OVERVIEW

We are a cement and clinker producer in Wujiang City, Suzhou Prefecture, which is situated in south Jiangsu Province. Since our establishment, our packed cement products have been sold and distributed under the trademark “ ”. We are also the only cement producer in Suzhou Prefecture that employs NSP technology in our production process which involves preheating of the raw materials for clinker production before the raw materials are mixed and fed into the rotary kiln. NSP technology generally emits fewer harmful pollutants and produces higher quality cement. NSP technology has now become the most common cement production technology in the PRC, contributing approximately 81% of the total clinker produced in 2010.

Our principal products comprise ordinary Portland cement strength class 42.5 (“PO 42.5”) and composite Portland cement strength class 32.5 (“PC 32.5”), though we also sell clinker as a by-product. According to the independent mandatory inspection reports issued by Jiangsu Construction Materials Quality Supervision and Inspection Station (江蘇省質量技術監督建材產品質量檢驗站), (i) in May 2012, with regard to our PO 42.5; and (ii) in April 2012, with regard to our PC 32.5, both our PO 42.5 and PC 32.5 products are of a substantially higher-grade quality than the PRC national standard.

During the Track Record Period, our products were sold in Jiangsu Province, Zhejiang Province and Shanghai. Our strategic geographical location in the area known as the Golden Triangle of the Yangtze affords us easy access and places us within close proximity to our markets. Our production facilities enjoy the benefit of the exclusive use of an adjoining wharf situated on the Taipu River (太浦河). The wharf enables us to transport raw materials and cement of 10,000 tonnes per day and affords our customers and suppliers convenient transportation access to us.

Our products are primarily sold through (i) direct sales to construction developers that are involved with construction projects in both public and private sectors, (ii) direct sales to ready-mixed concrete stations, all of which are conveniently accessible to our production facilities, (iii) trading companies selected by our Group on a transaction by transaction basis and (iv) direct sales to a number of walk-in customers. For the three years ended 31 December 2009, 2010 and 2011, we sold approximately 1.5 million tonnes, 1.4 million tonnes and 1.4 million tonnes of products, representing sales of approximately RMB291.6 million, RMB355.0 million and RMB464.0 million, respectively.

We have a stable and reliable source of raw materials. The raw materials used in our cement production process include limestone, shale, sandstone, coal gangue, converter slag, clay, flyash and gypsum, etc. We procure our raw materials from a variety of different sources that are within easy access to our production facilities and they are transported to our production facilities mainly via waterway. In addition, coal and electricity are used to fuel our production process. For the three years ended 31 December 2009 and 2010 and 2011:

– our costs on raw materials represented approximately 25.8%, 21.9% and 27.8% of our total cost of sales respectively;

– our costs on coal represented approximately 32.7%, 36.3% and 36.4% of our total cost of sales respectively; and

– our costs on electricity represented approximately 18.0%, 16.2% and 16.3% of our total cost of sales respectively.

For the three years ended 31 December 2009, 2010 and 2011, we have improved our production efficiency by implementing stringent quality control measures and by reducing our production costs. For instance, we use waste materials in our production of PC 32.5. This reduces our production costs and entitles us to claim a VAT refund for our PC 32.5 products from the PRC government for adoption of energy efficient and environmentally responsible practices. For the three years ended 31 December 2009, 2010 and 2011, these VAT refunds amounted to approximately RMB8.9 million, RMB8.7 million and RMB13.4 million respectively, all of which were from the production of our PC 32.5 products. Additionally, we have equipped our clinker production line with a residual heat recovery system which recycles the heat produced in our production process to generate power that is then re-utilized. This enables us to be less reliant on external electricity sources and further reduces our costs of production. For the three years ended 31 December 2009, 2010 and 2011, electricity generated by our residual heat recovery generators accounted for approximately 12.6%, 20.7% and 17.8% respectively, of our total electricity consumed.

For the three years ended 31 December 2009, 2010 and 2011, our total revenue was approximately RMB291.6 million, RMB355.0 million and RMB464.0 million, respectively, representing a CAGR of 26.1%. Our operating profit increased from approximately RMB16.9 million for the year ended 31 December 2009 to approximately RMB44.4 million for the year ended 31 December 2010 and to approximately RMB116.6 million for the year ended 31 December 2011 representing a CAGR of 162.7%. Our net profit increased from approximately RMB11.8 million for the year ended 31 December 2009 to approximately RMB31.8 million for the year ended 31 December 2010 and to approximately RMB86.9 million for the year ended 31 December 2011, representing a CAGR of 171.4%.

OUR COMPETITIVE STRENGTHS

We believe that our competitive strengths include the following:

We are an integrated cement and clinker producer in Suzhou Prefecture and we produce high quality products at competitive cost

(i) We enjoy low production costs by employing NSP technology, a residual heat recovery system and by using waste materials

According to the certificate issued by the Suzhou Cement Association (蘇州水泥協會) on 15 November 2011, we were the only cement producer in Suzhou Prefecture that employed NSP technology which enabled us to reduce our energy costs by consuming less amounts of coal and water. Being environmentally responsible, NSP technology results in high production efficiency by employing a dry rotary kiln in the production process.

Notes

(1) Suzhou Cement Association is a non-profit making organization administered by the Suzhou Economics and Information Technology Commission (蘇州市經濟和信息化委員會) which is registered under the Suzhou Civil Affairs Bureau (蘇州市民政局). Its duties include, but are not limited to, conducting industry surveys, publishing industry data, participating in the formulation of industry plans and standards as well as quality management and supervision as directed by the relevant PRC governmental authorities. Suzhou Cement Association is an Independent Third Party.

(2) According to Digital Cement, rotatory kilns used in NSP technology are more heat efficient than kilns being used in non NSP production lines. Production lines employing NSP technology typically have a lower coal/clinker ratio than production lines which do not employ NSP technology.

We have equipped our production line with a residual heat recovery system which recycles the heat produced in the clinker production process to generate power that can be used in the production process. This reduces our reliance on external electricity sources and thus reduces our costs of production. For the three years ended 31 December 2009, 2010 and 2011, electricity generated by our residual heat recovery generators accounted for approximately 12.6%, 20.7% and 17.8% of the total electricity consumed, respectively. We received an energy saving reward in the sum of RMB1.28 million in 2008 and RMB0.81 million in 2010 respectively, from the Provincial government for our use of the residual heat recovery system at our production facilities.

We are also able to reduce our production costs by adopting various environmentally responsible measures and technologies, including the use of waste materials in our production of PC 32.5 products. These waste materials and by-products such as coal gangue, limestone mineral refuses, flyash and fluorine gypsum are utilized to reduce the use of clinker and other raw materials. This entitles us to claim a VAT refund for our PC 32.5 products.

(ii) We produce high-grade quality cement

We are able to maintain a high quality level of our products largely because of our stringent quality control system that has been implemented and observed at our production facilities which involves twenty separate inspection points at various stages in the production process.

According to the independent mandatory inspection reports issued by Jiangsu Construction Materials Quality Supervision and Inspection Station, (i) in May 2012, with regard to our PO 42.5; and (ii) in April 2012, with regard to our PC 32.5, both our PO 42.5 and PC 32.5 products are of a substantially higher quality than the PRC national standard in almost every respect that was examined or inspected.

(iii) We produce clinker for our own production use

We are a cement producer in Suzhou Prefecture which has the capability of producing clinker, the principal ingredient of cement. By producing our own clinker, we are able to control the quality and supply of our cement and at the same time reduce our reliance on external sources and thus control our production costs.

We employ environmentally-friendly technologies

Our employment of NSP technology in our production process emits less pollutants and by equipping our production line with an residual heat recovery system we are able to save energy costs and be less reliant on on-grid electricity sources.

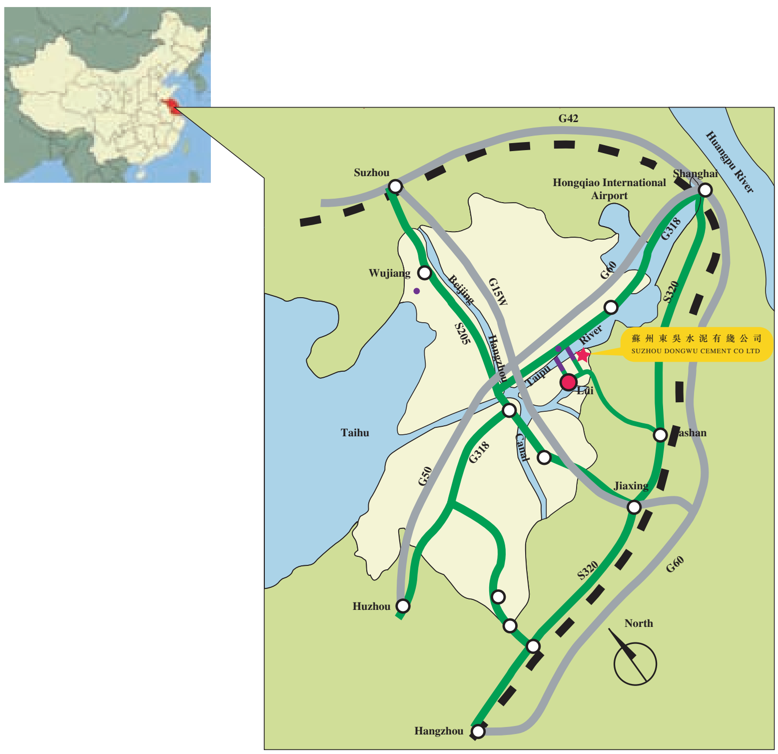
According to the Inspection Report issued by the Wujiang Environmental Inspection Station (吳江環境監測站) in August 2009, our atmospheric pollutant emission were substantially lower than those required under the national Emission Standard of Air Pollutants for Cement Industry GB4915-2004 (水泥工業大氣污染物排放標準), which is the applicable PRC national standard as at the Latest Practicable Date, in almost all the aspects including, in particular, our emission of NOx as stated in the Inspection Report was 468 mg per m^3, which was significantly lower than the NOx emission limit of no more than 800 mg per m^3 as stipulated under the said national standard. In order to continuously monitor the pollutants emitted during our production process, we have installed monitoring facilities for measuring the quantity of the pollutants emitted in accordance with the relevant PRC emission control policies. Such facilities generate data on a daily basis and are generally inspected by Wujiang Environmental Bureau every three months. As our pollutants monitoring facilities are connected to the automatic supervision system of Wujiang Environmental Bureau, both our Group and Wujiang Environmental Bureau can access and obtain the data at any time. According to the data generated from the facilities, our NOx emission standards during the period from April 2011 to April 2012 ranged from 0mg/m^3 to 605 mg/m^3, and our average monthly NOx emission standard was 330 mg/m^3 for the same period, which was even lower than our NOx emission as stipulated in the said Inspection Report issued in August 2009 as well as the current national NOx emission limit of 800 mg per m^3. In the event that the PRC government implements more stringent emission control policies, our low pollutant emissions may enhance our market position given the fact that such policies will probably phase out some of the small scale cement producers and therefore reduce the cement supply in the markets, whilst we are less likely to be affected by such policies.

To further reduce the impact on the environment, we have installed two electric dust precipitators in our production line. These precipitators can precipitate more than 99.9% of the dust generated during the production process.

Additionally, the use of waste materials in our production process entitles us to claim a VAT refund for our PC 32.5 from the PRC government by adoption of energy efficient and environmentally-friendly practices. The VAT refund is only available on the condition that at least 30% of the raw materials used during our production process are waste materials. As we produce our own clinker, we are able to control this process and to ensure that a minimum of 30% waste material is used.

We enjoy the benefits of a convenient transportation network, including a wharf adjoining our production facilities which is strategically located in the Yangtze River Delta Region

During the Track Record Period, our products were sold in Jiangsu Province, Zhejiang Province and Shanghai.



Our production facilities are situated alongside the banks of the Taipu River (太浦河), a 57.2 km-long river that flows through fifteen counties and towns in Jiangsu Province, Shanghai and Zhejiang Province. The Taipu River is a upper tributary to the Huangpu river (黃浦江). The Huangpu river has historically played a significant logistical role in the commercial activities between Shanghai and the rest of the Yangtze River Delta Region. We are also connected via the Taipu River to the Jiangnan canal (江南運河) the southernmost section of the Beijing-Hangzhou Grand Canal (京杭大運河), which is the longest canal in the world which strethches from Beijing to Hangzhou via the provinces of Tianjin, Hebei, Shandong, Jiangsu and Zhejiang. We have been granted the exclusive right to occupy the 730 meters wide river bank that adjoins our production facilities by the Jiangsu Waterway Administration Bureau (江蘇省水利廳) and was allowed to build and use a wharf on the river bank. Our wharf on the Taipu River with access to its waterway network enables us to extend our market reach as far as Taizhou and Zhoushan in Zhejiang Province which are approximately 500 km from our production facilities. This flexibility also allows us to access potential new markets in Anhui, Jiangsu and Zhejiang provided that they are accessible by waterway. Transportation via waterway is an inexpensive mode of transportation and less expensive than transportation by road. Most of our products and raw materials are transported by waterway. The Taipu River affords us convenient access to an extensive network of rivers, canals and lakes, including a network of small waterways through which our customers and suppliers are afforded convenient access to our production facilities. The wharf possesses a daily transportation capacity of 10,000 tonnes of raw materials and cement and is capable of berthing vessels possessing up to 1,000 deadweight tonnage (DWT). The wharf is equipped with automatic loading lines which enables us to easily load and/or off-load materials on to vessels berthed at the wharf.

For further details in connection with our occupation of the river bank, risks relating to our occupation of the river bank and our land use rights, please refer to the paragraph "Property" of this section the section headed "Risk Factors" and Appendix IV to this prospectus respectively.

We enjoy stable and long-term relationships with our customers and suppliers

Our products are sold through direct sales to construction developers, ready mixed concrete stations, trading companies and a number of walk-in customers.

Approximately 80% of our total revenue during the three years ended 31 December 2009, 2010 and 2011 was derived from sales to customers which we have had business relationships with for at least three years. We believe that we are able to maintain stable and long-term relationships with our customers because of our high-grade products, our strategic location and our stable supply.

In addition, we have maintained business relationships with our key suppliers of principal raw materials for a period of between 3-7 years. In October 2011, we entered into a five-year contract with a limestone supplier in Zhejiang Province in order to secure a limestone supply of approximately 3.5 million tonnes over the next five years, representing more than 50% of our limestone requirements over the same period.

We have a management team with diverse expertise and skill sets and a highly skilled and experienced workforce

Our management team consists of highly experienced professionals with diverse skill sets and extensive work experience. Ms. Xie Yingxia (謝鶯霞), our Chairman and one of our executive Directors, graduated from Fudan University (上海復旦大學) in Shanghai, and is a holder of a degree in master of business administration and has a bachelors degree in economics. Currently, Ms. Xie is responsible for the financial matters of the Group including budget, performance evaluation and internal audit and asset management. Mr. Jin, one of our executive Directors and our chief executive officer, joined our Group in 2007 and possesses approximately 30 years of corporate experience in the PRC. Mr. Jin possesses a deep understanding of the markets we serve, including knowledge of the local affairs of Wujiang City and local government policies by reason of having worked in and around Wujiang City since 1991. Mr. Yang Bin (楊斌), one of our executive Directors, graduated from Tsinghua University (清華大學) in Beijing majoring in mechanical engineering and University of International Business and Economic (對外經濟貿易大學) with a masters degree in business administration. In addition, our principal department heads comprise several highly experienced individuals possessing an average of 20 years of experience in the cement industry.

OUR STRATEGIES

Strengthen our market position in our regional markets by strengthening our sales network

We intend to continue to strengthen our relationships with our construction developer customers, our ready-mixed concrete station customers and selected trading companies who possess long and proven business records with a view to increasing our sales in our regional markets. In particular, we intend to consolidate our market position in Wujiang City, where we can sell our products at a higher average selling price and better profit margin, and to increase our market penetration including, in particular, the urban area of Suzhou (excluding Wujiang City) and Shanghai. We also anticipate working on more large-scale government construction projects in Suzhou and Shanghai.

In order to strengthen our sales network, we intend to enhance our logistics system and capability by establishing our entrepots at strategic locations in close proximity to our existing and potential new markets where we will store our cement products and our customers can take delivery of our products after purchasing our products at such entrepots. To establish our own entrepots, we will lease warehouses at those selected strategic locations to store large quantities of our cement products. As our customers will take delivery of our products directly at these entrepots, we do not have to provide any product delivery services to these customers. Instead of delivering our products to various customers at different locations, we can transport some of our products to these entrepots for sale, which enables our customers to reduce the total travelling time and distance in taking delivery of our products. We believe that the establishment of our own entrepots in close proximity to our existing and potential new markets can better serve our customers within and outside Wujiang City, including, in particular, the urban areas of Suzhou and Shanghai.

Besides, as our customers can take delivery of our products after purchasing our products at such entrepots, we believe that such new means of selling our products could attract potential new customers in our existing and potential new markets, thereby facilitating the consolidation of our market position in Wujiang City and our market penetration in new markets, including, in particular, the urban areas of Suzhou and Shanghai.

Moreover, sales of our products at entrepots could enable us to benefit from a relatively higher profit margin due to the reduced production costs and our higher retail price as compared with the wholesale price. We will also require our customers who make orders at our entrepots to pay the purchase price in full before taking delivery of our products.

We plan to establish one entrepot in each of Suzhou and Shanghai and seven to nine entrepots in Wujiang City by mid-2013, with the first one to commence establishment in around July 2012. We intend to establish more entrepots in Wujiang City in view of our significantly higher average sales price and better profit margin in Wujiang market. With more entrepots to be established in Wujiang City as well as the expected positive effects and results to be brought by such entrepots, we expect that we can achieve higher sales volume and revenue in our local Wujiang market as well as their respective proportions to our other geographical markets.

Expand our business to downstream industries

We intend to expand our business to downstream industries by acquiring, or acquiring a majority stake, in a suitable ready-mixed concrete station located in Wujiang City in the second half of 2012. The ready-mixed concrete stations produce concrete by mixing cement, which is the key raw material for the ready-mixed concrete stations, with water and aggregate, such as sand, natural gravel and crushed stone in the concrete mixers. The major income of ready-mixed concrete stations is typically derived from their sales and transportation of concrete to the construction developers, as well as the provision of onsite concrete bumping services. As at the Latest Practicable Date, we have not identified any suitable acquisition target and as such, we are uncertain of the amount of capital expenditure that will be required to be incurred or the operational and financial impact that such an acquisition will have on our revenue and profitability. In the event that the proceeds from the Global Offering are insufficient to cover such acquisition cost, we intend to fund the balance by utilizing our own working capital to cover any short fall.

This will enable us to develop and expand our business into the production of concrete and mortar products. By taking advantage of our strategic geographical location and transportation network, this will enable us to better serve our existing and potential new customers by offering a fuller range of products. As we produce our own cement, we will be able to ensure the high quality of these concrete and mortar products. By acquiring, or acquiring a majority stake in, a ready-mixed concrete station, we will also be able to attract more construction developer customers in both the public and private sectors while saving us the time and costs required for establishing a new ready-mixed concrete station which typically involves the application of various licenses. It may also enhance our prospects of being awarded public infrastructure projects. We do not intend to manage the ready-mixed concrete station ourselves. It is our intention that following such acquisition, we will retain the management and staff who shall continue to be responsible for the day-to-day management of such ready-mixed concrete station. With the cooperation between our existing management staff who possess expertise in the cement industry and the experienced management staff of the ready-mixed concrete station(s) to be acquired by our Group through sharing of technology, experience and resources, we believe that we are capable of running the new business effectively. We also intend to instruct a PRC Legal Advisors to conduct a legal due diligence review on the ready-mixed concrete station we target to acquire during the acquisition process so as to ensure that such ready-mixed concrete station is being operated in full compliance with the prevailing relevant laws and regulations.

Enhance our brand and our corporate profile

We intend to increase our marketing activities in all our regional markets. We also intend to enhance our brand image in our regional markets by continuing to strive to provide all our customers with high grade products at a competitive price. Some of our intended marketing plans include upgrading our company catalogue, advertising through the mass media such as magazines and directly attending and participating in more government tenders.

Further stabilize our limestone supply by entering into a long-term contracts with suitable limestone suppliers

Presently, we have entered into master contracts with some of our limestone suppliers to fix a basic price for each year. The basic price is usually valid for about one year. In October 2011, we entered into a five-year master contract with a limestone supplier in Zhejiang Province in order to secure a limestone supply of approximately 3.5 million tonnes over the next five years, representing more than 50% of our limestone requirements over the same period. The price, volume and other terms shall be negotiated and agreed between our Group and the supplier on an annual basis in the form of supplementary agreements. It is our intention to enter into more long-term contracts with suitable limestone suppliers and quarry operators which will enable us to further secure a steady supply of limestone at a reduced cost through economies of scale.

Further enhance our operational efficiency and reduce our production costs

In order to maximize our profitability and to ensure our long-term competitiveness, we have already implemented a number of measures to improve our operational efficiency and cost-control such as using industrial waste and by-products in our production process and our upgrading our equipment.

We intend to continue to improve our operational efficiency by providing regular training to our production staff, reducing our energy consumption through innovation.

We are testing various types of mineral powder for use as additives in the production process. We anticipate that this not only reduces our cost of sales but is also environmentally responsible. We are also testing new environmentally responsible technologies such as kiln technology that may enable us to incinerate general household waste material. We also intend to upgrade our production equipment to ensure more energy efficiency.

Maintain our independence despite the PRC government's policy of encouraging consolidation of the cement industry

Leveraging on our advantage of having a whole cement production line in Wujiang City, coupled with the fact that we do not rely on other companies or partners for cement and clinker production, we consider merger with, or acquisition of, other cement companies unnecessary and we do not have such plans at the moment. Up to the Latest Practicable Date, so far as is known to our Directors, there was no governmental order requiring us to merge with or acquire other cement companies. Further, as advised by our PRC Legal Advisors, given the fact that all our existing Shareholders are non-governmental entities, it is unlikely that we will be required by the PRC government to merge with or be acquired by other cement companies as compared with those companies with governmental shareholders. In addition, since (i) both our production capacity and our technology are in compliance with the relevant PRC industry policies, (ii) we have obtained all relevant and necessary permits, approvals, consents, certificates and licenses required under the PRC laws and regulations in connection with the business of our Group and all of them are in full force and effect throughout the Track Record Period and up to the Latest Practicable Date, and (iii) under the current PRC legal framework, the government authorities have not been conferred the rights to interfere with the internal management of a company without justifiable reasons, it is even more unlikely that we will be required by the PRC government to merge with or be acquired by other cement companies. Based on the foregoing, our Directors are of the view that we are neither a potential consolidator nor consolidatee.

Although we do not anticipate that we will be a consolidator or consolidate despite the consolidation policy with respect to the PRC cement industry, similar to other industries and as a matter of business strategy, we may become a target of merger or acquisition by other cement producers in view of:

- our predominance of having a convenient transportation network and business situated at a good geographical location;

- our profitable operation;

- our compliance with all relevant PRC laws and regulations such that our Group has obtained all necessary permits, approvals, consents, certificates and licenses required under the PRC laws and regulations in connection with the business of our Group and operation of our production line and all of them are in full force and effect throughout the Track Record Period and up to the Latest Practicable Date and that we have obtained the certificates issued by Wujiang Industrial and Commerce Authority, Wujiang Tax Authority and Wujiang Environmental Protection Authority recognizing our compliance with the relevant laws and regulations in terms of our business operation, tax and environmental compliance throughout the Track Record Period.

Even though it is unlikely that we will be required by the PRC government to merge with or be acquired by other cement companies under the current PRC laws and regulations, as a matter of business strategy, our Directors may consider conducting merger and acquisition activities with other cement producers in future on a voluntary basis, provided that the proposed merger or acquisition is favourable to us and in compliance with the Listing Rules and other applicable laws and regulations. As at the Latest Practicable Date, we did not have of any such merger or acquisition plans, nor were we aware of any offer for the same.

OUR PRODUCTS

Our principal products are PO 42.5 and PC 32.5, which are sold in the form of bulk cement or under our registered trademark " ". We also produce clinker, the key intermediary raw material in cement production. During the Track Record Period, the clinker we produced was mainly for our own cement production purpose, although we also sold it as a by-product occasionally to relieve the pressure of inventories in our warehouses when the market demand for cement was weak.

The table below sets forth the breakdown of our revenue by product type during the Track Record Period:

	Year ended 31 December					
	2009		2010		2011	
	Sales		*Sales*		*Sales*	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
PO 42.5	107,623	36.9	160,603	45.2	224,551	48.4
PC 32.5	155,284	53.3	184,088	51.9	236,185	50.9
Clinker	28,715	9.8	10,259	2.9	3,309	0.7
Total	291,622	100.0	354,950	100.0	464,045	100.0

The table below sets forth the breakdown of the average selling prices of our products during the Track Record Period:

	Year ended 31 December			As at the Latest
	2009	2010	2011	Practicable Date
	RMB/tonne	*RMB/tonne*	*RMB/tonne*	*RMB/tonne*
PO 42.5	217.8	279.4	358.7	314.6
PC 32.5	193.4	234.0	302.4	260.7
Clinker	185.4	206.0	320.7	247.1

The table below sets forth the breakdown of our sales volume and production volume during the Track Record Period:

	Year ended 31 December					
	2009		2010		2011	
	Production volume	Sales volume	Production volume	Sales volume	Production volume	Sales volume
	thousand tonnes					
PO 42.5	494.8	494.1	574.1	574.8	637.5	626.1
PC 32.5	810.8	803.0	790.3	786.6	790.6	781.1
Clinker	890.0	154.9	859.3	49.8	888.4	10.3

Notes:

1. The gradual increase in the sales volume of our PO 42.5 during the Track Record Period was mainly due to the increase in the demand of relatively high strength cement, i.e. PO 42.5 for the development of large scale infrastructure projects in Wujiang City in 2011. Besides, we had been focusing on the development of key governmental administrative construction projects and ready-mixed concrete station customers and such projects and customers mainly used PO 42.5, which also accounted for the gradual increase in the sales volume of our PO 42.5 during the Track Record Period.

2. During the Track Record Period, our sales volume of clinker was much lower than our production volume because most of the clinker we produced was used for our own cement production.

Our sales volume of cement products was approximately 1.3 million tonnes, 1.4 million tonnes and 1.4 million tonnes for the three years ended 31 December 2009, 2010 and 2011 respectively. Our sales volume of clinker was 154,851 tonnes, 49,803 tonnes and 10,320 tonnes during the same period respectively. Our total sales amounted to approximately RMB291.6 million, RMB355.0 million and RMB464.0 million during the same period respectively.

Our overall gross profit margin for the three years ended 31 December 2009, 2010 and 2011 was 7.9%, 13.9% and 26.4% respectively, the breakdown of which is set out as follows:

	Year ended 31 December					
	2009		**2010**		**2011**	
	Average selling price (RMB/ tonne)	*Gross profit margin (%)*	*Average selling price (RMB/ tonne)*	*Gross profit margin (%)*	*Average selling price (RMB/ tonne)*	*Gross profit margin (%)*
Cement	202.7	8.8	253.2	14.8	327.4	26.3
Clinker	185.4	-0.5	206.0	-15.4	320.7	17.4

Notes:

1. The gradual increase in our gross profit margin during the Track Record Period was mainly due to the increase in the average selling price of PC 32.5 in 2010 and the increase in the average selling price of PO 42.5 in 2011. Such an increase generated an increase in our revenue at a rate exceeding the increase in our cost of sales during the same period. Whilst we also experienced an increase in the demand for our cement products due to the implementation of the energy consumption saving and emission control policies in the PRC. Such policies resulted in changes in the market supply and demand of cement in our markets which benefited the sales of our cement products in such market while phasing out less developed cement production capacity by the PRC government.

2. During the Track Record Period, the clinker we produced was mainly used for our own cement production purpose whilst only some of our clinker was sold as a by-product when the market demand for cement decreased and remained weak for a temporary period due to unfavourable weather conditions such as continuous low temperature and wet weather, etc. For cost-effective purposes, we generally operate our clinker production facilities continuously. In the event that not all of the clinker was used for our cement production as a result of

the temporary weak market demand for cement, our inventory level of clinker would accumulate and might reach a high level. In order to relieve the pressure of temporarily excessive inventories in our warehouses, we would sell clinker as a stand-alone product at a relatively low price in light of the said circumstances. As only a small portion of the clinker we produced was sold as a stand-alone product, the gross profit margin for clinker varied with the short term fluctuation in its selling price. It also explains why negative gross profit margin for clinker was recorded for the years ended 31 December 2009 and 2010.

3. For the year ended 31 December 2011, the market price of clinker increased significantly due to the strong market demand for both cement products and clinker. Benefiting from the increasing market price, the average price for clinker we sold has reached RMB320.7 per tonne, even higher than the average price for PC 32.5 products during the same period. Therefore, we were able to sell clinker at a positive gross profit margin.

The following table sets forth details of PO 42.5, PC 32.5 and clinker, respectively:

Type	Category	National Standards	Characteristics	Applications
PO 42.5	Common Portland cement	Loss ≤5.0%; SO_3 <3.5%; CI – <0.06%; MgO <5.0%; 3-day compressive strength ≥17MPa; 28-day compressive strength ≥42.5MPa; (3-day fractural load ≥3.5MPa 28-day fractural load ≥6.5MPa); initial setting time ≥45 min; final setting time <600 min; compliant stability; and fineness (specific surface area) ≤300m^2/Kg.	High strength at the initial phase; high hydration heat; high freeze-resistance; low heat-resistance; low corrosion-resistance; low dry shrinkage.	General cement applications such as construction of residential and industrial buildings, pre-cast work. Also structures that require short construction time such as bridges & roads.
PC 32.5	Composite Portland cement	SO_3 ≤3.5%; 3-day compressive strength ≥10MPa; 28-day compressive strength ≥32.5MPa; (3-day fractural load ≥2.5MPa; 28-day fractural load ≥5.5MPa); initial setting time ≥45 min; final setting time ≤600 min; compliant stability; and fineness (80 micron) ≤10.0%.	Low strength at the initial phase; high heat-resistance; low acid-corrosion-resistance.	General cement applications and structures that do not require high strength such as low rise buildings, paving and mass concreting.
Clinker	–	–	For the production of cement	Cement production

According to the independent mandatory inspection reports issued by Jiangsu Construction Materials Quality Supervision and Inspection Station, (i) in May 2012, with regard to our PO 42.5; and (ii) in April 2012, with regard to our PC 32.5 (collectively, the "Reports"), both our PO 42.5 and PC 32.5 products are of a substantially higher-grade quality as compared to the current PRC national standard GB-175-2007 for common Portland cements in almost every respect that was examined or inspected.

The Jiangsu Construction Materials Quality Supervision and Inspection Station is a wholly state-owned enterprise and one of the designated inspection institutions in Jiangsu Province authorized to conduct inspections pursuant to the Quality Management Procedures of Cement Enterprise, which was promulgated by the Ministry of Industry and Information Technology of the PRC. Pursuant to the Quality Management Procedures of Cement Enterprise, cement enterprises are required to have their products inspected by designated inspection institutions once every two months. Accordingly, we commissioned the Jiangsu Construction Materials Quality Supervision and Inspection Station to conduct one of our mandatory inspections on our PO 42.5 and PC 32.5 products and obtained their report in May 2012 and April 2012 respectively. We paid the Jiangsu Construction Materials Quality Supervision and Inspection Station a sum of RMB8,702 to conduct inspection services including six inspections on our products in 2012.

The Reports set out the results of examinations and inspections of different characteristics of our PO 42.5 and PC 32.5 cement products as compared to the relevant standards set in the current PRC national standard GB-175-2007. In almost every category examined and inspected, our cement products were assessed to be of substantially higher-grade quality than the current PRC national standard GB-175-2007. Of particular significance, our cement products improve upon the national standards in respect of the key performance parameters of setting-time and compressive strength.

In particular, the Reports highlighted the key factors of setting-time and compressive strength. The cement paste setting time is affected by a number of factors, including cement fineness, the water-cement ratio, the chemical content (especially gypsum) and admixtures. For construction purposes, the initial set must not be too soon and the final set must not be too late. Additionally, setting times can give an indication of whether or not cement is undergoing normal hydration.

Product	**Applicable National Standards**		**Inspection Results of Dongwu Cement**
PO 42.5	Initial setting time [1]	no less than 45 minutes	127 minutes
	Final setting time [1]	no more than 600 minutes	217 minutes
	28-day Compressive strength [2]	No less than 42.5 MPa	49.5 MPa (average)
PC 32.5	Initial setting time [1]	no less than 45 minutes	211 minutes
	Final setting time [1]	no more than 600 minutes	270 minutes
	28-day Compressive strength [2]	No less than 32.5 MPa	41.0 MPa (average)

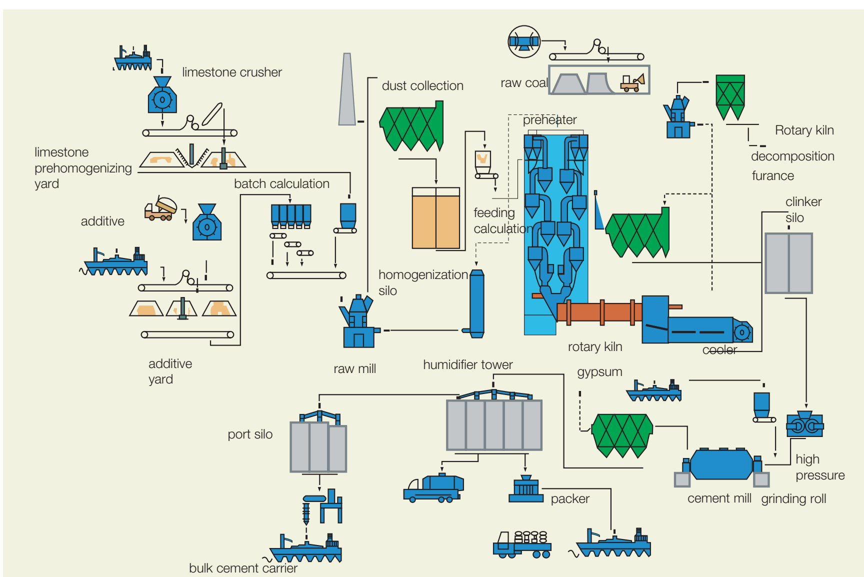
Notes:

1 Setting time regulates how much time the cement can be placed and finished. The setting of cement is a continuous process. The initial setting time is the interval between the mixing of cement with water and the time when the mix has lost plasticity, stiffening to a certain degree. It marks roughly the end of the period when the cement mix can be molded into shape. The final setting time is the point at which the set cement has acquired a sufficient firmness to resist a defined pressure.

2 Cement hardens and gains strength as it hydrates. The hydration process lasts over a long period of time. The 28 day time period is selected by the industry as the age that all cement should be tested. At this age, a substantial percentage of the hydration has taken place.

Production process

The diagram below illustrates the cement production process:



A raw mix of limestone, silica, iron and aluminum is prepared from rock sources which have been crushed and pounded to the size of small pebbles. Although cement is essentially powdered rock, the various materials must be present in precise quantities in order for high-grade quality Portland cement to be produced. In order to ensure that the correct mix is obtained at the beginning of the cement making process, controlled amounts of each of the raw materials are fed from silos onto a conveyor belt, which takes them to the raw mill.

Once in the raw mill, the raw mix is then blended in a blending chamber, and chemically analyzed to ensure that the precise ratios of raw materials are present. It is important that the raw mix is mixed thoroughly to form a completely homogeneous mixture, and that all elements in the mix are as close to being the same size as is possible. Calcium and silicone make up the bulk of the mix because they are the ingredients which later form the calcium silicates that comprises 66% of Portland cement. Smaller amounts of iron and aluminum are present to act as flux during the firing process, lowering the temperature at which calcium silicates will form.

After blending, the raw mix is stored in a silo from where it is transported to the kiln pre-heater. The raw materials are then fed to the kiln, a large rotating cylinder which is heated gradually over the length of the kiln, with the temperature rising to between 1,400 and 1,450 degrees Celsius at its hottest point. As the raw mix grows hotter, aluminum and iron melt, and calcium silicates begin to form. This process is called pyroprocessing and is the most energy-intensive stage of the cement production process. The major raw material for the production of clinker is limestone mixed with a second material containing clay as source of aluminum-silicate. Second raw materials (materials in the raw mix other than limestone) depend on the purity of the limestone. Some of the secondary raw materials used include clay, shale, sandstone, iron powder. By the end of the firing process, small nodules of an entirely new compound are formed. These nodules are called clinker and are typically 3-25 mm in diameter.

The clinker is cooled after it leaves the kiln and stored until required for milling when it is fed into tube mills to be ground with gypsum flyash and slag. Approximately 3-6% gypsum is added, gypsum operates as an additive which controls the speed at which the cement is set. The grinding process continues until the clinker nodules become a very fine powder. Typically, other additives which impart water-reducing properties to the cement and aid grinding are incorporated during the grinding stage. The cement is then fed to storage silos until required for delivery or diverted to a bagging plant.

NSP technology

The important feature of the NSP technology lies in the pre-heating of raw materials for the production of clinker before they are mixed and fed into the rotary kiln. In the non-NSP technology production process, the raw materials are crushed and mixed to form a raw meal and fed into the rotary kiln without pre-heating. The pre-heating process significantly enhances the efficiency of calcination resulting in the formation of better quality clinker in the rotary kiln.

Benefits of the NSP technology

The benefits of the NSP technology are as follows:

(i) the use of the NSP technology increases the production capacity of traditional suspension preheater kilns by 1.5 to 2 times;

(ii) the NSP technology decreases the sintering energy consumed during the production process. Accordingly, NSP technology is more heat efficient and requires less consumption of energy;

(iii) the NSP technology provides a more efficient cooling rate system; and

(iv) the NSP technology emits less pollutants and enables us to reduce our energy costs by consuming less coal and water.

Use of waste materials in production process

We use waste materials as raw materials in our production of PC 32.5 products. The waste materials we used include (i) mineral refuses produced during the mining activities, such as coal gangue and limestone mineral refuses, and (ii) industrial wastes or by-products, such as flyash and fluorine gypsum. Flyash are normally generated during the course of coal burning, while fluorine gypsum is a by-product of hydrogen fluoride production. All of the waste materials we used are procured from external sources. All the waste materials we used are industry by-products or wastes or mineral wastes and are non-poisonous in nature.

Production Facilities

Our two production facilities are located at Lili Town, Wujiang City, Suzhou Prefecture, Jiangsu Province, the PRC with a site area and a gross floor area of approximately 182,000 sq.m. and 32,700 sq.m. respectively.

As at the Latest Practicable Date, we had one production line employing a dry rotary kiln that possesses a production capacity of 775,000 tonnes of clinker per annum and two grinding mills. The two grinding mills are for the production of both PO 42.5 and PC 32.5 cement products based on the production plan and market demand of each product.

The average length of our production cycle with respect to our products is approximately five hours. During the production process, our production line can carry out the raw meal grinding stage, the clinker calcination stage and the cement grinding stage concurrently.

As advised by our PRC Legal Advisors, we have obtained the necessary permits and approvals from the local DRC in respect of our production line.

Our production facilities are equipped with the DCS which ensure high efficiency, energy saving and optimized control via automation. The DSC is capable of overseeing several industrial processes simultaneously in order to ensure production quality, environmental protection and management cost-effectiveness. The DCS is an automated control system that is installed throughout the various parts of the production facility rather than relying upon a central controller. The entire system of controllers is connected by networks for communication and monitoring.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any breakdown of any major production equipment which resulted in material impact on our normal operations and productions.

We employ a residual heat recovery system which enables us to reduce our production costs and save the amount of on grid electricity consumed.

The depreciation period for production equipment and structures is 10 years and 20 years respectively. As at the Latest Practicable Date, most of our production equipment and structures have been utilized for approximately 7.5 years.

The following table sets out our utilization rate of cement and clinker production facilities during the Track Record Period and up to 30 April 2012:

	Year ended 31 December			Four months ended 30 April
	2009	2010	2011	2012
Cement utilization rate[1]	79.8%	83.4%	87.2%	61.0%
Clinker utilization rate[2]	114.8%	110.9%	114.6%	94.5%

Notes:

1 The cement utilization rate is equal to the aggregate of annual production volume of PO 42.5 and annual production volume of PC 32.5, divided by the annual production capacity of our two cement grinding mills.

2 The clinker utilization rate is equivalent to the annual production volume of clinker divided by the annual production capacity of clinker.

During the Track Record Period and up to the Latest Practicable Date, we conducted comprehensive maintenance work on our production facilities and equipment during the period of the Chinese New Year each year. The comprehensive maintenance work would typically last for approximately 20 days and our production facilities would cease to operate during such period which in turn resulted in a relatively low utilization rate for our cement production facilities for the four months ended 30 April 2012.

According to MIIT, the cement utilization rates for PRC cement industry were approximately 72.0% and 73.0% respectively for the two years ended 31 December 2010 and 2011.

According to the feasibility report of Suzhou Dongwu Cement Co. Ltd 2,500/day tonnes of Clinker NSP Production Line (蘇州東吳水泥有限公司 2500t/d 噸熟料新型幹法水泥生產線可行性報告) (the "Feasibility Report") jointly issued by the China Kaisheng International Construction Co. Ltd (中國凱盛國際工程公司) and the Nanjing Kaisheng Cement Technology and Construction Co., Ltd. (南京凱盛水泥技術工程有限公司), the hourly production capacity of each cement grinding mill is 110 tonnes. Based on the said hourly production capacity, the annual production capacity of our two cement grinding mills is 1,636,800 tonnes. This is calculated by 110 tonnes per hour multiplied by 24 hours per day for 310 operation days per year and two cement grinding mills.

According to the Feasibility Report, the annual production volume of clinker is 775,000 tonnes. The annual clinker production volume is based upon the calculation of 2,500 tonnes per day multiplied by 310 operation days per year, which is the estimated annual production days under the Feasibility Report.

During the Track Record Period, the utilization rate of our clinker production facility exceeded 100% over the designated capacity, which was due to our clinker production facility being operated for 24 hours per day and over 310 days per year, with an aim to lowering the average production costs through continuous operations (except for annual examinations, testing and repairs).

Despite the high utilization rates for our cement and clinker production facilities, we do not have any plan to increase our production capacity given the recent government policies on controlling the cement production capacity. Any increase in our production capacity is accordingly subject to approvals by the relevant PRC governmental authorities which are, so far as is known to our Directors, unlikely to be obtained.

Our profitability is sensitive to fluctuation in the utilization rate for our production line. For the three years ended 31 December 2009, 2010 and 2011, an increase in cement utilization rate would have a positive effect on our revenue and net profit while a decrease in cement utilization rate would have a negative effect on our revenue and net profit, assuming other factors remain unchanged. The table set out below illustrates the decrease in our revenue and net profit which would have been caused by a decrease to the cement utilization rate by 10% during the Track Record Period, assuming that other factors remain unchanged:

	Year ended 31 December					
	2009		**2010**		**2011**	
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*
Change in revenue by	33.0	11.3	41.3	11.6	52.8	11.4
Change in net profit by	2.3	19.6	4.9	15.3	11.1	12.8

The clinker we produced is mainly for our own cement production purpose. Therefore, the influence of utilization rate fluctuation of our clinker production facilities on our revenue and net profit has already been reflected by the fluctuation of the utilization rate of our cement production facilities.

The table below illustrates the breakeven quantity analysis for our cement products for each of the three years ended 31 December 2011 and for the four months ended 30 April 2012 based on our management accounts, assuming that the selling prices remain unchanged:

		Year ended 31 December		**For the four months ended 30 April**
	2009	**2010**	**2011**	**2012**
Breakeven quantity (thousand tonnes)	1,035.5	868.1	530.5	275.1
Actual sales quantity (thousand tonnes)	1,297.1	1,361.4	1,407.2	352.4
Average selling price of our cement products (RMB/tonne)	202.7	253.2	327.4	284.2
Average cost of sales of our cement products (RMB/tonne)	184.9	215.8	241.0	254.6

Attributable to the continuous increase in the average selling price of our cement products, which exceeds the increase in our cost of sales of our cement products during the Track Record Period, the breakeven quantity of the Group's cement products decreased from approximately 1,035,500 tonnes in 2009 to approximately 530,500 tonnes in 2011.

Due to the significant decrease in our average selling price of our cement products from approximately RMB327.4 per tonne, for the year ended 31 December 2011 to approximately RMB284.2 per tonne for the four months ended 30 April 2012, representing a decrease of 13.2% and the Directors are of the view that the downward trend since 2009 in breakeven quantity may not be sustained in 2012, as the table indicated above.

As advised by our PRC Legal Advisors, throughout the Track Record Period and up to the Latest Practicable Date, our Group has obtained all necessary permits, approvals, consents, certificates and licenses required under the PRC laws and regulations in connection with the business of our Group and all of them are in full force and effect. In particular, we have obtained the necessary permits and approvals from the local DRC in respect of our production line. Furthermore, we have obtained the certificates issued by Wujiang Industrial and Commerce Authority, Wujiang Tax Authority and Wujiang Environmental Protection Authority recognizing our compliance with the relevant laws and regulations in terms of our business operation, tax and environmental compliance throughout the Track Record Period.

According to the Notice of State Council on Speeding up the Structural Adjustment to Industries with Surplus Production Capacity (《國務院關於加快推進產能過剩行業結構調整的通知》, the "Notice on Surplus Production Capacity"), enterprises who possess operations which:

- impair natural resources;
- emit pollutant to environment; and
- do not carry out operation under safe conditions, shall be shutdown according to the relevant laws and regulations.

Besides, the PRC government intends to gradually phase out laggard production capacities, including the cement production capacities of laggard technologies, such as vertical kiln technologies.

According to the "Notice on Further Strengthening the Elimination of Obsolete Production Capacities" (《關於進一步加強淘汰落後產能工作的通知》, "Notice on Obsolete Production Capacities") issued by the State Council on 6 February 2010, the cement industry is one of the key industries which is subject to the elimination of obsolete capacities in the short term. The specific target of the Notice on Obsolete Production Capacities is to eliminate obsolete cement production capacities including mechanical vertical kiln production lines with a kiln diameter below 3.0 meters, dry hollow kilns production line (excluding those for producing high alumina cement) with a kiln diameter below 2.5 meters and wet process kiln cement production lines (excluding those mainly used for disposing sludge, carbide slag) with a kiln diameter below 2.5 meters, cement grinding mills with a diameter below 3.0 meters (excluding those for producing special cement), cement earth kilns (egg-shape) and ordinary vertical kilns by the end of 2012.

All the PRC cement producers, whether state-owned or privately owned, are subject to and regulated by the Notice on Surplus Production Capacity and the Notice on Obsolete Production Capacities.

As advised by our PRC Legal Advisors, Dongwu Cement is not an enterprise subject to the shut down policy under the Notice on Surplus Production Capacity. Further, neither the production line nor the production capacity for cement of Dongwu Cement will be regarded as obsolete or of laggard production technologies pursuant to the Notice on Obsolete Production Capacities and the Notice on Surplus Production Capacity. Accordingly, our production line and the production capacity will not be subject to the elimination or phasing out arrangement as stipulated under the said two notices.

RAW MATERIALS AND ENERGY SUPPLY

Major raw materials used in our cement production process include limestone, shale, sandstone, coal gangue, converter slag, clay, flyash and gypsum, amongst which limestone is the principal raw material for our production.

We procure our raw materials from a variety of different sources that are within easy access to our production facilities and they are transported to our production facilities mainly via waterway. We have a stable and reliable source of raw materials. We have 3 to 7 years business relationship with our key suppliers. We also entered into a 5-year master contract with one of our suppliers to secure the limestone supply of approximately 3.5 million tonnes until 30 September 2016, representing more than 50% of our limestone requirements over the same period. The price, volume and other terms shall be negotiated and agreed between our Group and the supplier on an annual basis in the form of supplementary agreements. Set out below is a table illustrating our key costs of sales for the three years ended 31 December 2009, 2010 and 2011:

	Year ended 31 December					
	2009		**2010**		**2011**	
	Total cost (RMB'000)	*% of our total costs of sales*	*Total cost (RMB'000)*	*% of our total costs of sales*	*Total cost (RMB'000)*	*% of our total costs of sales*
Raw materials	69,307	25.8	67,058	21.9	94,989	27.8
Coal	87,918	32.7	110,952	36.3	124,525	36.4
Electricity	48,402	18.0	49,559	16.2	55,603	16.3

Notes:

1. The significant increase in our total cost for raw materials in 2011 as compared with that in 2010 was mainly attributable to the increase of our purchase price of limestone, which was mainly caused by the rising prevailing market price of limestone in our source of procurement. For the years ended 31 December 2009, 2010 and 2011, our average purchase price for limestone was RMB26.6 per tonne, RMB28.5 per tonne and RMB38.5 per tonne respectively, representing an annual increase of approximately 7.1% and 35.1% for 2010 and 2011.

2. The significant increase in our total cost for coal in 2010 as compared with that in 2009 was mainly attributable to changes in the market supply and demand relationship.

During the Track Record Period, we have improved our production efficiency by implementing stringent quality control measures and by reducing our production costs. For instance, we have used waste materials in our production of PC 32.5. This has reduced our production costs and entitled us to claim a VAT refund for our PC 32.5 products. The VAT refund is commonly granted to cement products comprised of not less than 30% of waste materials as its ingredient. For the three years ended 31 December 2009, 2010 and 2011, these VAT refunds amounted to approximately RMB8.9 million, RMB8.7 million and RMB13.4 million respectively. All the VAT refunds we received are derived from the production of our PC 32.5 products. The Resources Comprehensive Utilisation Recognition Committee (蘇州市資源綜合利用認定委員會) are authorized under the relevant PRC laws and regulations to monitor our use of waste materials in the production process for the purposes of ensuring our compliance with the VAT refund policies. For further details of the use of waste materials, please refer to the paragraph headed "Use of waste materials in production process" in this section. Additionally, we have equipped our clinker production facility with a residual heat recovery system which recycles the heat produced in our production process to generate power that is then re-utilized. This has enabled us to be less reliant on external electricity sources and further reduced our costs of production. For the three years ended 31 December 2009, 2010 and 2011, electricity generated by our residual heat recovery generators accounted for approximately 12.6%, 20.7% and 17.8% respectively of our total electricity consumed.

Limestone

The principal raw material used in cement production is limestone.

The limestone used for our cement production is sourced from quarries situated in Anji county and Changxing county in Huzhou City, Zhejiang Province and Guangde county in Xuancheng City, Anhui Province, respectively. During the Track Record Period, we had business relationships with 15 limestone suppliers. We categorize 6 of these 15 limestone suppliers as key suppliers of limestone used by us. These key limestone suppliers are all limestone quarry operators.

We have entered into master contracts with some of our limestone suppliers to fix a basic purchase price for each year. The basic price is usually valid for about one year. These master contracts are binding in nature and contain provisions for cost adjustment whereby the cost of limestone may be adjusted in the event of fluctuations in the cost of limestone, provided that both parties give prior consent to such an adjustment, or whereby the cost of limestone may be reduced in the event that the supply fails to meet the required quality, depending on the terms of the master contracts. For the three years ended 31 December 2009, 2010 and 2011, we purchased approximately 997,285 tonnes, 1,046,695 tonnes and 1,173,427 tonnes of limestone at the total purchase costs of approximately RMB26.5 million, RMB29.8 million and RMB45.2 million respectively, representing approximately 9.9%, 9.8% and 13.2% of our total costs of production respectively.

For the three years ended 31 December 2009, 2010 and 2011, we procured limestone at the average price of RMB26.6 per tonne, RMB28.5 per tonne and RMB38.5 per tonne, respectively.

For the three years ended 31 December 2009, 2010 and 2011, an increase in the average price of limestone would have a negative effect on our revenue and net profit while a decrease in the average price of limestone would have a positive effect on our revenue and net profit, assuming that other factors remain unchanged. Set out below is a table illustrating the change in our net profit which would have been caused by a change to the average price of limestone by RMB1 per tonne and 10% respectively during the Track Record Period, assuming that other factors remain unchanged:

	Year ended 31 December					
	2009		**2010**		**2011**	
	Change in net profit by					
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*
Change in average price of limestone by RMB1 per tonne	0.8	6.7	0.8	2.6	0.9	1.1
Change in average price of limestone by 10%	2.1	17.9	2.4	7.5	3.6	4.1

In October 2011, we signed a five-year master contract with a limestone supplier located in Zhejiang Province to secure a supply to us over a five-year period, or until 30 September 2016, of approximately 3.5 million tonnes of limestone. The price, volume and other terms shall be negotiated and agreed between our Group and the supplier on an annual basis in the form of supplementary agreements. This constitutes more than 50% of our limestone requirements over next five years based upon our present and historical consumption. The limestone supplier undertakes to supply limestone to us of an agreed quality and at a purchase price, approximately 5% lower than the prevailing market rate, which is determined with reference to quotations from over 10 qualified limestone suppliers in Zhejiang Province. There are no minimum purchase requirements stipulated in the five-year master contract and as a matter of principle, we will enter into a supplementary agreement on a yearly basis to fix the average purchase price and purchase volume for the next 12 months. However, pursuant to the terms of the contract, we have paid the limestone supplier a deposit of RMB5 million by way of bank acceptance bills, representing RMB1 million per annum for each year of the contract term. It was agreed that part of the purchase price payable by us for the annual consumption of limestone, i.e. the amount of RMB1.5 for each tonne of limestone would be deducted from the deposit and we will pay the remaining purchase price. In the event that the volume of limestone we procure is lower than the purchase volume we agreed under the relevant supplementary agreement, the remaining or undeducted annual deposit amount for that year shall be forfeited by the supplier. In the event that the supplier fails to provide us with the supply quantity stipulated in the relevant supplementary agreement, we are entitled to payment of twice the amount of the remaining or undeducted annual deposit for that year. To secure our right over the deposit under the contract, the de facto controller of the supplier have agreed to provide a guarantee with respect to the supplier's obligation to return the deposit. Our limestone supplier delivers the limestone to a wharf near its limestone quarry and is responsible for loading the limestone on to our vessels and we then assume the responsibility of transporting the limestone to our production facilities by waterway. Pursuant to the terms of the five-year master contract, the limestone supplier may terminate the contract in the event that either the relevant local government authority prohibits the transportation of limestone out of its designated jurisdiction or in the event of a force majeure. Under the terms of the five-year master contract, we are entitled to terminate the contract in the event that the limestone supplied to us is not of the requisite quality or quantity agreed for that year, or in the event that the limestone supplier fails and/or is unable to confer to us the discounted price agreed.

Under the current supplementary agreement which was signed on 8 November 2011, the limestone supplier guarantees to supply us with 700,000 tonnes of limestone for the period between November 2011 and October 2012 at a purchase price of RMB36.5 per tonne, subject to adjustment and agreement by both parties in the event that the market price for limestone fluctuates significantly.

All our limestone suppliers are Independent Third Parties.

Other raw materials

Our other raw materials primarily include shale, sandstone, coal gangue, converter slag, fly ash gypsum and clay.

Our sulfate slag, gypsum, flyash, slag, converter slag and clay are transported by our suppliers to our production facilities by water way. Our clay is sourced locally in Wujiang City where it is easy to obtain and inexpensive.

All the above suppliers are Independent Third Parties.

Coal

Coal is used as fuel in our cement production.

We purchase coal from domestic coal suppliers which are licensed to trade coal. The coal is transported to our production facilities by our suppliers via waterway. We typically enter into binding contracts with each of our coal suppliers for a term of 2 months each time. These contracts contain provisions for cost adjustment whereby the cost of coal may be reduced in the event that the supply fails to meet the required quality.

During the Track Record Period and up to the Latest Practicable Date, we only procured domestic coal as we have been able to obtain sufficient coal supplies from domestic coal suppliers and we have not been found to be in non-compliance with any applicable rules and regulations as a result of our use of domestic coal. Based on our experience using domestic coal, coupled with the fact that the supply of imported coal is still limited in the PRC market (for example, for 2012, approximately 182.4 million tonnes of coal have been imported into the PRC, which only accounted for approximately 5.2% of the total coal production volume in the PRC, which stood at approximately 3.5 billion tonnes), we currently have no intention to use imported coal in the near future. Nevertheless, our Directors will closely monitor the local coal market and may consider procuring imported coal should it be economic to do so.

For the three years ended 31 December 2009, 2010 and 2011, we purchased approximately 147,948 tonnes, 150,356 tonnes and 152,362 tonnes of coal, respectively.

All our coal suppliers are Independent Third Parties.

For the three years ended 31 December 2009, 2010 and 2011, an increase in the average price of coal would have a negative effect on our revenue and net profit while a decrease in the average price of coal would have a positive effect on our revenue and net profit, assuming other factors remain unchanged. Set out below is a table illustrating the change in our net profit which would have been caused by a change in the average price of coal by RMB10 per tonne and 10% respectively during the Track Record Period, assuming that other factors remain unchanged:

	Year ended 31 December					
	2009		2010		2011	
	Change in net profit by					
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*
Change in average price of coal by RMB10 per tonne	1.2	9.9	1.2	3.8	1.2	1.4
Change in average price of coal by 10%	7.0	59.3	8.8	27.8	9.9	11.4

Electricity

We obtain our electricity supplies (1) on grid from the electricity supply bureau of Jiangsu Province; and (2) via our residual heat system.

The table below sets out our electricity consumption for the three years ended 31 December 2009 and 2010 and 2011:

	Year ended 31 December					
	2009		2010		2011	
	Million KWH	*% of total electricity consumed*	*Million KWH*	*% of total electricity consumed*	*Million KWH*	*% of total electricity consumed*
On Grid Electricity Supply	90.8	87.4	84.0	79.3	94.4	82.2
Electricity Generated by Residual Heat Recovery System	13.1	12.6[Note]	22.0	20.7	20.4	17.8
Total Electricity Consumed (Million KWH)	**103.9**	**100.0**	**106.0**	**100.0**	**114.8**	**100.0**

Note: We started employing the residual heat recovery system in July 2009.

During the Track Record Period, our average on grid electricity price per KWH was RMB0.5331, RMB0.5897 and RMB0.5890 respectively and our total electricity costs amounted to approximately RMB48.4 million, RMB49.6 million and RMB55.6 million, respectively. Up to the Latest Practicable Date, we have not enjoyed preferential electricity prices, nor have we signed any contract with the electricity bureau of Jiangsu Province.

For the three years ended 31 December 2009, 2010 and 2011, the cost of purchasing electricity accounted for approximately 18.0%, 16.2% and 16.3% of our total cost of sales respectively.

We have installed a residual heat recovery system at our production facilities with a total installed capacity of 4,500 KW, which collects residual heat from the clinker production process to generate power which can then be re-utilized. For the three years ended 31 December 2009, 2010 and 2011, our residual heat system generated 13.1 million KWH, 22.0 million KWH and 20.4 million KWH respectively, representing approximately 12.6%, 20.7% and 17.8% of our total electricity consumed during the Track Record Period respectively. The utilization of the residual heat recovery system in general provides approximately 20% self-sufficiency for cement production.

We have experienced occasional shortages of electricity which is common in the Yangtze River Delta Region especially during the summer months. In such circumstances, we are usually given prior notice of such shortages by the electricity supply bureau of Jiangsu Province and we are permitted to operate at a reduced capacity until normal electricity supply is resumed. In the event that we are given prior notice of a shortage of electricity, we will re-schedule our production plans accordingly. Moreover, we can utilize our residual heat recovery system to make up for any shortfall in the electricity supply. During the Track Record Period, electricity shortages did not have a material impact upon our production.

SUPPLIERS

Our procurement department is responsible for the purchase of coal and our key raw materials such as limestone and gypsum from our suppliers. Coal and raw materials are ordered according to our monthly production plans. We are typically required to make full payment for our raw materials within 30 to 60 days after delivery or upon the issuance of the relevant invoice by the suppliers, depending on the terms agreed with the suppliers. During the Track Record Period, we were normally responsible for the transportation of limestone and had to bear the transportation costs incurred in relation thereto. For our coal procurement, our coal suppliers are typically required to deliver coal to our production facilities and bear the transportation costs incurred. Our transportation costs for raw materials are included in the raw materials costs. During the Track Record Period, our Group purchased all the required raw materials and coal in the PRC and all our Group's purchases were settled in RMB.

The quality of our raw materials is inspected by our quality control department to ensure that they comply with our production requirements. If any raw materials do not comply with our quality control standards and have material defects, they will be rejected. If any raw materials contain minor defects but are still useable in our production process, we typically negotiate with our suppliers for a discounted price.

For the three years ended 31 December 2009, 2010 and 2011:

– purchases from our five largest suppliers accounted for approximately 34.7%, 42.6% and 42.6% of our total cost of purchase, respectively; and

– purchases from our largest supplier accounted for approximately 10.6%, 20.2% and 14.2% of our total cost of purchase, respectively.

Our five largest suppliers during the Track Record Period were mainly suppliers of coal and limestone.

As at the Latest Practicable Date, none of our Directors, their associates or shareholders holding more than 5% of the issued share capital of our Company held any equity interests in any of our five largest suppliers during the Track Record Period.

SALES AND MARKETING

Marketing

We have a team of marketing and sales personnel which is responsible for closely monitoring our markets in Wujiang City, the urban area of Suzhou, Shanghai, Jiaxing, Taizhou, Zhoushan and Ningbo and the marketing activities in these areas. As at the Latest Practicable Date, we had eighteen staff responsible for our marketing activities. In addition, our marketing and sales personnel closely monitor business developments with our ready-mixed concrete stations customers.

These personnel visit potential new customers with a view to developing new business opportunities. We provide potential new customers with cement product samples upon their request for inspection. With regards to our well-established customers, our personnel will visit them on a regular basis to maintain good relationships with them.

As an important part of our sales and marketing strategy, we hold an annual dinner every year where we invite our customers together with our prospective or potential new customers.

CUSTOMERS

We have a stable and well-established customer base, many of whom we have had a business relationship with for 3-7 years.

We sell our products (i) by way of direct sales to construction developers in both the private and public sector; (ii) by way of direct sales to ready-mixed concrete stations; (iii) through trading companies selected by our Group on a transaction by transaction basis and (iv) by way of direct sales to walk-in customers.

The table below sets forth the breakdown of our revenue by way of customer type:

	Year ended 31 December					
Types of customer	**2009**		**2010**		**2011**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Construction developers	145,296	49.8	181,497	51.1	213,040	45.9
Ready-mixed concrete stations	101,701	34.9	137,483	38.7	208,888	45.1
Trading companies	32,282	11.1	16,246	4.6	15,536	3.3
Walk-in customers	12,343	4.2	19,724	5.6	26,581	5.7
Total	**291,622**	**100.0**	**354,950**	**100.0**	**464,045**	**100.0**

Our products are sold to construction developers in both the public and private sectors. Our products have been used in a number of large-scale construction projects in the Yangtze River Delta Region, including Suzhou Metro Line 1 (蘇州地鐵一號線), Shanghai – Hangzhou Passenger Railway (滬杭客運專線), Suzhou Metro Line 2 (蘇州地鐵二號線), Kun Shan City North Avenue Express Way Construction (昆山市北大道快速化改造工程), Nanjing University of Posts and Telecommunications, Wujiang College (吳江南郵學院), Shengze Town Government Buildings (盛澤鎮政府), East China Power Transmission and Transformation Project (華東送變電工程). For the three years ended 31 December 2009, 2010 and 2011, approximately 90% of our construction developer customers paid for our products in cash or bank acceptance bills. These construction developer customers were requested to pay on or before taking delivery of our products. As most of our construction developer customers are requested to pay on or before taking delivery of our products, we normally do not enter into any written agreements with them. During the Track Record Period, we only entered into written agreements with 9, 14 and 8 construction developers respectively, setting out certain major terms such as pricing (at the prevailing market price) and its adjustment method (upon written confirmations between the contractual parties), quantity, settlement method, etc. As the price for our products is determined with reference to the prevailing market price, our Group was able to pass on any cost increase to our customers. For those construction developer customers that were granted credit periods, we granted credit terms of up to 60 days, except for one construction project customer to which we granted credit terms of up to 90 days because it was a new customer which we would like to develop as a long-term customer. We have entered into written agreements with each of these construction developer customers.

Our products are sold to ready-mixed concrete station customers with whom we typically sign one-year master contracts. The master contracts are legally binding in nature and will stipulate a fixed purchase price for the cement, which are payable by our customers during that one year period. During the said year, we can offer proposals to adjust the purchase price. In the event that any of these ready-mixed concrete station customers are unwilling to accept such proposals, we may cease to supply cement to them. For sales to ready-mixed concrete stations, depending on their business relationships with us and their creditworthiness, we may grant them the following credit terms: (i) a revolving credit limit of between RMB1 million and RMB3.5 million with a credit period of up to 365 days, and (ii) any outstanding payables in excess of the said revolving credit limit with a credit period of between 0 to 30 days. We grant such credit terms to our key ready-mixed concrete station customers which have stable business relationship with us. These ready-mixed concrete station customers are considered of high creditability based on our assessment of their creditworthiness and our credit control measures. We also granted to one ready-mixed concrete station a credit period of up to 180 days because of its background as a state-owned enterprise and also as a major concrete producer in Shanghai. Nevertheless, we have not granted this ready-mixed concrete station with any revolving credit limit. Further, such long credit period is granted on a case-by-case basis based on the credibility and the transaction volume of the customer concerned. The Directors confirm that the grant of such credit terms are in line with existing normal industry practice. Our PRC Legal Advisors further advise us that the grant of such credit terms are not subject to the General Principles of Loan (貸款通則) of the PRC and are in full compliance with all the applicable PRC laws and regulations.

Set out below is a table illustrating the relevant financial information of our Group in connection with our sales to our ready-mixed concrete station customers which were granted credit limits during the Track Record Period:

	Year ended 31 December		
	2009	**2010**	**2011**
Number of ready-mixed concrete station customers which were granted credit limits	4	5	6
Our revenue from ready-mixed concrete station customers which were granted the credit limits *(RMB'000)*	51,115.1	76,444.4	140,652.7
Amount of trade receivables due from the ready-mixed concrete station customers which were granted the credit limits at the end of each year *(RMB'000)*	14,636.4	8,162.0	15,233.3

Our walk-in customers purchase our products from our sales office located at our production facilities. As at the Latest Practicable Date, we did not operate any other points of sale. As advised by our PRC Legal Advisors, there is no legal requirement in the PRC to obtain business registration in order for us to sell products out of our sales office.

We typically require our trading companies and walk-in customers to make full payment of the contract price before taking delivery of our products. For the three years ended 31 December 2009, 2010 and 2011, we have commercial relationships with 63, 31 and 20 trading companies selected by our Group on a transaction by transaction basis. The number of our trading companies decreased significantly during the Track Record Period due to our preference to shift our focus to sell our products to other types of customers such as construction developers and ready-mixed concrete stations. Although the trading arrangements with these trading companies are informal and non-binding, substantial efforts are required to monitor our trading companies to ensure their compliance with our arrangements. Most of our trading companies are located in the urban areas of Shanghai and Suzhou. The trading companies purchase our products from us on wholesale basis for onward sale mainly to ready-mixed concrete stations and construction developers whilst the trading companies cannot return the unsold products to our Group for refund. The Group's revenue derived from sales through its distribution channels during the Track Record Period was 11.1%, 4.6% and 3.3%, respectively. Our selected trading companies do not compete with us because they purchase our cement products on a wholesale basis for onward sale to markets typically beyond our own geographical markets. As of the Latest Practicable Date, all our selected trading companies were Independent Third Parties with no past or present business, family, trust or employment relationship with our Group, including our shareholders, directors, senior management or any of our respective associates.

For those customers to which we grant credit period, we will assess their credit worthiness before deciding on the exact credit term offered. We typically review our ready-mixed concrete station customers' credit worthiness annually, as well as the credit worthiness of construction developers every time before entering into contractual relationships with them.

Our geographical markets

Our products are sold to customers in Jiangsu Province, Zhejiang Province and Shanghai, respectively.

During the Track Record Period, our principal market was situated at Wujiang City, Suzhou Prefecture, Jiangsu Province, which accounted for approximately 49.3%, 51.8% and 60.1% of our total revenue for the three years ended 31 December 2009, 2010 and 2011 respectively. The table below sets forth the breakdown of our revenue by geographical markets:

	Year ended 31 December					
Markets	**2009**		**2010**		**2011**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Jiangsu	**157,504**	**54.0**	**199,971**	**56.3**	**288,111**	**62.1**
Wujiang	143,801	49.3	183,784	51.8	279,044	60.1
Suzhou (excluding Wujiang)	13,703	4.7	16,187	4.5	9,067	2.0
Zhejiang	**65,458**	**22.5**	**64,486**	**18.2**	**107,785**	**23.2**
South Zhejiang (Taizhou, Zhoushan and Ningbo)	40,061	13.8	53,647	15.1	97,959	21.1
Jiaxing	25,397	8.7	10,839	3.1	9,826	2.1
Shanghai	**68,660**	**23.5**	**90,493**	**25.5**	**68,149**	**14.7**
Total	**291,622**	**100.0**	**354,950**	**100.0**	**464,045**	**100.0**

For the three years ended 31 December 2009, 2010 and 2011:

– sales to our five largest customers accounted for approximately 23.5%, 29.0% and 33.4% of our total revenue, respectively; and

– sales to our largest customer accounted for approximately 7.7%, 8.1% and 8.3% of our total revenue respectively. Our largest customer is a ready-mixed concrete station customer that has maintained a business relationship with us for 3 years.

As at the Latest Practicable Date, none of our Directors, their associates or shareholders holding more than 5% of the issued share capital of our Company held any equity interests in any of our five largest customers during the Track Record Period.

Transportation

As a general policy and in order to maximize our profitability, our customers are typically responsible for taking delivery of our products and the costs and risks of transportation shall be borne by them.

Occasionally, pursuant to the terms of the relevant contract, we may deliver our products to some of our customers, most of which are developers of construction sites or infrastructure projects. In such circumstances, we will engage external logistics service providers to deliver our products to our customers by means of roadway at our own risk and cost. We have had business relationships with these external logistics service providers for approximately 3 years or more. For the three years ended 31 December 2009, 2010 and 2011, our products delivered by us represented approximately 12.1%, 6.3% and 5.3% of our sales, respectively, whilst our transportation costs incurred amounted to approximately RMB2.9 million, RMB1.4 million and RMB1.2 million, respectively. The decrease in the transportation costs incurred over the Track Record Period was mainly due to the engagement of logistics service providers by our customers themselves, and hence reducing the frequency of the delivery services provided by us and the transportation costs incurred therefrom. Nevertheless, our average transportation costs will increase going forward should labour costs and the price of oil increase.

Credit control

We do not grant credit terms to our trading companies customers and walk-in customers. They are typically required to make full payment of the contract price before taking delivery of our products.

During the Track Record Period, approximately 90% of our construction developer customers made full payments before taking delivery of our products. For those construction developer customers that are granted credit terms, we generally grant credit terms of up to 60 days, except for one construction project customer to which we have granted credit terms of up to 90 days because it is a new customer which we would like to develop as a long-term customer. The exact credit term offered is determined based on (i) the background of the shareholders of the construction developer customer; (ii) the nature of the construction project involved; (iii) the reputation and credit worthiness of the construction developer customer; and (iv) the past collection history and length of our business relationship.

For sales to our ready-mixed concrete station customers, we may grant them the following credit terms: (i) a revolving credit limit of between RMB1 million and RMB3.5 million with a credit period of up to 365 days, and (ii) any outstanding payables in excess of the said revolving credit limit with a credit period of between 0 to 30 days. We also granted to one ready-mixed concrete station a credit period of up to 180 days because of its background as a state-owned enterprise. Nevertheless, we have not granted this ready-mixed concrete station with any credit limit. The exact credit term offered is determined based on (i) the background of the shareholders of the ready-mixed concrete station customer; (ii) the value of their fixed assets; (iii) their production capacity; (iv) the reputation and credit worthiness of the ready-mixed concrete station customer; and (v) the past collection history and length of our business relationship.

Our Directors believe that our credit control policies are effective. During the Track Record Period and up to the Latest Practicable Date, save for those disclosed under the paragraph headed "Legal proceedings and compliance" below, no new legal proceedings have been filed by us against our customers to recover any outstanding payment.

PRICING POLICY

The prices of our products are dependent upon the prevailing market conditions which are adjusted from time to time. The pricing of our products are determined primarily upon our production costs and capacity, sales volume, competitors' prices, logistics costs and projected profit margin. These variables are assessed by our management at regular intervals for markets where we have less presence, we also follow the local prices fixed by other leading national cement producers.

COMPETITION

The cement industry in the PRC remains fragmented and a regional industry. Consequently we only consider those cement producers with a presence in or near our geographical markets as competitors. Our geographical markets are situated in Jiangsu Province, Zhejiang Province and Shanghai, respectively. Our primary focus during the Track Record Period was in Wujiang City.

Our Directors believe that key factors affecting the operational and financial performance of companies operating in the cement industry are (1) general macroeconomic conditions, particularly the level of fixed-asset investments; (2) cost of energy and raw materials, particularly coal and limestone; (3) labour costs; (4) transportation costs; and (5) indirect costs such as depreciation of equipment and utility costs. Should any of these factors materially increase, then our operational and financial performance may be adversely affected.

Since 2006, encouraged by various policies including the "Notice of List of Large-scale Enterprises (group) in relation to Adjustment of Structure of Cement Industry supported by the State" (關於公佈國家重點支援水泥工業結構調整大型企業（集團）名單的通知) (the "Notice"), the consolidation of the cement industry in the PRC has led to the creation of more large scale cement companies with a national presence. Through large scale production, these cement companies are able to reduce their costs of production through economies of scale. In addition, some of these cement companies are currently expanding their businesses into the downstream ready mixed concrete industry by merging with or acquiring ready-mixed concrete stations. Such expansion may reduce the number of our ready-mixed concrete station customers in the market. Furthermore, an increasing number of large cement entrepots have been established in the Yangtze Delta Region. This has enabled cement produced in Northern China or upstream of the Yangtze River to become accessible to our markets in the Yangtze River Delta Region at a relatively low production cost which has and will intensify the competition we face in our markets.

Our main competitors in Wujiang City include some local cement producers with smaller-scale production capacity including Wujiang Minggang Road and Bridge Ltd., Co. (吳江市明港道橋工程有限公司, "Minggang Cement") and Wujiang Xingyuan Cement Ltd., Co. (吳江市興源水泥有限公司, "Xingyuan Cement"). We estimate that Minggang Cement has a production capacity of approximately 800,000 tonnes of cement per annum. Whilst Minggang Cement possesses a more flexible pricing policy, we believe that we have an advantage with respect to our higher-grade quality products, a more stable supply and a larger production capacity. Xingyuan Cement has a production capacity of approximately 330,000 tonnes of cement per annum. Whilst Xingyuan Cement is able to offer lower prices for their products we believe that we have an advantage with regards to higher-grade quality products, a more stable supply and a larger production capacity. Moreover, up to the Latest Practicable Date, Xingyuan Cement had not produced any PO 42.5 products. Neither Minggang Cement nor Xingyuan Cement is listed in the Notice.

The cement markets in Jiangsu Province, Zhejiang Province and Shanghai are fragmented. Our competitors include both cement producers with a national presence together with some local cement producers with smaller-scale production capacity. Our major competitors are those with a national presence such as Conch Cement Company (海螺水泥) and South Cement Company (南方水泥). Conch Cement Company is the largest cement manufacturer in the PRC. Both Conch Cement Company and South Cement Company are state-owned enterprises. Conch Cement Company has significant influence over prices of cement in the Shanghai and Zhejiang markets. We typically set our prices slightly lower than those set by Conch Cement Company. We believe that our cement products are of similar quality as compared with those produced by both Conch Cement Company and South Cement Company. We believe that we have an advantage by reason of our convenient transportation network, and in particular, our convenient access to markets by waterway via the Taipu River and the Huangpu river (黃浦江), respectively. Conch Cement Company is one of the companies listed in the Notice whilst South Cement Company is not a company listed in the Notice.

We believe that the traits that distinguishes us from our competitors are that we (i) are an integrated cement and clinker producer in Suzhou Prefecture and we produce high-grade products at competitive cost; (ii) employ environmentally-friendly technologies; (iii) enjoy the benefits of an convenient transportation network including a wharf adjoining our production facilities and being strategically located in the Yangtze River Delta Region; (iv) enjoy stable and long-term relationships with our core customers and suppliers; and (v) have a management team with diverse expertise and skill sets and a highly skilled and experienced workforce. Notwithstanding Dongwu Cement is not listed in the Notice and thus will not receive the government support as set out therein, we do not anticipate any negative impact on our operation, business and future plans without such support at the moment and in the foreseeable future. Further, the Listing will enhance our financial resources and strengthen our market position and allow us to better compete with our competitors.

For more details of our competitive strengths, please refer to the paragraph headed "Our Competitive Strengths" of this section.

RESEARCH AND DEVELOPMENT

Our research and development efforts are focused on reducing our production costs and enhancing our environmentally responsible technologies and practices. We are testing various types of mineral powder for use as additives in the production process. We anticipate that this not only reduces our cost of sales but is environmentally responsible. We are also testing new environmentally responsible technologies such as kiln technology that may enable us to incinerate general household waste material.

INTELLECTUAL PROPERTY

We sell our packaged cement products under the trademark which is registered with the PRC trademark office under the State Administration for Industry and Commerce for class 19 products and is valid for 10 years commencing from April 2006, as well as certain other trademarks. We have also registered the trademarks , and 東吳水泥 on 31 October 2011 and trademarks on 2 November 2011 in Hong Kong. All of the said trademarks are to be registered under classes 19 and 35.

Further details of our intellectual property rights are set out in the paragraph headed "Intellectual Property" in Appendix V to this prospectus.

QUALITY CONTROL

We have been awarded the quality management system certificate GB/T 19001-2008 ISO 9001: 2008 by Jiangsu Jiuzhou Certification Co. Ltd in respect of our process of production and sale of "DONGWU" brand PO 42.5 cement, which is valid until September 2014.

Since our establishment, we have implemented a stringent quality control system comprising twenty separate inspection points which cover our entire production process from inspection and analysis of our raw materials to delivery of our products. The quality control standards that we have implemented since our establishment are over and above those set by The Quality Control Guidelines for Cement Enterprises (水泥企業品質管理規程 the "Guidelines") issued by the MIIT which came into effect on 1 January 2011 and our products are of a superior quality than those set out in the Guidelines.

As at the Latest Practicable Date, our Group had twenty-four staff responsible for quality control. Our quality control team and our engineers examine all twenty inspection points on a regular basis.

In particular, we believe that our quality control system is better than the standards as required by the Guidelines in the following aspects:

– we employ an x-ray fluorescent analyzer that accurately analyses the quality of our raw meal and clinker;

– we typically require that the sulfur content of the coal that we use is no more than 1.3% by weight. The Guidelines recommend a level of 2.5%;

– we also require that our 28 day-clinker strength is no less than 58MPa. The Guidelines recommend no less than 50MPa; and

– our inspection pass rates for raw materials and products are approximately 5-10% higher than those set out in the Guidelines.

During the Track Record Period, we have not encountered any incident of rejection for defective products by our customers. Nor have we encountered any property damage or personal injury incidents caused by the use of our products during the same period. We believe that our quality control system can effectively prevent the occurrence of such incidents in future.

INVENTORY CONTROL

We make an annual production plan and we plan our production and manage our inventory level of our finished products on a monthly basis based on actual sales orders received and our inspection of inventory levels and stock. Clinker can normally be stored for 3 months in a warehouse under proper environmental conditions.

We typically maintain an inventory levels of between 15-30 days for coal and one month for other raw materials.

The table below sets out the breakdown of inventories as at 31 December 2009, 2010 and 2011:

	As at 31 December					
	2009		**2010**		**2011**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Raw Materials	4,652	32.2	13,888	66.4	10,776	48.2
Work-in Progress	2,112	14.6	2,137	10.2	7,002	31.3
Finished goods	7,682	53.2	4,900	23.4	4,575	20.5
Total	**14,446**	**100.0**	**20,925**	**100.0**	**22,353**	**100.0**

REPAIR & MAINTENANCE

Regular repair and maintenance programs for our production facilities are scheduled and carried out by our repair teams to maximize production efficiency and avoid unexpected interruptions to our operations.

Our repair teams carry out day-to-day maintenance and repair of the facilities and machinery on an as-need basis. Our internal maintenance team determines whether any maintenance work is required to be outsourced to third parties.

We conduct comprehensive maintenance work on our production facilities and equipment during the Chinese new year period each year.

OCCUPATIONAL HEALTH & SAFETY

The Production Safety Law of the PRC, which was promulgated on 29 June 2002 and became effective on 1 November 2002, is a fundamental law aimed at strengthening the supervision and administration of production safety and labor protection.

To ensure compliance with relevant PRC regulatory requirements, we have implemented a comprehensive system of safety management procedures and regulations which all our employees must comply with. We also conduct regular training sessions for our employees on accident prevention and management.

We have a few safety supervision staff who are responsible for regulating and coordinating safety procedures with assistance from the supervisors of our different production units. These safety supervision staff in each key production procedure are responsible for conducting inspections of our production facilities to ensure that all of our operations are in compliance with existing laws and regulations.

Our customers do not impose any specific requirements with respect to health and safety measures.

Since the commencement of our operations and up to the Latest Practicable Date, we have not experienced any serious or material industrial accidents at our production facilities. We also have not been adjudged by any relevant PRC governmental authority for any non-compliance with any health and safety requirements under PRC laws and regulations. Our PRC Legal Advisors have confirmed that our Group has been in compliance with all relevant laws and regulations in respect of occupational health and safety in the PRC during the Track Record Period.

INSURANCE

We maintain insurance in respect of potential damage to our facilities, machinery equipment and vehicles. The insurance cover in respect of our facilities and machinery equipment covers various risks including comprehensive property insurance, machinery insurance and vehicle insurance. We believe that our current insurance coverage is standard with respect to the type and scope of coverage for companies of comparable size in the cement industry in the PRC.

We have not taken out any insurance policies to cover product liability. To control our product liability risk, we place significant emphasis on quality control. For details of quality control measures of our Group, please refer to the paragraph headed "Quality Control" of this section.

EMPLOYEES

As at the Latest Practicable Date, we had approximately 256 employees. The following table shows the breakdown of our employees by department and function:

	As at the Latest Practicable Date
Management	16
Engineers/Production	188
Quality Control	24
Procurement	5
Sales & Marketing	14
Finance	9
Total	**256**

SOCIAL WELFARE SCHEMES

We are required by PRC laws and regulations to participate in various social welfare schemes, which include pension, medical, unemployment, birth and work-related injury insurances. As set out in the legal opinion issued by our PRC Legal Advisors, we have made the social insurance contributions for our employees and complied with all national and local regulations relating to labor law. Up to the Latest Practicable Date, we are not involved in any labor disputes. The local social insurance authorities where we are located have confirmed that we do not have any non-compliance incidents with social insurance and we have never been penalized.

We are required to register with the Managing Center of Housing Fund and establish an account for housing fund in the entrusted bank for all the employees and pay the full amount of contributions as part of our employees' welfare and benefits. However, we have not registered with the Managing Center of Housing Fund and have failed to establish an account for housing fund in the entrusted bank for our employees and make contributions for all of our employees towards housing fund. This is due to the reluctance of our employees, who are mostly from the sub-urban areas, in making such contributions.

As advised by our PRC Legal Advisors, according to the Regulations on the Administration of Housing Fund, the Managing Center of Housing Fund is authorized to notify us to register with it and to establish an account for housing fund in the entrusted bank for each employee within a specific time limit. After receiving the above notification, if we can register with the Managing Center of Housing Fund and establish the aforesaid account within a specified time limit, the Managing Centre of Housing Fund will not impose any penalty upon us. However, if we fail to accomplish this within the specified time limit, the Managing Center for Housing Fund may impose upon us a penalty ranging from RMB10,000 to RMB50,000. Up to the Latest Practicable Date, we have not received any notifications or directives from the relevant authorities for reasons related to the housing fund contribution and registration and also the establishment of a special account for housing fund in the entrusted bank for each employee.

We intend to promote the Housing Fund scheme among our employees and enhance their awareness of the Housing Fund scheme as rectification measures. We are now communicating with the relevant departments and authorities for the exact procedures to be followed. We will strive to complete all the relevant procedures and open an account for payment of the contributions to our employees prior to the Listing. After opening of the account, we will make deposits to such account with adequate amount from time to time in compliance with relevant laws and regulations; where necessary, we will seek advice from our legal advisors with respect to other necessary actions to be taken.

Each of the employers and employees is required to contribute 8% of their respective salaries according to the local Housing Fund scheme. For the three years ended 31 December of 2009, 2010 and 2011, our outstanding housing fund contributions were approximately RMB224,000, RMB228,000 and RMB248,000 respectively. We have not made any provisions for the outstanding Housing Fund contribution and the relevant penalty, as we believe that it is unlikely that we are requested to pay the contributions and to be penalized by the local authority because up to the Latest Practicable Date, we have not received any notifications from the relevant authorities on any matters relating to housing fund contribution registration or establishment of the account of housing fund in the entrusted bank for our employees. Our Indemnifiers have undertaken to fully indemnify the Company for any losses arising from the aforesaid breaches and also penalties and surcharges that may be imposed by the local authorities.

PROPERTY

Our production facilities are located at Lili Town, Wujiang City, Suzhou Prefecture, Jiangsu Province, the PRC with an aggregate site area of approximately 182,000 sq.m.. As of Latest Practicable Date, we own 3 parcels of land, with an aggregate site area of approximately 137,571.4 sq.m. We are also entitled to occupy a section of the Taipu River bank with an area of approximately 44,400 sq.m. On these parcels of land and the River bank, we own 45 buildings and units, with an aggregate gross floor area of approximately 32,700 sq.m. All of the properties we own are located in Wujiang City, Suzhou Prefecture, Jiangsu Province, PRC. Please refer to Appendix IV "Property Valuation" of this prospectus for further details of these properties. As advised by our PRC Legal Advisors, unless disclosed in the subsection headed "Legal Proceedings and Compliance" of this section, we have obtained the land use right certificates in respect of all our lands and ownership certificates for all our self-owned properties.

We have also been granted the exclusive right to occupy the 730 meters width river bank of Taipu River that adjoins our production facilities by the Jiangsu Waterway Administration Bureau (江蘇省水利廳) and was allowed to build and use a wharf on the river bank. This provides us with an efficient and convenient way to transport materials and to access our network of customers and suppliers. We are required to pay the sum of RMB180,000 per annum to the Jiangsu Waterway Administration Bureau for the right to occupy the river bank. Such right is subject to annual inspection and the right to renew our use of the river bank is at the sole discretion of the Jiangsu Waterway Administration

Bureau. As at the Latest Practicable Date, our right to occupy the river bank is subject to annual inspection and renewal in October 2012. Since 2004, we have passed every annual inspection. As advised by our PRC Legal Advisors, at such annual inspection, Jiangsu Waterway Administrative Bureau will usually consider, amongst others, whether we are in compliance with the applicable PRC laws and regulations such as PRC Water Law (中華人民共和國水法), PRC Flood Control Law (中華人民共和國防洪法), Regulations on Waterway Management of the PRC (中華人民共和國河道管理條例), Regulations on Waterway Constructions of Jiangsu Province (江蘇省水利工程管理條例) and Implementation Measures on Waterway of Jiangsu Province (江蘇省河道管理實施辦法). In addition, the wharf built on the river bank was subject to The Reply Letter Concerning the Approval of Construction of a Wharf Exclusively used by Suzhou Dongwu Cement Co. Ltd by Taipu River (關於蘇州東吳水泥有限公司在太浦河建設專用港池審批的復函), which was issued to us by the Waterway Department of Jiangsu Transportation Bureau (江蘇省交通廳航道局) in 2003.

According to the Taipu River Waterway Construction Occupation Agreement, the Construction Works Occupation Permit and the applicable PRC laws, in the event that the Taipu River experiences emergency events such as flooding or drought, or the construction of major public waterway projects or construction of flood control works, we may be required to evacuate the river bank. We are further required not to make any modifications or damage the levee construction, especially the retaining walls. The relevant PRC authority may conduct random site inspections on the preservation of the levee construction. The relevant PRC authority may also order us to adopt rectification measures, pay compensation and/or to revoke our rights to occupy the river bank if we fail to comply with such requirements, although there is no provision in the Taipu River Waterway Construction Occupation Agreement regulating the termination of our right to occupy the river bank. Since we were granted the right to occupy the river bank in December 2003, we have not experienced any flooding or droughts, nor have we had to vacate our occupation of the river bank for any other reasons, such as the construction of major public waterway projects or construction of flood control works, etc. Besides, we have not been found to be in violation of the requirements concerning the preservation of the levee construction during the same period. Notwithstanding the aforesaid, as we own the land use rights over the piece of land (Land Use Right Certificate Ref: Wu Guo Yong (2004) Di No.1004225) situated adjacent to the river bank where some of our supporting facilities (i.e. fully automatic loading lines, other transportation related facilities and raw material warehouses) are situated, in the event that our right to occupy the river bank is revoked or expires due to unsuccessful renewal, or we are required to evacuate the river bank by the relevant PRC authorities for the purposes of construction of flood control works and/or other emergency reasons, we intend to relocate such transportation related facilities and raw material warehouses to that piece of land in respect of which we own the land use rights. As advised by our PRC Legal Advisors, the land use rights cannot be resumed or suspended by the PRC government without compelling reasons and reasonable compensation, nor are the land use rights subject to any annual renewal requirements. As advised by our PRC Legal Advisors, in the event that our right to occupy the river bank is revoked or expires due to unsuccessful renewal, we may still use the river bank to load and unload our products, but all the supporting facilities on the river bank, including the fully automatic loading lines, will have to be demolished or relocated. In such circumstances, our costs for waterway transportation will increase, and we will need to incur extra costs for demolition and relocation works. Nevertheless, as our main production facilities (such as rotatory kilns, grinding mills, DCS, residual heat recovery system, etc) are situated near that piece of land, if we experience large scale flooding of the Taipu River which affects the inner part of the land where our main production facilities are located and renders all production facilities impracticable for use, we may not be able to continue our production and our business operations, financial condition and profitability may be adversely affected. However, given that we have not experienced any flooding or drought since December 2003 when we were first granted the right to occupy the river bank, we consider that the chance of the Group's operations being affected by flooding or drought is remote. Based on the foregoing, we are of the view that the above contingency plan is effective to protect our business operations as far as practicable. For further details of the risks relating to our occupation of river bank and our land use rights, please refer to the section headed "Risk Factors" and Appendix IV "Property Valuation" to this prospectus respectively.

ENVIRONMENTAL COMPLIANCE AND POLLUTION CONTROLS

The cement industry is categorized as a pollution industry under PRC laws. Our production facilities can meet the requirements of related environmental laws and regulations promulgated by national and local governments with respect to various pollutants and disposal of waste and hazardous materials. According to the Environmental Protection Law of the PRC and other related laws and regulations, the State Environmental Protection Administration sets national discharge standards for various pollutants and local environmental protection bureaus may set more stringent local standards. Enterprises are required to satisfy the more stringent one of the two applicable standards. Our production line, prior to the commencement of its construction, was evaluated for its environmental impact, and upon the completion of its construction, was tested and approved by the local environmental agencies as required by the relevant laws and regulations, and subject to continuous government supervision thereafter. See the section headed "Regulatory Overview – The PRC Laws on environmental protection" in this prospectus.

To comply with such requirements, we have installed two electric dust precipitators in our production line. Such dust precipitators can collect more than 99.9% of the dust generated during the cement production process. Further, we control the emission of NOx, one of the major pollutants produced during the cement production process by:

– maintaining sufficient degree of dispersion of raw materials in the decomposition furnace to allow for a better mixture of coal and raw materials;

– maintaining a catalyst effect in the decomposition furnace to improve the reduction of NOx emission; and

– employing an improved coal spraying pipe to control the air/coal ratio and thereby ensuring that the coal has been sufficiently combusted.

Moreover, it is our policy to source coal which satisfies our internal quality standard for cement production such as calorific value, water content and sulphur content, etc. and we have our own laboratory to inspect all coal procured so as to ensure that the quality of the coal meets with our required standard.

As advised by our PRC Legal Advisors, the relevant PRC regulations on pollution control applicable to our operation only regulate the pollutant emission levels but not the quality of coal used.

As a result of our pollution control efforts and as confirmed by our PRC Legal Advisors, we are in compliance with the applicable laws and regulations on environmental protection in the PRC and have not encountered material environmental claims nor have we been subjected to any significant penalties for breach of applicable environmental laws or regulations. Our PRC Legal Advisors further advise us that we have obtained all environmental permits and approvals necessary for the conduct of our business.

For the three years ended 31 December 2009, 2010 and 2011, our costs incurred for environmental compliance and pollution controls were approximately RMB1.7 million, RMB1.8 million and RMB1.5 million respectively. Our Directors estimate that our costs to be incurred for the aforesaid matters during the year ending 31 December 2012 will be approximately RMB4.2 million. Our costs for environmental compliance and pollution controls for the year ended 31 December 2012 comprise two parts, namely the costs for implementation of the plan to improve our current dust collection system and the maintenance costs for current pollution control equipment. It is estimated that RMB4.1 million will be used for purchasing various improved dust collection equipment and technologies, which will be used at different stages of our production and the maintenance of our current pollution control equipment is estimated to amount to approximately RMB120,000 for the year ending 31 December 2012. As the PRC environmental protection regulations continue to evolve, we may be required to incur significant expenses to upgrade our production facilities in order to comply with environmental regulations that may be adopted or imposed in the future.

Up to the Latest Practicable Date, save as disclosed in the prospectus, the Directors are not aware any new laws and regulations on tightening of pollutant emission standard have been promulgated in the PRC. Our Company will work with our legal advisors from time to time to ensure compliance with those laws and regulations when any of them is promulgated in future and take necessary actions, including but not limited to facility upgrades, as and when appropriate. As there are no such laws and regulations as at the Latest Practicable Date and our Company is not required to take any positive actions with respect to the pollutant emission standard, our Company does not expect that there will be much compliance costs incurred in the near future.

APPROVALS AND PERMITS

Our PRC Legal Advisors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, our Group has obtained all necessary permits, approvals, consents, certificates and licenses required under the PRC laws and regulations in connection with the business of our Group and all of them are in full force and effect.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period, we were involved in nine legal proceedings which arose in our regular course of business. All these litigations have been filed by us against our customers for outstanding payments and all these legal proceedings were filed before the Track Record Period. As at the Latest Practicable Date, all the litigations have been concluded. The outstanding amount was approximately RMB4.4 million, which accounted for approximately 0.21% of our total revenue for such period. As the outstanding amount only constituted a relatively small portion of our turnover, our Directors believe that it should have no material adverse effect on our business. Notwithstanding the aforesaid, provisions have been made by our Group in the amount of RMB2.5 million for the outstanding trade receivables from those customers.

Except as disclosed above, up to the Latest Practicable Date, we were not aware of any current, pending or threatened litigation, arbitration proceedings or administrative proceedings against us or any of our subsidiaries or any of our Directors or senior management members which could have a material adverse effect on our financial or results of operations.

Material non-compliance incidents and indemnity

Pursuant to the effective Regulations on Discretion of Different Levels Governmental Authority to Grant Approval for Environmental Impact Assessment Documents of Construction Projects (2003 version) （建設項目環境影響評價文件分級審批規定2003版）(the “2003 Regulations”), when we applied for the approval of the construction of our cement production line in 2003, we were required to obtain relevant approval regarding the environmental impact assessment from the PRC governmental authority responsible for environmental protection (“EP Authority”) at the national level. However, we have only obtained the approval from the EP Authority at the provincial level, which is not in full compliance with the then applicable 2003 Regulations. Notwithstanding the foregoing, we believe that we are unlikely to be subjected to administrative sanction due to our failure to obtain relevant approval regarding environmental impact assessment from EP Authority at national level in 2003 based on the following reasons:

– as advised by our PRC Legal Advisors, pursuant to the Notice on Strengthening the Policies Concerning the Discretion of Different Levels Governmental Authority to Grant Approval for Environmental Impact Assessment of Construction Projects (關於加強建設項目環境影響評價分級審批的通知) (the “Notice”) implemented since December 2004, only cement production projects with a daily clinker production capacity of 5,000 tonnes or above are required to obtain the approval from the EP Authority at the national level. In light of the fact that our daily clinker production capacity is 2,500 tonnes, approval from the EP Authority at provincial level was sufficient;

– as advised by our PRC Legal Advisors, pursuant to the Regulations on Discretion of Different Levels Governmental Authority to Grant Approval for Environmental Impact Assessment Documents of Construction Projects (2009 version) (建設項目環境影響評價文件分級審批規定2009版) (the “2009 Regulations”) implemented since March 2009, the 2003 Regulations have been repealed since March 2009 and only cement projects with cross-provincial production activities will require the approval from the EP Authority at the national level whilst other cement production projects are only required to obtain the approval from the EP Authority at the provincial level;

– as advised by our PRC Legal Advisors, pursuant to the PRC Administrative Sanction Law (中華人民共和國行政處罰法), the time bar for imposing administrative sanction was two years since the date of the non-compliance. Up to the Latest Practicable Date, we have not received any administrative sanctions with respect to the above non-compliance since 2003.

Our Group has not, in accordance with the Regulations on the Administration of Housing Provident Fund, registered and established housing fund accounts for our employees and paid the housing fund. This is due to the reluctance of our employees, who are mostly from the sub-urban areas, in making such contributions. The housing fund management centre has the right to demand us to complete the registration within a specified time, failing which, the housing fund management centre may impose a fine ranging from RMB10,000 to RMB50,000. Our Indemnifiers have undertaken to fully indemnify our Group for all losses and damages arising from the above breaches due to our failure to register and/or to make full contribution for all of our employees, penalties and surcharges that may be imposed by the local authorities.

On the other hand, we have not yet obtained the building ownership certificates for 8 buildings which are used by us for the storage of raw materials and for other purposes, such as, repair workshops, and staff quarters, because these 8 buildings are only ancillary buildings which are not used for our main production activities. Among those 8 buildings, 5 buildings are located on the parcels of lands in respect of which our Group has obtained the land use right certificates. Based on the legal opinion issued by our PRC Legal Advisors, although we have obtained the Planning Permit on Land for Construction Use (建設項目用地規劃許可證), the Planning Permit on Construction Works (建設工程規劃許可證), and the Working Permit on Construction Works (建築工程施工許可證) (collectively the "Construction Permits") in respect of those 5 buildings, we have not obtained the Completion Acceptance Permit. Accordingly, we could not obtain the building ownership certificates in respect of those buildings. We did not obtain the Competition Acceptance Permit since all these 5 buildings are only ancillary buildings of minor importance. We are currently using these buildings although we do not have the building ownership certificates. As advised by our PRC Legal Advisors, since no land use rights certificate will be issued for land at the river bank, no building ownership certificates can be obtained for those 3 buildings located at river banks. Nevertheless, provided that we have the valid Construction Works Occupation Permit and pass the annual verification of the Construction Works Occupation Permit, we can use these 3 buildings, notwithstanding the fact that we have not obtained the building ownership certificates.

We may be imposed a fine ranging from RMB0.2 million to RMB1.5 million for our failure to obtain the Completion Acceptance Permit. We may also be required to relocate from such operations temporarily or permanently. Even though we may be penalized or required to be relocated from these buildings, we believe that there is no material adverse impact on our operations and financial conditions, as these buildings are only sheds which are being used to store the raw materials and the value of these buildings only constituted a small portion of our owned properties. If the local authorities require us to relocate from those properties without the building ownership certificates, we will demolish the relevant buildings. We have not considered any relocation plan for those buildings since we can pile the raw materials in the open space of our production premises instead of constructing other new sheds or lease other quarters for staff nearby as rectification measures. We are currently liaising with the relevant PRC governmental authorities for the application of the certificates which we failed to obtain concerning the 5 buildings located on the parcels of land. Notwithstanding the aforesaid, there is no assurance that any such liaison or consequent application will be successful. Our PRC Legal Advisors are of the view that the chance of a fine being imposed by the relevant PRC government authority due to the absence of the permits is remote given that the responsible Housing and Urban Construction Bureau has confirmed that we would not be penalized for failing to obtain the Completion Acceptance Permits of the 5 buildings. Nevertheless, to avoid such non-compliance in the future, we plan to provide training to our management on compliance with the relevant PRC laws. Further, our indemnifiers have undertaken to fully indemnify the Company for all the possible losses or penalty arising from the above breaches and also penalties that may be imposed on us.

Save as disclosed above, our PRC Legal Advisors have confirmed that we are in full compliance with all applicable PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date.

INTERNAL CONTROLS

The Indemnifiers have given indemnities in favour of our Company (for itself and as trustee for our subsidiaries) in connection with any and all expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (including, but not limited to, legal and other professional costs), charges, liabilities, fines, penalties and tax which any member of our Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with any aforementioned activities by Dongwu Cement in the PRC that are in breach of, or any default, failure or delaying in complying with, the relevant PRC laws and regulations.

In order to continuously improve our corporate governance and to prevent recurrence of the non-compliance incidents, we intend to adopt or have adopted the following measures:

(i) our Group has appointed Mr. Zhu Qiwei as the chief financial officer of the Group in December 2011 and Ms. Sun Xin as the Financial Controller in December 2011 to oversee and monitor the internal control environment of our Group; Mr. Zhu and Ms. Sun, both possess accounting and financial management expertise, with the support of our PRC Legal Advisors engaged by us, will be responsible for ensuring our compliance with the applicable laws and regulations as well as reporting to our audit committee regularly every six months;

(ii) our Group has appointed three independent non-executive Directors with experience in the financial and accounting industries respectively. In particular, Mr. Lee Ho Yiu Thomas, the chairman of the audit committee, has extensive experience in auditing, accounting and financial management and is a fellow of the Association of Chartered Certified Accountants, a practicing member of the Hong Kong Institute of Certified Public Accountants, a certified tax advisor and a member of the Hong Kong Taxation Institute, a certified internal auditor and a member of the Institute of Internal Auditors, a certified information systems auditor and member of the ISACA and a director of the Wanchai and Central & Western District Industries and Commerce Association. Our Directors believe that the Group will be able to utilize this experience with respect to the compliance with applicable financial reporting requirements;

(iii) an audit committee established by our Group, comprising three independent non-executive Directors, will assume the overall responsibility for reviewing the adequacy and integrity of our internal control and risk management system;

(iv) our Group has engaged PRC Legal Advisors to provide legal services to our Group in relation to future compliance with PRC laws and regulations;

(v) we have arranged for our Directors and senior management to attend training programs on applicable laws and regulations, including the Listing Rules, provided by our legal advisors prior to Listing. We will continue to arrange various training programs to be provided by the PRC Legal Advisors engaged by us and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the relevant laws and regulations regularly every six months; and

(vi) our Group has improved the existing internal control framework by adopting a set of internal control manual and policies, including the corporate governance manual, which covers corporate governance, risk management, operations, legal matters, finance and audit.

Based on the above, our Directors are of the view that our Company has taken all reasonable steps to establish a proper internal control system to prevent future non-compliance with the PRC laws and regulations by our Group.

During the Track Record Period, the Group provided three guaranteed borrowings as a guarantor (for details, please refer to the paragraph headed "Contingent Liabilities" under the section headed "Financial Information" in this prospectus) and we have already been fully released as a guarantor from these three guaranteed borrowings as at 31 December 2011. Currently, we do not have any intention to enter into any new guaranteed borrowing arrangements after Listing. However, in case we do enter into any similar arrangements in the future, we will ensure that the arrangements will be in compliance with the Listing Rules and other applicable laws and regulations, where applicable.