The following discussion and analysis should be read in conjunction with the audited financial statements of Allied Cement Holdings Limited for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, in each case with the related notes thereto, included elsewhere in this prospectus. The financial information of our Group has been prepared in accordance with HKFRS, which may differ in certain significant respects from generally accepted accounting principles in certain other countries. For further information, see "Appendix I — Accountants' Report" included in this prospectus. Potential investors are encouraged to read the entire Accountants' Report set out in Appendix I to this prospectus and do not rely merely on the information provided in this section.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this prospectus, particularly in the section headed "Risk factors".

Any discrepancies in any table or elsewhere in this prospectus between totals and sums of amounts listed herein are due to rounding.

OVERVIEW

We are a quality-focused clinker and cement company in Shanghai and Shandong Province in the PRC. Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 21 March 2011. Our Company is a wholly-owned subsidiary of Tian An. We have eight subsidiaries, namely Splendid Link, SAC Intellectual, SAC Holdings, AII-Shanghai, AII-cement, Shanghai SAC, Allied Wangchao and Shandong SAC.

Our manufacturing plants are located in Taierzhuang District, Zaozhuang City, Shandong Province. Prior to the Premises Vacation, our Shanghai operations was also engaged in the cement manufacturing and sale business. 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 construction. 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.

BASIS OF PREPARATION

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of our Group have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation or establishment, where this is a shorter period. The combined statements of financial position as at 31 December 2008, 2009 and 2010 and as at 30 June 2011 present the assets and liabilities of our Group which had been incorporated or established as at the end of each relevant reporting year/period as if the current group structure had been in existence at the end of those reporting year/period.

The basis of combination and the accounting policy on business combination are detailed in note 3 of the Accountants' Report set out in Appendix I to this prospectus.

The financial information is presented in HK$ which is different from the functional currency of our Company, RMB, as the Directors consider that HK$ is the most appropriate presentation currency in view of its place of listing is in Hong Kong.

CRITICAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparation of our financial statements are based on HKFRS. A summary of such principal accounting policies adopted in the preparation of our financial statements is set out in note 3 to the Accountants' Report in Appendix I to this prospectus. The following is a discussion of those accounting policies that we believe are most critical in preparing our financial statements.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of properties held for sale is recognised when the respective properties have been delivered to the buyers. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the combined statement of financial position under current liabilities.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Technical services income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in production or supply of goods or services, or for administrative purpose other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Estimated useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period. The property, plant and equipment are depreciated on a straight-line basis at the following rates per annum after taking into account the estimated residual values:

Buildings and structures	2.5%–9%
Leasehold improvements	4.5%–18%
Plant and machinery	5%–9%
Furniture, fixtures and equipment	9%–18%
Motor vehicles	18%

Mining right

On initial recognition, mining right acquired separately is recognised at cost. After initial recognition, mining right is carried at costs less accumulated amortisation and any accumulated impairment losses. Gain or loss arising from derecognition of mining right is measured at the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss when the asset is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Our Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a liability and release as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, our Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to our Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments on land use rights" in the combined statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment unless it is clear that both elements are operating lease, in which case the entire lease is classified as an operating lease.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is computed on a weighted average method. Net realisable value represents the estimated selling price less all estimated cost of completion and costs to be incurred in marketing, selling and distribution.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that our Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which our Group recognises as expenses the related costs for which the grants are intended to compensate. Grants related to refund of value added tax from tax authorities and subsidy income from government are recognised in profit or loss when received or receivable.

Financial instruments

Financial assets and financial liabilities are recognised on the combined statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately to profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

The effective interest method is also used to calculate the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those carried at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include our Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of one year, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When the trade and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our operating results are most significantly affected by the following factors:

(i) Growth of the construction industry in the provinces of Shandong, Jiangsu, Anhui and Shanghai

During the Track Record Period, our revenues were mainly derived from sales of cement and clinker in Shandong Province, Jiangsu Province, Anhui Province and Shanghai, which were within 200 kilometres from our production facilities or along the route of the Grand Canal between Taierzhuang and Shanghai. Economic and market conditions in these regions would significantly impact the demand for and pricing of our products. In particular, the change in economic conditions will affect the level of construction activities from the private sector, while the demand of our products is sensitive to the level of construction activities. Furthermore, the availability and costs of raw materials, costs of energy supply, labour costs and other operating expenses are also affected by the market conditions.

Besides the private sector, the PRC government from time to time issues new industry policies to adjust the level of investment in infrastructure projects and real estate development through economic and administrative means. These policies could have a significant impact on our business. As a continuation to the Eleventh Five-Year Plan, the PRC government will continue in its Twelfth Five-Year Plan to invest in major infrastructure and development projects between 2011 and 2015; for instance, the construction of regional mass transport systems and increase the supply of social housing or affordable homes (保障性住房) for low income families.

As the construction industry and the real estate sector are closely monitored by the government to prevent over-heating, any change in government policies, economic conditions, operating environment and/or market sentiment of these sectors in the region where we operate will greatly affect the demand of our cement products and thus would affect our profitability and financial performance.

(ii) Our profit margins is affected by the market price of cement

During the Track Record Period, we have recorded gross profit margins of 8.4%, 6.3%, 11.5% and 15.8% for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively. Our gross profit margins were significantly affected by the selling price of our cement products. For the corresponding years/period the average selling prices of our cement products in Shanghai were approximately RMB289.4, RMB246.4, RMB294.8 and RMB387.0 per ton respectively, and the average selling prices of our cement product in Shandong were approximately RMB207.9, RMB197.8, RMB211.7 and RMB278.3 per ton respectively. As there is no government price control on cement products, our selling prices are closely related to the prevailing market prices, which are affected by the demand and the supply of clinker, cement and concrete in the regions where we operate. Furthermore, as an industry practice, we typically are not able to fix the price of our products beforehand with our customers until the time of delivery. There is no effective measures that allow us to ensure our revenue is immune from changes in market prices.

For our cement trading business in Shanghai, there is no restriction imposed by our supplier on the selling price at which we sell the cement products. However, the selling price of cement is still correlated to the prevailing market price. As cement products have specifications set out according to national standards, our customers are able to source their cement supply from other suppliers if such suppliers' prices are more competitive. In the event that we are not able to supply our cement at a competitive price, our revenue from sale of our own products and trading of cement from other suppliers may decrease, which may adversely affected our profitability and financial performance.

(iii) Our cost of sales is affected by the market price of raw materials

For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, our raw materials, which primarily included limestone, gypsum, fly ash, pyrite cinder and slag, represented approximately 26.2%, 27.8%, 12.8%, 14.4% and 13.1% of our cost of sales respectively; coal represented approximately 42.1%, 35.3%, 28.4%, 33.6% and 18.4% of our cost of sales respectively; and electricity represented approximately 17.9%, 21.3%, 13.3%, 16.5% and 9.3% of our cost of sales respectively. While our waste heat recovery system will provide part of our electricity needs upon its completion and we have access to abundant supply of limestone supply from our limestone quarry in Shandong Province, we rely on independent third party suppliers for the supply of other raw materials, coal and electricity required for our cement production process. Other than electricity price which is regulated by the PRC government, the market price of other raw materials are generally not regulated and is subject to changes according to prevailing market conditions. If we are unable to pass on part or all of increased costs by increasing our selling prices to our customers, any significant increase in the prices of raw materials, coal or electricity may have a significant impact on our costs of sales, which in turn could have a material adverse effect on our business, profitability and financial performance.

(iv) PRC government incentives may affect our profitability

The PRC government offers VAT refunds to cement producers that are able to demonstrate 30% Recycling Rate pursuant to the *Notice regarding Policies relating to Value Added Tax on Products Made Through Comprehensive Utilisation 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 dated 9 December 2008). Our Shanghai plant enjoyed VAT refunds by achieving 30% Recycling Rate, such as utilising slag and fly ash and replacing natural gypsum with desulfurised gypsum during the year ended 31 December 2008 and 2009. We ceased to receive the VAT refunds in 2010 as our Shanghai plant ceased production in late 2009 due to the Premises Vacation. During the years ended 31 December 2008 and 2009, VAT refunds amounted to approximately HK$19.7 million and HK$13.9 million respectively.

In respect of tax relief, our Shanghai operations enjoyed a preferential enterprise income tax rate of 15% as compared with the regular national enterprise income tax rate of 25% for being recognised by the PRC government as a high-new technology enterprise. Following the cessation of cement and clinker production at our Shanghai plant, there has been no preferential tax treatment to our Group. Meanwhile, under the Law of the People's Republic of China on Income Tax of Enterprises with Foreign Investment and Foreign Enterprises, Allied Wangchao had a income tax rate of 12.5% during the Track Record Period under the policy where an enterprise with foreign investment of a production nature would be exempted from income tax in the first and second years and allowed a 50% reduction in the third to fifth years after the first profit-making year ("兩免三減半"). Loss of any of these government tax incentives would adversely affect our profitability and financial performance.

(v) PRC government policies to cement industry

The PRC government has implemented, and may in the future implement, new policies in the cement and construction industries, which will affect our profitability. For instance, in 2010, the PRC government has introduced measures to cool down the price hike in the residential property markets, such as raising the minimum down-payment for second-home purchases, carrying out purchase restrictions, setting price targets on new properties, and introducing taxes for homes in areas with excessive price growth such as Shanghai. Furthermore, the PRC government has adopted policies intended to accelerate the consolidation of the cement industry, promote technological advancement and improve energy efficiency. All these government policies and control measures will directly or indirectly affect the demand and supply of cement products, which may affect the market price and thus our profitability and financial performance.

IMPACT OF CHANGES IN OUR SHANGHAI AND SHANDONG OPERATIONS ON OUR FINANCIAL PERFORMANCE AND FINANCIAL POSITION DURING THE TRACK RECORD PERIOD

During the Track Record Period, our Shanghai operation had undergone substantial changes as it has ceased cement and clinker manufacturing activities as a result of the Premises Vacation and currently conducts trading of cement only. Our Shandong operation had also undergone changes where (i) Shandong Wangchao, which previously manufactured and sold only clinker, commenced trial production of cement in October 2010; and (ii) Shandong SAC, which previously manufactured cement, had ceased this activity since April 2011 and currently produces slag only.

A summary of the impact of the above changes on our financial performance and financial position is as follows:

1. Changes in production capacity

During the Track Record Period, our cement production capacity had decreased from a level of 1.7 million tons per annum to 1.0 million tons. The Shanghai plant (with capacity of 1.0 million tons per annum) and the Shandong SAC plant (with capacity of 0.7 million tons per annum) had ceased operations while the Shandong Wangchao plant (with capacity of 1.0 million tons) had commenced operations.

During the Track Record Period, our clinker production capacity had decreased from 4,500 tons per day to 2,500 tons per day as the Shanghai plant (with capacity of 2,000 tons per day) ceased operations in end 2009. Clinker is currently produced for our own use for cement manufacturing by the Allied Wangchao plant. Meanwhile, we have commenced our slag production (with capacity of 160,000 tons per annum) through the Shandong SAC plant in April 2011.

2. Changes in sales product mix

During the three years ended 31 December 2008, 2009 and 2010, the proportion of our cement and clinker sales by total revenue from manufacture and sale and trading of cement and clinker were 72.0%:28.0%, 79.0%:21.0% and 72.1%:27.9% respectively. As the clinker produced by Allied Wangchao is predominantly used for our own cement manufacturing after October 2011, the amount of clinker available for sale to third parties decreased. Coupled with the increasing cement trading activities, the proportion of our cement and clinker sales by total revenue from manufacture and sale and trading of cement and clinker revenue was 92.1%: 7.9% during the six months ended 30 June 2011.

3. Changes in revenue mix

Prior to the Premises Vacation, we did not conduct any cement trading activities. Consequently, revenue generated from manufacturing of cement and clinker as a percentage of total revenue were 99.4% and 100.0% for the two years ended 31 December 2008 and 2009 respectively, with the balance being revenue from technical services income.

As our Shanghai operation ceased manufacturing activities and commenced cement trading activities, the proportion of revenue from manufacturing of cement and clinker, and trading of cement as a percentage of total revenue were 65.6% and 34.2% respectively for the year ended 31 December 2010. The proportion of revenue from cement trading further increased to 44.6% of our total revenue during the six months ended 30 June 2011 with the remaining 55.4% attributable to revenue from manufacturing of cement and clinker.

4. Changes in average selling price

The selling prices of cement and clinker are generally higher in Shanghai compared with the Shandong areas. For example, average cement selling prices (per ton) for our Shanghai operations during the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 were RMB289.4, RMB246.4, RMB294.8 and RMB387.0 respectively. The comparative selling prices (per ton) for our Shandong operations were RMB207.9, RMB197.8, RMB211.7 and RMB278.3 respectively. Our overall average selling price will therefore increase as we progressively increase our cement trading operations in Shanghai.

5. Changes in gross profit margins

During the Track Record Period, trading of cement has commanded lower profit margins than manufacture and sale of cement and clinker. For example, its gross profit margin during the year ended 31 December 2010 and six months ended 30 June 2011 were 3.8% and 3.4% respectively while gross profit margin for manufacture and sale of cement were 13.3% and 25.0% respectively during the same period. The increase in proportion of cement trading activities will lower our Group's overall gross profit margins.

6. Changes in cost of sales

The commencement of cement trading at our Shanghai operations necessitated purchase of cement products from third party suppliers. Consequently, the percentage of such purchases in the composition of our cost of sales had increased. During the Track Record Period, as we commenced cement trading from early 2010, purchases of cement products from third party suppliers accounted for nil and nil during the two years ended 31 December 2008 and 2009, and increased to 37.2% and 51.1% of our cost of sales during the year ended 31 December 2010 and six months ended 30 June 2011. Meanwhile, the cessation of cement manufacturing at our Shanghai operation reduces the amount of raw materials, cost of coal and cost of electricity. There was also savings in cost of sales after we commenced our own slag production. The amount of slag purchased from third party suppliers has reduced although there will be increases in purchases of granulated slag (水渣), the raw material to produce slag. As such production only commenced in April 2011, its impact on our cost of sales during the Track Record Period is not material. For illustrative purposes, 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.

7. Changes in distribution, selling expenses and administrative expenses

Following the Premises Vacation, the employment status of most sales staff of Shanghai SAC has changed from permanent to contract basis. This change resulted in a reclassification of such employees' salaries, commissions and benefits expenses from distribution and selling expenses to administrative expenses. Employee salaries under distribution and selling expenses had decreased from HK$1.0 million during the six months ended 30 June 2010 to about HK$0.2 million during the six months ended 30 June 2011. At the same time, employees salaries under administrative expenses had increased from HK$1.0 million during the six months ended 30 June 2010 to about HK$5.2 million during the six months ended 30 June 2011.

8. Changes in inventory, debtors' and creditors' turnover days

By producing our own slag at the Shandong SAC plant, our inventory management has improved as we can produce the amount of slag in time for our requirements instead of having to purchase and store to ensure immediate availability. The above will have a positive impact on our inventory turnover days. However, depending on our ability to manage supplies sourced from other suppliers for our cement trading business, it will have an impact on our finished goods turnover days. During the Track Record Period, finished goods turnover days increased from 4 days during the two years ended 31 December 2008 and 2009 respectively, to 12 days and 7 days during the year ended 31 December 2010 and six months ended 30 June 2011 respectively as our cement trading business increased.

It is common market practice in Shanghai to grant longer credit periods than Shandong, where sales are typically conducted on cash basis. The increasing sales from our Shanghai cement trading business had increased debtors turnover days from 142 days and 139 days in the two years ended 31 December 2008 and 2009 respectively to 155 days and 153 days for the year ended 31 December 2010 and the six months ended 30 June 2011 respectively.

The commencement of our cement trading business in early 2010 has increased our creditors' turnover days as we are typically given credit periods of up to six months from our cement suppliers. During the Track Record Period, our creditors' turnover days had increased from 34 days and 19 days in the two years ended 31 December 2008 and 2009, to 85 days and 96 days for the year ended 31 December 2010 and the six months ended 30 June 2011 respectively.

9. Changes in taxation

During the Track Record Period, our Shanghai operation had enjoyed preferential enterprise income tax rate of 15% (as compared with the regular national enterprise income tax rate of 25%) for being recognised as a high-new technology enterprise. Following the cessation of cement and clinker production of our Shanghai plant, there has been no preferential tax treatment to the Group.

Our Shanghai plant had also enjoyed VAT refunds amounted to HK$19.7 million and HK$13.9 million during the years ended 31 December 2008 and 2009 respectively by achieving 30% Recycling Rate. Following the Premises Vacation, we ceased to receive VAT refunds.

10. One-off land resumption compensation and related costs

We are entitled to a total compensation of RMB799.9 million due to the Premises Vacation, of which RMB749.9 million had been received up to 30 June 2011. We recognised a gain of HK$528.4 million as a result, after taking into account, among others, losses on disposal of property, plant and equipment of HK$239.7 million, severance payment to employees of HK$90.0 million. We have also written off goodwill of HK$69.5 million.

11. Gains on investment products

Our Group had invested in investment products to enhance the return on our Group's cash holdings after receiving the land resumption compensation. For the year ended 31 December 2009, we received the land resumption compensation of HK$568.4 million in relation to the Premises Vacation. We further received land resumption compensation of HK$287.0 million in 2010. As part of our treasury management, we had invested in (on net basis) approximately HK$29.9 million of structured deposits carried at fair value through profit or loss, approximately HK$58.8 million in unlisted debt securities, and approximately HK$282.4 million in time deposits for the year ended 31 December 2010; and we had invested in (on net basis) approximately HK$284.2 million of structured deposit carried at fair value through profit or loss for the six months ended 30 June 2011. During the year ended 31 December 2010 and the six months ended 30 June 2011, our Group recognised fair value gains of HK$5.5 million and HK$4.3 million on investments in principal protected-structured deposits with banks respectively.

RESULTS OF OPERATIONS OF OUR GROUP

The following table sets forth our selected combined statements of comprehensive income and other financial information for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 as derived from the Accountants' Report of the Company in Appendix I to this prospectus.

Selected Combined Statements of Comprehensive Income

	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
Revenue	555,915	490,116	451,444	161,849	391,659
Cost of sales	(509,121)	(459,058)	(399,596)	(157,532)	(329,694)
Gross profit	46,794	31,058	51,848	4,317	61,965
Other income	29,368	17,944	12,914	5,938	10,854
Net foreign exchange gain	25,633	—	13,146	—	9,559
Fair value gains on financial assets designated as at fair value through profit or loss	—	—	5,538	5,171	4,332
Gain on land resumption exercise	—	—	528,396	528,396	5,766
Distribution and selling expenses	(6,642)	(6,600)	(4,529)	(2,943)	(1,636)
Administrative expenses	(25,711)	(24,503)	(17,753)	(6,067)	(15,015)
Other expenses	—	—	—	—	(3,606)
Reversal of (allowance for) bad and doubtful debts	541	820	292	(3)	16
Goodwill written off	—	—	(69,479)	(69,479)	—
Finance costs	(12,398)	(9,232)	(4,882)	(1,068)	(2,163)
Profit before taxation	57,585	9,487	515,491	464,262	70,072
Taxation	(4,503)	535	(140,976)	(132,260)	(16,797)
Profit for the year/period	53,082	10,022	374,515	332,002	53,275
Other comprehensive income					
Exchange difference arising on translation to presentation currency	12,700	—	19,373	(4,504)	17,086
Total comprehensive income for the year/period	65,782	10,022	393,888	327,498	70,361
Profit for the year/period attributable to:					
Owners of the Company	45,206	6,709	168,332	129,930	47,840
Non-controlling interests	7,876	3,313	206,183	202,072	5,435
	53,082	10,022	374,515	332,002	53,275
Total comprehensive income attributable to:					
Owners of the Company	45,388	6,709	176,513	127,679	54,756
Non-controlling interests	20,394	3,313	217,375	199,819	15,605
	65,782	10,022	393,888	327,498	70,361

Revenue

During the Track Record Period, we derived our revenue from (i) manufacture and sale of cement and clinker; (ii) trading of cement from third party suppliers; and (iii) provision of technical services to other cement producers. The following sets out the breakdown of revenue by business:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000	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
Technical services income	3,068	—	755	—	—
Total	555,915	490,116	451,444	161,849	391,659

For reference, the sales volume for each of the Group's products for each year/period during the Track Record Period is set out as follows:

For the year ended 31 December 2008

	Shanghai Plant		Shandong SAC plant		Allied Wangchao plant	
	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price
	(tons)	(RMB/ton)	(tons)	(RMB/ton)	(tons)	(RMB/ton)
Clinker	60	299.6	—	N/A	639,774	212.7
Grade 32.5 cement	—	N/A	56,218	198.3	—	N/A
Grade 42.5 cement	686,568	278.0	263,305	209.8	—	N/A
Grade 52.5 cement	294,778	316.2	—	N/A	—	N/A
All grade cement	981,346	289.4	319,523	207.9	—	N/A

For the year ended 31 December 2009

	Shanghai Plant		Shandong SAC plant		Allied Wangchao plant	
	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price
	(tons)	(RMB/ton)	(tons)	(RMB/ton)	(tons)	(RMB/ton)
Clinker	—	N/A	—	N/A	510,886	177.5
Grade 32.5 cement	—	N/A	116,249	191.5	—	N/A
Grade 42.5 cement	612,452	239.1	525,785	198.9	—	N/A
Grade 52.5 cement	252,984	263.9	2,064	263.5	—	N/A
All grade cement	865,436	246.4	644,098	197.8	—	N/A

For the year ended 31 December 2010

	Shanghai Plant		Shandong SAC plant		Allied Wangchao plant	
	Sales volume (tons)	Average selling price (RMB/ton)	Sales volume (tons)	Average selling price (RMB/ton)	Sales volume (tons)	Average selling price (RMB/ton)
Clinker	—	N/A	—	N/A	493,090	221.9
Grade 32.5 cement	—	N/A	110,713	200.6	—	N/A
Grade 42.5 cement	362,973	288.7	526,965	206.7	57,483	273.8
Grade 52.5 cement	92,665	318.6	5,732	257.3	—	N/A
All grade cement	455,638	294.8	643,410	206.1	57,483	273.8

For the six months ended 30 June 2010

	Shanghai Plant		Shandong SAC plant		Allied Wangchao plant	
	Sales volume (tons)	Average selling price (RMB/ton)	Sales volume (tons)	Average selling price (RMB/ton)	Sales volume (tons)	Average selling price (RMB/ton)
Clinker	—	N/A	—	N/A	236,851	181.6
Grade 32.5 cement	—	N/A	49,341	182.4	—	N/A
Grade 42.5 cement	108,248	237.8	271,295	188.9	—	N/A
Grade 52.5 cement	46,579	270.8	3,356	244.7	—	N/A
All grade cement	154,827	247.7	323,992	188.4	—	N/A

For the six months ended 30 June 2011

	Shanghai Plant		Shandong SAC plant		Allied Wangchao plant	
	Sales volume (tons)	Average selling price (RMB/ton)	Sales volume (tons)	Average selling price (RMB/ton)	Sales volume (tons)	Average selling price (RMB/ton)
Clinker	—	N/A	—	N/A	85,928	297.1
Grade 32.5 cement	—	N/A	32,484	257.2	29,293	249.7
Grade 42.5 cement	304,389	380.9	304,751	282.8	182,951	277.7
Grade 52.5 cement	70,116	413.4	3,159	331.7	2,956	314.1
All grade cement	374,505	387.0	340,394	280.8	215,200	274.4

Year ended 31 December 2009 compared to year ended 31 December 2008

Revenue decreased by 11.8% from HK$555.9 million for the year ended 31 December 2008 to HK$490.1 million for the year ended 31 December 2009. The decrease was mainly attributable to the falling clinker and cement market price in 2009 resulting from the contraction in the construction industry and excess capacity of cement industry during the year. Specifically, the average selling price of our cement products in Shanghai decreased from approximately RMB289.4 per ton in 2008 to RMB246.4 per ton in 2009, while the average selling prices of our cement and clinker products in Shandong decreased from approximately RMB207.9 and RMB212.7 per ton to RMB197.8 and RMB177.5 per ton respectively during the same period. During the years ended 31 December 2008 and

2009, we sold our cement and clinker at the prevailing market prices in the respective regions and the decrease in average selling prices for Shanghai and Shandong operations in 2009 was in line with the market trend.

In respect of sales volume of cement and clinker, the Group experienced a decrease in sales volume of cement for Shanghai operations during the year ended 31 December 2009 for all cement grades, due mainly to the cessation of cement production and sale in Shanghai from the Premises Vacation in December 2009. The decrease was partly alleviated by the increase in sales volume from Shandong operations, where the total cement sales volume increased from 319,523 tons in 2008 to 644,098 tons in 2009. The relatively low cement sales volume for Shandong operation in 2008 was mainly due to the low utilisation rate of Shandong SAC plant as it ceased to produce clinker in Shandong SAC plant after the cessation of the operation of its kiln with low energy efficiency in January 2008.

Our Group generated revenue of HK$3.1 million for the year ended 31 December 2008 from the technical service provided to a cement production line contractor. We did not have any revenue from this business during the year ended 31 December 2009.

Year ended 31 December 2010 compared to year ended 31 December 2009

Revenue decreased by 7.9% to HK$451.4 million for the year ended 31 December 2010 from HK$490.1 million for the year ended 31 December 2009, mainly due to the cessation of manufacture and sale of clinker and cement in Shanghai upon the Premises Vacation in December 2009.

Operations in Shanghai were shifted to trading of cement, which generated revenue of HK$154.4 million for the year ended 31 December 2010. Average selling price of cement increased due to the increased demand in Shanghai region during the year. However, in terms of sales volume, Shanghai operations experienced a decrease from 865,436 tons in 2009 to 455,638 tons in 2010 as cement trading operation commenced in early 2010 and it took time for us to build up this operation and to increase the trading volume.

Meanwhile, the revenue attributed to the manufacture and sale of clinker and cement was HK$296.3 million, which was all attributable to Shandong operations. There was an increase in average selling prices of cement and clinker which was in line with the prevailing market prices. The price hiked in the PRC cement industry in 2010 mainly due to (i) on 25 November 2009, the Ministry of Industry and Information Technology issued the Notice on Decomposition and Implementation of Backward Production Capacity Elimination Task in 2009, requiring all provinces to phase out backward cement production capacity, which sped up the consolidation of the sector; (ii) the demand of cement increased amid government policies to increase the level of investment in infrastructure projects and development of social housing; (iii) the administrative policy to reduce electricity consumption implemented by the PRC government during the last quarter of 2010 limited the supply of cement and led to further increase in cement market price by the end of 2010. The average selling price of our cement product in Shandong increased from RMB197.8 per ton in 2009 to RMB211.7 per ton in 2010 and the average selling price of our clinker product increased from RMB177.5 per ton in 2009 to RMB221.9 per ton in 2010. In terms of sales volume, Shandong operations had sold comparable amount of cement in 2010 as compared with that in 2009 while the utilisation rate of Shandong SAC plant was also comparable at 91.9% and 91.8% respectively for the years ended 31 December 2009 and 2010. Meanwhile, the Allied Wangchao plant commenced trial production of cement in October 2010 and the corresponding sales volume of cement from Allied Wangchao plant was 57,483 tons in 2010. As the market price of cement was high in late 2010, the average selling price of cement attained by Allied Wangchao plant was significantly higher at RMB273.8 per ton in comparison to RMB206.1 per ton for the Shandong SAC plant in 2010.

Our Group also generated revenue of HK$0.8 million for the year ended 31 December 2010 from the technical service provided to a cement production line contractor.

Six months ended 30 June 2011 compared to six months ended 30 June 2010

Revenue increased by 142.0% to HK$391.7 million for the six months ended 30 June 2011 compared with the corresponding period in previous year as our average selling price increased. The significant increase was contributed by both the revenue from manufacture and sale of clinker and cement and trading of cement. Substantial increase in revenue from manufacture and sale of clinker and cement was mainly the result of our increasing average selling price which was in line with the prevailing market price. As mentioned above, the price hiked in the PRC cement industry in 2010, in particular towards to the end of 2010 due to the electricity limitation policy implemented by the PRC government which limited the supply of cement continued in the first half of 2011. Our average selling price of cement in Shandong increased by approximately 47.6% from RMB188.4 per ton for the six months ended 30 June 2010 to RMB278.3 per ton for the six months ended 30 June 2011 and that of clinker increased by approximately 63.6% from RMB181.6 per ton to RMB297.1 per ton during the respective periods. In terms of sales volume, there was a sharp increase in the sales volume of cement. Allied Wangchao commenced its trial cement production since October 2010 with a total annual cement production capacity of approximately 1.0 million tons (approximately 0.5 million tons for six months), where the cement grinding system was shifted from Shanghai plant following the Premises Vacation Trial production period ceased when Allied Wangchao obtained production permit in June 2011.

During the six months ended 30 June 2011, despite the low utilisation rate of 22.9 % of cement production capacity of Shandong SAC plant as the plant had ceased its cement production since April 2011, the Group had reached a utilisation rate of 93.5% of cement production capacity of Allied Wangchao plant. On the other hand, cement in corresponding period in previous year was produced wholly by Shandong SAC plant which had annual cement production capacity of approximately 0.7 million tons (approximately 350,000 tons for six months). Accordingly there was a significant increase in production and sales volume of cement for the six months ended 30 June 2011, which increased from approximately 323,992 tons from the corresponding period in previous year to 555,594 tons.

Meanwhile, there was a drop in the sales volume of clinker for the six months ended 30 June 2011 by approximately 63.7% to 85,928 tons as larger amount of clinker produced by us was used for our manufacturing of cement to meet the higher production capacity of the cement grinding system shifted from Shanghai plant.

For revenue from trading of cement, there was a substantial increase by approximately 300.6% to HK$174.6 million for the six months ended 30 June 2011. As mentioned above, cement trading operation commenced in early 2010 and it took time for us to build up this operation. Trading business became stable and trading transactions had been increasing gradually after commencement of trading business and we have been able to maintain business relationships with our major customers in the Shanghai region. Sales volume of the traded cement increased by approximately 141.9% from 154,827 tons to 374,505 tons and in addition, our average selling price of traded cement increased from RMB247.7 per ton to RMB387.0 per ton which was in line with the increasing trend of prevailing market price.

During each of the six months ended 30 June 2010 and 2011, we did not have any revenue generated from provision of technical service.

Revenue breakdown by types of customer

The following sets out our revenue generated from different customer groups:

Types of customer	Year ended 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010	Six months ended 30 June 2010	Six months ended 30 June 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
Technical service	3,068	—	755	—	—
Total	555,915	490,116	451,444	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, amounting 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 sales to construction companies and downstream manufacturers of cement and cement products decreased significantly for the year ended 31 December 2009 as compared to prior year due to the fall in our selling prices and the cessation of cement manufacturing and sales in Shanghai as mentioned above. Despite the fall in market price, the decrease in our revenue in 2009 was partly offset by the increased sales volume of cement and clinker to ready-mixed concrete stations and cement and clinker traders at our Shandong operations.

The sale to construction companies further decreased to HK$57.2 million in 2010 as (i) it took time for our Shanghai operations to rebuild the trading volume as we progressively developed the trading business from early 2010; and (ii) the increased distance of these customers' work site from our supply location in 2010, which made our price less competitive when transportation costs were taken into account. The decrease in revenue from construction companies was partly offset by the increased revenue from downstream manufacturers of cement and cement products. Meanwhile, our revenue from other customer groups remained relatively stable in 2010.

Except for sale to downstream manufacturers of cement and cement products which remained relatively stable for the six months ended 30 June 2011 compared with the corresponding period in previous year, sale to other types of customers increased significantly. Our trading business in Shanghai commenced in early 2010 and therefore trading volume was relatively lower for the six months ended 30 June 2010 where the trading business was still in its early stage. Our trading volume had been increasing afterwards when the trading business stabilised. In addition, the increasing average selling price of our traded cement due to the increased demand of cement in the Shanghai region as discussed above further boosted up our sales. In particular, one of our customers which is a construction company, contributed approximately 14.8% to our trading revenue during the six months ended 30 June 2011. Furthermore, there had been an overall increase in our sales volume of cement with the combined effect of increased sales volume from trading and increased cement production capacity as Allied Wangchao plant commenced its trial cement production from October 2010, where the grinding system was shifted from Shanghai plant. As a result, there was a significant increase in sales to all the customer types.

Cost of sales

The following sets out our cost of sales breakdown during the Track Record Period.

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	HK$'000	% of total cost of sales	HK$'000	% of total cost of sales	HK$'000	% of total cost of sales	HK$'000	% of total cost of sales	HK$'000	% of total cost of sales
Cost of raw materials	133,640	26.2	127,641	27.8	51,120	12.8	22,763	14.4	43,090	13.1
Cost of purchase of cement products for trading	—	—	—	—	148,495	37.2	42,472	27.0	168,632	51.1
Cost of coal	214,088	42.1	162,207	35.3	113,503	28.4	52,949	33.6	60,766	18.4
Cost of electricity	90,969	17.9	97,646	21.3	53,228	13.3	25,950	16.5	30,749	9.3
Depreciation	26,059	5.1	25,577	5.6	10,280	2.6	4,999	3.2	7,987	2.4
Direct labour	4,896	1.0	5,671	1.2	3,149	0.8	1,347	0.9	2,067	0.6
Others	39,469	7.7	40,316	8.8	19,821	4.9	7,052	4.4	16,403	5.1
Total	509,121	100	459,058	100	399,596	100	157,532	100	329,694	100

The cost of sales amounted to HK$509.1 million, HK$459.1 million, HK$399.6 million, HK$157.5 million and HK$329.7 million for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 respectively. Our cost of sales mainly includes the cost of raw materials for the manufacture of the clinker and/or cement products, the cost of coal and electricity, depreciation, direct labour and other overheads. For the year ended 31 December 2010 and the six months ended 30 June 2011, the cost of sales also included the purchase of cement products from third party suppliers of approximately HK$148.5 million and HK$168.6 million for our trading business in Shanghai respectively.

Our raw materials comprise mainly limestone, gypsum, fly ash, pyrite cinder and slag. Our cost of raw materials represented approximately 26.2%, 27.8%, 12.8%, 14.4% and 13.1% of our cost of sales, for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2010 and 2011 respectively. Coal is the major fuel in our production of clinker and represented approximately 42.1%, 35.3%, 28.4%, 33.6% and 18.4% of our cost of sales for the corresponding years/periods respectively. The change in the amounts as a percentage of the total cost of sales was mainly due to the change in the purchase price and consumption volume. The average purchase price of coal used in our production was approximately RMB793, RMB589, RMB717, RMB703 and RMB720 per ton for the corresponding years/periods respectively, while the coal consumption was approximately 238,077 tons, 240,865 tons, 151,675 tons, 66,755 tons and 67,138 tons respectively. There was a lower consumption of coal for the year ended 31 December 2010 due to the Premises Vacation. The amount of coal consumed for the six months ended 30 June 2011 was comparable to that of 2010. Coal is for heating up the kilns during the calcinations process of raw materials for the formation of clinker and the volume of clinker produced during the corresponding periods remained stable at 441,462 tons and 444,773 tons respectively for the six months ended 30 June 2010 and 2011. Meanwhile, electricity represented approximately 17.9%, 21.3%, 13.3%, 16.5% and 9.3% of our cost of sales for the corresponding years/periods, respectively. The increase of the cost of electricity as a percentage of total cost of sales for the year ended 31 December 2009 compared with that of 2008 was in line with the increased electricity price during the year. The corresponding percentage for the year ended 31 December 2010 decreased as our waste heat recovery system commenced its trial operation in September 2010, which provided part of our electricity needs at a lower cost. Cost of electricity represented 16.5% and 9.3% of our cost of sales for the six months ended 30 June 2010 and 2011, respectively. The lower percentage of electricity cost of our total cost of sales for the six months ended 30 June 2011 was due to the benefits of the waste heat recovery system described above.

Gross profit

Our gross profits amounted to HK$46.8 million, HK$31.1 million, HK$51.8 million and HK$62.0 million for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, representing gross profit margins of 8.4%, 6.3%, 11.5% and 15.8% respectively. For reference, the gross profit margin for each of the Group's products for the manufacturing and trading business during the Track Record Period is set out as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
Overall	8.4%	6.3%	11.5%	2.7%	15.8%
Manufacturing					
Manufacture and sale of clinker	13.2%	8.9%	18.2%	4.3%	31.0%
Manufacture and sale of cement	5.9%	5.7%	13.3%	1.6%	25.0%
Trading					
Trading of cement	N/A	N/A	3.8%	2.6%	3.4%

Gross profit margins decreased to 6.3% for the year ended 31 December 2009 from 8.4% for the year ended 31 December 2008 mainly due to the decrease in average selling price of both cement and clinker products, while the decrease in overall cost of sales, in particular the decrease in cost of coal, has partly offset the effect of lower selling price.

Our average selling price of cement of our Shandong SAC plant decreased from RMB207.9 per ton for the year ended 31 December 2008 to RMB197.8 per ton for the year ended 31 December 2009 and that of our Shanghai plant decreased from RMB289.4 per ton to RMB246.4 per ton during the corresponding years, representing a decrease of average selling price of approximately 4.9% and 14.9% respectively, whereas gross profit margin from manufacture and sale of cement decreased slightly from 5.9% for the year ended 31 December 2008 to 5.7% for the year ended 31 December 2009 which was mainly due to the corresponding decrease in our cost of sales of cement, in particular decrease in our cost of purchasing raw materials and cost of coal for manufacturing cement and cost of transporting cement to our customers. Accordingly such gross profit margin could be maintained at a stable level for the year ended 31 December 2009 compared with that of 2008.

The overall gross profit margin increased to 11.5% for the year ended 31 December 2010 mainly due to the significant improvement in self-manufactured cement and clinker selling prices in the second half of 2010. We also recognised a gross profit margin of 3.8% from our cement trading business in Shanghai which commenced in late 2009 after the cessation of cement manufacturing and sale due to the Premises Vacation. Compared to the sale of self-manufactured clinker and cement, the gross margin for trading of cement is typically lower.

The overall gross profit margin increased significantly from 2.7% for the six months ended 30 June 2010 to 15.8% for the six months ended 30 June 2011. The improvement in margin was mainly the result of increased selling price of both cement and clinker, while cost of raw materials purchased and cost of coal remained stable and a lower cost of electricity was achieved through the use of waste heat recovery system to generate electricity, which commenced trial operation since September 2010. Average selling price of clinker and cement increased substantially by approximately 63.6% and 47.6% respectively during the corresponding periods, resulting in a significant increase in gross profit margin as cost of sales was relatively stable. In addition, improved gross profit margin from trading of cement contributed to the improved overall gross profit margin due to the gradual stabilisation of the Group's trading business which commenced in early 2010 and the increasing selling price of the traded cement for the six months ended 30 June 2011.

Other income

The following sets out our other income breakdown during the Track Record Period.

	Year ended 31 December			Six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Interest income from banks and a fellow subsidiary	1,022	995	8,273	3,126	6,297
Subsidy income	3,653	916	943	762	—
Refund of value added tax	19,711	13,875	—	—	—
Interest income from loan receivable	—	—	2,179	1,157	404
Sundry income	4,982	2,158	1,519	893	4,153
Total	29,368	17,944	12,914	5,938	10,854

During the Track Record Period, our other income included mainly the interest income on bank deposits and loan receivable and refund of value added tax. Our other income decreased from HK$29.4 million for the year ended 31 December 2008 to HK$17.9 million for the year ended 31 December 2009 mainly due to the decrease in refund of value added tax and subsidy income. Our Group ceased to receive value added tax refund since late 2009 as our Shanghai production ceased operation due to the Premises Vacation and our Shandong production did not qualify for the value added tax refund during the Track Record Period. The lower subsidy income in 2009 as compared to that of 2008 was mainly due to the fact that we received an one-off subsidy from the government agencies for our technology development efforts in our production facilities in 2008.

Our other income decreased to HK$12.9 million for the year ended 31 December 2010 as our Group ceased to receive value added tax refund since late 2009 as abovementioned. Such decrease was partly offset by (i) the increase in interest income on bank deposits resulting from the increase of our bank deposits; and (ii) interest income from loan receivable of HK$2.2 million.

Our other income increased significantly from HK$5.9 million for the six months ended 30 June 2010 to HK$10.9 million for the six months ended 30 June 2011 which was mainly attributable by (i) the increase in interest income on bank deposits resulting from increase in average time deposit balance during the corresponding periods and (ii) increase in sundry income, mainly contributed by HK$3.3 million of sales proceeds from disposal of fixed assets.

Net foreign exchange gain

The net foreign exchange gain was relating to translation of Hong Kong dollars monetary assets and liabilities to functional currency (i.e. RMB) of the Group. In particular, as at 31 December 2008, the amount due to former immediate holding company of HK$289.6 million, and as at 31 December 2009 and 2010, the amount due to immediate holding company of HK$284.7 million and HK$342.1 million respectively was denominated in Hong Kong dollar, which were different from the functional currency of SAC Holdings, which is Renminbi. The retranslation of such amount which was denominated in Hong Kong dollar to the functional currency of Renminbi had given rise to a foreign exchange gain of HK$19.5 million and HK$9.9 million for the years ended 31 December 2008 and 2010 respectively.

In particular, the net foreign exchange gains of HK$25.6 million for the year ended 31 December 2008 were mainly attributable to exchange translation gain of the aforesaid Hong Kong dollars amount due to former immediate holding company amounting to HK$19.5 million, exchange translation gain of Hong Kong dollars working capital loan amounting to HK$5.8 million, and exchange translation gain of other Hong Kong dollars monetary assets and liabilities amounting to HK$0.3 million. There was no foreign exchange gain or loss for the year ended 31 December 2009 as the exchange rate of RMB against HK$ remained stable during the year and accordingly the same exchange rate had been adopted for both years ended 31 December 2008 and 31 December 2009. The net foreign exchange gains of HK$13.1 million for the year ended 31 December 2010 were mainly attributable to the exchange translation gain of the aforesaid Hong Kong dollars amount due to immediate holding company amounting to HK$9.9 million, exchange translation gain of Hong Kong dollars working capital loan amounting to HK$3.4 million, and net off with exchange translation loss of other Hong Kong dollars monetary assets and liabilities amounting to HK$0.2 million. The net foreign exchange gains of HK$9.6 million for the six months ended 30 June 2011 were mainly attributable to the exchange translation gain of the Hong Kong dollars amount due to immediate holding company amounting to HK$7.1 million and exchange translation gain of Hong Kong dollars working capital loan amounting to HK$2.4 million. These net exchange gains arose out of ordinary course of our business which is recurring in nature. There was no foreign exchange gain or loss for the six months ended 30 June 2010 as the exchange rate used by the Group was the same as the one used as at 31 December 2009 in relation to the translation.

Our Directors considered that our Group's exposure to foreign currency exchange risk is insignificant as the majority of our transactions is denominated in the functional currency of the respective group entities. Our Group currently does not have a foreign currency hedging policy. Notwithstanding, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Distribution and selling expenses

The table below sets forth the major components of our distribution and selling expenses for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	HK$'000	% of revenue	HK$'000	% of revenue	HK$'000	% of revenue	HK$'000	% of revenue	HK$'000	% of revenue
Employee salaries, commissions and benefits	1,063	0.2	1,535	0.3	1,066	0.2	1,024	0.6	175	0.0
Warehouse expenses	2,042	0.4	2,034	0.4	871	0.2	325	0.2	255	0.1
Transportation	1,059	0.2	918	0.2	337	0.1	293	0.2	407	0.1
Rental expenses	497	0.1	497	0.1	819	0.2	630	0.4	—	N/A
Others	1,981	0.3	1,616	0.3	1,436	0.3	671	0.4	799	0.2
Total	6,642	1.2	6,600	1.3	4,529	1.0	2,943	1.8	1,636	0.4

Our distribution and selling expenses primarily consist of employee benefit expenses, warehouse expenses, transportation charges and rental expenses. Our distribution and selling expenses were approximately HK$6.6 million, HK$6.6 million, HK$4.5 million, HK$2.9 million and HK$1.6 million for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 respectively, representing approximately 1.2%, 1.3%, 1.0%, 1.8% and 0.4% of our revenue for the corresponding financial years/periods.

The sale of our products is conducted by our sales team located at Shanghai and Shandong Province, where the sales team members are remunerated with basic salaries and commissions based on sales. Employee salaries, commissions and benefit expenses increased from HK$1.1 million for the year ended 31 December 2008 to HK$1.5 million for the year ended 31 December 2009 due to the increase in spending on staff benefits. Upon the Premises Vacation, there was no material change in the number of sales team member for the year ended 31 December 2010 despite the cessation of our cement production in Shanghai during the year. Notwithstanding the general increase in staff base salary by 15% to 20%, the employee commission expenses decreased in line with the decrease in our revenue for the year ended 31 December 2010. Despite there was no material change in the number of sales team member for the year ended 31 December 2010 as aforesaid, there had been a change in the employment status of the employees of Shanghai SAC from permanent to contract in relation to the Premises Vacation which mainly started in the second half of 2010 where the relevant salaries had been recognised under administrative expenses, and therefore resulted in a decrease in employee salaries, commissions and benefits recognised under distribution and selling expenses for the six months ended 30 June 2011 compared with the six months ended 30 June 2010. The internal transfer of staff among departments during the six months ended 30 June 2011 also contributed to reclassification of relevant salaries recognised under distribution and selling expenses in corresponding period in previous year to administrative expenses for the six months ended 30 June 2011. Both of the above arrangements were in line with the increase in salary and benefits under administrative expenses for the six months ended 30 June 2011.

We have our own warehouses for storage of raw materials and finished cement products. We incurred warehouse expenses in managing the inventory. The decrease in warehouse expenses and transportation charges for the year ended 31 December 2010 compared with that of 2009 was mainly due to the cessation of cement production in Shanghai upon the Premises Vacation. Our Shanghai operations have been engaged in trading of cement products where we sell the cement products sourced from other local cement producers to our customers, resulting in a significant decrease in warehouse expenses in 2010. Increase in transportation costs for the six months ended 30 June 2011 compared with that of 2010 was consistent with our increased sales transactions. Revenue increased from HK$161.8 million to HK$391.7 million during the corresponding periods.

The transportation costs included under distribution and selling expenses referred only to short haul transportation borne by us in certain sale transactions. For both our sale and trading businesses, the selling prices would be quoted either with or without the transportation costs. In case the selling price includes the transportation costs, the corresponding transportation expenses incurred by us are recognised in cost of sales. In case the selling price excludes the transportation costs, the customer will typically arrange and settle the transportation costs with the cement supplier directly.

Meanwhile, the rental expenses increased from HK$0.5 million for the year ended 31 December 2009 to HK$0.8 million for the year ended 31 December 2010 mainly due to the rental of a new transit facility in Shanghai to facilitate our cement trading business, where a fix monthly rental was paid. The Group ceased renting that transit facility from January 2011 and no rental expenses were incurred for the six months ended 30 June 2011 accordingly.

Administrative expenses

The table below sets forth the major components of our administrative expenses for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	HK$'000	% of revenue	HK$'000	% of revenue	HK$'000	% of revenue	HK$'000	% of revenue	HK$'000	% of revenue
Audit fee	1,067	0.2	971	0.2	741	0.2	165	0.1	399	0.1
Depreciation	1,737	0.3	1,447	0.3	971	0.2	474	0.3	1,258	0.3
Former directors remuneration	316	0.1	—	—	—	—	—	—	—	—
Employees salary and benefits	8,168	1.5	7,559	1.6	3,987	0.9	1,048	0.6	5,198	1.3
General administrative expenses	7,068	1.2	5,051	1.0	2,704	0.6	479	0.3	2,735	0.7
Legal and professional fees	524	0.1	1,444	0.3	394	0.1	143	0.1	1,232	0.3
Provision on litigation compensation	—	—	1,282	0.3	—	—	—	—	—	—
Insurance	1,036	0.2	313	0.1	242	0.1	128	0.1	326	0.1
Loss on disposal of property, plant and equipment	23	0.0	160	0.0	3,194	0.7	2,597	1.6	221	0.1
Office expenses	1,713	0.3	2,515	0.5	1,896	0.4	268	0.1	1,108	0.3
Travelling expenses	1,233	0.2	1,026	0.2	459	0.1	163	0.1	904	0.2
Tax and levy	1,302	0.2	2,503	0.5	1,050	0.2	299	0.2	636	0.1
Others	1,524	0.3	232	0.0	2,115	0.4	303	0.2	998	0.3
Total	25,711	4.6	24,503	5.0	17,753	3.9	6,067	3.7	15,015	3.8

Our administrative expenses primarily include audit fee, depreciation, employee benefit expenses, general administrative expenses, loss on disposal of property, plant and equipment, office expenses, travelling expenses and tax and levy. Our administrative expenses were approximately HK$25.7 million, HK$24.5 million, HK$17.8 million, HK$6.1 million and HK$15.0 million for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 respectively, representing approximately 4.6%, 5.0%, 3.9%, 3.7% and 3.8% of our revenue for the corresponding financial years/periods.

The decrease in our administrative expenses for the year ended 31 December 2010 as compared with the years ended 31 December 2008 and 2009 was mainly due to the Premises Vacation, resulting in the cessation of cement production and thus, a reduction in staff needed for carrying out our business operations in Shanghai. Accordingly a decrease in employees salary and benefits and general administrative expenses was recorded.

The balance of general administrative expenses of HK$7.1 million for the year ended 31 December 2008 also included our share of administrative expenses of HK$1.5 million reimbursed to Star Telecom Holding Limited, a subsidiary of our former substantial shareholder. No such share of administrative expenses was recognised during the years ended 31 December 2009 and 2010.

The decrease in administrative expenses in 2010 was partly offset by the increase in loss on disposal during 2010 in connection with the Premises Vacation where the proceeds from disposals were lower than the respective net book value of the disposed items.

A provision of HK$1.3 million was made in our financial statements for the year ended 31 December 2010 as our Group was involved in a court case at the Taierzhuang District People's Court (台兒莊區人民法院) for claim on damages in connection with an accident in our production facility in Allied Wangchao plant. The claimant, being an employee of Allied Wangchao, 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. Judgment was made against Allied Wangchao ordering it to pay RMB1,115,388.6 to the plaintiff. Shandong SAC has made an appeal to the Zaozhuang City Intermediate People's Courts (棗莊市中級人民法院) on 12 October 2010 and the court set aside Taierzhuang District People's Courts' judgment on 20 December 2010 and remitted the case to Taierzhuang District People's Court for re-trial. As at the Latest Practicable Date, the judgment is still pending .

The increase in our administrative expenses for the six months ended 30 June 2011 as compared with that of 2010 was the result of increasing business needs which was in line with the increase in our revenue during the corresponding periods. The increase was mainly attributable to the increase in (i) depreciation charges by HK$0.8 million as our depreciation charges on office furniture, fixtures and equipment in Shanghai in previous year were net off with gain on land resumption exercise in connection with the Premises Vacation, where the land resumption had been completed in 2010 and therefore depreciation charges for the six months ended 30 June 2010 were particularly low. In addition, there was an addition of office premises in Shanghai as buildings and structures by late 2010 where depreciation changes were recognised for the six monthly ended 30 June 2011. In light of the above, an increased depreciation charges for the six months ended 30 June 2011 resulted; (ii) increase in employees salary and benefits by HK$4.2 million mainly due to the net off of employee salary and benefits expenses in previous year with gain on land resumption exercise; and general increase in employees basic salary by 11% and 13% on average respectively in Shanghai and Shandong which was in line with the improvement in our Group's overall performance in the first half of 2011. All other administrative expenses also increased for the six months ended 30 June 2011 which was consistent with our improved performance.

Finance costs

Our finance costs comprise interest payments for borrowings from financial institutions and loan from our related parties. A breakdown of finance costs for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 is presented as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Interest on bank loans	11,206	8,276	4,291	2,418	2,163
Interest on other loans	1,141	931	—	—	—
Imputed interest on interest-free amount due to a non-controlling interest	51	25	6	6	—
Loss on early repayment of interest-free amount due to non-controlling interest	—	—	2,699	—	—
	12,398	9,232	6,996	2,424	2,163
Less: Amount capitalised in construction in progress	—	—	(2,114)	(1,356)	—
Total	12,398	9,232	4,882	1,068	2,163

Finance costs decreased by 25.5% from HK$12.4 million for the year ended 31 December 2008 to HK$9.2 million for the year ended 31 December 2009 mainly due to the reduced interests incurred on bank loans in line with the decrease in interest rate and the decrease in borrowings from HK$213.4 million as at 31 December 2008 to HK$86.9 million as at 31 December 2009. The repayment of loan in 2009 was attributable to the increase in cash balance as we received compensation in relation to the Premises Vacation in late 2009. The finance cost further decreased in 2010 as the average loan balance of our Group in 2010 was lower than that in 2009.

Our Group recognised a loss on early repayment of interest-free amount due to a non-controlling interest of HK$2.7 million for the year ended 31 December 2010. The Group had a non-current interest-free advance from a non-controlling interest with principal amount of approximately HK$3.2 million. Based on the repayment schedule estimated by the Group, the amount was stated at amortised cost of HK$450,000 and HK$475,000 as at 31 December 2008 and 2009 respectively by using an effective interest method in accordance with the Hong Kong Accounting Standard 32 *Financial Instruments: Disclosure and. Presentation and 39 Financial Instruments: Recognition and Measurement.*

During the year ended 31 December 2010, the Group had made early full repayment to the non-controlling interest. The difference between the amortised cost of the advance from non-controlling interest amounting to HK$481,000 and the settlement amount at nominal value amounting to approximately HK$3.2 million was charged to profit or loss as loss on early repayment of interest-free amount due to a non-controlling interest.

The increase in finance cost from HK$1.1 million for the six months ended 30 June 2010 to HK$2.2 million for the six months ended 30 June 2011 was mainly due to the reclassification of waste heat recovery system and cement grinding system from construction in progress as at 31 December 2010 to buildings and structures and plant and machinery during the six months ended 30 June 2011 as the construction of the systems were yet to be completed as at 31 December 2010. Accordingly, the relevant finance cost on borrowings to finance such construction had been capitalised as construction in progress as at 31 December 2010, while the relevant finance cost was charged to the statement of comprehensive income during the six months ended 30 June 2011.

Income tax

During the Track Record Period, we generated income only in the PRC and were subjected only to the PRC taxes. We have recognised income tax charges of HK$3.6 million, HK$0.9 million, HK$143.6 million, HK$136.5 million and HK$14.7 million for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 respectively. We have also recognised net deferred tax charges of HK$0.9 million for the year ended 31 December 2008, deferred tax credit of HK$1.4 million for the year ended 31 December 2009, deferred tax credit of HK$2.6 million for the year ended 31 December 2010, deferred tax credit of HK$4.3 million for the six months ended 30 June 2010 and net deferred tax charges of HK$2.1 million for the six months ended 30 June 2011 in relation to accelerated tax depreciation, allowance for doubtful debts and withholding tax on undistributed earnings.

The normal corporate income tax rates in the PRC were 25% during the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, while our corresponding effective tax rates were 7.8%, –5.6%, 27.3%, 28.5% and 24.0% respectively for the corresponding financial years/periods.

The PRC Enterprise Income Tax is calculated at the rates applicable to respective subsidiaries. In accordance with the tax legislations applicable to foreign investment enterprises, Allied Wangchao is entitled to exemptions from the PRC Enterprise Income Tax for the two years commencing from the first profit-making year of operation in 2007 and thereafter, entitled to a 50% relief from the PRC Enterprise Income Tax for the following three years. Allied Wangchao can continue to entitle such tax concession according to the New Law and the charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentives into account. The effect of such tax holiday amounted to HK$6.1 million, HK$0.8 million, HK$4.7 million, HK$0.1 million and HK$5.9 million for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 respectively.

Furthermore, our effective tax rate was lower than the normal corporate income tax rate for the years ended 31 December 2008 and 2009 as our Shanghai operations enjoyed a preferential enterprise income tax rate of 15% (as compared with the regular national enterprise income tax rate of 25%) for being recognised by the PRC government as a high-new technology enterprise. Following the cessation of cement and clinker production of our Shanghai plant, there has been no preferential tax treatment to our Group.

For its tax assessment for the year ended 31 December 2010 the Group was accorded the preferential tax treatment of 15% based on the notice from the PRC government. Following further review and as advised by the relevant tax authority in September 2011, the Group should not be entitled such preferential tax treatment and accordingly approximately HK$2.1 million of tax was provided for the six months ended 30 June 2011.

The negative effective tax rate of –5.6% for the year ended 31 December 2009 was mainly due to the write back of tax of HK$2.2 million overprovided from prior year. Meanwhile, the effective tax rate of 28.5% and 27.3% during the six months ended 30 June 2010 and the year ended 31 December 2010 respectively exceeded the normal corporate tax rate as we incurred non-deductible expenses of approximately HK$77.7 million (with the respective tax effect amounted to HK$19.4 million), among which approximately HK$69.5 million were in relation to the goodwill written off as a result of the Premises Vacation for the year ended 31 December 2010.

The effective tax rate of 24.0% for the six months ended 30 June 2011 was slightly lower than the normal corporate tax rate which was mainly attributable by HK$5.9 million of effect of tax holiday.

No provision for Hong Kong Profits Tax has been made as our Group had no assessable profits arising in Hong Kong during the Track Record Periods.

Net profit margin

The profit after tax of our Group were approximately HK$53.1 million, HK$10.0 million, HK$374.5 million and HK$53.3 million, representing net profit margins of 9.5%, 2.0%, 83.0% and 13.6% for the year ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively.

The net profit margin decreased to 2.0% in 2009 from 9.5% in 2008 due to the decrease in revenue and gross profit margin amid the weak cement market as abovementioned. At the same time, there was no net foreign exchange gain in 2009 compared to a net foreign exchange gain of HK$25.6 million in 2008. Moreover, the distribution and selling expenses and administrative expenses for the year ended 31 December 2009 had remained more or less the same as that for the year ended 31 December 2008.

The net profit margin increased significantly to 83.0% for the year ended 31 December 2010 mainly due to the gain on land resumption exercise of HK$528.4 million in relation to the Premises Vacation as abovementioned.

The gain on land resumption exercise in relation to the Premises Vacation for the year ended 31 December 2010, which contributed to the significant increase in the profit after tax of our Group, was non-recurring in nature. A reconciliation of the profit to the adjusted profit for the year attributable to owners of the Company excluding the non-recurring items in relation to the Premises Vacation is presented as follows:

For the year ended 31 December 2010

	HK$' million	HK$' million
Profit for the year attributable to owners of the Company		168.3
Adjusted for:		
Gain on land resumption exercise	(528.4)	
Goodwill attributable to relocated Shanghai factory written off under other expenses	69.5	
Taxation attributable to gain on land resumption exercise	132.1	
Adjusted profit for the year attributable to non-controlling interests	198.2	
		(128.6)
Adjusted profit for the year attributable to owners of the Company		39.7

Accordingly the adjusted net profit margin after adjusting for the above items was approximately 10.6% for the year ended 31 December 2010 which increased in line with gross profit margin compared with that of 2009.

The Group recorded an improved net profit margin of 13.6% for the six months ended 30 June 2011, which was consistent with the increase in gross profit margin resulted mainly from the substantially increase in average selling price and sales volume while cost of sales remained relatively stable.

LIQUIDITY AND CAPITAL RESOURCES

Net current assets/liabilities

The following table sets out the details of our current assets and liabilities as at the end of the financial years indicated.

	At 31 December			At 30 June	At 31 October
	2008	2009	2010	2011	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)
Current assets					
Properties held for sale	1,333	1,333	1,380	1,042	2,330
Inventories	47,996	38,196	41,143	35,380	46,938
Trade and bills receivables	216,369	186,353	191,873	328,198	281,522
Other receivables, deposits and prepayments	26,583	28,886	89,046	98,857	117,441
Amounts due from related parties	29,257	—	47,252	48,193	—
Financial assets designated as at fair value through profit or loss	—	—	35,608	325,040	377,506
Loan receivable	—	—	60,482	—	121,711
Prepaid lease payments on land use rights	439	177	184	188	188
Tax recoverable	721	—	—	—	—
Pledged short-term bank deposits	13,636	—	45,882	124,096	66,265
Time deposits	—	—	282,353	217,139	144,850
Bank balances and cash	59,161	506,011	269,619	70,098	32,711
	395,495	760,956	1,064,822	1,248,231	1,191,462
Assets classified as held for sale	—	260,059	—	—	—
Total current assets	395,495	1,021,015	1,064,822	1,248,231	1,191,462
Current liabilities					
Trade and bills payables	47,908	23,588	92,818	173,440	105,971
Other payables and deposit received	31,041	22,442	49,694	56,875	59,156
Deposit received on land resumption	—	568,382	—	—	—
Amounts due to related parties	326,433	304,175	362,808	372,646	360,562
Tax liabilities	33	1,629	142,666	151,224	145,531
Borrowings due within one year	203,058	27,357	17,647	49,757	51,685
Total current liabilities	608,473	947,573	665,633	803,942	722,905
Net current (liabilities) assets	(212,978)	73,442	399,189	444,289	468,557

Our Group had net current liabilities of HK$213.0 million as at 31 December 2008 mainly attributable to the borrowings due within one year of HK$203.1 million and amounts due to related parties which are repayable on demand of HK$326.4 million. Our net current assets was approximately HK$73.4 million as at 31 December 2009. The increase was mainly due to the repayment of certain aforementioned short-term borrowings balance and reduction in trade and other payables during the year.

Net current assets increased significantly to approximately HK$399.2 million as at 31 December 2010 mainly due to the recognition of the deposit received on land resumption compensation as our gain for the year. Furthermore, our borrowings due within one year decreased from HK$27.4 million to HK$17.6 million during the year as we had re-financed our short-term borrowings with borrowings with longer maturity, our Group had substantially repaid such short-term borrowings.

Net current assets further increased to approximately HK$444.3 million as at 30 June 2011 which was in line with the improved performance of the Group during the six months ended 30 June 2011. There was an increase in bills receivables from HK$66.2 million as at 31 December 2010 to HK$216.7 million as at 30 June 2011. During the six months ended 30 June 2011, the Group had utilised partial deposit received on land resumption compensation to purchase structured deposits, resulting in a significant decrease in bank balances, while a substantial increase in the balance of financial assets designated as at fair value through profit or loss to HK$325.0 million resulted as at 30 June 2011. Increase in trade and bills payables balance from HK$92.8 million to HK$173.4 million and increase in bank borrowings due within one year from HK$17.6 million to HK$49.8 million had partly alleviated the increase in current assets as abovementioned.

As at 31 October 2011, there was an aggregate increase of approximately HK$174.2 million in the balance of financial assets designated as at fair value through profit or loss and loan receivable to HK$499.2 million, as we further invested our cash in (on net basis) an aggregate of approximately HK$166.5 million of structured deposits carried at fair value through profit or loss and loan receivable during the period from July to October 2011. Accordingly, there was a corresponding reduction of approximately HK$167.5 million in the aggregate of our pledged short-term bank deposits, time deposits, bank balances and cash to HK$243.8 million as at 31 October 2011.

Our net current assets increased by approximately HK$24.3 million to approximately HK$468.6 million as at 31 October 2011 mainly due to the decrease in trade and bills payables of approximately HK$67.5 million to HK$106.0 million. This was partly offset by the settlement from related parties which lowered the balance of amounts due from related parties from HK$48.2 million as at 30 June 2011 to nil as at 31 October 2011.

Cash Flow

The following table sets out a summary of net cash flow for the financial years/period indicated.

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Net cash generated from operating activities	55,594	39,798	115,805	6,069
Net cash generated from/(used in) investing activities	14,121	558,676	(371,885)	(234,230)
Net cash (used in)/generated from financing activities	(48,765)	(151,624)	8,128	31,540
Net increase/(decrease) in cash and cash equivalents	20,950	446,850	(247,952)	(196,621)
Cash and cash equivalents at the beginning of the year/period	35,772	59,161	506,011	269,619
Effect of foreign exchange rate changes	2,439	—	11,560	(2,900)
Cash and cash equivalents at the end of the year/period, represented by bank balances and cash	59,161	506,011	269,619	70,098

Net cash generated from operating activities

During the year ended 31 December 2008, our Group had net cash inflow of HK$55.6 million from our operating activities. The cash inflow from operations decreased to HK$39.8 million in line with the decrease in our revenue and gross profit margin during the year. Furthermore, we recognised an increase in working capital in 2009. Specifically, our trade receivables decreased by HK$30.8 million in 2009, which was offset by the decrease in trade payables by HK$24.3 million and decrease in the amount due to our ultimate holding company by HK$12.8 million during the year.

Our cash inflow from operating activities increased significantly for the year ended 31 December 2010 as (i) our gross profit increased during the year due to the price hike in the second half of the year; (ii) our trade payable increased by HK$68.4 million in 2010, which was offset by the increase in inventories by HK$21.8 million resulting from the increase in our cement trading activities.

Our cash inflow from operations decreased significantly to HK$6.1 million for the six months ended 30 June 2011 which was mainly resulted from the decrease in our working capital, in particular attributable to the significant increase in trade and bills receivables by HK$131.7 million. The increase in bills receivables balance was in line with the increasing revenue from trading of cement during the six months ended 30 June 2011 by our Shanghai operations where credit periods granted by us are relatively longer due to the practice of using bank acceptance bills as a form of settlement and in addition, providing longer credit periods helps enhance the competitiveness of our cement trading activities. Details of financial arrangement of our trading business are set out in the paragraph headed "Pricing policy and credit policy" under the section headed "Business" to this Prospectus.

Net cash generated from/(used in) investing activities

Net cash inflow from investing activities for the years ended 31 December 2008 related mainly to repayment from a former fellow subsidiaries and the decrease in pledged short-term deposits. Net cash inflow from investing activities increased substantially to HK$558.7 million as we received the land resumption compensation of HK$568.4 million in relation to the Premises Vacation in late 2009.

Our net cash outflow from investing activities amounted to HK$371.9 million for the year ended 31 December 2010. We further received land resumption compensation of HK$287.0 million in 2010. As part of our treasury management, we had invested in (on net basis) approximately HK$29.9 million of structured deposits carried at fair value through profit or loss, approximately HK$58.8 million in unlisted debt securities carried as loan receivable at amortised cost on our financial statements, and approximately HK$282.4 million in time deposits. We had purchased plant and equipment of approximately HK$99.7 million and pledged bank deposits of approximately HK$45.9 million to banks as collateral to secure short-term bank facilities in respect of bills payables to suppliers.

Our net cash outflow from investing activities amounted to HK$234.2 million for the six months ended 30 June 2011. We had invested in (on net basis) approximately HK$284.2 million of structured deposits carried at fair value through profit or loss and pledged bank deposits of approximately HK$77.1 million to banks as collateral to secure short-term bank facilities in respect of bills payables to suppliers. We had purchased plant and equipment of approximately HK$11.0 million. Meanwhile, we received proceeds from redemption of loan receivable of approximately HK$60.2 million and withdrew time deposits of approximately HK$114.5 million during the six months ended 30 June 2011.

Net cash (used in)/generated from financing activities

During the year ended 31 December 2008, our cash outflow from financing activities amounted to HK$48.8 million as we repaid advanced from former immediate holding company of HK$15.8 million and loans of approximately HK$120.1 million, while our new borrowings amounted to only HK$108.3 million during the year. We have also paid dividends of approximately HK$8.5 million to a non-controlling interest.

Net cash outflow from financing activities increased to HK$151.6 million for the year ended 31 December 2009 as we paid dividend of approximately HK$8.8 million to a non-controlling interest and repaid loans of approximately HK$184.0 million during the year. Meanwhile, our new borrowings amounted to HK$59.0 million during the year.

Net cash inflow from financing activities increased to HK$8.1 million for the year ended 31 December 2010. We paid dividend of approximately HK$5.1 million to a non-controlling interest and repaid loans of approximately HK$34.7 million during the year. Meanwhile, our new borrowings amounted to HK$49.5 million during the year.

Net cash inflow from financing activities further increased to HK$31.5 million during the six months ended 30 June 2011 mainly attributable to advance received from immediate holding company amounted to HK$11.4 million and new bank loans amounted to approximately HK$35.1 million raised. No dividends were paid to non-controlling interests and we repaid approximately HK$10.8 million and HK$1.9 million to banks and non-controlling interests respectively during the six months ended 30 June 2011.

Contingent liability

SAC Holdings and ChinaVision Media have given joint guarantees to a financial institution to secure loan facilities granted to ChinaVision. SAC Holdings did not receive any fee from ChinaVision for such guarantees provided. The aggregate amounts that could be required to be paid if the guarantee was called upon in entirety amounted to HK$262,500,000 at 31 December 2008. The loans were settled in 2009 and the joint guarantee was subsequently released by the lender.

During the years ended 31 December 2009 and 2010 and the six months ended 30 June 2011, a former material supplier of our Group has initiated legal proceeding against Shandong SAC and Allied Wangchao claiming for outstanding construction and material supply costs and compensation of approximately HK$8.4 million which are being disputed. The court judgement was held in favour of the former material supplier. Shandong SAC and Allied Wangchao, as the defendants, had appealed and the higher court had ordered retrial to the case. A total of HK$4.4 million was recognised as trade payable and other payable in relation to these claims as at 30 June 2011. Our Group has assessed the claims and obtained legal advice, and considers that no further provision was required in relation to the potential compensation payable.

Statement of indebtedness

The following table sets out our borrowings as at the dates indicated:

	At 31 December			At 30 June	At 31 October
	2008	2009	2010	2011	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)
Bank loans					
Within one year	195,785	27,357	17,647	49,757	51,685
More than one year but not exceeding two years	—	9,500	56,082	77,801	74,899
More than two years but not exceeding five years	—	50,082	29,500	—	—
	195,785	86,939	103,229	127,558	126,584
Other loans					
Within one year	7,273	—	—	—	—
More than two years but not exceeding five years	10,341	—	—	—	—
	17,614	—	—	—	—
Amount due to immediate holding company					
On demand	—	284,739	342,135	353,521	355,520
Amount due to former immediate holding company					
On demand	289,630	—	—	—	—
Amount due to ultimate holding company					
On demand	14,641	1,807	1,807	1,807	1,807
Amounts due to former fellow subsidiaries					
On demand	15,003	—	—	—	—
Amount due to a fellow subsidiary					
On demand	—	13,284	13,753	14,084	1
Amounts due to non-controlling interests:					
On demand	4,876	4,345	5,113	3,234	3,234
More than 5 years	450	475	—	—	—
	5,326	4,820	5,113	3,234	3,234
Amount due to a former related company:					
On demand	2,283	—	—	—	—
Total	540,282	391,589	466,037	500,204	487,146

During the Track Record Period, we had borrowed from financial institutions (which were Independent Third Parties) with outstanding balances of approximately HK$213.4 million, HK$86.9 million, HK$103.2 million and HK$127.6 million as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively.

At 31 December 2008, borrowings of approximately HK$169.3 million were secured or guaranteed by (a) joint guarantees provided by Tian An and our former immediate holding company; (b) property, plant and equipment with carrying amount of approximately HK$81.0 million; (c) land use rights of our Group with carrying amount of HK$16.9 million and (d) trade receivables of approximately HK$3.4 million. At 31 December 2009, borrowings of approximately HK$79.1 million were guaranteed by (a) guarantee provided by Tian An; and (b) joint guarantees provided by Shandong SAC and Shanghai SAC. At 31 December 2010, borrowings of approximately HK$99.6 million were secured or guaranteed by guarantee provided by Tian An and property, plant and equipment with carrying amount of HK$231.2 million. At 30 June 2011, borrowings of approximately HK$54.8 million was guaranteed by Tian An, approximately HK$38.5 million was guaranteed by Tian An and was secured by property, plant and equipment with carrying amount of HK$247.2 million, and approximately HK$30.0 million was guaranteed by SAC Holdings. 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 corporate guarantee provided by our Company upon Listing and operating fixed assets of Shandong Wangchao with current market value of not less than RMB55.0 million as additional security.

Bank and other loans of HK$71.0 million, HK$62.0 million, HK$99.6 million and HK$93.3 million were denominated in HK$ at 31 December 2008, 2009 and 2010 and 30 June 2011. The remaining balance of the bank borrowings were denominated in RMB. The Directors confirmed that our Group did not default in repayment of loans during Track Record Period.

As of 31 October 2011, we had banking facilities of approximately HK$127.1 million, which had been fully utilised.

The following set out our borrowings at fixed interest rates and variable interest rates and the corresponding ranges of effective interest rates (which are also equal to contracted interest rates):

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Fixed-rate borrowings	113,422	24,899	3,647	4,217
Variable-rate borrowings	99,977	62,040	99,582	123,341
Total	213,399	86,939	103,229	127,558
Effective interest rate:				
Fixed-rate borrowings	4.83%–7.13%	2.60%–6.90%	4.80%–4.92%	7.8%
Variable-rate borrowings	4.08%–8.39%	2.36%	2.36%–2.72%	2.44%–7.27%

In respect of a bank loan with a carrying value of HK$71 million as at 31 December 2008, our Group breached a term of the bank loan which related to the strict compliance of debt-equity ratio of our former ultimate holding company. The directors of our former ultimate holding company had informed the bank and commenced a renegotiation of the terms of the loan with the relevant bank. At 31 December 2008, the negotiations for a waiver by the banks had not been concluded. The loan was originally repayable within one year and classified as current liability as at 31 December 2008. During the year ended 31 December 2009, our Group entered into an agreement with the bank to settle the outstanding amount of the bank loan.

In respect of the terms of our current bank loans, our Group undertakes that we will not raise additional debt financing (other than financing obtained from our Group's shareholders) without the prior consent of the lenders. During the Track Record Period, none of our existing lenders had rejected our borrowing request.

The Directors confirm that all of our three outstanding loans, as at the Latest Practicable Date, contains cross default clause. Some of these loans contain restrictive covenants which include:

(i) prohibition of capital reduction;

(ii) prohibition of changes in business. In respect of a loan of Allied Wangchao, it is prohibited from conducting any business other than manufacture and sale of cement and clinker. In respect of a loan of SAC Holdings, it is prohibited from conducting any business other than owning equity interests in the Group's various subsidiaries; and

(iii) prohibition of changes in controlling shareholders and/or their percentage shareholding; or requirement of certain minimal level of shareholding. In respect of a loan of Allied Wangchao, there should be no change in the major shareholders of Allied Wangchao without the consent of the relevant lender. In respect of two loans from a lender to each of SAC Holdings and Allied Wangchao for a term of three years, the Company is required to maintain 100% shareholding interest, directly or indirectly, in each of SAC Holdings and Allied Wangchao. As agreed with the lender, Tian An is required to directly or indirectly hold not less than 70% of the Company. In addition, the following shareholdings (which are consistent with the various shareholdings within the Group upon Listing) are to be maintained during the tenure of the loan:

   (a) The Company shall directly or indirectly own 100% of Allied Wangchao;

   (b) SAC Holdings shall directly own 83.3% of AII-Shanghai; 100% of AII-cement; and 74.37% of Allied Wangchao;

   (c) AII-Shanghai shall directly own 25.63% of Allied Wangchao and 60% of Shanghai SAC; and

   (d) AII-cement shall own 100% of Shandong SAC.

The Directors confirm that the Listing will not result in breaches of the aforesaid restrictive covenants.

We had also borrowed from our former fellow subsidiaries, ultimate holding company, immediate holding company and minority shareholders during the Track Record Period. These loans were unsecured, non-interest bearing and were repayable on demand. The details of these loans are further discussed in the paragraphs headed "related parties transactions" below in this section.

Details of the transactions with our ultimate holding company, immediate holding company, who are considered connected persons of our Group, can also be found in the "Connected transactions" section in this prospectus.

Save as disclosed above, and apart from intra-group liabilities, we did not have any outstanding borrowings and indebtedness at the close of business on 31 October 2011, the latest date of indebtedness statement, any loan capital issued and outstanding or agreed to be issued, bank overdraft, loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, guarantees or other material contingent liabilities. Our Directors confirm that we had not default in payment during the Track Record Period.

Sufficiency of working capital

Our Directors confirm that, after due and careful enquiry and taking into consideration the financial resources presently available to us, including banking facilities, other internal resources, and the estimated net proceeds of the Share Offer, our Group has sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

CERTAIN BALANCE SHEET ITEMS

The follow table sets out selected information from the combined statements of financial position.

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	564,914	327,577	361,713	381,898
Total current assets	395,495	1,021,015	1,064,822	1,248,231
Total assets	960,409	1,348,592	1,426,535	1,630,129
Total current liabilities	608,473	947,573	665,633	803,942
Total non-current liabilities	42,356	90,233	114,051	108,975
Total liabilities	650,829	1,037,806	779,684	912,917
Net current (liabilities)/assets	(212,978)	73,442	399,189	444,289
Net assets	309,580	310,786	646,851	717,212
EQUITY				
Share capital	10,000	10,000	—	—
Reserves	106,848	113,557	250,043	304,799
Equity attributable to owners of the Company	116,848	123,557	250,043	304,799
Non-controlling interests	192,732	187,229	396,808	412,413
Total equity	309,580	310,786	646,851	717,212

Property, plant and equipment

Property, plant and equipment consist mainly of buildings and structures, leasehold improvements, plant and machinery, construction in progress, furniture, fixtures and equipment and motor vehicles. The carrying amount of property, plant and equipment reduced from HK$471.1 million as at 31 December 2008 to HK$228.5 million as at 31 December 2009 as we reclassified our buildings and plant and machinery located in Shanghai as assets held for sale in relation to the Premises Vacation.

The net carrying value of our property, plant and equipment increased to HK$346.5 million as at 31 December 2010 due to the net exchange difference adjustment of HK$7.8 million and the additions in construction in progress of approximately HK$97.2 million in relation to the construction of our waste heat recovery system and our cement grinding system in Shandong.

The net carrying value of our property, plant and equipment increased to HK$366.5 million as at 30 June 2011 mainly due to total fixed asset additions amounted to approximately HK$21.1 million, in particular addition of production machineries and equipment for enhancing operations of Allied Wangchao plant which commenced trial cement production since October 2010 and subsequently being qualified and endorsed to produce cement and clinker of all grades upon obtaining production permit in June 2011, and a net exchange difference adjustment of HK$8.4 million, while partly offset by depreciation charge of HK$9.4 million.

Properties held for sale

Properties held for sale represent properties transferred from our trade debtors of Shanghai SAC to our Group in lieu of cash settlement and registered in the name of Shanghai SAC in previous years. The certificates for real estate ownership of these properties held for sales as at 31 December 2008, 2009 and 2010 and 30 June 2011 were held in trust by our management on behalf of our Group. The transfer of legal title of the properties held for sales were completed by August 2011. Given that the aforesaid transfers involve only a change in the legal title of the properties, no gain or loss will be recognised by the Group as a result of the transfer as there is no change in the intention of the Group to hold these properties for sales during the Track Record Period and as at the Latest Practicable Date and therefore they are stated at the lower of cost and net realisable value in accordance with our accounting policies which conform with HKFRS.

Mining rights

Our mining rights have a carrying value of HK$7.8 million as at 30 June 2011. The licence period is 10 years and renewable for another 10 years or more at minimal charges. In the opinion of the directors, the mining right is amortised on a straight line basis over its estimated useful life of 50 years.

Financial assets designated as at fair value through profit or loss and other investments

During the year ended 31 December 2010 and the six months ended 30 June 2011, our Group entered into principal protected-structured deposits with banks. The said deposits were denominated in RMB with the aggregate principal amount of RMB285.0 million and RMB458.0 million respectively (equivalent to approximately HK$335.3 million and HK$551.8 million respectively) with maturity periods ranged from approximately one to nine months and three to nine months respectively. Interests of the structured deposits vary depending on the movement of exchange rate between the US$ and Euro or of the Shanghai Interbank Offered Rate. The entire structured deposits were designated as financial assets at fair value through profit or loss on the initial recognition on our financial statements. During the years ended 31 December 2010 and the six months ended 30 June 2011, the Group recognised fair value gains of HK$5.5 million and HK$4.3 million respectively. The fair values of the said structured deposits at the end of the reporting periods were assessed by our management by reference to the discounted cash flow and applicable yield curve of foreign exchange rate changes or the Shanghai Interbank Offered Rate.

Loan receivable

As at 31 December 2010, our Group had unlisted debt securities which represented notes with principal amount of RMB50.0 million (equivalent to approximately HK$58.8 million) denominated in RMB with fixed interest of 3.50% and matured in March 2011. As at 31 December 2010, the unlisted debt securities were neither past due nor impaired, and the interest would be received upon the maturity of the notes. The unlisted debt securities were recognised as loan receivable carried at amortised costs and its carrying value amounted to HK$60.5 million as at 31 December 2010. The said notes had subsequently matured in March 2011 where our Group had received the principal and interests accordingly. As at 30 June 2011, there was no loan receivable balance.

Details of the investment product transactions entered into by the Group during the year ended 31 December 2010, the six months ended 30 June 2011 and from 1 July 2011 to the Latest Practicable Date are set out as follows:

Investment products	Types of asset	Purchase date	Purchase amount	Maturity date	Gains on disposal
	Note 2		*(RMB)*		*(RMB)*
For the year ended 31 December 2010					
1 Principal protected structured deposit	LR	6 January 2010	200,000,000	28 January 2010	192,877
2 Structured investment deposit	LR	11 March 2010	50,000,000	11 March 2011	1,745,205
3 Trust	LR	11 March 2010	20,000,000	13 June 2010	293,814
			270,000,000		
4 Currency-linked principal protected structured deposit	FVTPL	2 April 2010	80,000,000	31 December 2010	1,602,333
5 Principal protected investment deposit with installments	FVTPL	3 June 2010	30,000,000	2 July 2010	51,247
6 Currency-linked principal protected structured deposit	FVTPL	3 June 2010	50,000,000	3 December 2010	838,750
7 Currency-linked principal protected structured deposit	FVTPL	30 June 2010	95,000,000	31 December 2010	2,058,506
8 Currency-linked principal protected structured deposit	FVTPL	8 December 2010	30,000,000	7 March 2011	267,000
			285,000,000		
For the six months ended 30 June 2011					
9 Currency-linked principal protected structured deposit	FVTPL	6 January 2011	145,000,000	11 April 2011	1,415,764
10 Currency-linked principal protected structured deposit	FVTPL	14 January 2011	45,000,000	11 April 2011	396,938
11 Currency-linked principal protected structured deposit	FVTPL	19 April 2011	30,000,000	17 January 2012	*(Note 1)*
12 Currency-linked principal protected structured deposit	FVTPL	21 April 2011	163,000,000	17 October 2011	3,687,875
13 Shanghai Interbank Offered Rate-linked principal protected structured deposit	FVTPL	9 June 2011	75,000,000	9 March 2012	*(Note 1)*
			458,000,000		
From 1 July 2011 to the Latest Practicable Date					
14 Shanghai Interbank Offered Rate-linked principal protected structured deposit	FVTPL	12 July 2011	25,000,000	12 April 2012	*(Note 1)*
15 Currency-linked principal protected structured deposit	FVTPL	19 August 2011	25,000,000	15 September 2011	104,410
16 Principal protected government bonds and debt instruments	LR	11 August 2011	100,000,000	30 November 2011	1,550,959
17 Exchange rate-linked principal protected structured deposit	FVTPL	3 August 2011	20,000,000	3 November 2011	265,778
18 Exchange rate-linked principal protected structured deposit	FVTPL	20 October 2011	160,000,000	23 April 2012	*(Note 1)*
19 Exchange rate-linked principal protected structured deposit	FVTPL	7 November 2011	20,000,000	28 March 2012	*(Note 1)*
20 Shanghai Interbank Offered Rate-linked principal protected structured deposit	FVTPL	5 December 2011	50,000,000	5 September 2012	*(Note 1)*
21 Exchange rate-linked principal protected structured deposit	FVTPL	6 December 2011	50,000,000	6 March 2012	*(Note 1)*
			450,000,000		

Notes:

1. The investment products have not yet matured.

2. Types of asset represent the classification of the investment products in the financial statements of the Group as below:

   LR: Loan receivable

   FVTPL: Financial assets designated as at fair value through profit or loss and other investments

As at 31 December 2010 and 30 June 2011, our Group had entered several investment product transactions. Depending on the nature of these investment products, they are classified as either (i) financial assets designated as at fair value through profit or loss and other investments, or (ii) loan receivables. These investment products consisted of (i) principal protected structured deposits; and (ii) fixed interest structured investment deposit issued by Bank of East Asia (China) Ltd., Bank of Communications and First Sino Bank respectively.

Our Group had invested in these investment products to enhance the return on our Group's cash holdings, especially after receiving the land resumption compensation. The Directors are of the view that the investment products are low risk and stable in nature as the principal amount is guaranteed by the issuers which are established financial institutions, and pay out interests/coupons on a regular basis. Subject to our Group's capital expenditure and working capital requirements for operations, the Directors may continue to invest in these investment products.

Treasury management

We have implemented internal control measures to monitor and control our investment risk exposure. We invest in low risk investment products with stable returns and investments are made only when our cash balance is sufficient for our Group's capital expenditure and working capital requirements for operations. We make investment decisions after taking into account factors including investment amount, investment period, credibility of bank and level of risk and corresponding return of the investment product. Investment decisions are reviewed by financial controllers and our internal audit department, which then have to be passed to the general manager and the Board for approval.

The Group has adopted treasury policies and investment guidelines in December 2011 which set out the framework for managing our financial assets.

Under our policies and guidelines, the Board may approve the investment in investment products with capital protection issued by banks, government bonds and debt instruments which our Board considers to be low risk; after taking into account the Group's operational and working capital requirements. The finance department is charged with the responsibility of carrying out the treasury management functions including sourcing investment options for consideration and approval by the Board, and thereafter, the monitoring of the investments.

In respect of investment products (which are classified as financial assets designated as at fair value through profit or loss and loan receivable in the Group's combined statements of financial position), these will consist of products which provide capital protection in terms of RMB, which is the Group's functional currency. The Board will also consider the reputation and financial standing of the issuing banks. These investment products typically guarantee a minimum yield which is slightly lower than bank deposit rates but have yield enhancing features. In respect of government bonds and debt instruments, these will be of investment grade and denominated in RMB issued by the PRC government, major financial institutions and corporations.

During the Track Record Period, we had not invested in any government bonds or debt instruments. We began to invest in investment products with capital protection issued by banks during the year ended 31 December 2010. The Group has been maintaining relatively high cash and bank balances after we received the compensation due to the Premises Vacation and pending their deployment for future projects, including the planned development of the factory at Bailonggang, Shanghai.

During the Track Record Period and up to the Latest Practicable Date, we had invested in investment products issued by the Bank of East Asia, the Shanghai Pudong Development Bank, First Sino Bank and Bank of Communication. All these investment products have capital protection features in RMB terms and guaranteed minimum yields. Yield enhancing features were typically tied to (i) a certain level of currency cross rates being achieved; or (ii) a certain level of rates with reference to interbank offer rates being achieved, during the tenure of the investment products. If the prescribed levels were not achieved, the Group will receive the principal amount plus guaranteed yield at maturity. As at 31 December 2010 and 30 June 2011, the carrying value of the Group's investments in investment products amounted to HK$96.0 million and HK$325.0 million.

Inventory

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Raw materials	35,852	30,341	27,314	23,128
Work in progress	6,147	3,398	339	317
Finished goods	5,997	4,457	13,490	11,935
	47,996	38,196	41,143	35,380

Our inventory balance decreased from HK$48.0 million as at 31 December 2008 to HK$38.2 million as at 31 December 2009 mainly due to the decrease in raw material and work in process resulting from the cessation of our cement production in Shanghai upon the Premises Vacation in late 2009. The inventory balance increased to HK$41.1 million as at 31 December 2010 as we commenced our cement trading business in Shanghai, which led to increase in inventory of finished goods. Inventory balance decreased to HK$35.4 million as at 30 June 2011 as since April 2011, our Shandong SAC plant commenced production of slag which is one of our raw materials and accordingly our inventory management was enhanced which lowered our raw materials balance. In addition, higher volume of finished goods had been delivered to customers before the six months ended 30 June 2011 compared with the year ended 31 December 2010 which lowered the finished goods balance as at 30 June 2011.

The following is the aging analysis of our inventory (net of impairment) for the Track Record Period:

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Raw material				
0–3 months	16,244	5,785	12,230	11,148
4–6 months	1,945	2,745	6,793	2,171
7–9 months	1,694	1,675	671	3,854
10–12 months	4,590	7,552	1,983	2,365
1–2 years	11,379	11,228	5,637	3,590
2–3 years	—	1,356	—	—
Work in progress				
0–3 months	6,147	3,398	339	317
Finished goods				
0–3 months	5,997	4,457	13,490	11,935
Total inventory	47,996	38,196	41,143	35,380
Inventory turnover days *(note 1)*	34	30	38	20
Finished goods turnover days *(note 2)*	4	4	12	7

Notes:

1. Inventory turnover days are calculated based on the ending inventory balance of a given year/period divided by the cost of goods sold for the corresponding year/period and multiplied by 365 days for the years ended 31 December 2008, 2009, 2010 and by 183 days for the six months ended 30 June 2011.

2. Finished goods turnover days are calculated based on the ending finished goods balance of a given year/period divided by the cost of goods sold for the corresponding year/period and multiplied by 365 days for the years ended 31 December 2008, 2009, 2010 and by 183 days for the six months ended 30 June 2011.

The inventory turnover days decreased to 30 days in 2009 from 34 days in 2008 due to the reduction of our inventories as we ceased our cement production in Shanghai in late 2009 as mentioned above. The balance of raw material with age greater than three months decreased significantly in 2010 as we wrote off a bulk of these spare parts and components after the Premises Vacation while the remaining parts were transferred to Allied Wangchao together with the production facilities. This consisted of mainly spare parts and replacement components of production facilities, typically with long shelf life and minimal obsolescence, which the Group keeps to ensure their immediate availability for maintenance and repair purposes. Such balance remained low as at 30 June 2011.

The inventory turnover days increased to 38 days in 2010 mainly due to the increased of raw material inventory to cope with the production of cement of the newly installed cement grinding system shifted from Shanghai plant, which commenced trial production in October 2010. The turnover days decreased to 20 days for the six months ended 30 June 2011 as inventory management improved with the commencement of slag production in our Shandong SAC plant, which enabled us to produce the amount of slag in time for our requirements instead of having to purchase and store to ensure immediate availability. By 30 November 2011, approximately HK$28.2 million has subsequently been used/sold from our total inventory balance as at 30 June 2011, representing approximately 79.8% of the balance as at 30 June 2011.

Trade and bills receivables

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables	149,506	164,079	131,219	116,318
Less: Allowance for trade receivables	(32,198)	(30,900)	(5,521)	(4,778)
	117,308	133,179	125,698	111,540
Bills receivables	99,061	53,174	66,175	216,658
	216,369	186,353	191,873	328,198

Our total trade and bills receivables amounted to HK$216.4 million, HK$186.4 million, HK$191.9 million and HK$328.2 million as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively. The decrease in trade receivable balance in 2009 was due to (i) the decreased sales of clinker and cement during the year amid weak market condition during the year; and (ii) the cessation of cement production and sale in relation to the Premises Vacation, our Shanghai operation made minimal sales in the last two months of 2009. Meanwhile, as a common market practice in the region, the sales of cement and clinker products from our Shandong operations were typically conducted on cash basis or on relatively shorter credit terms. This resulted in a significant decrease in bills receivable from HK$99.1 million as at 31 December 2008 to HK$53.2 million as at 31 December 2009.

Our total trade and bills receivables increased slightly to HK$191.9 million as at 31 December 2010. We have commenced our cement trading business in Shanghai in early 2010 and it took time for us to pick up the sales volume. As a result, we generated a lower level of revenue from our Shanghai operations for the year ended 31 December 2010 and our trade and bill receivables as at 31 December 2010 also had a relatively small fluctuation in this connection.

Our trade receivables as at 30 June 2011 remained stable as the trade receivables balance as at 31 December 2010 and 30 June 2011 included mainly receivables from customers of our Shandong operations where settlements were generally done on cash basis or on relatively shorter credit terms as abovementioned. Meanwhile, there was a significant increase in bills receivables balance as at 30 June 2011 as our trading volume of our trading business in Shanghai which commenced in early 2010 was increasing where credit periods granted by us to customers are relatively longer due to the practice of using bank acceptance bills as a form of settlement in Shanghai and in addition, providing longer credit periods helps enhance the competitiveness of our cement trading activities. Details of financial arrangement of our trading business are set out in the paragraph headed "Pricing policy and credit policy" under the section headed "Business" to this prospectus.

The increase in bills receivables was in line with the increasing importance of our trading revenue of our overall revenue, where trading revenue represented approximately 34.2% and 44.6% of our total revenue for the year ended 31 December 2010 and the six months ended 30 June 2011 respectively.

The aggregate amount of allowance made as a percentage of outstanding trade receivable amounted to 21.5%, 18.8%, 4.2% and 4.1% respectively for the corresponding end of the reporting period. The decrease in allowances for bad and doubtful debt made for the year ended 31 December 2010 was due to the write-off of approximately HK$26.1 million in our gross trade receivables as further discussed below. Allowances for bad and doubtful debt remained low for the six months ended 30 June 2011.

The following is the aging analysis of our trade and bills receivables, net of allowance for bad and doubtful debts for the Track Record Period:

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000
0–90 days	173,285	103,665	130,906	260,740
91–180 days	33,830	44,035	27,545	56,009
181–365 days	7,364	23,855	11,331	8,927
Over 1 year	1,890	14,798	22,091	2,522
	216,369	186,353	191,873	328,198
Debtors' turnover days *(Note)*	142	139	155	153

Note: Debtors' turnover days are calculated based on the ending trade receivables of a given year/period divided by the revenue for the corresponding year/period and multiplied by 365 days for the years ended 31 December 2008, 2009 and 2010 and by 183 days for the six months ended 30 June 2011.

As discussed in the sub-section headed "Pricing policy and credit policy" under the "Business" section in this prospectus, our Group has credit policy which allows credit periods ranging from 120 days to 1 year for our customers, which is relatively long compared to other cement companies in the PRC. Credit sales would only offer to customers with sound credit standing and long transaction history with our Group. The debtors' turnover days were 142 days, 139 days, 155 days and 153 days as at 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. It remained rather stable during the Track Record Period.

The credit periods which the Group grants to customers are relatively long compared to some other cement companies in the PRC market due to (i) Shanghai being 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 represented approximately 83.4%, 88.9%, 88.0% and 80.0% of total trade and bills receivables as at the corresponding years/period end respectively.

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 acceptance of three to six-month credit bills from customers will result in longer debtors' turnover days, the Group noted that (i) the credit risk would have effectively been transferred from customers to the issuing banks; and (ii) ability to provide longer credit periods selectively to customers helps enhance the competitiveness of cement trading activities. The Directors believe the Group is able to finance the working capital requirement for granting longer credit periods given the Group's financial strengths, especially in respect of its Shanghai operations. It is common market practice in Shanghai to grant longer credit periods than Shandong, where sales are typically conducted on cash basis. The increasing sales from our Shanghai cement trading business had increased debtors' turnover days from 142 days and 139 days in the two years ended 31 December 2008 and 2009 respectively to 155 days and 153 days for the year ended 31 December 2010 and the six months ended 30 June 2011 respectively.

We seek to maintain strict control over our outstanding trade receivables to minimise our credit risk. Trade receivables are reviewed regularly by management on individual basis for the debtors' repayment record and their credit quality. Our account department is responsible for monitoring the day to day collection of trade receivables. Furthermore, in assessing the credit quality of each individual customer, the responsible sales staff will provide the historical transaction record and the length of business relation with such customer for our account department's reference. The policy of allowance for bad and doubtful debts of our Group is based on the evaluation of collectability and aged analysis of accounts and on our management's judgment by assessing the ultimate realisation of these receivables. Specifically, our account department and our management will assess the creditworthiness of such customer by considering factors such as past collection history and financial health of such customer based on public and market information. Provision on bad and doubtful debts is made individually on each customer as and when appropriate, for example, if the financial conditions of the customer is likely to deteriorate, resulting in an impairment of their ability to make payments. All provision on bad and doubtful debt will be reviewed and approved by our management on a case by case basis. Our Directors are of the view that such measures in monitoring our trade receivables are effective.

The trade and bills receivables past due for over 1 year amounted to HK$1.9 million, HK$14.8 million, HK$22.1 million and HK$2.5 million as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively. The increase in the balance as at 31 December 2010 was mainly due to the extension of credit term beyond 1 year to certain balances due from our major long term customers during the year with our management approval. Approximately HK$18.6 million of the past due for over 1 year balance of HK$22.1 million as at 31 December 2010 from these customers was subsequently settled up to 31 August 2011 and our business transaction with these customers continue on regular basis up till the Latest Practicable Date. By 30 November 2011, approximately HK$229.8 million has subsequently been settled out of all trade and bills receivables as at 30 June 2011, representing approximately 70.0% of the balance as at 30 June 2011.

The management of the Group are of the opinion that the trade receivables balances past due for over 1 year of approximately HK$22.1 million as at 31 December 2010 were not impaired due to good credit quality for which these customers have long term relationship with the Group with no material default history. There was approximately 87% of the unsettled balance of HK$13.3 million up to 30 April 2011 for the past due receivables as at 31 December 2010 was from three customers which have more than 10 years of business relationships with the Group respectively. Such unsettled balance decreased to HK$3.4 million up to 31 August 2011. Two of these three customers had subsequently fully repaid their balances which were past due for over 1 year, amounted to approximately HK$7.4 million, while a further partial repayment from a customer, amounted to approximately HK$1.4 million was made from 1 May 2011 to 31 August 2011. In view of subsequent settlements were received from this customer and there were continuous business transactions with the customer where on-going settlements were received, the Group had granted extension of credit periods to this customer and the respective bills had not yet due as at 30 June 2011. Our business transactions with these three customers continue on regular basis up till the Latest Practicable Date, in particular, the two customers who had fully repaid their balances which were past due for 1 year were two of our five largest customers for the six months ended 30 June 2011. The Sponsor has not noticed any disputes between the Group and the customers or any material default history by the customers. In view of the above, the Sponsor is satisfied that the unsettled trade and bills receivables need not be impaired.

The following sets out the movement of allowance for bad and doubtful debts during the Track Record Period.

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Balance at beginning of the year/period	30,666	32,198	30,900	5,521
Exchange difference	2,073	—	1,056	133
Impairment losses recognised on receivables	244	478	4	—
Amounts recovered during the year/period	(785)	(1,298)	(296)	(16)
Amounts written off as uncollectible	—	(478)	(26,143)	(860)
Balance at the end of the reporting period	32,198	30,900	5,521	4,778

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of HK$32.2 million, HK$30.9 million, HK$5.5 million and HK$4.8 million which have either been placed under liquidation or in severe financial difficulties at 31 December 2008, 2009 and 2010 and at 30 June 2011 respectively. Our Group does not hold any collateral over these balances. Our Group has written off HK$0.9 million of our trade receivables for the six months ended 30 June 2011 as our management reviewed the long outstanding trade receivable, which were previously provided for impairment, and considered them uncollectible during the year.

Other receivables, deposits and prepayments

Other receivables, deposits and prepayments comprise mainly the land resumption compensation receivable, advance to our suppliers, subsidy income receivable from government and government agencies, VAT receivable and deposits paid and other prepayments. The balance increased from HK$26.6 million as at 31 December 2008 to HK$28.9 million during the year ended 31 December 2009 mainly due to the increase in deposit and prepayment made during the year. The balance increased significantly to HK$89.0 million as at 31 December 2010 as we had an outstanding land resumption compensation receivable from the government of HK$58.8 million and interest receivable of HK$4.3

million in relation to our time deposits. The balance further increased to HK$98.9 million as our advance to suppliers increased to HK$15.2 million and there was an increase in bank interest income receivables of HK$7.4 million as part of the time deposits are to be matured on or before the end of 2011 and accordingly an increased amount of interest income receivables had been accumulated as at 30 June 2011.

Assets classified as held for sale

The assets classified as held for sale as at 31 December 2009 referred to those of Shanghai SAC attributable to the Premises Vacation, which comprises reclassification of property, plant and equipment of HK$237.9 million, prepaid lease payments on land use rights of HK$8.9 million and other assets, representing severance payment to the employees of HK$4.0 million and demolition expense of HK$9.2 million. The proceeds of the total compensation are expected to exceed the net carrying amount of the relevant assets and, accordingly, no impairment loss has been recognised on the classification of the Shanghai SAC's operation as held for sale.

Up to 30 June 2011, our Group has received compensation of RMB749.9 million from Shanghai Municipal government. The remaining balance of RMB50.0 million was included in other receivables as at 30 June 2011.

Trade and bills payables

Our trade and bills payables amounted to HK$47.9 million, HK$23.6 million, HK$92.8 million and HK$173.4 million as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively and included amount due to the our suppliers and bills payables, which typically refer to bank acceptance bill we use to settle balances with our suppliers. The trade payables decreased significantly from HK$47.9 million as at 31 December 2008 to HK$23.6 million as at 31 December 2009 mainly due to the cessation of our cement production in Shanghai resulting from the Premises Vacation. The trade payables balance increased significantly to HK$92.8 million as at 31 December 2010 mainly due to the development of our cement trading business in Shanghai, in which case we were typically given a credit period of up to six months from our cement suppliers. The balance further increased significantly to HK$173.4 million as at 30 June 2011 which was in line with our increasing trading volume in Shanghai which had been gradually on track since the commencement of trading business in early 2010.

The following sets out the aging analysis of our trade and bill payables during the Track Record Period.

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000
0–90 days	15,300	16,173	82,310	129,582
91–180 days	29,505	4,095	6,832	38,370
181–365 days	1,177	1,217	521	2,632
Over 1 year	1,926	2,103	3,155	2,856
	47,908	23,588	92,818	173,440
Creditors' turnover days *(Note)*	34	19	85	96

Note: Creditors' turnover days are calculated based on the ending trade and bills payables of a given year/period divided by the cost of sales for the corresponding year/period and multiplied by 365 days for the years ended 31 December 2008, 2009 and 2010 and by 183 days for the six months ended 30 June 2011.

Our creditors' turnover day decreased to 19 days for the year ended 31 December 2009 from 34 days for the year ended 31 December 2008 as our trade and bills payables for our Shanghai operations decreased significantly as a result of the Premises Vacation while the credit period granted to our operations in Shandong was typically shorter in line with market practice in the region.

The creditors turnover days increased significantly to 85 days for the year ended 31 December 2010 mainly due to the commencement of our cement trading business in Shanghai since early 2010 as we are typically given credit periods of up to six months from our cement suppliers. The turnover days further increased to 96 days for the six months ended 30 June 2011 as our trading business had been developed which was in line with its increasing importance as a source of our overall revenue. Our Group was offered a credit period up to six months from our cement suppliers for the year ended 31 December 2010 and for the six months ended 30 June 2011. In light of this, longer creditors' turnover days for the year ended 31 December 2010 and for the six months ended 30 June 2011 were reasonable.

Other payables and deposits received

The following sets out the other payables and deposits received during the Track Record Period.

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Payables for acquisition of property, plant and equipment	11,686	8,542	17,591	28,139
Receipt in advance from customers	7,901	3,909	11,901	13,900
Other tax payable	5,787	4,767	3,854	3,904
Other payables	1,896	2,068	3,377	3,578
Accrued cost in relation to land resumption	—	—	8,728	3,013
Other accrued operating expenses	3,391	3,140	4,227	4,270
Deposits received	380	16	16	71
	31,041	22,442	49,694	56,875

The other payables and deposits received comprised mainly payables for acquisition of property, plant and equipment, receipt in advance from customers, other tax payable and other accrued operating expenses. The balance decreased from HK$31.0 million as at 31 December 2008 to HK$22.4 million as at 31 December 2009 mainly due to (i) the reduction of payables for acquisition of property, plant and equipment in line with the decrease in capital expenditure for our Shanghai operation resulting from the Premises Vacation; and (ii) the decrease of receipt in advance from customers in line with the decrease in our revenue amid weak market condition in 2009.

The balance increased significantly to HK$49.7 million as at 31 December 2010 mainly due to the construction of the waste heat recovery system and the addition of cement production facilities in Shandong during the year. Our receipt in advance from customers also increased from HK$3.9 million as at 31 December 2009 to HK$11.9 million as at 31 December 2010. During the Track Record Period, we received deposits from some of our customers before product delivery in our normal course of business, especially for new customers or when prevailing cement demand was high. The balance as at 31 December 2010 also included the deposit of HK$3.2 million received from a customer purchasing our disposed machinery in Shanghai. During the year, we also accrued cost in relation to land resumption of approximately HK$8.7 million in connection to the Premises Vacation.

The balance further increased to HK$56.9 million as at 30 June 2011 mainly due to the increase in payables for acquisition of property, plant and equipment with further capital expenditure on construction of the waste heat recovery system and cement grinding system. Details of capital expenditure on these systems are set out in paragraph headed "Capital expenditure" of this section.

Bank borrowings

Please refer to the paragraphs headed "Statement of indebtedness" in this section for discussion on our bank borrowings.

SELECTED FINANCIAL RATIOS DISCUSSION

The following table sets out certain financial ratios of our Group as at the end of the financial year/period indicated:

	Year ended 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010	Six months ended 30 June 2011
Current ratio *(Note 1)*	0.65	1.08	1.60	1.55
Quick ratio *(Note 2)*	0.57	1.04	1.54	1.51
Gearing ratio *(Note 3)*	0.56	0.29	0.33	0.31
Debt to equity ratio *(Note 4)*	1.51	(0.37)	(0.20)	0.12
Return on total asset *(Note 5)*	5.5%	0.7%	26.3%	6.5%
Return on equity *(Note 6)*	17.1%	3.2%	57.9%	14.9%
Interest coverage ratio *(Note 7)*	5.64	2.03	12.59	30.73

Notes:

1. Current ratio is calculated by dividing current assets with current liabilities as at the respective year/period end.

2. Quick ratio is calculated by dividing current assets (less inventory) with current liabilities as at the respective year/period end.

3. Gearing ratio is calculated by dividing the total interest-bearing loans and shareholder's loans with the total assets as at the respective year/period end.

4. Debt to equity ratio is calculated by dividing the net debt (being the total debt less cash on hand) with total equity as at the respective year/period end.

5. Return on total assets is calculated by dividing profit for the year with the total assets as at the respective year end. Return on total assets for the six months ended 30 June 2011 was annualised for comparison purpose.

6. Return on equity is calculated by dividing profit for the year with the total equity as at the respective year end. Return on equity for the six months ended 30 June 2011 was annualised for comparison purpose.

7. Interest coverage is calculated by dividing profit before interest and tax (less the gain on land resumption exercise and the corresponding impairment loss on goodwill) with the finance cost for the corresponding year/period.

Current ratio

Our current ratio improved to 1.08 as at 31 December 2009 from 0.65 as at 31 December 2008 mainly due to (i) the receipt of land resumption compensation of HK$568.4 million during the year ended 31 December 2009; (ii) the reclassification of properties, plants and equipment with carrying amount of HK$237.9 million to asset held for sale in connection with the Premises Vacation; and (iii) the repayment borrowings due within one year.

Our current ratio further improved to 1.60 as at 31 December 2010. The net current assets increased from HK$73.4 million as at 31 December 2009 to HK$399.2 million as at 31 December 2010 as we received additional land resumption compensation of HK$287.0 million, and recognised deposit received on land resumption compensation (a current liability as at 31 December 2009) as a gain on our income statement for the year ended 31 December 2010. This was offset by the increase in tax liabilities by HK$141.0 million and derecognition of assets held for sale of HK$260.1 million upon completion of the Premises Vacation.

Our current ratio remained stable at 1.55 as at 30 June 2011. The net current assets increased to HK$444.3 million due to a net increase in the balance of financial assets designated as at fair value through profit or loss and loan receivable by HK$229.0 million resulting from investment in structured deposits with part of the deposit received on land resumption compensation. This was partly offset by a decrease in pledged bank deposits, time deposits and bank balances of HK$186.5 million.

Quick ratio

Stock did not form a significant portion of the Group's current assets. Our quick ratio increased from 0.57 as at 31 December 2008 to 1.04 as at December 2009 mainly due to the reasons stated in discussion on current ratio above, while the inventory balance decreased from HK$48.0 million to HK$38.2 million. The quick ratio further increased to 1.54 as at 31 December 2010 in line with the increase in current ratio, while the inventory balance increased to HK$41.1 million as at 31 December 2010 and remained stable at 1.51 as at 30 June 2011 in line with the current ratio.

Gearing ratio

Our gearing ratio decreased to 0.29 as at 31 December 2009 from 0.56 as at 31 December 2008 due to the significant decrease in our borrowings from HK$213.4 million to HK$86.9 million during the year ended 31 December 2009 mainly due to the land resumption exercise which led to a high net cash position. The gearing ratio increased to 0.33 as at 31 December 2010 in line with the increase in our borrowings to HK$103.2 million as at 31 December 2010, offset by the increase in cash and cash equivalents and time deposits upon receipt of the land resumption compensation during the year.

Notwithstanding our borrowings increased to HK$127.6 million, our total assets increased to HK$1,630.1 million mainly due to a net increase in the balance of financial assets designated as at fair value through profit or loss and loan receivable by HK$229.0 million resulting from investment in structured deposits with part of the deposit received on land resumption compensation, resulting in a slight decrease in gearing ratio to 0.31 as at 30 June 2011.

Debt to equity ratio

Our debt to equity ratio improved significantly from 1.51 as at 31 December 2008 to a net cash to equity position of 0.37 with net cash amounting to HK$114.4 million as at 31 December 2009 mainly due to the receipt of cash of HK$555.2 million (net of payment of costs for land resumption exercise) in relation to the land resumption compensation received in 2009 and the repayment of our borrowings during the year.

The net cash to equity ratio decreased slightly to 0.20 with net cash amounting to HK$131.8 million as at 31 December 2010 as our borrowings increased from HK$86.9 million to HK$103.2 million as at 31 December 2010 while we further received cash of HK$187.3 million (net of payment of costs for land resumption exercise) in relation to the land resumption compensation.

Our debt to equity ratio was 0.12 with net debt totaling HK$88.9 million as at 30 June 2011 as our borrowings increased to HK$127.6 million to finance a larger working capital completed by our operational expansion as well as the construction of our waste heat recovery system and our cement grinding system in Shandong.

Return on total assets

Return on total asset ratio decreased significantly to 0.7% for the year ended 31 December 2009 from 5.5% for the year ended 31 December 2008 mainly due to the reduction in revenue and profit during the year amid difficult market condition.

Return on total asset improved to 26.3% for the year ended 31 December 2010 due to the improvement in revenue and profit and the recognition of gain on land resumption exercise during the year. Excluding the effect of gain on land resumption exercise, the corresponding impairment loss on goodwill and the relevant tax effect, the adjusted return on total asset ratio would be 3.3% for the year ended 31 December 2010. This increase from 0.7% for the year ended 31 December 2009 was in line with the increase in gross profit margin over the same period.

Return on total asset ratio improved to 6.5% as at 30 June 2011 which was in line with increase in gross profit margin from 11.5% for the year ended 31 December 2010 to 15.8% for the six months ended 30 June 2011.

Return on equity

Return on equity ratio decreased significantly to 3.2% for the year ended 31 December 2009 from 17.1% for the year ended 31 December 2008 mainly due to the reduction in revenue and profit during the year amid difficult market condition.

Return on equity improved significantly to 57.9% for the year ended 31 December 2010 due to the improvement in revenue and profit and the recognition of gain on land resumption exercise during the year. Excluding the effect of gain on land resumption exercise, the corresponding impairment loss on goodwill and the relevant tax effect, the adjusted return on equity ratio would be 14.9% for the year ended 31 December 2010, which indicates an increase in return on equity compared to that for the year ended 31 December 2009.

Return on equity ratio was 14.9% as at 30 June 2011 which was in line with increase in gross profit margin from 11.5% for the year ended 31 December 2010 to 15.8% for the six months ended 30 June 2011.

Interest coverage

Our interest coverage ratio, being the profit before interest and tax (less the gain on land resumption exercise and the corresponding impairment loss on goodwill) divided by the finance cost for the corresponding year/period, decreased from 5.64 for the year ended 31 December 2008 to 2.03 for the year ended 31 December 2009. Despite the 25.5% decrease in finance costs, our profit before interest and tax decreased by approximately 73.3% for the year ended 31 December 2009 mainly due to the reduction of our gross profit and no foreign exchange gain being recognised, while distribution and selling expenses and administrative expenses for the year ended 31 December were comparable to that of 2008. The interest coverage ratio improved to 12.59 for the year ended 31 December 2010 as our profit before interest and tax improved significantly during the year, coupled with the reduction of finance costs by 47.1% from HK$9.2 million in 2009 to HK$4.9 million and the gain on land resumption exercise of HK$528.4 million in 2010.

Our interest coverage further improved significantly to 30.73 for the six months ended 30 June 2011 due to an increase in other income mainly contributed by increase in interest income from banks, fair value gains on financial assets designated as at fair value through profit or loss and a reversal of overprovision of staff compensation in land resumption.

CAPITAL EXPENDITURE

During the Track Record Period, our major capital expenditures were attributable to the construction of buildings, installation of plant and machinery, and purchase of motor vehicles for our operations. Our capital expenditures amounted to approximately HK$17.2 million, HK$22.9 million, and HK$125.7 million and HK$21.1 million for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, respectively. The significant increase in capital expenditure in 2010 was mainly due to the construction of the waste heat recovery system and cement grinding system in Shandong, amounting to approximately HK$91.6 million. As at 31 December 2009 and 2010 and 30 June 2011, accumulated capital expenditure of HK$17.9 million, HK$38.7 million and HK$41.4 million respectively was spent on the construction of waste heat recovery system; and accumulated capital expenditure of HK$0.1 million, HK$70.9 million and HK$87.1 million respectively was spent on the construction, installation and modification of the cement production line at our Allied Wangchao plant which is equipped with the cement grinding system shifted from our Shanghai plant following the Premises Vacation, during the corresponding years/period. We have historically funded our capital expenditures through cash generated from our operations, bank borrowings and advances from holding companies and fellow subsidiaries.

Our planned capital expenditure for the year ending 31 December 2011 is approximately HK$21.6 million. We may adjust our capital expenditures for any given period in the future according to our development plans and in light of the market conditions and other factors we believe to be appropriate.

PROPERTY INTERESTS AND PROPERTY VALUATION

Norton Appraisals Limited, an independent property valuation firm, valued our property interests in land or buildings in the PRC as at 31 October 2011. No commercial value was attributed to the properties leased. For details related to our properties owned and leased, together with the relevant valuations and valuation certificates, please refer to the paragraph headed "Property" under the section headed "Business" and the Valuation Report set out in Appendix III to this prospectus.

Buildings and structures held under property, plant and equipment and prepaid lease payments on land use rights

The statement below shows the reconciliation of aggregate amounts of land and buildings carried at cost on the audited combined financial information as of 30 June 2011 with the valuation of these properties as of 31 October 2011 as set out in Appendix III to this prospectus.

	HK$'000
Net carrying value of property interests of our Group as of 30 June 2011	
Buildings and structures held under property, plant and equipment	167,483
Prepaid lease payments on land use rights	7,776
	175,259
Movements for the four months ended 31 October 2011	
Add: Additions during the period	441
Less: Disposal during the period	(33)
Depreciation and amortisation during the period	(1,759)
Net book value as of 31 October 2011	173,908
Adjusted for: Structures on leased property and leasehold land *(Note 1)*	(87,877)
Buildings pending certificate of real estate title as at 31 October 2011 *(Note 2)*	(2,553)
Revaluation surplus *(Note 3)*	53,474
Valuation as of 31 October 2011	136,952
Valuation as of 31 October 2011 ('000)	RMB113,670

Notes:

1. Structures on leased property and leasehold land refers to structures which form part of our production facilities, such as conveyor belts used to move raw material and semi-finished goods within the facility, and fencing wall for storage. These structures are classified as building under property, plant and equipment and are carried at cost less accumulated depreciation. Certificate of real estate title cannot be obtained for these structures as they cannot be seen as transferable real estate and are therefore excluded from the valuation report.

2. As at 31 October 2011, one building had not yet obtained certificates of real estate.

3. The revaluation surplus of buildings held under property, plant and equipment and prepaid lease payment on land use rights will not be included in our Group's financial information for the six months ended 30 June 2011 in accordance with our accounting policy to state such property interests at the historical costs.

Properties held for sale

The statement below shows the reconciliation of aggregate amounts of property held for sale carried at the lower of cost and net realisable value on the audited combined financial information as of 30 June 2011 with the valuation of these properties as of 31 October 2011 as set out in Appendix III to this prospectus.

	HK$'000
Net book value of property interests of our Group as of 30 June 2011	
Properties held for sale	1,042
Movements for the four months ended 31 October 2011	
Add: Additions during the period	1,288
Adjusted for: Properties held for sale of which the right to transfer, mortgage or lease the land use right is restricted *(Note)*	(2,330)
Valuation as of 31 October 2011 *(Note)*	—

Note: Properties held for sales represent properties transferred from our trade debtors of Shanghai SAC to our Group in lieu of cash settlement and registered in the name of Shanghai SAC in previous years. The certificates for real estate ownership of these properties held for sales as at 31 December 2008, 2009 and 2010 and 30 June 2011 were held in trust by our management on behalf of our Group. The transfer of legal title of the properties held for sales was completed by August 2011. The adjustment of the properties held for sale will not be included in our Group's financial information for the six months ended 30 June 2011 as our Group possesses all economic benefits associated with these properties. As a reference, the total capital value of these properties held for sale amounted to HK$2.9 million.

FINANCIAL RISK

We are exposed to various types of market risk (including interest rate risk and foreign currency risk), credit risks and liquidity risk in our normal course of business.

Interest rate risk

Our Group's fair value interest rate risk relates primarily to certain of our fixed-rate pledged short-term bank deposits, time deposits, amount due from a fellow subsidiary, loan receivable and borrowings. We have not used any derivative contracts to hedge these exposures to interest rate risk.

Our Group's cash flow interest rate risk primarily relates to variable-rate bank balances and borrowings and is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate and the interest rates quoted by the People's Bank of China from our HK$ borrowings. We have not used any interest rate swaps to mitigate our exposure associated with interest rate risk. Notwithstanding, our management monitors interest rate exposure and will consider necessary actions when significant interest rate exposure is anticipated.

Based on the sensitivity analyses on our non-derivative instruments relating to bank balances and floating-rate borrowings for interest rate movement, if interest rates had been increased/decreased by 200 basis points in respect of borrowings and all other variables were held constant, our profits for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 would decrease/ increase by approximately HK$1.6 million, HK$1.0 million, HK$1.6 million and HK$1.9 million respectively. Meanwhile, if interest rates had been increase by 50 basis points in respect of bank balances and all other variables were held constant, our profits for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 would increase by approximately HK$0.2 million, HK$1.9 million, HK$1.0 million and HK$0.3 million respectively. The basis point movements above represent management's assessment of the reasonably possible change in interest rates.

Foreign currency risk

We collect most of our revenue in RMB and incur most of the expenditures as well as capital expenditures in RMB. Our Directors considered that our Group's exposure to foreign currency exchange risk is insignificant as the majority of our transactions are denominated in the functional currency of the respective group entities.

As at 31 December 2008, 2009 and 2010 and 30 June 2011, our Group had bank balances, amounts due from and due to related parties and borrowings denominated in HK$ which is the currency other than the functional currency of the respective group entities. Our Group currently does not have a foreign currency hedging policy. Notwithstanding, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amount of monetary assets and monetary liabilities denominated in HK$, a currency other than the functional currency of our Group, is presented as follows:

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Assets	15,347	10	39	794
Liabilities	372,770	348,916	446,758	451,903

Based on the sensitivity analyses assuming a 5% strengthening/weakening of RMB against in HK$, our profit for the year will increase/decrease by HK$17.9 million, HK$17.4 million, HK$22.3 million and HK$22.6 million for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, respectively. For details of the sensitivity analyses, please refer to the paragraph headed "foreign currency risk" in note 6 of the accountants' report set out in Appendix I of this prospectus.

Credit risk

Our Group's credit risk is primarily attributable to our financial assets, including amounts due from related parties, trade and bills and other receivables, financial assets designated as at fair value through profit or loss, loan receivable, pledged short-term bank deposits, time deposits and bank balances. Our Group's maximum exposure to credit risk is the loss resulting from counterparties' failure to perform their obligations under these financial assets, which is equivalent to their respective carrying amount.

In order to minimise our credit risk, our management has delegated a team responsible for determining the credit limits, credit approvals and other monitoring procedures on our cement business. In addition, our management reviews the recoverable amount of each individual trade receivable, other receivables and amount due from related parties regularly to ensure that adequate impairment losses are recognised for irrecoverable amounts. With respect to financial guarantees provided to banks to secure the banking facilities granted to our former immediate holding company as at 31 December 2008, our management considered the credit risk was limited because our former immediate holding company had strong financial positions. In this regard, our management considered that our Group's credit risk has been significantly reduced.

Our credit risk on our financial assets designated as at fair value through profit or loss and loan receivable are limited as the principal-protected structured deposits and unlisted debt securities were deposited in or issued by reputable banks in the PRC.

Meanwhile, our credit risk on liquid funds is also limited because our Group's pledged short-term bank deposits, time deposits and bank balances are deposited with banks of high credit rating in Hong Kong and PRC. We do not have significant concentration of credit risk on trade and other receivables as the exposures are spread over a number of counterparties and trade customers.

Liquidity risk

In managing our liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our Group's operations and mitigate the effects of fluctuations in cash flows. Our Group relied on bank and other borrowings as a significant source of liquidity during the Track Record Period. Our management monitors the utilisation of bank and other borrowings. For the details of the contractual maturity for our financial liabilities, please refer to the paragraph headed "liquidity risk" under note 6 of the accountants' report set out in Appendix I of this prospectus.

RELATED PARTY TRANSACTIONS

Leasing agreement with Shanghai Cement Factory

On 16 December 1995, a leasing agreement was entered into between Shanghai SAC and Shanghai Cement Factory ("SCF"), a non-controlling interest which held a 40% equity interest in Shanghai SAC. According to the leasing agreement, Shanghai SAC should pay to SCF an annual leasing fee which consisted of (1) a fixed asset leasing fee mainly based on the depreciation of the property, plant and equipment leased under the leasing agreement plus a mark-up of about 10%; and (2) an usage fee mainly based on the volume of raw materials off-load and the applicable unit rate for the relevant raw materials agreed by the parties when the leasing agreement was signed. The underlying assets are also used by SCF. Shanghai SAC paid a total leasing fee of HK$6.7 million, HK$6.1 million, HK$57,000, HK$7,000 (unaudited) and nil to SCF during the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2010 and 2011, respectively.

Reciprocal arrangement of guarantee between ChinaVision Media and Tian An

In July 2002, ChinaVision Media entered into a master agreement with Tian An for a reciprocal arrangement of guarantee, pursuant to which our Group provides guarantees to secure certain borrowings of subsidiaries of Tian An in the PRC and Tian An provides guarantees to secure certain borrowings of our Group in the PRC. A guarantee fee of 1% per annum on the principal amount of the guarantees is chargeable between the relevant parties. The Master Agreement expired during the year ended 31 December 2008. At 31 December 2008, 2009 and 2010 and 30 June 2011, our Group did not provide any guarantees to secure borrowings of subsidiaries of the ultimate holding company in the PRC.

Financial guarantee by Tian An

Tian An, our ultimate holding company, provided guarantees to secure borrowings of approximately HK$71.0 million, HK$62.0 million, HK$99.6 million and HK$93.3 million of our Group at 31 December 2008, 2009 and 2010 and at 30 June 2011, respectively. The guarantee fee paid to Tian An amounted to HK$806,000, HK$451,000, nil and nil for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011 respectively. The guarantee fee charged by Tian An during the year ended 31 December 2008 and 2009 was related to guarantee provide to our Group prior to Tian An's acquisition of our Group in 2009. No guarantee fee was charged by Tian An after the acquisition and during the year ended 31 December 2010 and the six months period ended 30 June 2011.

Other related parties transactions

In addition to the above, our Group entered into the following related party transactions:

		Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
(i)	A subsidiary of a former substantial shareholder with significant influence over our Group					
	Star Telecom Holding Limited					
	— Administrative expenses	1,506	—	—	—	—
(ii)	Intermediate holding company					
	SAC Investments Limited					
	— Management fee expenses	—	805	—	—	—
(iii)	Fellow subsidiary					
	Tian An (Shanghai) Investments Co., Ltd. 天安(上海)投資有限公司					
	— Interest income	—	—	189	—	969
(iv)	Non-controlling interests					
	Shanghai Cement Factory (上海水泥廠)					
	— imputed interest expenses	51	25	6	6	—
	Aso Corporation					
	— Management fee expenses	—	330	254	—	—

As at 31 December 2008, 2009 and 2010 and 30 June 2011, our Group has the following significant balances with related parties:

			At 31 December			At 30 June
			2008	2009	2010	2011
		Notes	HK$'000	HK$'000	HK$'000	HK$'000
(i)	**Current assets**					
	Amounts due from former fellow subsidiaries:					
	SAC Enterprises Limited	*a*	10,241	—	—	—
	SAC Building Material Holdings Limited	*a*	5,106	—	—	—
	深圳市賽華順升建材有限公司	*a*	13,085	—	—	—
	上海賽華順升建材有限公司	*a*	825	—	—	—
			29,257	—	—	—
	Amount due from a fellow subsidiary					
	Tian An (Shanghai) Investments Co., Ltd. 天安(上海)投資有限公司	*b*	—	—	47,252	48,193
			29,257	—	47,252	48,193
(ii)	**Current liabilities**					
	Dividends payable to a non-controlling interest					
	Aso Corporation	*c, f*	—	—	2,650	2,650
	Amount due to immediate holding company					
	Sunwealth Holdings Limited	*c, g*	—	284,739	342,135	353,521
	Amount due to former immediate holding company					
	ChinaVision Media Group Limited (formerly known as "Shanghai Allied Cement Limited")	*c*	289,630	—	—	—
	Amount due to ultimate holding company					
	Tian An China Investments Company Limited	*c, f*	14,641	1,807	1,807	1,807
	Amounts due to former fellow subsidiaries:					
	SAC Enterprises Limited	*c*	1,530	—	—	—
	SAC Finance Company Limited	*c*	13,470	—	—	—
	SAC Secretarials Limited	*c*	3	—	—	—
			15,003	—	—	—

	Notes	At 31 December 2008 HK$'000	At 31 December 2009 HK$'000	At 31 December 2010 HK$'000	At 30 June 2011 HK$'000
Amount due to a fellow subsidiary					
Tian An (Shanghai) Investments Co., Ltd. (天安（上海）投資有限公司)	*c, h*	—	13,284	13,753	14,084
Amounts due to non-controlling interests:					
Shanghai Cement Factory (上海水泥廠)	*c*	4,876	4,015	1,879	—
Aso Corporation	*c, f*	—	330	584	584
		4,876	4,345	2,463	584
Amount due to a former related company:					
Star Telecom Holding Limited	*c, d*	2,283	—	—	—
		326,433	304,175	362,808	372,646
(iii) **Non-current liabilities**					
Amount due to a non-controlling interest:					
Shanghai Cement Factory (上海水泥廠)	*e*	450	475	—	—

Notes:

(a) The balance was unsecured, non-interest bearing and repaid during the year ended 31 December 2009.

(b) The balance was unsecured, carried interest at 4% per annum and is repayable on 25 November 2012. It contains a repayment on demand clause and has been classified as current asset. The balance was subsequently repaid in July 2011.

(c) The balance were unsecured, non-interest bearing and are repayable on demand.

(d) The former related company was owned by a former substantial shareholder of the former immediate holding company. On 6 March 2009, the former substantial shareholder disposed of its shares in the former immediate holding company to an independent third party.

(e) The amount due to a non-controlling interest was unsecured, non-interest bearing and repayable by 2043. The effective interest rate of the amount is 5.58% per annum for each of the years ended 31 December 2008 and 2009. The amount was fully repaid during the year ended 31 December 2010.

(f) The remaining outstanding balance due to Tian An will be repaid by the net proceeds from the Share Offer upon the Listing. The balance due to Aso Corporation is expected to be settled within six months after the Listing when confirmation on withholding tax is expected to be obtained by the PRC tax authority.

(g) For the balances at 30 June 2011, approximately HK$227,305,000 was capitalised and pursuant to the details set out in the section headed "Use of Proceeds", our Directors expected that the amount will be settled in full by our Group upon the receipt of the proceeds from the Listing.

(h) The balance was subsequently settled in July 2011.

We had also borrowed from our ultimate holding company, intermediate holding company and minority shareholders during the Track Record Period. These loans were unsecured, non-interest bearing and were repayable on demand. Details of the transactions with these parties, who are considered connected persons of our Group, can be found in the paragraph headed under this section.

Amount due to immediate holding company

The outstanding balance due to Sunwealth amounted to HK$284.7 million, HK$342.1 million and HK$353.5 million as at 31 December 2009 and 2010 and 30 June 2011 respectively. On 20 December 2011, the outstanding balance of HK$227.3 million were capitalised as 142,292,167 Shares (Please refer to "Corporate reorganisation and group structure" section for details). As at the Latest Practicable Date, the remaining outstanding balance due to Sunwealth was approximately HK$128.2 million, which will be repaid upon the Listing. This non-interest bearing loan can be viewed as quasi-capital, a substantial amount of which will be capitalised under the Reorganisation.

Amount due to ultimate holding company

The outstanding balance due to Tian An amounted to HK$1.8 million, HK$1.8 million and HK$1.8 million as at 31 December 2009 and 2010 and 30 June 2011 respectively. As at the Latest Practicable Date, the remaining outstanding balance due to Tian An was approximately HK$1.8 million, which will be repaid upon the Listing. This non-interest bearing loan represents guarantee fee payable to Tian An for its provision of financial guarantee for our loans. It was conducted in the ordinary course of business.

Amounts due to non-controlling interests

The outstanding balance due to Shanghai Cement Factory amounted to HK$5.3 million, HK$4.5 million, HK$1.9 million and nil as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively. The balance under current liabilities of HK$4.9 million, HK$4.0 million and HK$1.9 million as at 31 December 2008, 2009 and 2010 was unsecured, non-interest bearing and repayable on demand, while the non-current portion of the balance of HK$0.5 million and HK$0.5 million as at 31 December 2008 and 2009 was unsecured, non-interest bearing and repayable by 2043. As at the Latest Practicable Date, the remaining outstanding balance due to Shanghai Cement Factory was fully settled by our internal resources.

The outstanding balance due to Aso Corporation, a non-controlling interest which own as to 16.67% of AII-Shanghai, amounted to nil, HK$0.3 million, HK$3.2 million and HK$3.2 million as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively. The balance were unsecured, non-interest bearing and are repayable on demand. As at the Latest Practicable Date, the remaining outstanding balance due to Aso Corporation was approximately HK$3.2 million, which referred to management fee and dividend payable by AII-Shanghai. Such amount arose in the ordinary course of our business.

Amount due to a fellow subsidiary

The outstanding balance due to Tian An Shanghai amounted to HK$13.3 million, HK$13.8 million and HK$14.1 million as at 31 December 2009 and 2010 and 30 June 2011 respectively. The balance was subsequently repaid in July 2011.

Amounts due to former fellow subsidiaries

The balance due to the SAC Enterprises Limited, SAC Finance Company Limited and SAC Secretarials Limited (all of which were associate companies of ChinaVision Media, our former immediate holding company) were unsecured, non-interest bearing and are repayable on demand. All the outstanding balances with our former fellow subsidiaries were settled during the financial year ended 31 December 2009.

Our Directors (including the executive Directors and the independent non-executive Directors) have confirmed that they are of the view that the related party transactions were based on normal commercial terms.

OFF BALANCE SHEET ARRANGEMENTS

We do not have any outstanding derivative instruments, off-balance sheet guarantees or foreign currency forward contract. We do not engage in trading activities involving non-exchange trade contracts.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the Company's financial or trading position or prospects since 30 June 2011, being the date of the Company's last audited financial statement as set out in Appendix I to this prospectus.

DIVIDEND POLICY

Our Company did not declare any dividend for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2010 and 2011. After the completion of the Share Offer, we may in the future distribute dividends by way of cash or by other means that we consider appropriate. Our Directors may recommend that dividends be declared after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits, reserves available for distribution based on HKFRS, our Memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. Under our Articles of Association, declaration of final dividends is subject to the Shareholders' approval at our annual general meeting, while our Directors have been granted the authority to pay interim dividends without Shareholders' approval.

Any distributable profits that are not distributed in any given year may be retained and be made available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available for reinvestment in our operations. For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, one of our subsidiaries has paid dividends to a non-controlling interest amounting to approximately HK$7.7 million, HK$8.8 million, HK$7.8 million and nil respectively. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board. As at the Latest Practicable Date, the Directors do not expect to declare any dividend for the year ending 31 December 2011.

DISTRIBUTABLE RESERVES

As at 30 June 2011, our Company did not have reserves available for distribution to its Shareholders.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma statement of our adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only, and is set forth here to illustrate the effect of the Share Offer on our net tangible assets as of 30 June 2011 as if it had taken place on 30 June 2011.

Unaudited Pro Forma Adjusted Net Tangible Assets

The unaudited pro forma statement of adjusted net tangible assets have been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our combined net tangible assets as of 30 June 2011 or any future date following the Share Offer. It is prepared based on our audited combined net assets as of 30 June 2011 as derived from our combined financial statements set forth in the accountants' report in Appendix I, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the accountants' report as set forth in Appendix I to this prospectus.

	Audited adjusted combined net tangible assets of our Group attributable to owners of the Company as at 30 June 2011	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted net tangible assets attributable to owners of the Company	Unaudited pro forma adjusted net tangible assets per Share
	HK$'000	**HK$'000**	**HK$'000**	**HK$**
	(Note 1)	*(Note 2)*		*(Notes 3)*
Based on Offer Price of HK$1.00 per Share	297,018	145,000	442,018	0.67

Notes:

1. The audited adjusted combined net tangible assets of our Group attributable to owners of the Company as at 30 June 2011 is based on the net assets attributable to owners of the Company, after deducting the intangible asset with aggregate carrying amount of HK$7,781,000, extracted from the Accountants' Report set out in Appendix I to this prospectus.

2. The estimated net proceeds from the Share Offer are based on an Offer Price of HK$1.00 per Share (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

3. The number of Shares used for the calculation of unaudited pro forma adjusted net tangible assets attributable to owners of our Company per Share is based on 660,000,000 Shares to be in issue immediately after the Share Offer, which included the 142,292,167 Shares issued for the loan capitalisation as stated in note 4 below, and without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme.

4. Subsequent to 30 June 2011, shareholders' loans due to Tian An Group with an aggregate amount of approximately HK$227,305,000 have been capitalised for the consideration of the issuance of 142,292,167 Shares. No pro forma adjustment has been made to the net tangible assets of our Group in connection to these shareholders' loans capitalisation. If the shareholders' loans capitalisation were to be adjusted to the pro forma net tangible assets of our Group, the unaudited pro forma adjusted net tangible assets per Share would have been approximately HK$1.01.

5. With reference to the valuation of our Group's buildings and prepaid lease payments on land use rights as at 31 October 2011 as set out in Appendix III to this prospectus, there was a valuation surplus of our Group's buildings and prepaid lease payments on land use rights of approximately HK$53.5 million. Our Group will not incorporate the valuation surplus in its future financial statements. If the valuation surplus were to be incorporated in our Group's financial statements, additional annual depreciation and amortisation charge of approximately HK$1.5 million would have been charged against the profit or loss.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had our Shares been listed on the Stock Exchange.