current business. However, we had not identified any such opportunities as at the Latest Practicable Date.

(2) *Allied Wangchao plant*

Allied Wangchao plant, set up in December 2003, is equipped with a raw mixture grinding system and a rotary kiln which enabled the plant to produce clinker at capacity of approximately 2,500 tons per day. In September 2006, Allied Wangchao was permitted to produce clinker. In June 2011, Allied Wangchao plant further obtained the production permit for cement production and its capacity is approximately 1.0 million tons per annum.

Our principal products, cement and clinker, are produced under the cement and clinker production line of Allied Wangchao plant located in Taierzhuang District, Zaozhuang City, Shandong Province. Before the production permit being formally granted to us in June 2011, we were allowed to commence trial production of cement, and the utilisation rate of cement production for the six months ended 30 June 2011 was 93.5%. Trial production period ceased when Allied Wangchao obtained production permit in June 2011 whereby Allied Wangchao plant is qualified and endorsed to manufacture both cement and clinker of grade 32.5, 42.5 and 52.5. The PRC legal advisers confirmed that manufacture and sale of cement products under trial production is legal and permissible under the relevant PRC rules and regulations.

Prior to the shifting of cement grinding system from Shanghai plant to Allied Wangchao plant necessitated by the Premises Vacation as described above, Allied Wangchao plant consisted of a raw mixture grinding system for preparing raw mixture and a rotary kiln for the calcination process of crushed raw mixture for manufacturing of clinker.

Upon the Premises Vacation, the cement grinding system originally installed in Shanghai plant were shifted to Allied Wangchao plant. With the installation of the cement grinding system, Allied Wangchao has been equipped in manufacturing of both cement and clinker. There is also an additional grind serving as backup in event of maintenance or unexpected breakdown of the grind in-use.

During the Track Record Period, our Group's own production of clinker was sufficient as raw materials for our production of cement.

As we rely on the production line at Allied Wangchao plant for the production of our principal products before Bailonggang Project materialises, Allied Wangchao plant is crucial in generating revenue for the Group.

We have also installed a waste heat recovery system with installed capacity of 4.5 MW which collects waste heat from our production process. It can generate power for our production which enable saving of electricity cost in long run. We commenced electricity generation in September 2010 under trial generation and obtained Electric Power Business Licenses for waste heat recovery system in June 2011, while the final acceptance (竣工驗收) is under application.

The production capacity, actual production volume and utilisation rate during the Track Record Period are set out as follows:

	Allied Wangchao plant						
	Cement			**Clinker**			
	Production capacity (tons per annum/ semi-annum)	**Actual production volume (tons)**	**Utilisation rate**	**Production capacity (tons/day)**	**Actual production volume (tons)**		**Utilisation rate**
	(note 1)				**For sales**	**For own use** *(note 2)*	*(note 3)*
For the year ended 31 December							
2008	—	—	—	2,500	660,792	249,123	117.4%
2009	—	—	—	2,500	505,985	434,542	121.4%
2010	1,000,000	79,774	*(note 4)*	2,500	554,193	447,445	129.2%
For the six months ended 30 June							
2010	—	—	—	2,500	236,504	204,958	113.9%
2011	500,000	467,609	93.5%	2,500	85,928	358,845	114.8%

Notes:

1. It is the practice of the PRC government to quantify the production capacity of clinker on a daily basis and that of cement on an annual basis. An annual production capacity of cement of approximately 1,000,000 tons (approximately 500,000 for six months) is being estimated by the Group taking into account the approved daily production capacity of clinker, which is 2,500 tons per day and the number of operation days, being 310 days.

2. Allied Wangchao commenced its clinker production since March 2005. The clinker produced was both for own use and for sale to third parties. For reference, the percentage of clinker produced for own use and for sales as a percentage of the clinker revenue during the years/periods from 2005 (March to December) to 2011 (January to June) are set out as follows:

Year/Period	**Percentage of clinker for own use**	**Percentage of clinker for sales**
2005 (March to December)	31.3%	68.7%
2006	30.3%	69.7%
2007	15.9%	84.1%
2008	27.9%	72.1%
2009	46.0%	54.0%
2010	44.3%	55.7%
2011 (January to June)	34.5%	65.5%

3. Our Group has estimated production capacity on the basis that downtime of 1.5 months would be required for maintenance every year. According to the Directors, as the actual downtime required was less than 1.5 months, we have been able to produce in excess of the estimated production capacity, resulting in utilisation rate higher than 100%. There is neither legal requirements governing the method in arriving at the designed production capacity nor restriction on producing in excess of the designed production capacity.

4. The production of cement by Allied Wangchao is under trial production prior June 2011. Please refer to the utilisation rate of the cement production facilities for the six months ended 30 June 2011. Trial production ceased when Allied Wangchao obtained production permit on 20 June 2011.

We also operate a self-built dock on a piece of rented land next to our production facilities in Taierzhuang District, which allows us to deliver our finished products to our customers along the Grand Canal which passes through our target markets in Shandong Province, Jiangsu Province and Shanghai.

The primary raw materials used in our cement production are limestone, gypsum, fly ash, and slag. Most of the limestone that we use for cement production is sourced from the quarry at Langshan (狼山), Taierzhuang District in Zaozhuang City, which we have obtained the mining rights. For other raw materials, we have contracted with at least two suppliers of each type of these other raw materials and as abovementioned, we commenced to produce slag for our own use starting April 2011. Coal and electricity are the main utilities for our cement production. We purchase our supply of coal from not less than three suppliers, with whom we have supply contracts for terms of one month to one year, while we obtain our electricity supply from the Electricity Supply Bureau of Taierzhuang District (台兒莊供電局) governed by State Grid Corporation of China (國家電網公司), which is the sole supplier of electricity.

(3) *Shandong SAC plant*

Shandong SAC plant was set up in June 2001 and was permitted to produce cement in August 2003. This rented plant had a cement and clinker production line with cement production capacity of approximately 300,000 tons per annum and clinker production capacity of 1,000 ton per day. The production line is leased for a term of 20 years from May 2001 to May 2021. Shandong SAC was not required to pay full rental and since October 2008, it was no longer required to pay any rental for utilisation of production plant and facility. Manufacture and sale of cement was the principal business of Shandong SAC and the cement produced was sold in bulks and in bags.

Since January 2008, we stopped the operation of the kiln and therefore the production of clinker ceased in Shandong SAC plant. The cessation was due to low energy efficiency of the kiln in this rented plant. Following the cessation of clinker production, Shandong SAC plant used clinker produced by Allied Wangchao plant to produce cement until April 2011 and generated revenue for the Group through manufacture and sale of cement. Since April 2011, Shandong SAC commenced production of slag.

The change from producing cement to slag in April 2011 had not rendered any production facilities of Shandong SAC plant obsolete. Therefore, no provisions or write-offs to our property, plant and equipment has been necessary. For slag production, the Group has added a dryer to its existing production facilities at cost of approximately RMB1.27 million, which is installed next to the slag production line, for drying the hydrated raw materials before they are ready to be ground as slag. Apart from the addition of a dryer, the production line of Shandong SAC plant did not undergo material changes when being converted from the production of cement to the production of slag. The Group confirmed that it currently has no plan to produce cement at the Shandong SAC plant and therefore the plant is not crucial in generating revenue for the Group. The PRC legal advisers have confirmed that the Group is not required to obtain any production permit for the production of slag.

The estimated annual production capacity of slag by the Group is approximately 160,000 tons. The Group currently requires approximately 200,000 tons of slag per annum for our cement production. Approximately 80% of which is expected to be produced by Shandong SAC, while the remaining portion is to be purchased from third party suppliers. We believe by producing our own slag, which is a raw material for cement production, we can ensure stability of its supply as well as maintain consistent quality for our cement products. Moreover, the cost savings from producing our own slag instead of purchasing from the market has been beneficial to us. During the period from May to November 2011, such cost savings had ranged from 1.9% to 19.1% compared to market prices and amounted to savings of approximately RMB1.72 million.

The production capacity, actual production volume and utilisation rate during the Track Record Period are set out as follows:

	Shandong SAC plant									
	Cement			Clinker *(note 2)*				Slag		
	Production capacity (tons per annum/ semi-annum) *(note 1)*	Actual production volume (tons)	Utilisation rate	Production capacity (tons/day)	Actual production volume (tons) For sales	Actual production volume (tons) For own use	Utilisation rate	Production capacity (tons/ semi-annum)	Actual production volume (tons)	Utilisation rate
For the year ended 31 December										
2008	700,000	324,109	46.3%	1,000	—	—	N/A	N/A	N/A	N/A
2009	700,000	643,592	91.9%	1,000	—	—	N/A	N/A	N/A	N/A
2010	700,000	642,924	91.8%	1,000	—	—	N/A	N/A	N/A	N/A
For the six months ended 30 June										
2010	350,000	328,668	93.9%	1,000	—	—	N/A	N/A	N/A	N/A
2011	350,000 *(note 4)*	80,230	22.9% *(note 4)*	1,000	—	—	N/A	80,000 *(note 3)*	49,846	62.3%

Notes:

1. It is the practice of the PRC government to quantify the production capacity of clinker on a daily basis and that of cement on an annual basis. Both raw mixture and cement powder grinding systems of Shandong SAC plant were used to produce cement using the clinker produced by Allied Wangchao since January 2008 and an annual production capacity of cement of approximately 700,000 tons (approximately 350,000 tons for six months) is being estimated by the Group taking into account the approved daily production capacity of clinker, which is 1,000 tons per day and the number of operation days, being 310 days.

2. As abovementioned, production of clinker ceased since January 2008.

3. Shandong SAC plant commenced production of slag since April 2011. The Group has estimated annual production capacity of slag of approximately 160,000 tons (approximately 80,000 tons for six months) based on the actual daily production volume, the expected operation days of the grinding system and the type of electricity used to generate the grinding systems.

4. The production capacity and utilisation rate of cement of Shandong SAC plant represents its production capacity and utilisation before April 2011, where afterwards, it ceased to produce cement and engaged in production of slag only.

   For the six months ended 30 June 2011, the actual utilisation rate for cement production capacity should have been approximately 45.8%, taking into account the production of cement by Shandong SAC plant was only up to early April 2011.

During the evolvements of the operation of our plants, except revenue from trading of cement has become one of our revenue sources since 2010 which is further disclosed in details below in the paragraphs headed "The Premises Vacation" and "The Bailonggang Project", there has been no material change in our principal business which is manufacture and sale of cement and clinker.

Environmental-friendly initiatives

In response to the increasing environmental awareness, we have been supporting the environmental protection measures proposed by the PRC government.

NSP technology

Our production lines have adopted the NSP technology, under which 80% of cement in China was produced by the end of 2010. Characterised by its ability to pre-heat the raw materials for clinker production before being mixed and fed into the rotary kiln, the NSP technology allows less energy consumption during the production process as well as production of cement with higher and more consistent quality.

Waste heat recovery system

We have also adopted other environmentally-friendly initiatives such as installing a waste heat recovery system which commenced its trial electricity generation in September 2010. The Company's relevant operation permits have been granted by relevant government authorities, while the final acceptance (竣工驗收) is under application. The system collects the waste heat released from combustions in our kiln, which enables us to recycle the excess energy which can be used to generate electricity to power our plants and therefore allows cost savings. The installed capacity of the system is 4.5 MW. The system provides a more environmentally and energy efficient way in producing cement.

Efficient utilisation of recycled materials

We also focus on efficient utilisation of recycled materials, such as using slag which is stony waste matter separated from metals during the smelting or refining of ore, replacing natural gypsum with desulfurization gypsum, both of which are cost effective as well as beneficial to our environment. Our Shanghai plant had been enjoying VAT refunds from the PRC government for using recycled waste materials and by-products. For the year ended 31 December 2008 and 2009, the VAT refunds to which we were entitled amounted to approximately HK$19.7 million and HK$13.9 million, respectively. There were no VAT refunds for the year ended 31 December 2010 due to the cessation of operations in Shanghai. Our Shanghai plant also enjoyed a preferential enterprise income tax rate of 15% as compared with the standard tax rate of 25% for being a high and new technology enterprise as recognised by the PRC government. Following the cessation of cement and clinker production of our Shanghai plant, there has been no preferential tax treatment to our Group.

The government favours the utilisation of waste materials such as fly ash, desulfurization gypsum and mud during the production process by the new line. We plan to adopt NSP technology, install waste heat recovery and sludge treatment systems and achieve 30% of Recycling Rate during our production process in the new production lines in order to enjoy VAT refund 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). For details, please refer to the paragraph headed "Value Added Tax benefits regarding comprehensive utilization of resources" under the section headed "Regulatory environment".

Prior to the Premises Vacation, our production facilities located in Shanghai was accredited with ISO14001:2004 environmental protection certification, which was valid from 15 January 2007 to 4 January 2010. The Company did not renew the certification upon its expiration due to the cessation of productions in December 2009.

Our customers

We primarily sell our clinker and cement products to our customers who are mainly construction companies, ready-mixed concrete stations, clinker or cement traders and downstream cement and cement products manufacturers. We also occasionally provide technical services.

The table below sets forth our revenue by customer type for the periods indicated, excluding the customers for our technical services.

	Year ended 31 December			Six months ended 30 June	
Types of customer	**2008**	**2009**	**2010**	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Construction companies	142,359	103,664	57,170	20,302	107,295
Ready-mixed concrete stations	194,235	203,406	187,339	70,241	143,292
Clinker or cement traders	29,794	63,266	58,993	13,616	70,729
Downstream manufacturers of cement and cement products	176,597	107,728	135,980	52,561	58,891
Others (Note)	9,862	12,052	11,207	5,129	11,452
Total	552,847	490,116	450,689	161,849	391,659

Note: Include sales to other customers who do not fall into the categories of construction companies, ready-mixed concrete stations, clinker or cement traders and downstream cement and cement products manufacturers. It mainly included direct cash sales to individual retail customers, amounted to approximately HK$9.8 million, HK$11.8 million, HK$10.8 million, HK$5.1 million and HK$11.5 million during the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 respectively.

The top five customers accounted for approximately 34.7%, 27.0%, 21.0% and 32.2% of the total turnover of our Group for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively. Their principal activities were mainly engaged in ready-mixed concrete stations, construction materials supply and downstream cement products. The largest customer for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 accounted for approximately 8.0%, 8.8%, 4.8% and 14.8% of the total turnover of our Group, respectively. All the top five customers during the Track Record Period are Independent Third Parties. The Directors, their associates and the Controlling Shareholders had confirmed that they did not have any interest in our Group's five largest customers during the Track Record Period.

Contracts with customers are usually of one-year term. Generally, the contracts stated purchase orders, delivery arrangements, quality specifications and pricing terms and payment methods of the products. Pricing is at prevailing market rates.

Please refer to the analysis of revenue contributed by each type of customers in the paragraph headed "Revenue — Revenue breakdown by types of customer" under the section headed "Financial information".

The map below illustrates schematically the approximate locations of our primary markets as of the Latest Practicable Date:

△ *Existing production plants at Taierzhuang District, Zaozhuang City, Shandong Province*

■ *Major markets covered by our Group*

- - - - *the Grand Canal*

- - - - *Railway*

- - - - *Highway*

OUR STRENGTHS

We believe that our competitive strengths include the following:

We are well positioned to capture the growth opportunities in the fast-growing construction industry in the south-western parts of Shandong Province, northern parts of Jiangsu Province, north-eastern parts of Anhui Province and Shanghai

Our products are mainly sold to customers in the south-western parts of Shandong Province, northern parts of Jiangsu Province, north-eastern parts of Anhui Province and Shanghai, all of which are experiencing rapid economic growth and stable growth in construction industry that favours the cement market, especially Shandong Province and Shanghai. As we are a quality-focused cement company and do not compete with our competitors in terms of production output, our market share in the respective cement markets is not substantial. Our strategy is to identify specific regional markets which we believe are stable while presenting us with growth opportunities.

Shandong Province, our main market, is the third most affluent province in China with GDP reaching RMB3,941.6 billion for the year ended 31 December 2010, representing a real growth of approximately 12.5% compared with 2009. This strong economic growth has attracted domestic and overseas investments into Shandong Province which further drove up FAI to 2,327.9 billion for the year ended 31 December 2010, which is an increase of approximately 22.3% compared with 2009, providing a solid foundation for further economic development of Shandong Province.

Shanghai is well known as the business, financial and logistics centre of China with thriving economic development. Shanghai's GDP experienced real growth of approximately 10.3% from approximately RMB1,504.6 billion for the year ended 31 December 2009 to approximately RMB1,716.6 billion for the year ended 31 December 2010 and it continued to achieve the highest GDP per capita among all administrative regions in China for the year ended 31 December 2010. The continued focus and support from the PRC government has further strengthened the construction industry in Shanghai, with various large infrastructure projects being implemented in Shanghai to meet the demand from local and overseas investors. The World Expo 2010 and the coming construction of the Disneyland have provided, or will continue to provide significant stimulus to the construction industry.

Having established our business operations in Shandong Province and Shanghai for more than 10 and 17 years, respectively, we believe that we are well positioned to capture the growth opportunities in these markets.

We have established a close relationship with our customers

We believe that the strategic location of our production facilities allows us to establish a close relationship with our customers. As the weight and bulky nature of cement makes it expensive to transport, the cement industry is regionalised in nature. We have chosen to build our production facilities in Zaozhuang City, southern Shandong Province, which is situate in-between our target markets of Shandong Province, Jiangsu Province, Anhui Province and Shanghai. Transportation is facilitated by the Grand Canal as the availability of water access has expanded the coverage of customers along the canal. The Grand Canal connects the places between Beijing and Hangzhou, including Shandong Province and Jiangsu Province which are our major markets. In respect of our Shandong operations, the geographical proximity to our customers enables us to establish a network of customers. Upon request, we may assist the customers to locate independent third party logistics companies to take delivery of our products. Some customers may choose to take delivery of our products directly from our production facilities or employ their own logistics companies to take delivery of our products from our warehouse. The proximity enables the delivery of our products to our customers on time and provides convenience to the customers who choose to take delivery of our products by themselves. In addition, we always provide our customers with prompt and high quality after sales service. We regularly visit our customers to obtain their comments on our products and services and we are committed to prompt response at our customers' construction sites whenever they encounter problems when using our products. We believe our close relationship with customers is also evidenced by the fact that our customers in Shanghai continue to purchase cement products from us despite us having ceased production of our own branded cement products in Shanghai.

We possess the mining right of limestone reserves and have convenient access to fuels and other raw material supplies as well as transportation channels

Limestone is the principal raw material used in cement production and therefore any shortage or delayed access to it will cause adverse effect to our business. One of our main competitive advantages lies in our mining right of a limestone quarry where is close to our production facilities. The limestone quarry which we have also obtained mining rights up to September 2020 is situated at Langshan in Zaozhuang City which is only 10 km away from our production facilities. Based on our estimate and the scale of our current production, the limestone reserves are sufficient for us to meet our production capacity for approximately 43 years. The geographical proximity and self-owned nature of our limestone quarry provide us with a secure, stable and immediate supply of limestone at low transportation costs.

Coal and other raw materials such as gypsum, fly ash, and slag are required for our production process. We obtain coals mainly from the coal mines in Zaozhuang City and Jining City of Shandong Province and Xuzhou, which is known for its convenient location as a transportation hub in northern Jiangsu due to its connection of expressways and railway links directly to Shandong Province. Most of the other raw materials we used for our cement production are also purchased locally in Shandong Province. Due to the easy of accessibility, generally we can obtain raw materials on time to meet our production schedule.

There are well paved public roads, expressways, railways and bridges among and within the provinces of Shandong, Jiangsu and Anhui as well as Shanghai which ensure the efficiency of our logistics network during the delivery. In addition, we constructed and operated a dock in Taierzhuang District, Shandong Province next to our production facilities, along the Grand Canal, which provides us with an efficient mean to arrange the delivery of our products to the customers in the provinces of Shandong and Jiangsu.

We have a stable and experienced management team and a team of skilled labour force

The majority of the members of our senior management team have been with our Group for more than 10 years. They possess in-depth industry knowledge, extensive operational experience and have a proven track record of managing our Group's business through various business cycles. In particular, our executive directors, Mr. Ng Qing Hai has in-depth managing experience which is evidenced by being the vice chairman of China Building Materials Enterprises Management Association, a fellow of Asian Knowledge Management Association and the vice chairman of Shanghai Cement Industrial Association in 2010. Mr. Yu Zhong has 29 years of experience in the cement industry and has extensive experience in operation management, marketing and production management. Other members of our senior management team also have significant experience in our operations, including the whole production process, production management, logistics, sales and marketing and research and development. Furthermore, we have a team of well trained, experienced and skilled labour force which is familiar with the operations of our production facilities. There have been no material disruptions of production facilities so far. 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 2008, the Company was awarded with the Chinese Outstanding Entrepreneur Award 2008 (2008年度全國企業文化優秀成果) jointly by the China Enterprise Confederation (中國企業聯合會) and the China Enterprise Directors Association (中國企業家協會).

OUR STRATEGY AND FUTURE PLANS

We intend to further strengthen our customer base and market position in the provinces of Shandong, Jiangsu and Anhui as well as Shanghai and to achieve continued growth in our revenue and net profit. To achieve our goals, we plan to implement the following strategies:

Further enhance our production facilities and capacities

In connection with the Premises Vacation as described above, a new site at Bailonggang (白龍港), is being negotiated with the Shanghai Municipal Government for us to construct a new plant which is expected to be equipped with two production lines with daily clinker production capacity of approximately 4,000 tons and an annual cement production capacity of not more than 1.35 million tons.

As mentioned above, as at the Latest Practicable Date, we have not obtained the legal title to the negotiated land. If the negotiation is successful and there is no impediment to the application for necessary approval and permit by the relevant governing authorities and other unforeseen difficulties, we anticipate the construction of the new plant would commence by late 2012 and by the time of completion, our production capacities are expected to be enhanced as compared to the current annual cement production capacity of approximately 1 million tons and daily clinker production capacity of approximately 2,500 tons of Allied Wangchao plant.

Strengthen our market position through maintaining the relationships with our existing customers and enlarging our customer base

We aim to strengthen our customer base and market position in the provinces of Shandong, Jiangsu and Anhui as well as Shanghai. Currently, we have a network of customers including mainly construction companies, ready-mixed concrete stations, clinker or cement traders and downstream cement and cement products manufacturers. We will continue to work towards maintaining a good and close relationship with our customers by enhancing our pre-sales service, logistics service, product quality and after-sales service. At the same time, we intend to enlarge and diversify our customer base by targeting major infrastructure companies. We will continue to focus on manufacturing and sales of high quality products to differentiate ourselves from our competitors.

Further strengthen our sales and marketing capabilities

We believe effective sales and marketing strategies are important to the success of our business. We regularly promote our Group through our website, participation in industry conventions and advertising in industry magazines. We have a sales and marketing department in Shandong Province and Shanghai respectively. The sales and marketing team is responsible for formulating and implementing our strategies. We will continue to provide on-the-job training and related courses to our sales and marketing team.

Based on the assessed demand in different geographical markets, we intend to deploy additional sales personnel. We intend to deliver up-to-date cement market information and pay regular visits to our customers to understand their needs and attend to their inquiries. We plan to actively promote our "泰立" (Titan) brand and establish our reputation as a producer of high quality cement.

Continue to lower our costs through technological improvement

We have been focusing on environmentally friendly, cost efficient and advanced production technologies so as to protect our environment, improve our product quality and reduce our costs of production. We will continue to encourage and implement research and development projects including increasing the recycling rate of waste by-products used in the production process. In addition to our own research and development efforts, we may work with leading research institutions. We believe the continued efforts in research and development will enable us to further improve our production efficiency and reduce our production costs in the long run.

The Premises Vacation necessitated the shift of the raw mixture and cement grinding systems from Shanghai plant to Allied Wangchao plant, in Shandong Province. Our major manufacturing and sales activities of clinker and cement are conducted by Allied Wangchao plant in Shandong Province. Meanwhile, the raw mixture and cement grinding systems at the rented Shandong SAC plant, which were previously used for cement production, are currently used for producing slag as a raw material for our own cement production. Our Shanghai operations currently engage in the trading of cement following the cessation of production in December 2009 and will continue to engage in the trading of cement before the commencement of the operations subject to relevant approvals of our new plant in Bailonggang (白龍港), of which its construction is expected to commence by late 2012.

PRODUCTION PROCESS

There are three key stages in the production of cement: (1) preparing the raw mixture; (2) producing the clinker; and (3) grinding and blending of clinker and other raw materials to produce cement. For a detailed description of the cement production process, please see the section headed "Industry overview — Production process" in this prospectus.

Limestone is first excavated from our own quarry using a blasting and ripping process and then crushed with other purchased raw materials to form a fine compound of crushed raw mixture which is then transferred to kilns to undergo a calcination process. The proportions of limestone and other raw materials depend on the types of cement to be produced. After being heated up under high temperatures of 1,400 to 1,500 degree Celsius, pieces of clinker are formed which are then transferred to the cement powder grinding system where they are mixed with other addictives like gypsum to form our finished product, cement. After that, the cement is stored in silos, before being delivered to customers in bulk.

Raw materials

The primary raw materials used in our cement production are limestone, gypsum, fly ash, and slag.

Limestone

Limestone is the principal raw material used in the production of cement. We own limestone mining rights at the quarry at Langshan (狼山), Taierzhuang District in Zaozhuang City, located approximately 10 km away from our production facilities. Under agreement with Zaozhuang City Taierzhuang District Cement Company Limited (棗莊市台兒莊區水泥有限公司) on 6 August 2007 and 13 September 2008, we obtained the mining rights at that quarry. As at the Latest Practicable Date, we have a mining license obtained from the Shandong Provincial Department of Land and Resources (山東省國土資源廳) which is valid for 10 years from September 2010 to September 2020 for limestone excavation and the maximum annual production volume of the mining license is one million tons.

As advised by the PRC legal adviser, Shandong Provincial Department of Land and Resources is a competent authority for extension of mining licence. There is no restriction on the maximum number of renewals of the mining licence and corresponding term in accordance with the relevant PRC rules and regulations. According to section 7 of the Procedures for Administration and Registration of Mining of Mineral Resources (礦產資源開採管理辦法) and section 18 of the Implementation of Mineral Resources Law of the People's Republic of China in Shandong Province (山東省實施中華人民共和國礦產資源法), the applications for extension of mining licence shall be made to the Shandong Provincial Department of Land and Resources within 30 days prior to the expiration of mining licence. There is no indication as to the maximum number of renewals of the mining license under these applicable rules and regulations currently in force. The Directors confirmed that they have checked with relevant government authorities responsible for mining license renewal application and are not aware of any restriction as to the maximum number of renewals of the mining license currently in force.

The surveyers' report in 2004 was prepared by 中國建築材料工業地質勘查中心山東總隊, an independent third party to our Group. 中國建築材料工業地質勘查中心山東總隊 is a subsidiary of China National Materials Group Corporation Ltd. (中國中材集團有限公司), which is a Central Government-administered enterprise directly under the administration of State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會). Based on this report, the quarry had approximately 60.0 million tons of limestone reserves in 2004 and therefore, the total applicable licence fee was approximately RMB6.0 million. Such licence fee had been fully settled during the years from 2004 to 2006. As stated in an updated surveyors' report in 2010 which was prepared by the same aforesaid party, the quarry had approximately 54.0 million tons of limestone reserves as at 31 December 2009. The valuation results of both of the abovementioned reports have been agreed by the Shandong Provincial Department of Land and Resources. We estimate that there will be approximately 53.0 million tons remaining reserves at year ending 31 December 2011 based on the calculation that approximately 1.0 million tons reserves on average per year have had been excavated between 2004 and 2010. Based on the above estimate and the scale of our current production, we have sufficient reserves of limestone to meet the current production requirements of our existing production facilities for approximately 43 years.

We have outsourced our limestone excavation works to an independent third-party contractor to excavate limestone from our limestone quarry. An agreement has been entered into between us and the contractor for a term of 5 years from September 2009 to September 2014. Currently, the rate of RMB11.88 is charged for every ton of limestone excavated and delivered to our production facilities pursuant to the aforesaid agreement. The rate is to be reviewed every three months and may be adjusted depending on changes in excavation costs. Under the agreement, 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 quarry. The excavation activities and timing of supply of limestone will be in accordance with our production arrangement. To ensure that our contractor is in compliance with the relevant PRC laws and regulations, we require them to provide us with applicable licenses and renewed certificates. Our Directors confirm that these contractors have obtained necessary and applicable licenses and renewed certificate.

We also conduct safety inspections at the limestone quarry on a regular basis. We have designated an experienced staff who understand the quality requirement for limestone to coordinate and monitor the contractors' operation of the quarry and shall report any suspected irregularity to relevant government authorities in respect of work safety and land resources. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, we paid the contractor approximately RMB14.3 million, RMB10.9 million, RMB15.1 million, RMB7.8 million and RMB8.8 million, respectively.

All of the limestone excavated from our limestone quarry is used for our cement production and we do not sell these limestone to third parties. For the years ended 31 December, 2008, 2009 and 2010 and the six months ended 30 June 2011, we excavated approximately 1.2 million, 1.3 million, 1.2 million and 0.6 million tons of limestone, respectively. We did not purchase any limestone from third party suppliers for the years ended 31 December 2008 and 2009 and for the six months ended 30 June 2011 and had purchased approximately 54,277 tons from third party suppliers for the year ended 31 December 2010, which represented approximately 4.2% of the amount of limestone used for the production of cement in 2010.

Other raw materials

Other raw materials for our cement production primarily include gypsum, fly ash and slag.

Slag can be added together with clinker to produce cement. Since April 2011, the grinds in Shandong SAC plant are used for producing slag for our Group's own use and depending on our production requirements, we may purchase slag from third party suppliers.

During the Track Record Period, we had purchased the aforesaid raw materials from third-party suppliers that are located close to our production facilities in Zaozhuang City.

We have not entered into long-term supply contracts with our suppliers of other raw materials. Normally, the contracts are of short term nature ranging from six months to one year. Under the current arrangements with our suppliers of other raw materials, they are generally required to commit to a minimum amount of supplies to ensure sufficient raw materials for our cement production. Contracts with suppliers of other raw materials usually state delivery arrangement, quantity and quality specifications and pricing terms.

As we have contracted with at least two suppliers of each type of these other raw materials and most of them are readily available in the market, our Directors believe that there are sufficient alternative sources for these raw materials and we are not reliant on the current suppliers. We believe that there is a secure and adequate supply of limestone, gypsum, fly ash 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.

For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, our raw materials represented approximately 26.2%, 27.8%, 12.8%, 14.4% and 13.1% of our cost of sales, respectively.

The Directors confirm that the range of composition of raw materials, for example, the types and the total volume of principal raw materials for cement manufacturing is stipulated in the National Standard for Common Portland Cement (GB175-2007). Manufacturers may vary the proportion of raw materials so long as they are within the range and the quality of the end products meets the stipulated requirement. The Directors further confirm that it is the industry practice for cement manufacturer to adjust raw materials composition.

Energy supply

Coal

Coal is the major fuel in our production during the calcination process for heating up the kilns inside which the raw mixture is fed in the higher end and heated up to a temperature between 1,400 and 1,500 degrees Celsius to form clinker. During the Track Record Period and up to the end of November 2011, we had purchased our supply of coal from more than 50 coal suppliers, out of which we had purchased mainly from about seven main coal suppliers. We have purchased over 80% of coal, relating to over 30 coal suppliers, with which we have entered into letters of intent with periods of up to one year. The letters of intent generally include the following terms:

1. indicative purchase price; although the final purchase price is normally determined when we place each purchase order with reference to the prevailing market price;

2. indicative quantity of purchase; while estimated monthly or annual purchase amount of coal may be stipulated in such agreements, they are typically indicative only where there are no obligations on the part of the suppliers to sell or on our part to purchase;

3. specifications of product quality and product inspection arrangements;

4. mode of payment and delivery; and

5. term and period of the letters of intent.

Generally, we are required to make full payment for the coal we purchased before delivery or within about 10 days upon receiving the suppliers' invoice. Coal is delivered to our production facilities by means of road transportation. We have had long term relationships with our major coal suppliers. As there are various sources of supply, we have been able to obtain competitive price from our coal suppliers.

All the abovementioned coal suppliers are Independent Third Parties. Coal constituted approximately 42.1%, 35.3%, 28.4%, 33.6% and 18.4% of our total cost of sales for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 respectively. Taking into account our relatively small production scale, and our production schedule for producing clinker and cement, we can assess the amount of coal we need and there is no material difference between the purchased and consumed amounts. We purchased and consumed approximately 238,077 tons, 240,865 tons, 151,675 tons , 66,755 tons and 67,138 tons of coal in 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, respectively. The average purchase price of coal used in our production was approximately RMB793, RMB589, RMB717, RMB703 and RMB720 per ton during the corresponding years/periods, respectively. In 2009, coal price declined compared with 2008 due to reduced demand. In 2010, coal price increased substantially due to the recovery of the global economy. The Directors are not aware of any material impact from shortage of coal, if any, on the Group during the Track Record Period and up to the Latest Practicable Date.

We have not conducted hedging of our coal costs in the past as hedging instruments for coal are not offered in the major commodity exchanges in the PRC, and hence are not generally available to us. We shall continue to monitor closely price trends and supply of coal. If in future there exists suitable hedging instruments, we may consider conducting hedging of our coal costs where necessary.

Electricity

Electricity is another essential energy supply for our production during the raw mixture preparation and cement grinding process for powering the raw mixture and cement grinding systems. Electricity costs constituted approximately 17.9%, 21.3%, 13.3%, 16.5% and 9.3% of our total cost of sales for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, respectively. We obtain our electricity supply from the Electricity Supply Bureau of Taierzhuang District (台兒莊供電局) governed by State Grid Corporation of China (國家電網公司), which is the sole supplier of electricity. 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. Nonetheless, we have experienced increases in electricity prices in recent years. Electricity expenses are paid at the end of each month based on actual consumption. We believe that we are able to source sufficient and stable electricity from the Electricity Supply Bureau of Taierzhuang District to meet our production needs.

To efficiently and effectively utilise our energy, we have installed a waste heat recovery system with an installed capacity of 4.5 MW, which commenced operation in September 2010 at the Allied Wangchao plant. The waste heat recovery system collects waste heat from the clinker production process to generate electricity that can be used in the production process. The Directors estimate that the average costs of electricity produced through such system will be approximately RMB0.2 per KWh, which will be significantly lower than our average electricity purchase price of approximately RMB0.6 per KWh. Based on the above, we may achieve approximately one-third in electricity cost savings as a result of installing the waste heat recovery system. The use of waste heat recovery system will lessen the impact of fluctuating electricity price on our results of operations.

The Directors are not aware of any material impact from shortage of electricity, if any, on the Group during the Track Record Period and up to the Latest Practicable Date.

Suppliers

We have a procurement department to centralise the procurement of raw materials such as gypsum, fly ash and slag from our suppliers. Depending on the type of raw materials, payment terms range from full payment before the delivery to within three months after delivery upon receipt of invoice. The quality of the raw materials is inspected by our quality control department to ensure that it conforms to our specifications and production requirements. In addition, our procurement department monitors the quality, the timing of delivery and the pricing of raw materials.

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. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, the purchases from our five largest suppliers constituted 40.9%, 42.6%, 42.3% and 47.5% of our total purchases, respectively. During the same period, the purchases from our largest supplier constituted 8.8%, 13.6%, 13.1% and 11.2%. As of the Latest Practicable Date, all of our suppliers were Independent Third Parties to the best knowledge of our Directors after due inquiries.

The Directors, their associates and the Controlling Shareholders had confirmed that they did not have any interest in the Group's five largest suppliers during the Track Record Period.

Sales and marketing

We sell all our clinker and cement products within the PRC and have no overseas sales. Our markets include the provinces of Shandong, Jiangsu and Anhui as well as Shanghai. We sell a majority of our clinker and cement directly to construction companies, ready-mixed concrete stations, clinker or cement traders and downstream cement and cement products manufacturers. We conduct our sales primarily through our sales and marketing departments. We are a quality-focused clinker and cement company and we focus not only on producing high quality products, but also providing quality pre-sales and after sales services to our customers. We have sales and marketing teams, which are led by team leaders and assisted by managers, supervisors and salesmen, most of whom are well-trained and experienced. On-the-job trainings and regular training courses are offered to equip them with sales techniques and up-to-date market and product information.

The teams are mainly responsible for organising sales activities and formulating and implementing marketing plans. In respect of mass media, we may market our products through advertising on billboards and industry magazines as well as participating in industry exhibitions. Our sales teams make regular visits to customers and cold calls to potential customers. We incurred marketing expenses amounted to RMB0.2 million for the year ended 31 December 2010.

Demand for our products is subject to seasonal fluctuations and our sales volume is generally lower in the months from January to March due to the winter seasons and Chinese New Year's holiday season, and in the months of July and August due to storm, typhoon, high temperature and rainy seasons. We generally make use of these off-peak periods to perform our regular repair and maintenance of production facilities.

To keep abreast with the developments in cement market, our sales and marketing department gathers market information, such as cement prices, coal prices, product types, the pricing and production strategies of other cement producers as well as the rules and regulations from the government, such as the electricity limitation policy imposed by the government. Using this information, our sales personnel can provide thorough analysis of cement market and product knowledge to our customers. Such information also helps us to react according to the fast-changing market. With our continued effort on improving our sales and marketing capabilities, we have established a network of relatively stable and long term customer base.

Pricing policy and credit policy

Clinker and cement prices are not controlled by the PRC government and hence fluctuate according to market demand. We set the prices for our cement products based on market demand, our production capacity, sales and marketing strategies, transportation costs, inventory levels, competitors' prices and credit terms. Our sales department evaluates the factors affecting our selling price on a regular basis and adjusts our selling prices to an appropriate level. Our Shandong operations typically require customer to settle the payment before or upon delivery of our products. Meanwhile, Shanghai SAC usually requires customers to settle the payments in full by cash or bank transfers with credit periods of normally ranging from 120 days to 1 year. The debtors' turnover days of the Group were 142 days, 139 days, 155 days and 153 days as at 31 December, 2008, 2009 and 2010 and 30 June 2011 respectively. The credit periods we grant to customers are relatively longer compared to some other cement companies in the PRC market due to the following:

(i) Shanghai, one of our major markets, is comparatively more matured in terms of practice for financial settlements where customers typically expect credit periods and the use of bank acceptance bills as a form of settlement. The trade and bills receivables attributable to the Shanghai operation as at 31 December 2008, 2009 and 2010 and 30 June 2011 amounted to HK$180.4 million, HK$165.7 million, HK$168.9 million and HK$262.7 million respectively, representing 83.4%, 88.9%, 88.0% and 80.0% of our total trade and bills receivables as at the corresponding years/period end. In comparison, markets in more rural central and western parts of the PRC may generally have shorter or no credit periods and may require cash settlement upon delivery. While our acceptance of three to six-month credit bills from customers will result in longer debtors' turnover days, we noted that the credit risk would have effectively been transferred from our customers to the issuing banks; and

(ii) our ability to provide longer credit periods selectively to customers helps enhance the competitiveness of our cement trading activities. The Directors believe we are able to finance the working capital requirement for granting longer credit periods given our financial strengths, especially in respect of our Shanghai operations.

Generally, we sell to our customers from the same locations at approximately the same price for the same type of product without material preferential price treatments to specific customers. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, we sold cement to our customers in the provinces of Shandong, Shanghai and Anhui by our Shandong operations at average prices of approximately RMB207.9, RMB197.8, RMB211.7 and RMB278.3 per ton, and clinker at approximately RMB212.7, RMB177.5, RMB221.9 and RMB297.1 per ton. For clinker and cement sold by our Shanghai operations, we sold cement on average at approximately RMB289.4, RMB246.4, RMB294.8 and RMB387.0 per ton. For our Shanghai operations for which we act as a distributor of cement after the cessation of production, we purchased cement from cement producers and then resell to our customers in Shanghai at a marked-up price, providing us with a trading profit margin.

Transportation

We either collect the coal we purchased from our suppliers' premises or have it delivered to us. Risk of loss in delivery may be borne by us or our suppliers depending on contract terms. For other raw material, most of them are delivered to us. Transportation costs of coal and other raw material are generally borne by us. Suppliers may include the transportation fees in the invoice price. If the invoice price does not include transportation fees, we either pay the fees directly to the delivery companies or we separately settle the fees with the suppliers.

For our sale of cement products, there are different transportation methods. We may, at the request of our customers, arrange for transportation to take delivery of our cement products. Some customers may choose to get the products directly from our production facilities and some customers may employ their own logistics companies to take delivery of our cement products from our warehouse to their sites. Transportation costs of cement products are generally borne by customers. We may include the transportation fees in our invoice and we separately settle the fees with the delivery companies engaged by us on customers' behalf. In other cases where customers arrange their own logistics, they settle the transportation charges directly by themselves. For the three years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, approximately 88.7%, 94.7%, 94.8% and 98.5% of our cement and clinker sales were conducted on the basis that our customers arranged for their own transportation and deliveries respectively. Consequently, transportation costs amounted to 0.7%, 0.6%, 2.3% and 0.5% of our cost of goods sold (excluding cost of purchase of cement products for trading) during the corresponding years/period.

We operate a self-built dock on a piece of land next to our production facilities in Taierzhuang District. The construction costs of the dock was approximately RMB10.0 million. We entered into a leasing agreement with Zaozhuang City Taierzhuang District Dundong Village (棗莊市台兒莊區頓東村). While we have been complying with the construction requirements and the final acceptance (竣工驗收) of the dock has been obtained, we have not obtained the project establishment approval (立項批准) from the PRC government for the dock construction. We have been operating the dock since December 2004 and there has been no dispute or challenge over the use of the piece of land and we have been paying the annual rental regularly. The PRC legal adviser confirms that the maximum penalty in monetary term for not obtaining project establishment approval is RMB10,000 pursuant to Regulation of River Course Management (河道管理條例).

However, the lack of project establishment approval (立項批准) may lead to our dock having to be demolished. In such case, we would have to rely on road transportation for delivery of products and raw materials, which could possibly result in incurring higher cost. The dock enables us to ship our products to our target markets in Jiangsu Province and Shanghai at competitive costs and to offer an alternative delivery choice to our customers. During the six months ended 30 June 2011, approximately 17% of the sales of our Shandong operations had been delivered via river transportation through our dock. Such sales also represent approximately 8.8% of the Group's total revenue for the six months ended 30 June 2011. In the event of demolition, we may lose these customers which require river transportation.

We have submitted the application for the relevant approval in April 2011 and it is expected that the relevant approval can be obtained from Shandong Development and Reform Commission (山東省發展和改革委員會) by the end of 2012.

The PRC legal advisers noted from our Directors that Allied Wangchao had missed the initial step of application of project establishment approval from Shandong Development and Reform Commission after we obtained approval from the government authority which is responsible for the management of rivers and canals, and it was unintentional. The PRC legal advisers confirmed that we have carried out reasonable steps in rectifying this non-compliance properly and confirmed that they are not aware of any legal impediments as at the Latest Practicable Date in obtaining the relevant approval. The PRC legal advisers confirm that given rectification measures have been appropriately conducted, the risk of demolition being ordered is low.

Competition

The cement industry in China is generally a fragmented and regional industry. Our target markets are mainly in the provinces of Shandong, Jiangsu, Anhui and Shanghai. According to information from Digital Cement Net, there were over 5,000 cement producers in the PRC as of 31 December 2010.

We face competitions in the provinces of Shandong, Jiangsu and Anhui as well as Shanghai. Competitions in cement markets have been increasing especially under the PRC government's policy to encourage mergers and acquisitions, which may result in increasing number of large size cement enterprises. We believe that China's cement industry is geographically fragmented, generally with economically-feasible product transportation radius of approximately 200 to 300 kilometers due to the bulky nature of cement. As a result, selling prices, operating costs and profit margins of cement products may vary significantly among different regions. We mainly compete directly with cement manufacturers with presence in our local markets. Major cement companies which are listed on the Stock Exchange and have presence in the markets which we operate in, are:

	Company	Revenue	Market capitalisation	Production capacity (million tons/per annum)	
		(RMB million) *(Note 1)*	(HK$ million) *(Note 2)*	Cement *(Note 1)*	Clinker *(Note 1)*
1.	Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司)	34,508	30,606	130	150
2.	China Shanshui Cement Group Limited (中國山水水泥集團有限公司)	11,854	14,474	67	31

Note 1: Extracted from annual reports for the year ended 31 December 2010.

Note 2: Extracted from the website of the Stock Exchange at www.hkex.com.hk on the Latest Practicable Date.

There are also a number of cement companies which are conglomerates beneficially held by State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會) and are therefore able to operate at much larger scale as compared with our Group. In addition, some larger cement companies had started operations in Shandong Province and therefore our Group will be facing tenser and more direct competitions in the region. In view of our comparatively minimal market share in terms of cement production capacity and volume, instead of competing on market share, we compete to a large extent based on product quality, location of production facilities and access to resources.

According to the China Cement Association, production volume of Shandong Province ranked the second largest in the PRC for the year of 2010, with approximately 147.5 million tons of cement being manufactured by cement producers in Shandong Province, details of which are set out in the paragraph headed "Cement markets in Shanghai, Shandong and Jiangsu Provinces" under the section headed "Industry overview". Given that our annual cement production capacity of 1 million tons as at the Latest Practicable Date, our market share is insignificant compared with the cement industry in Shandong Province as a whole.

In view of our comparatively minimal market share in terms of cement production capacity and volume, instead of competing on market share, we have positioned ourselves as producer of high quality cements with advanced technologies and we compete to a large extent based on product quality, location of production facilities and access to resources. Moreover, our trademark "泰立" (Titan) is well-known to the regional cement users. However, some of our competitors may have better brand recognition, larger market share and larger scale of operations.

Research and development

Our research and development efforts focus on reducing our cost of sales by using waste and recycled materials as raw materials during our cement production process, reducing pollutant emissions, saving energy, efficiently combining different resources as raw materials for utilisation during cement production process and improving the quality of our products. We can save cost by using by-products and waste materials as raw materials in cement production, as they are usually readily available to us at lower costs.

Our research and development are conducted by the production and technology department, which are led by two to three supervisors and senior management. We have also built a corporate culture that encourages brainstorming and sharing of ideas and concepts among various working levels. Our continuing effort in conducting research and development has helped and we believe will continue to help us to improve our production technology while lowering our operational costs.

Intellectual property rights

We rely on a combination of trademark and patents registrations to establish and protect our intellectual property rights. We sell our products under the trademark "泰立" (Titan)) (Registration No. 904806) which is registered with the PRC Trademark Office of the State Administration for Industry and Commerce in November 2006 for a term of 10 years up to November 2016. We have also obtained patents for certain of our production technologies, including the use of dehydrated mud as addictives to clinkers and cements during the formation process. We had not noticed any fake products with unauthorised use of our trademark during the Track Record Period. For details of our intellectual property rights, please refer to the section headed "Intellectual property rights of our Group" under "Appendix V — Statutory and general information".

Quality control

Prior to the Premises Vacation, our production facilities located in Shanghai was accredited with ISO9001:2000 quality control system certification, which was valid from 15 January 2007 to 9 December 2009. We did not renew the certification upon its expiration due to the complete cessation of productions in December 2009. At our production facilities in Shandong Province, there are laboratories equipped with various advanced testing equipment at our production facilities for our quality control department to conduct quality testing and maintain quality control. Our laboratories, testing facilities, quality control and testing processes comply with the PRC standards. We perform quality control and testing on raw materials, semi-products, production processes as well as finished products.

We conduct quality checks on raw materials and semi-products by taking samples to make sure they meet our quality requirements as well as the industry standards. Any raw materials that do not meet our requirements will be returned to the suppliers for replacement. We have 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/or recycled. Our finished products are inspected and tested by applying a variety of national standards prior to delivery. Such national standards include GB12573 on cement sampling check method, GB/T176-2008 on cement chemical analysis method and GB/T1346S on cement solidifying time.

Furthermore, we have a team of staff dedicated to maintaining quality control of our products. In August 2010, our chief engineer was awarded as an excellent engineer in the year of 2009 (2009年全國水泥企業優秀總工程師) by China Cement Association.

We had not received material complaints on our product quality during the Track Record Period. As of the Latest Practicable Date, we had not been involved in any litigation nor had we entered into any settlement with any third parties concerning the quality of our products.

Production management and inventory control

Taking into account our relatively small production scale, we take the approach of producing clinker and cement with regular daily amount up to the production capacities of our production lines instead of producing according to the orders received. Generally, we can sell all the products we produced. We closely monitor our daily production so as to avoid piling up of inventory levels of raw materials and finished goods. We have our own warehouses for storing raw materials and finished products and we closely safeguard our inventory by security guards.

We maintain different inventory levels for raw materials and coal depending on lead time required to obtain additional supplies and seasonal factors. Generally, the lead time to obtain raw materials apart from limestone takes three to five days. If harsh climates are foreseen, including heavy rains and storms, the Company may order raw materials earlier. During the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our inventory turnover period was approximately 34 days, 30 days, 38 days and 20 days, respectively and the turnover period of our finished goods, clinker and cement, was approximately 4 days, 4 days, 12 days and 7 days respectively. Please refer to the analysis of fluctuations on turnover period in the paragraph headed "Inventories" under the section headed "Financial information".

Logistic control

For the sale of cement or clinker products, we may be requested by our customers to arrange the transportation to deliver the products to their stipulated destination on their behalf. While we will arrange for the delivery of the products with the transportation company, the respective transportation costs are usually borne directly by the customers. During the Track Record Period, the transportation company arranged by us on customers' behalf were Independent Third Parties. In assessing the suitability of these transportation companies, we would consider their service quality and reputation in the industry. We also perform sample checks on our logistical process.

Incident involving logistical lapses in December 2009

Shanghai SAC was criticised by the Shanghai Construction Safety, Quality and Technical Supervision Bureau (上海市建設工程安全質量監督總站) (the "Authority") in its notice dated 23 February 2010 (the "Notice") which involved internal control lapses among (a) the cement manufacturer; (b) our customer; and (c) Shanghai SAC, as the intermediate trading company (the "Incident").

The Incident occurred in December 2009. Under the supply agreement, the customer had to arrange to take delivery of the products from the cement manufacturer. Shanghai SAC was obliged to obtain quality report from the cement manufacturer and provide the same to our customer. We had, upon our customer's request and on its behalf, engaged a third party transportation company on behalf of our customer. Our client reimbursed us the transportation costs for the delivery from the cement manufacturer. The lapses was caused by a staff of the cement manufacturer who wrongly dispensed slag as cement into the truck while our customer's staff failed to examine the products upon delivery by the transportation company. The staff of the transportation company involved in the Incident were not a staff of our Group.

The wrong delivery resulted in quality defects in five construction projects which entails demolishing and reconstruction works at these projects and consequently, issue of economic and financial compensation was raised. In this respect, the cement manufacturer has paid compensation to the customer and Shanghai SAC was not required to pay any compensation as confirmed in the letters from customer to Shanghai SAC dated 11 May 2010 and 10 January 2011.

There has been no claims nor litigation from any party towards Shanghai SAC in relation to the Incident. Notwithstanding the above, the Authority had named Shanghai SAC in the Notice as Shanghai SAC was the supplier named in the supply agreement. The Incident also resulted in Shanghai SAC and two of our staff namely (i) Mr. Yu Zhong, an executive Director; and (ii) Mr. Shao Da Wei, the staff who is in charge of this customer, being recorded in the Authority's file of substandard quality (質量不良誠信檔案). The Group accepted the criticism of the Authority, which the PRC legal adviser confirmed that it has no legal implication and does not tantamount to administration fine nor penalty. According to the Authority, the Notice is purported to highlight the importance of control and checking measures in cement industry.

In summary, the Incident was caused principally by an inadvertent supply of slag instead of cement by the cement manufacturer, and an inspection oversight by the customer when taking delivery. Our staff had not been involved in the transportation and delivery process. We have been implicated by virtue of us being the supplier named in the supply agreement. In particular, Mr. Yu Zhong, being the person in charge of the department with the ultimate responsibility, was named and recorded in the file of substandard quality. The Incident is an isolated case and is of unusual occurrence which has not recurred and does not involve any dishonest conduct nor integrity issue.

To prevent recurrence, the Group has taken the following measures:

(a) tightening our Group's selection criteria of cement suppliers to ensure quality are controlled at source;

(b) tightening our Group's selection criteria of logistics and transportation companies; and

(c) enhancing our Group's internal control procedures such as segregation of duties between operational and quality control staffs, and strengthening our Group's sample checking process and frequencies.

Our Directors confirm that since then, there have been no occurrence of situation similar to the Incident. Our Group has also not experienced any noticeable loss of businesses or customers as a result of the Incident and hence, our Directors believe that the impact on our Group's reputation is limited.

Repair and maintenance

Our regular repair and maintenance programs for our production facilities are conducted by our in-house team. We perform maintenance on the production facilities twice a year, generally during low seasons during the periods from January to February and July to August. It takes approximately one to two weeks to complete each maintenance program. We also conduct repair of the production facilities on an as-needed basis and our maintenance team patrols the production facilities on a daily basis. Our maintenance team is well-trained and possesses in-depth knowledge of our production facilities and is able to conduct their work to avoid disruptions to our operations. During the Track Record Period, there has been no material breakdown of our production facilities that has caused material disruptions to our operations.

Occupational health and safety

In recent years, the PRC has implemented various laws and regulations on labour protection, one of which is The Production Safety Law of the PRC (中華人民共和國安全生產法) promulgated on 29 June 2002 and which became effective on 1 November 2002. This law acted as the fundamental law to strengthen the supervision and administration of production safety and labour protection. We have an experienced and qualified team of personnel providing supervision on the working environment to ensure our production procedures are in line with the PRC and our safety standards and to ensure a safe working environment for our employees. We believe this is essential in particular for the cement industry as production process involves heavy machinery as well as exposures to pollutants.

We have established safety guidelines which are to be strictly followed by our employees. Our workers were subject to health checks to examine their health conditions. In addition, our safety personnel conduct safety supervision in each business area, including the production lines, testing laboratories and office regularly and provide the personnel and labour with safety information and training courses on the operations of office equipment, production facilities, mining tools and testing equipment. We focus on labour protection and we strive to maintain a safe working environment for our employees.

Housing provident fund

As of Latest Practicable Date, we employed a total of approximately 398 full time employees, with approximately 5 in Hong Kong, 40 in Shanghai and 353 in Shandong Province. Of the 40 employees in Shanghai, 30 of them are engaged under contract arrangement (勞務派遣合同) with an independent third party labour agency. 28 out of these 30 employees are required to contribute to housing provident fund which are paid by the labour agency. Of the 10 employees directly employed by Shanghai SAC, 6 are not required by applicable laws to contribute to the housing provident fund and Shanghai SAC has contributed for the remaining 4 employees.

Shandong SAC and Allied Wangchao had not contributed to the housing provident fund for their employees since housing provident fund scheme was implemented in January 2005 in Taierzhuang District, Zaozhuang City up till March 2011. Our Directors believe, this was due to low acceptance level of Shandong employees towards making such contributions, and our previous lack of understanding of the implementation of the housing provident fund scheme in Taierzhuang District, Zaozhuang City. Both Shandong SAC and Allied Wangchao have commenced contribution to housing provident fund for all qualified employees since April 2011 as a rectification measure. Our Group has been contributing to housing provident fund in accordance with relevant rules and regulation since then.

Both employer and employees have to contribute 5% of the salary towards the housing provident scheme. Accordingly, for the period from January 2005 to March 2011, Allied Wanchao should have contributed to the housing provident fund scheme for a total of approximately RMB1.9 million while Shandong SAC a total of approximately RMB1.0 million, and half of which should have been deducted from respective employee's salary.

The aforesaid outstanding amount had not been settled as at the Latest Practicable Date. Despite the management of Shandong SAC and Allied Wangchao having attempted to settle their portion of outstanding housing provident fund, Housing Provident Fund Management Centre of Taierzhuang District, Zaozhuang City (棗莊市台兒莊區住房公積金管理中心) advised that retrospective payment of housing provident fund can only be made with the co-operation of the relevant employees by contributing their respective portion. Accordingly, Shandong SAC and Allied Wangchao have applied to the Housing Provident Fund Management Centre for suspension in contributing the aforesaid outstanding amount and it has been accepted. Housing Provident Fund Management Centre of Taierzhuang District, Zaozhuang City issued a certificate stating that it will not impose administrative penalty for our failure in contributing to housing provident fund prior April 2011.

The PRC legal advisers confirmed that the Housing Provident Fund Management Centre is the competent authority to supervise and regulate the contribution to housing provident fund and to decide on relevant administrative penalty. The PRC legal advisers confirmed that there is no stipulated maximum penalty in monetary term for payment of housing provident fund in arrears. Instead, it is regulated by section 38 of Regulation Concerning the Administration of Housing Provident Fund (住房公積金管理條例), pursuant to which, the Housing Provident Fund Management Centre may order the relevant entity to make payment within a specific period of time. Failing which, Housing Provident Fund Management Centre may apply to People's Court for enforcement.

In respect of the above, we have obtained from the Controlling Shareholders a deed of indemnity in favour of our Group in case we are required to settle the aforesaid outstanding amount. For further details, please refer to the section headed "Statutory and General Information — Other Information — 1.

Estate duty, tax and other indemnity" in this prospectus. Accordingly, the maximum exposure in this respect would be the outstanding amount, which has been covered by indemnity, of approximately RMB2.9 million in aggregate, as disclosed above. The Directors consider no provision is required in this respect.

Based on the arrangement mentioned above, the Directors, after consulting the Reporting Accountants, are of the view that the arrangement in respect of the aforesaid suspended payment of housing provident fund is appropriate and no provision is required.

Insurance

We maintain insurance coverage for our production facilities and equipment, vehicles and office premises for loss due to fire, flood and natural disasters. We also maintain employee insurance. We do not maintain product liability and inventory insurance due to the low value-to-weight nature of our finished products and raw materials. Our Directors confirm that this is consistent with general industry practice. Instead we have installed close circuit television and fire extinguishers and provided 24 hours patrols within our warehouses. During the Track Record Period, we did not recognise any material loss of cash and property. Furthermore, there were no material product liability claims on us during the Track Record Period and up to the Latest Practicable Date.

Property

Our business operations are based in Shanghai and Shandong Province.

Shanghai

Office building

As at 31 December 2010, we had obtained a land use right on a parcel of land in Hi-Tech Park in Pudong, Shanghai where our administrative and sales office is situate at with a cost of approximately RMB19.6 million. We are allowed to use the land up to 24 May 2049. We also owned two office properties, one in Changning District with approximately 146.5 square metres and the other one in Xuhui District with approximately 110.2 square metres. Both of which are leased out for rental income.

Residential

We owned six residential properties in several districts in Shanghai. Of the six properties, one is situated at Hongkou District with approximately 126.9 square metres; two are situate at Minhang District with approximately 137.1 and 137.4 square metres respectively; two are situated at Xuhui District with approximately 133.9 and 91.9 square metres respectively; and one is situated at Zhabei District with approximately 77.2 square metres. These properties are leased out for rental income. Apart from these self-owned properties, a residential property is leased by us at Pudong with approximately 250 square metres up to 14 July 2012 at RMB5,000 per month.

Shandong Province

Production facilities and administrative office

In Shandong Province, we have obtained a long term land use right in respect of the parcel of land in Zaozhuang City of Shandong Province, where our production facilities and 30 blocks of administrative and operation offices, including offices, staff quarters, bathrooms and warehouses etc under Allied Wangchao are situated. We are granted with 50 years land use right up to 6 August 2056 at a cost of approximately RMB6.4 million. Besides the aforesaid self-owned facilities under Allied Wangchao, we also lease a production line with kilns for the period up to May 2021. While under the rental agreement we are required to pay an annual rent of RMB6 million, such rent has been waived by the landlord since October 2008. Our administrative office located next to our production line is leased by us at RMB33,000 per annum for 20 years up to May 2022.

Limestone quarry

In addition, we possess the mining right of a limestone quarry at Langshan, Zaozhuang District, Shandong Province, located approximately 10 km from our production line, which occupied approximately 0.59 square kilometres and we have obtained the mining license for 10 years up to September 2020.

Beijing

Residential

Apart from Shanghai and Shandong Province, we owned a residential property at Chaoyang District, Beijing, for which we have obtained land use right up to March 2073 on a parcel of the residential land where the property situated. Our residential flat has an area of approximately 148 square metres and was acquired at a cost of RMB2.4 million. Currently, the residential flat is being leased out in return for rental income.

The details of the properties owned and rented by the Group as at Latest Practicable Date are summarised as follows:

Location	Property	Description and tenure	Purpose
Shanghai			
Self-owned			
Pudong	Room 102, Building 27 No. 1388 Zhangdong Road 張東路1388號 27幢102室	The property is self-owned with approximately 857.6 square metres and a land use right from 31 May 2011 to 24 May 2049 is granted	Office
Changning District	Unit 1403 No. 83, An Shun Road 安順路83號 1403室	The property is self-owned with approximately 146.5 square metres	Office
Xuhui District	Room 1603 No. 3, Lane 228 East Nandan Road 南丹東路228弄3號1603室	The property is self-owned with approximately 110.2 square metres	Office

Location	Property	Description and tenure	Purpose
Hongkou District	Unit 11A, No. 8 Changyang Road 長陽路8號11A室	The property is self-owned with approximately 126.9 square metres	Residential
Minhang District	Unit 201, Jin Cheng Lu Garden No. 69, Shenbei Road 莘莊鎮莘北路 金城綠苑69號201室	The property is self-owned with approximately 137.1 square metres	Not applicable
Minhang District	Unit 202, Jin Cheng Lu Garden No. 69, Shenbei Road 莘莊鎮莘北路 金城綠苑69號202室	The property is self-owned with approximately 137.4 square metres	Not applicable
Xuhui District	Room 2002 86 Cao Bao Road 漕寶路86號2002室	The property is self-owned with approximately 133.9 square metres	Residential
Xuhui District	Room 2004 86 Cao Bao Road 漕寶路86號2004室	The property is self-owned with approximately 91.9 square metres	Residential
Zhabei District	Room 20G No. 13, Lane 814 North Zhongshan Road 中山北路814弄13號 20G室	The property is self-owned with approximately 77.2 square metres	Residential
Leased			
Pudong	No. 19, Lane 2895 Longdong Main Road Tang Village 唐鎮龍東大道2895弄 19號	The property is leased with approximately 250 square metres with terms from 15 July 2010 to 14 July 2012	Residential
Shandong Province			
Self-owned			
Zaozhuang City	Dundong Village Jiantouji Town Taierzhuang District 台兒莊區澗頭集鎮頓東村	The land use right granted the right to use a piece of land of approximately 141,838 square metres for terms expiring on 6 August 2056	Industrial
Zaozhuang City	Dundong Village Jiantouji Town Taierzhuang District 台兒莊區澗頭集鎮頓東村	There are a total of 30 blocks of self owned properties on the land of Dundong Village of which the Company has been granted the land use right. The total area of these 30 blocks of properties is approximately 20,036 square metres	Office, bathrooms, canteens, staff quarters, warehouse, water pumping room, coal grinding room, raw mixture grinding room, repair and maintenance room etc.
Zaozhuang City	Jiantouji Town Taierzhuang District 台兒莊區澗頭集鎮	Mining license of a limestone quarry occupying approximately 0.59 square kilometres with terms up to September 2020	Limestone excavation
Leased			
Zaozhuang City	Jianwei Office Building, No. 58 Yanhe Road North Yuan Taierzhuang District 沿河北路58#原台兒莊區建委辦公大樓	The property is leased with approximately 1,400 square metres for a term of 20 years until 31 May 2022	Office/residential

Location	Property	Description and tenure	Purpose
Zaozhuang City	A portion of an industrial complex located in Sunsuzhuang Village Jiantouji Town Taierzhuang District 位於台兒莊區澗頭集鎮孫蘇莊村的工業區的一部分	The production line with rotary kilns is leased with terms from 26 May 2001 to 26 May 2021	Clinker and cement production
Zaozhuang City	A port located at Hanzhuang River, Dundong Village, Taierzhuang District, Zaozhuang City, Shandong Province 位於山東省棗莊市台兒莊區頓東村韓莊運河的一個碼頭	The property comprises a port and ancillary loading structure with a site area of approximately 60.05 mu (40,033.33 sq.m.)	Port — loading/unloading
Beijing			
Self-owned Chaoyang District	Unit 1501, Block 2 House No. 3 of Jin Quan Jia Yuan Datun Road 朝陽區大屯里政泉花園3#樓15層2單元1501號	The property is self-owned with approximately 148 square metres	Residential

Environmental compliance and pollution controls

Noise, gaseous wastes, industrial wastes and different sorts of pollutants are generated during our production processes. Our production facilities are subject to various environmental laws and regulations promulgated by national and local governments with respect to the pollutants emissions. 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 pollutants and if such levels are exceeded, the polluting enterprise will be required to pay excess discharge fees. Local governments are also authorised to issue orders to stop or reduce discharges in excess of the base levels. More stringent measures and regulations have been implemented by the PRC government in recent years, in particular, Shanghai, one of our regional markets, which is the business and financial centre of the PRC and being further driven by the PRC government to develop into the world's leading financial and shipping centre.

Our production plants are required to be evaluated and assessed by the local environmental protection bureau, prior to its construction and are monitored regularly. We have been complying with the environmental laws and regulation issued by the State and the local governments and from the investigation report issued by the Environmental Protection Bureau of Taierzhuang District, Shandong Province in March 2006, our production facilities obtained satisfactory result regarding the pollutant emissions level which was in compliance with the environmental standards for cement industry. For compliance with such environmental protection rules and regulations, we have invested an aggregate of RMB12.5 million in the relevant facilities where RMB11.4 million was incurred in 2005 and additional equipment costing RMB1.1 million were installed between 2006 and 2011. After their installation, the ongoing running expenses of these facilities are not material.

We have established and implemented various internal control rules and guidelines on environmental compliance and pollution controls, such as the guidelines on the management and reduction of waste pollutants, management of the operation of pollution control system and measures related to environmental protection. We regularly deliver environmental protection information to our employees in order to raise their awareness to better control and manage pollutant emissions level.

In addition, we have put effort in developing advanced production technologies and converting our production process to an environmental friendly way to produce cement, including the waste heat recovery system which collects waste heat emitted during the production process and use it to generate power for our production. We also have a comprehensive use of readily-available waste by-products including granulated slag which is a solid waste. Our production line also employ rotary kilns which consume less energy and generate less pollutants during the production process.

During the Track Record Period, we had violated Law on Prevention and Control of Water Pollution and Law on Prevention and Control of Air Pollution as Shandong SAC did not obtain such Pollutant Discharge Permit for its previous production activity of cement since commencement of operation. 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 to water 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 it 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 to air before April 2011. For the same reason as disclosed above, Pollutant Discharge Permit for discharging pollutant to water was not applicable for 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 that rendered Shandong SAC had not held any Pollutant Discharge Permit in respect of our 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. We will continue to improve our compliance functions and to keep ourselves updated with the regulatory environment of the cement business and ensure we fully comply with the law requirements.

Government incentives

Energy saving and pollutants reduction is the primary focus of the PRC government on the polluting industry, including cement industry in the national strategies. To encourage cement producers to meet or out-perform the government's targets, various incentives have been offered by the PRC government. Currently, the PRC government 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), is offering VAT refunds to cement producers which can demonstrate 30% Recycling Rate, a level that is not practical for cement producers who use vertical kiln to achieve. Our Shanghai plant before the cessation of cement production enjoyed VAT refunds under this policy. In addition, our previous plant enjoyed a preferential enterprise income tax rate of 15% compared with the regular national enterprise income tax rate of 25% for being recognised by the PRC government as a high and new technology enterprise. For the years ended 31 December 2008 and 2009, we received VAT refunds amounted to HK$19.7 million and HK$13.9 million, respectively. There were no VAT refunds for the year ended 31 December 2010 and for the six months ended 30 June 2011 due to the cessation of cement and clinker production of our Shanghai plant.

Legal proceedings

Work-related injury

A former employee (the "claimant") has initiated legal proceedings against Allied Wangchao, claiming personal injuries damages of a total sum of RMB1,128,057 at Taierzhuang District People's Court (台兒莊區人民法院) in connection with an accident which occurred in Allied Wangchao plant. On 31 August 2005, the claimant fell into a grinding plant during the course of employment, leading to serious lumbar fracture injuries. The claimant alleged negligence and/or breach of employer's duty and/or statutory duty on the part of Allied Wangchao leading to his disability as a result of the accident.

The claimant was a worker responsible for checking of the raw materials during the manufacturing process. The incident was discovered by another worker who was expecting to receive signal from the claimant. The claimant was found inside the grinding machine which was fully sealed off at all directions except for the opening for the conveyor belt which was transporting raw materials into the grinding machine. As the sealed portion had not been broken, the claimant was found to have fallen into the machine from this only opening. We have provided in our safety regulations that it is prohibited to walk on the running belt and it was found that the claimant's own breach of safety regulations contributed to this accident.

The claim of the claimant was that there was no employment relationship between him and our Group and thus the Work-related Injuries Insurance Regulation (工傷保險條例) is not applicable. The Group believes it is clear that the claimant was at the relevant time our employee despite that the employment contract had not been reduced to writing, since (1) we have been paying the basic pension insurance (養老保險金) for him; (2) the claimant was under management and supervision of our Group; and (3) the claimant was required to abide by our internal rules.

Judgment of the first trial was made against Allied Wangchao, awarding the claimant a total compensation of RMB1,115,388.6. On 12 October 2010, we appealed to the Zaozhuang City Intermediate People's Courts (棗莊市中級人民法院) which set aside Taierzhuang District People's Courts' judgment on 20 December 2010 and remitted the case for re-trial. The re-trial has been conducted and the re-trial judgment is to be delivered. As at the Latest Practicable Date, the judgement is still pending.

This is the only work-related injury incident since our commencement of operation in 2004. We believe our safety measures in place are sufficient and effective and this is an isolated incident. We have continuously reinforced the importance of workplace safety supervision at our facilities and provide safety training to our employees as and when appropriate.

Independent PRC legal advisers are of the view that there is substantial risk that the assessment of damages will not be processed at the standard of work-related injuries. Based on the legal opinion from the independent PRC legal advisers to our Group in respect of the case, our maximum exposure would not exceed HK$1.3 million.

The Group's independent PRC legal advisers have advised that the outcome for the claim of approximately RMB1.1 million (equivalent to approximately HK$1.3 million) in relation to the accident cannot be reasonably ascertained. The Group has therefore made full provision for the claim under this incident and considered that adequate provision has been made.

Former limestone excavation contractor

A former limestone excavation services provider (the "Former Contractor") initiated legal proceedings against Allied Wangchao and Shandong SAC in November 2009 at Zaozhuang City Intermediate People's Court (棗莊市中級人民法院) for the failure of Allied Wangchao to make payment for their services fees for infrastructure at Langshan, Taierzhuang (台兒莊狼山礦區) and supply of limestone excavated from Langshan quarry in accordance with the contract entered into between Allied Wangchao and the Former Contractor on 6 September 2004. Under this legal proceedings, the Former Contractor claimed for outstanding services fee for infrastructure of approximately RMB2.7 million and for excavation and supply of limestone of approximately RMB4.3 million, totalling approximately RMB7 million. In addition, the Former Contractor further claimed damages of RMB1.4 million for alleged breach of contract. Allied Wangchao and Shandong SAC counterclaimed against the Former Contractor for damages of approximately RMB2.8 million as compensation for the monetary losses caused by the Former Contractor's failure to provide Allied Wangchao the relevant invoices for claiming VAT refund in the same year.

Our Directors believed that the Former Contractor had been unable to continue carrying out its contractual duties of excavation of limestone in accordance to the terms in the contract and tender documents which formed part of the contract. Our Directors believed that the Former Contractor's internal management problem had hindered its ability to carry out its contractual duties properly as evidenced by it eventually vacating our quarry at Langshan without notice after refusing to arrange a proper handover. We have to seek another service provider to carry out the project in order to continue developing our Langshan quarry. The Former Contractor and the Group have been unable to agree on the final payment as there was disagreement over the value of work done and losses caused to us in relation to their failure to handover. Accordingly, we have withheld payment pending a resolution.

On 5 July 2010, the Zaozhuang City Intermediate People's Court handed down a judgement in favour of the Former Contractor, concluding that Allied Wangchao and Shandong SAC shall pay the Former Contractor a total sum of approximately RMB8.4 million. Our Group appealed to the higher court and on 10 December 2010, the Shandong Province High People's Court (山東省高級人民法院) set aside the judgement of the Zaozhuang City Intermediate People's Court and remit the case for re-trial. The re-trial has been conducted and the retrial judgment is to be delivered. As at the Latest Practicable Date, the judgement is still pending.

Independent PRC legal advisers are of the view that we have a higher chance to succeed in our defence in this proceeding. In light of the report dated 28 July 2011 for evaluation of Langshan quarry commissioned by the Zaozhuang City Intermediate People's Court (the "Court Evaluation Report"), the outstanding services fee for infrastructure at Langshan has been determined to be approximately RMB1.5 million compared to the Former Contractor's claim of RMB2.7 million. Accordingly, our maximum exposure would not exceed approximately RMB7.2 million (approximately HK$8.64 million).

The Group has made a provision of approximately HK$4.4 million as at 30 June 2011 for this legal proceeding. We consider that adequate provision has been made having taken into consideration: (i) the advice of our independent PRC legal advisers and that it was the Former Contractor which had breached the contract in the first place and thus there is no basis for the Former Contractor's claim for damages of RMB1.4 million; (ii) the outstanding service fee has been determined by the Court Evaluation Report to be approximately RMB1.5 million instead of RMB2.7 million as claimed by Former Contractor; and (iii) the Group suffered economic loss of RMB2.8 million as described above which was caused by the Former Contractor and the Group's counterclaim on such damages. The Controlling Shareholders have also executed a deed of indemnity in favour of our Group against the additional liability in the maximum amount of HK$4 million if the final aggregate amounts ordered to be paid by the PRC relevant authorities under this proceedings exceed the provisions of HK$4.4 million made by the Group. For further details, please refer to the section headed "Statutory and General Information — Other Information — 1. Estate duty, tax and other indemnity" in this prospectus.

Save as disclosed above, as of the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Group, that would have a material adverse effect on our business, financial condition or results of operation.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Share Offer, Autobest Holdings and its ultimate owner, Tian An, will control the exercise of approximately 75% voting rights in the general meeting of the Company. Tian An is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. It is principally engaged in the development of high-end apartments, villas, office buildings and commercial properties, property investment and property management, as well as the manufacture, sale and trading of cement and clinker in the PRC through our Group. Tian An recorded revenue of approximately HK$1,083.5 million, HK$1,412.0 million and HK$812.7 million for the years ended 31 December 2009 and 2010 and the six months ended 30 June 2011, respectively. During the corresponding periods, it recorded a profit of HK$1,621.7 million, HK$1,083.0 million and HK$570.2 million respectively. As at 30 June 2011, Tian An's net asset value amounted to HK$14.1 billion.

Past connected transactions between our Group and Tian An Group are set out in the section headed "Connected transactions" in this prospectus. Going forward after the Listing, our Directors do not expect that there will be any significant transactions between our Group and Tian An Group.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Business and administrative independence

Our Directors believe we are able to carry on our business independently of our Controlling Shareholders as we do not have any business transactions (both sales and purchases) with any of them. While our Controlling Shareholders engage in property development in the PRC, our Directors confirm that they are not aware of any instance where our Group's products were used in the Controlling Shareholders' property projects. Furthermore, our Group does not have any intention to supply our products directly to the Tian An Group upon and after the Listing.

Our management team and staff handle our day-to-day operations independently and we also have independent access to our customers and suppliers. All essential administrative functions such as financial and accounting management and human resources and operational functions such as the production of clinker and cement are being conducted independently without the support of our Controlling Shareholders.

Mr. Ng Qing Hai, being an executive Director of our Company who is involved in the setting of our business directions and policies, is also an executive Director of Tian An. Save for Mr. Ng, none of the members of the Board hold any directorship or position in Tian An, and there is no overlapping senior management between our Group and Tian An.

Financial independence

During the Track Record Period, Tian An provided guarantee to secure certain of our borrowings from financial institution with carrying value of approximately HK$71.0 million, HK$62.0 million, HK$99.6 million and HK$93.3 million as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively. As at the Latest Practicable Date, our Group had obtained consents from current lenders to release all the financial guarantees provided by Tian An, by replacing them with guarantee provided by our Group upon the Listing and operating fixed assets of Shandong Wangchao with current market value of not less than RMB55,000,000 as additional security.

Our Company has shareholder's loans from Tian An and Sunwealth of approximately HK$286.5 million, HK$343.9 million and HK$355.3 million as at 31 December 2009 and 2010 and as at 30 June 2011, respectively since we were acquired by Tian An in 2009. On 20 December 2011, shareholder's loan owed to Sunwealth by our Group accumulated to the approximately amount of HK$357.3 million, part of which in an approximate amount of HK$227.3 million was capitalised as 142,292,167 Shares as a part of the Reorganisation prior to the Listing and the remaining balance of approximately HK$128.2 million and HK$1.8 million due to Sunwealth and Tian An respectively will be fully repaid using proceeds from the Share Offer. Please refer to the section headed "Connected transactions" for further details on the shareholders' loan.

The Company has another loan payable to a subsidiary of Tian An of approximately HK$13.3 million, HK$13.8 million and HK$14.1 million as at 31 December 2009 and 2010 and as at 30 June 2011 respectively. The amount was fully repaid on 28 July 2011.

The Directors confirm that our Group has the ability to operate independently from the Controlling Shareholders and their associates from financial perspective.