The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial information as of and for each of the years ended 31 December 2009, 2010 and 2011 and the accompanying notes, all included in the Accountant's Report set out in Appendix I to this prospectus. As more fully described in Appendix I to this prospectus, our financial information has been prepared in accordance with HKFRS.

The following discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include, without limitation, those discussed in the section headed "Risk Factors" in this prospectus.

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 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.

Our principal products comprise ordinary Portland cement strength class 42.5 ("PO 42.5"), composite Portland cement strength class 32.5 ("PC 32.5") and clinker, respectively. 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-grade quality than the PRC national standard.

Our products are sold in Jiangsu Province, Zhejiang Province and Shanghai respectively. Our strategic geographical location in the area known as the Golden Triangle of the Yangtze affords us easy access and places us within the 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.

For the years ended 31 December 2009, 2010 and 2011, our sales volume of cement products (PO 42.5 and PC 32.5) was approximately 1.3 million tonnes, 1.4 million tonnes and 1.4 million tonnes, respectively. Other than our self-production of cement products, we also sold 154,851 tonnes, 49,803 tonnes, and 10,320 tonnes of clinker to external customers, including the ready-mixed concrete stations for the years ended 31 December 2009, 2010 and 2011. For the years ended 31 December 2009, 2010 and 2011, the average selling price per tonne of our cement products was RMB202.7, RMB253.2 and RMB327.4, respectively and the average selling price per tonne of our clinker was RMB185.4, RMB206.0 and RMB320.7, respectively during the same periods.

During the Track Record Period, for the years ended 31 December 2009, 2010 and 2011, our total revenue was approximately RMB291.6 million, RMB355.0 million and RMB464.0 million, respectively. 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. 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.

BASIS OF PRESENTATION

Our Company was established in the Cayman Islands on 29 November 2011 with limited liability as part of the Reorganization in preparation for the Listing of our shares on the Main Board of the Stock Exchange. Our Controlling Shareholders have owned and controlled our Group during the Track Record Period.

The Reorganization is merely a reorganization of the Group's business with no change in management of such business and the ultimate owners remain the same. Accordingly, the consolidated financial information of the companies now comprising the Group are presented using the carrying values of the Group's business for all periods presented.

Our consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period, as set out in Part I of Appendix I to this prospectus, respectively, have been prepared as if the current group structure had been in existence throughout the Track Record Period.

Our financial information has been prepared in accordance with HKFRS throughout the Track Record Period. All material inter-company transactions and balances have been eliminated in our consolidated financial information.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

We believe the most significant factors affecting our results of operations and financial condition are as follows:

Economic growth in the PRC and in particular growth of the construction industry in our target markets

We supply our cement products produced at our production facility in Wujiang of Jiangsu Province to regional markets in Jiangsu Province, Zhejiang Province and Shanghai. As such, demand for our cement products in these areas is dependent upon the amount of construction activities and the level of investment in fixed assets in Jiangsu Province, Zhejiang Province and Shanghai which in turn can be significantly impacted by any material changes in gross domestic product and its growth rate, level of fixed assets investment, PRC government policies, mortgage rate, interest rate, inflation, rate of unemployment, demographic trends and other relevant national and regional economic factors and conditions.

The local economies in Jiangsu Province, Zhejiang Province and Shanghai as well as the economies in the PRC have generally experienced and enjoyed a prolonged period of growth in recent years, we believe the economic growth in the PRC and, in particular, the growth in our target markets, will continue to have a significant impact on our results of operations and financial condition.

PRC government policies

The PRC government may from time to time adopt new industry policies to adjust the level of investment in infrastructure projects and real estate development using both economic incentives and disincentives and administrative means. In recent years, the PRC government's regulation of the cement industry, its overhaul and invigoration plans specific to the cement industry, and its industry policies on resource development and the property market have had and may continue to have a material impact on the investment in, and the growth of, the PRC's cement industry and other industries related to our businesses, bringing us new opportunities and challenges. These and any other future PRC government policy changes would affect the demand for our products to a large extent and therefore affect our financial condition and results of operations.

Pricing

The following table sets out the breakdown of the average selling prices (excluding taxes and transportation fees) per tonne of our products for the periods indicated:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB	*RMB*	*RMB*
PC 32.5	193.4	234.0	302.4
PO 42.5	217.8	279.4	358.7
Clinker	185.4	206.0	320.7

The prices of our products are dependent upon prevailing market conditions. The pricing of our products are determined primarily upon our production capacity, sales volume, competitors' prices, logistics costs and projected profit margin. During the Track Record Period, the selling prices of our clinker and cement products fluctuated significantly in our target regions, which affected our business, results of operations and profitability.

For the three years ended 31 December 2009, 2010 and 2011, the average selling price per tonne of our cement products was RMB202.7, RMB253.2 and RMB327.4, respectively. In the same periods, the average selling price per tonne of (i) our PO 42.5 products was RMB217.8, RMB279.4 and RMB358.7, respectively and (ii) our PC 32.5 products was RMB193.4, RMB234.0 and RMB302.4, respectively.

During the Track Record Period, the average selling price of our PC 32.5 products increased by 21.0% and 29.2% for the years ended 31 December 2010 and 2011 respectively whilst the average selling price of our PO 42.5 products increased by 28.3% and 28.4% for the years ended 31 December 2010 and 2011 respectively. Such increases were mainly attributable to the energy saving and emission reduction policies implemented by the PRC government against the high energy consumptive industries such as cement industry for the purposes of realization of the Eleven Fifth Plan as well as the elimination of cement companies of laggard production capacity by the PRC government in July 2010, thereby affecting the production and supply of cement, resulting in the increases in the selling prices of our cement products. In 2011, despite the relaxation of the energy saving policies, the elimination of cement companies with laggard production capacity led to a decrease in the supply of cement products, which also accounted for the increases in the selling prices of our cement products.

Costs of coal and electricity

Our results of operations are significantly affected by the costs of coal and electricity. The cost of coal is one of the principal components of our cost of sales and constituted 32.7%, 36.3% and 36.4% of our cost of sales for the years ended 31 December 2009, 2010 and 2011, respectively. We endeavor to improve our production efficiency and reduce our coal costs. However, due to market conditions, we may find it necessary to purchase certain types of coal that do not achieve maximum levels of coal consumption efficiency. Our average purchase price for coal was approximately RMB594.2 per tonne, RMB737.9 per tonne, and RMB817.3 per tonne in 2009, 2010 and 2011, respectively. During the Track Record Period, our business and results of operations were affected by the significant fluctuation of coal price. We maintain long term business relationships with our coal suppliers to secure their stable supply of coal. A purchase price is usually determined based on the prevailing market price when we place a particular purchase order.

Our operations also require a significant amount of electricity. Our electricity expenses, which account for approximately 99% of our utilities and energy costs, were approximately 18.0%, 16.2% and 16.3% of our cost of sales for the years ended 31 December 2009, 2010 and 2011, respectively. For the years ended 31 December 2009, 2010 and 2011, our average electricity purchase price per KWH was approximately RMB0.53 per KWH, RMB0.59 per KWH and RMB0.59 per KWH, respectively. We have installed residual heat recovery systems in our production lines in July 2009 and consequently reduced our external electricity consumption.

Any significant increase in the prices of coal and/or electricity could have a significant impact on our cost of sales, which could in turn have a material adverse effect on our business, financial condition and results of operations if we are unable to pass on a portion or all of such increased costs to our customers. We may experience difficulties in passing on these increased costs to our customers when the market conditions were unfavorable or the competition intensified.

Cost and availability of raw materials

We currently source our limestone, a principal raw material for our cement and clinker products, together with other raw materials such as sandstone, gypsum flyash, sulfuric acid residue and slag requirements from third-parties for our operations. Our results of operations are also affected by the costs and availability of these raw materials. Costs of raw materials (excluding coal) as a percentage of cost of sales was 25.8%, 21.9% and 27.8% in 2009, 2010 and 2011, respectively. The average cost of limestone was RMB26.6 per tonne, RMB28.5 per tonne and RMB38.5 per tonne, respectively, for the years ended 31 December 2009, 2010 and 2011. We entered into a long term contract with a limestone supplier for the supply of more than 50% limestone of our yearly usage. However, if the costs of these raw materials increase, or if we are unable to retain access to sufficient amount of limestone, our cost of sales may increase, and results of our operations may be negatively affected.

Competition

Our sales and results of operations are also affected by competition in the markets in which we operate. 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. According to Digital Cement Net there are 216 cement producers in Jiangsu Province as at 31 December 2011.

The cement markets in our targeted markets are fragmented. Our major competitors include both cement producers with a national presence together with some local cement producers with smaller-scale production capacity. Our major competitors include local cement producers, Wujiang Minggang Road and Bridge Ltd., Co. (吳江市明港道橋工程有限公司) and Wujiang Xingyuan Cement Ltd., Co. (吳江市興源水泥有限公司) and those with a national presence, such as Conch Cement Company (海螺水泥) and South Cement Company (南方水泥).

In recent years, the PRC government has implemented policies for industry consolidation and made efforts to restructure the cement industry in the PRC. We expected that these PRC government policies would lead to the closure of a number of cement producers and the competition in the cement industry will become more rational. We intend to leverage our market position and capitalize on the consolidation trend to expand our customer base and increase our market share in our targeted markets. Our profitability and market share will depend on our ability to compete with our competitors.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with HKFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We have identified the policies below as critical to our business operations and the understanding of our financial condition and results of operations. Investors should read the following together with Appendix I to this prospectus and the discussion under "FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION" and "SUMMARY OF OPERATING RESULTS" below.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(1) Sale of goods

The Group produces and sells cement products to customers in the Jiangsu Province, Zhejiang Province and Shanghai City of the PRC. Sales of goods are recognised when a group entity has delivered products to the customers, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer and either the customer has accepted the products in accordance with the relevant sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(2) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognised using the original effective interest rate.

Property, Plant and Equipment and Depreciation

Construction in progress represents properties under construction and is carried at cost, which includes development and construction expenditure incurred, less any accumulated impairment losses. Construction in progress is not depreciated until such time as the assets are completed and available for use. When the assets concerned are available for use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated below.

All the other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment of financial assets

For financial assets carried at amortized cost, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

SUMMARY OF OPERATING RESULTS

The following table sets out a summary of our consolidated statements of comprehensive income for the years ended 31 December 2009, 2010 and 2011, which are derived from the Accountant's Report as set out in Appendix I to this prospectus.

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	291,622	354,950	464,045
Cost of sales	(268,592)	(305,619)	(341,923)
Gross profit	23,030	49,331	122,122
Distribution costs	(3,265)	(2,016)	(2,416)
Administrative expenses	(12,779)	(14,204)	(16,284)
Other income	9,386	11,285	16,332
Other gains/(losses) – net	478	(32)	(3,187)
Operating profit	16,850	44,364	116,567
Finance income	78	59	134
Finance costs	(2,094)	(4,514)	(7,323)
Profit before income tax	14,834	39,909	109,378
Income tax expense	(3,034)	(8,123)	(22,434)
Profit for the year	11,800	31,786	86,944
Other comprehensive income			
– Fair value gain of available-for-sale financial assets (net of tax)	2,684	1,654	2,257
– Recycling of fair value gain in available-for-sale financial assets (net of tax)	–	–	(6,595)
Total comprehensive income for the year	14,484	33,440	82,606
Profit attributable to equity holders of the Company	11,800	31,786	86,944
Total comprehensive income attributable to equity holders of the Company	14,484	33,440	82,606
Earnings per share for profit attributable to equity holders of the Company for the year (expressed in RMB per share)			
– Basic and diluted earnings per share	1,180	3,180	8,694
– Dividends	–	–	121,642

PRINCIPAL INCOME STATEMENT ITEMS

Revenue

Our revenue is mainly generated from the sale of cement products and clinker. The following table provides a breakdown of our sales by product during the Track Record Period:

	Year ended 31 December					
	2009		2010		2011	
	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
	291,622	100.0	354,950	100.0	464,045	100.0

Our revenue from PO 42.5 as a percentage to our total revenue increased from 36.9% in 2009 to 45.2% in 2010 and further increased to 48.4% in 2011. Such increase was mainly due to the increase in our average selling price of PO 42.5 from RMB217.8 per tonne in 2009 to RMB279.4 per tonne in 2010, which was further increased to RMB358.7 per tonne in 2011 whilst our sales volume of PO 42.5 increased from 494,060 tonnes in 2009 to 574,772 tonnes in 2010 and further increased to 626,094 tonnes in 2011.

Our revenue from PC 32.5 as a percentage to our total revenue did not have significant fluctuation during the Track Record Period.

During the Track Record Period, the sales volumes of PO 42.5 increased by 16.3% and 8.9% for the years ended 31 December 2010 and 2011 respectively. The gradual increase in our sales volume of 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 such as Wujiang Binhu New Town, construction of the government office buildings of Shengze Town and the project on Fenhu Development Zone in 2011, etc. 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 our sales volume of PO 42.5 during the Track Record Period.

During the Track Record Period, the sales volumes of PC 32.5 decreased by 2.0% and 0.7% for the years ended 31 December 2010 and 2011 respectively, mainly because of an increase in sales to ready-mixed concrete station for PO 42.5 and a shift in preference for a higher grade cement product from our customers. In addition, as our production capacity of clinker and production volume remained relatively stable, the increase in our production and sales volumes of PO 42.5, inevitably led to decrease in our production of PC 32.5.

Our revenue from clinker as a percentage to our total revenue decreased significantly from 9.8% in 2009 to 2.9% in 2010 and further decreased to 0.7% in 2011. Such decrease was mainly due to the decrease in sales volume of clinker during the Track Record Period as we used majority of the clinker, in our own production.

For the three years ended 31 December 2009, 2010 and 2011, an increase in the average selling price of our PC 32.5 and PO 42.5 products would have a positive effect on our revenue and net profit while a decrease in the average selling price of our PC 32.5 and PO 42.5 products would have a negative effect on our revenue and net profit, assuming that other factors remain unchanged. Set out below are two tables illustrating the change in our revenue and net profit which would have been caused by the change in the average selling price of our PC 32.5 products and PO 42.5 products by RMB1 per tonne and 10% respectively during the Track Record Period, assuming other factors remain unchanged:

Change in revenue

	Year ended 31 December					
	2009		2010		2011	
	change in revenue by					
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*
Change in PC 32.5 average price						
by RMB1 per tonne	0.8	0.3	0.8	0.2	0.8	0.2
by 10%	15.5	5.3	18.4	5.2	23.6	5.1
Change in PO 42.5 average price						
by RMB1 per tonne	0.5	0.2	0.6	0.2	0.6	0.1
by 10%	10.8	3.7	16.1	4.5	22.5	4.8

Change in net profit

	Year ended 31 December					
	2009		2010		2011	
	change in net profit by					
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*
Change in PC 32.5 average price						
by RMB1 per tonne	0.6	5.4	0.6	2.0	0.6	0.7
by 10%	12.4	104.8	14.7	46.1	18.8	21.6
Change in PO 42.5 average price						
by RMB1 per tonne	0.4	3.3	0.5	1.4	0.5	0.6
by 10%	8.6	72.6	12.8	40.2	17.9	20.6

Cost of sales

Our cost of sales consists of raw materials and consumables used, utilities, depreciation and amortization expenses, and wages, salaries and bonuses. Raw materials and consumables primarily include coal, limestone and accessories. Utilities refer to electricity and water. Depreciation and amortization expenses are primarily related to plant and equipment we own. Wages, salaries and bonuses primarily include the compensation and benefits we provide to our manufacturing employees.

The table below sets forth, for the periods indicated, the components of our cost of sales and the components as a percentage of total cost of sales.

	Year ended 31 December					
	2009		2010		2011	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Raw materials and consumables used	188,882	70.3	220,206	72.1	252,928	74.0
Utilities and energy costs	48,600	18.1	49,802	16.3	55,973	16.4
Depreciation	22,620	8.4	24,215	7.9	23,321	6.8
Wages, salaries and bonuses	6,964	2.6	6,887	2.3	7,739	2.3
Changes in inventories of finished goods & work in progress	(356)	-0.1	1,612	0.5	(2,814)	-0.8
Other expenses	1,882	0.7	2,897	0.9	4,776	1.3
	268,592	100.0	305,619	100.0	341,923	100.0

Our cost of sales mainly consisted of raw materials and consumables used which constituted approximately 70.3%, 72.1% and 74.0% of our total cost of sales for the three years ended 31 December 2011. Coal, an important raw material used in the production process, is also accounted for in the raw materials and consumables used. As the average purchase price for coal has been continuously increasing during the Track Record Period from RMB594.2 per tonne in 2009 to RMB737.9 per tonne in 2010 and further increased to RMB817.3 per tonne in 2011, the percentage of our raw materials and consumables used in our total cost of sales is also in the increasing trend.

The utilities and energy costs constituted approximately 18.1%, 16.3% and 16.4% of our total cost of sales for the three years ended 31 December 2011, among which 99% or more were electricity expenses. The decrease in utilities and energy costs as a percentage of our total cost of sales decreased in 2010 and 2011 was mainly due to the reason that we installed residual heat recovery systems which collects residual heat from the clinker production process to generate power which can then be re-utilized in July 2009 which successfully helped us reduce the electricity purchased.

Distribution costs

Distribution costs mainly represent transportation expenses for the delivery of our products to our customers, expenses for providing after-sales services, salary and welfare expenses for employees involved in distribution activities, and other operating expenses, including travelling expenses, business development expenses, advertising and promotion expenses, and other miscellaneous expenses.

Administrative expenses

Administrative expenses mainly represent salary and welfare expenses for management and administrative personnel, advertising, tax and levies, entertainment, vehicle, consultancy, legal and professional fees, and other administrative expenses.

Other income and other gains/(losses) – net

Other income mainly represents tax refunds which represents the refund of value added tax for sales of certain types of cement where industrial waste has been used. The use of waste materials in our production process, entitles us to claim a VAT refund 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 comprise waste materials. In order to achieve this 30% threshold the quality of the clinker is required to be of a high quality. 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. For the three years ended 31 December 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. Other gains – net include sales of scrap materials and gain on disposal of property, plant and equipment.

Finance costs

Finance costs mainly represent interest on borrowings from bank and non-bank financial institutions.

Income tax expenses

The Group is not subject to Hong Kong profit tax as it has no assessable income arising in and derived from Hong Kong during the Track Record Period. Taxes on profits assessable in the PRC have been provided at the rate of tax prevailing in the jurisdictions in which the Group operates.

Under the PRC EIT Law, which became effective from 1 January 2008, enterprises are subject to corporate income tax at a rate of 25%. The Group's major PRC subsidiary – Dongwu Cement is subject to a full corporate income tax exemption for two years and a 50% deduction in the succeeding three years, commencing from the first profitable year. The year 2007 was the first profitable year of Dongwu Cement; hence the applicable income tax rates for the years ended 31 December 2009, 2010 and 2011 were 12.5%, 12.5% and 12.5%, respectively.

Breakeven quantity

The table set out 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 the selling prices remain unchanged:

	Year ended 31 December			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 per tonne)	202.7	253.2	327.4	284.2
Average cost of sales of our cement products (RMB per 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.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2011 compared with the year ended 31 December 2010

Revenue

Our revenue from PC 32.5 increased by RMB52.1 million, or 28.3%, from RMB184.1 million in 2010 to RMB236.2 million in 2011. The increase was mainly attributable to the increase in the average selling price of PC 32.5 from RMB234.0 per tonne in 2010 to RMB302.4 per tonne in 2011.

Our revenue from PO 42.5 increased by RMB64.0 million, or 39.9%, from RMB160.6 million in 2010 to RMB224.6 million in 2011. The increase was mainly attributable to both the increase in the average selling price of PO 42.5 from RMB279.4 per tonne in 2010 to RMB358.7 per tonne in 2011 and the increase in sales volume of approximately 574,772 tonnes in 2010 to 626,094 tonnes in 2011.

Our revenue from clinker decreased by RMB7.0 million, or 68.0%, from RMB10.3 million in 2010 to RMB3.3 million in 2011. The decrease was mainly due to the reason that the majority of the clinker was used in our production instead of sales.

Our total revenue increased by RMB109.0 million, or 30.7%, from RMB355.0 million in 2010 to RMB464.0 million in 2011 as a result of the reasons described above.

Cost of sales

Our cost of sales increased by RMB36.3 million, or 11.9%, from RMB305.6 million in 2010 to RMB341.9 million in 2011. The increase was mainly attributable to increases in the raw materials and consumables used and utilities.

- **Raw materials and consumables used.** The cost of sales attributable to raw materials and consumables used increased by RMB32.7 million, or 14.9%, from RMB220.2 million in 2010 to RMB252.9 million in 2011. The change was mainly attributable to the increase in the average purchase price of coal which increased from RMB737.9 per tonne in 2010 to RMB817.3 per tonne in 2011.

- **Utilities.** The cost of sales attributable to utilities increased by RMB6.2 million, or 12.4%, from RMB49.8 million in 2010 to RMB56.0 million in 2011. The change was primarily attributable to the increase in the production and sales volume of cement products which resulted in the increase in consumption of electricity.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB72.8 million, or 147.7%, from RMB49.3 million in 2010 to RMB122.1 million in 2011, and our gross profit margin increased from 13.9% in 2010 to 26.3% in 2011.

The increase in our gross profit margin was mainly due to the increase in the average selling price of PC 32.5 from RMB234.0 per tonne in 2010 to RMB302.4 per tonne in 2011 and the increase in the average selling price of PO 42.5 from RMB279.4 per tonne in 2010 to RMB358.7 per tonne in 2011. Our cost of sales also increased by 11.9% from 2010 to 2011, however, the increase in our revenue exceeds the increase in our cost of sales as we can pass on the increased costs to our customers by increasing our selling prices during such period due to increase in demand of our cement products in the market we operate arising from the implementation of the energy saving and emission reduction policies, resulting in the changes in the production and supply of cement in regional markets which benefited the sales of our cement products in such market, as well as the elimination of cement companies with laggard production capacity by the PRC government.

Other income

Our other income increased by RMB5.0 million, or 44.2%, from RMB11.3 million in 2010 to RMB16.3 million in 2011. The increase was mainly due to the dividend income on available-for-sale financial assets of RMB2.4 million in 2011 and the increase in the amount of tax refund by RMB4.7 million, or 54.0% from RMB8.7 million in 2010 to RMB13.4 million in 2011.

Other losses – net

Our other net losses increased by RMB3.2 million, from net losses of RMB0.03 million in 2010 to net losses of RMB3.2 million in 2011. The increase was mainly because there was a loss on disposal of property, plant and equipment in a total amount of RMB3.1 million in 2011.

Distribution costs

Distribution costs increased by RMB0.4 million, or 20.0%, from RMB2.0 million in 2010 to RMB2.4 million in 2011. The increase was mainly attributed for the increase in our sales volume of cement products.

Administrative expenses

Administrative expenses increased by RMB2.1 million, or 14.8%, from RMB14.2 million in 2010 to RMB16.3 million in 2011. The increase in administrative expenses was mainly due to increase in remuneration of the Group's auditor from RMB0.03 million in 2010 to RMB1.4 million in 2011.

Finance costs – net

Finance costs-net increased by RMB2.7 million, or 60.0%, from RMB4.5 million in 2010 to RMB7.2 million in 2011. The increase was mainly due to the increase in our total borrowings from RMB75.0 million in 2010 to RMB90.4 million in 2011 and the increase in the interest rate.

Profit before income tax

As a result of the aforesaid, our profit before income tax increased by RMB69.5 million, or 174.2%, from RMB39.9 million in 2010 to RMB109.4 million in 2011.

Income tax expense

Income tax expense increased by RMB14.3 million, or 176.5%, from RMB8.1 million in 2010 to RMB22.4 million in 2011. The increase was mainly due to an increase in taxable income in 2011.

Profit for the year attributable to equity Shareholders of the Company

As a result of the aforesaid, profit for the year attributable to our equity shareholders increased by RMB55.1 million, or 173.3%, from RMB31.8 million in 2010 to RMB86.9 million in 2011.

Year ended 31 December 2010 compared with the year ended 31 December 2009

Revenue

Our revenue from PC 32.5 increased by RMB28.8 million, or 18.5%, from RMB155.3 million in 2009 to RMB184.1 million in 2010. The increase was mainly attributable to the increase in the average selling price of PC 32.5 from RMB193.4 per tonne in 2009 to RMB234.0 per tonne in 2010.

Our revenue from PO 42.5 increased by RMB53.0 million, or 49.3%, from RMB107.6 million in 2009 to RMB160.6 million in 2010. The increase was mainly attributable to both the increase in the average selling price of PO 42.5 from RMB217.8 per tonne in 2009 to RMB279.4 per tonne in 2010 and the increase in sales volume of approximately 494,060 tonnes in 2009 to 574,772 tonnes in 2010.

Our revenue from clinker decreased by RMB18.4 million, or 64.1%, from RMB28.7 million in 2009 to RMB10.3 million in 2010. The decrease was mainly due to the reason that the majority of the clinker was used in our production instead of sales.

Our total revenue increased by RMB63.4 million, or 21.7%, from RMB291.6 million in 2009 to RMB355.0 million in 2010 as a result of the reasons described above.

Cost of sales

Our cost of sales increased by RMB37.0 million, or 13.8%, from RMB268.6 million in 2009 to RMB305.6 million in 2010. The increase was mainly attributable to increases in the raw materials and consumables used and utilities.

- **Raw materials and consumables used.** The cost of sales attributable to raw materials and consumables used increased by RMB31.3 million, or 16.6%, from RMB188.9 million in 2009 to RMB220.2 million in 2010. The change was mainly attributable to the increase in the average purchase price of coal which increased from RMB594.2 per tonne in 2009 to RMB737.9 per tonne in 2010.

- **Utilities.** The cost of sales attributable to utilities increased by RMB1.2 million, or 2.5%, from RMB48.6 million in 2009 to RMB49.8 million in 2010. The change was attributable to the increase in the average purchase price of electricity from RMB0.53 per KWh in 2009 to RMB0.59 per KWh in 2010 which outweigh the effect that we installed the residual heat recovery system in July 2009 which helped us reduce the usage of electricity.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB26.3 million, or 114.3%, from RMB23.0 million in 2009 to RMB49.3 million in 2010, and our gross profit margin increased from 7.9% in 2009 to 13.9% in 2010.

The increase in our gross profit margin was mainly due to the increase in the average selling price of PC 32.5 from RMB193.4 per tonne in 2009 to RMB234.0 per tonne in 2010 and the increase in the average selling price of PO 42.5 from RMB217.8 per tonne in 2009 to RMB279.4 per tonne in 2010. Our cost of sales also increased by 13.8% from 2009 to 2010, however, the increase in our revenue exceeds the increase in our cost of sales as we can pass on the increased costs to our customers during such period due to the decrease in the supply in our targeted markets as a result of the government policy to consolidate the cement industry in the PRC and to reduce the number of cement producers with backward production capacity.

Other income

Our other income increased by RMB1.9 million, or 20.2%, from RMB9.4 million in 2009 to RMB11.3 million in 2010. The increase was mainly due to the dividend income on available-for-sale financial assets of RMB1.4 million in 2010.

Other gains/losses – net

Our other net gains decreased by RMB0.51 million, from RMB0.48 million in 2009 to other net losses of RMB0.03 million in 2010. The decrease was mainly because there was a loss on penalties for our failure to pay the PRC individual income tax on behalf of our temporary staff of RMB0.2 million incurred in 2010 and a decrease in sales of scrap materials of RMB0.2 million in 2010.

Distribution costs

Distribution costs decreased by RMB1.3 million, or 39.4%, from RMB3.3 million in 2009 to RMB2.0 million in 2010. The decrease was mainly due to the reason that the distribution costs were excluded from our selling price for some of our sales in 2010 when we negotiated the contract terms with customers.

Administrative expenses

Administrative expenses increased by RMB1.4 million, or 10.9%, from RMB12.8 million in 2009 to RMB14.2 million in 2010. The increase in administrative expenses was mainly due to increase in staff welfare and the consultancy fee we paid to a third party for market and business development in Shanghai.

The consultancy, legal and professional fees incurred in the year ended 31 December 2010 mainly comprised one-time charges of (i) RMB600,000 that was paid to a related party – Orient Hengye Holdings Company Limited for consultancy services relating to the Company's marketing activities in Shanghai; and (ii) RMB515,500 paid to China Merchant Bank, Mudu Branch, for financial consultancy service, including but not limited to general consultancy services in relation to government policies and regulations updates, cash and asset management, financing and industry research and analysis.

Finance costs – net

Finance costs increased by RMB2.5 million, or 125.0%, from RMB2.0 million in 2009 to RMB4.5 million in 2010. The increase was mainly due to the increase in interest expense of RMB2.4 million as a result of the increase in our total borrowings from RMB44.5 million in 2009 to RMB75.0 million in 2010.

Profit before taxation

As a result of the aforesaid factors, our profit before taxation increased by RMB25.1 million, or 169.6%, from RMB14.8 million in 2009 to RMB39.9 million in 2010.

Income tax

Income tax expenses increased by RMB5.1 million, or 170.0%, from RMB3.0 million in 2009 to RMB8.1 million in 2010. The increase was mainly due to an increase in taxable income in 2010.

Profit for the year attributable to equity Shareholders of the Company

As a result for the above factors, profit for the year attributable to our equity shareholders increased by RMB20.0 million, or 169.5%, from RMB11.8 million in 2009 to RMB31.8 million in 2010.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital needs primarily through cash flow from operating activities, bank loans and the use of trade and other payables. Our primary uses of cash are for our working capital needs and capital expenditures.

Upon the completion of the Global Offering, we expect to meet our working capital needs primarily through cash flows from operating activities, bank loans, the use of trade and other payables and the net proceeds to our Company from the Global Offering. We are satisfied after due and careful inquiry that we have available sufficient working capital for the present requirements, which is for at least the next 12 months from the date of publication of this prospectus.

Cash flows

The following table presents the cash flows for the three years ended 31 December 2011:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Net cash (used in)/generated from operating activities	(12,884)	42,459	36,004
Net cash (used in)/generated from investing activities	(31,097)	(71,583)	110,639
Net cash generated from/(used in) financing activities	43,747	37,138	(123,461)
Net (decrease)/increase in cash and cash equivalents	(234)	8,014	23,182
Cash and cash equivalents at beginning of the year	10,440	10,206	18,220
Cash and cash equivalents at the end of the year	10,206	18,220	41,402

Cash flows from operating activities

Our cash from operating activities reflects profit before taxation for the year, adjusted for (i) non-cash items such as depreciation of property, plant and equipment, amortization of prepaid operating lease payments; (ii) provision for impairment loss for receivables (net of reversal); (iii) gain/loss on disposal of property, plant and equipment; (iv) interest income, finance costs and dividend income on available-for-sale financial assets; and (v) the effect of change in working capital, such as increases or decreases in inventories, trade receivables and prepayments and other receivables, trade and other payables.

We had net cash generated from operating activities of RMB36.0 million in 2011, resulting from the cash generated from operations of RMB72.1 million after taking into account interest in the sum of RMB7.3 million paid and income tax in the sum of RMB28.7 million paid. Our cash generated from operations consisted of cash flow from operating activities of RMB142.5 million before net negative changes in working capital of RMB70.4 million. Net negative changes in working capital primarily consisted of (i) an increase in inventories of RMB1.4 million which was mainly due to our expectation of increase in the cost of raw materials and as a result, we purchased more stock to offset the effect of the increase in the cost of raw materials; (ii) an increase in trade and other receivables and prepayments of RMB50.6 million primarily reflected our increase in the total revenue and more customers using bank acceptance bills instead of cash to settle trade receivables; and (iii) a decrease in trade and other payables of RMB18.4 million.

We had net cash generated from operating activities of RMB42.5 million in 2010, primarily resulting from cash generated from operations of RMB48.5 million, partly offset by interest paid of RMB4.5 million and income tax paid of RMB1.6 million. Our cash generated from operations consisted of cash flow from operating activities of RMB69.3 million before net negative changes in working capital of RMB20.7 million. Net negative changes in working capital primarily consisted of (i) an increase in inventories of RMB6.5 million which was mainly due to our expectation of increase in the cost of raw materials and as a result, we purchased more stock to off set the effect of the increase in the cost of raw materials; (ii) a decrease in trade receivables and prepayments and other receivables of RMB21.2 million primarily reflected the decrease in prepayment to suppliers of RMB20.2 million as a result of the settlement of bills payable of RMB20.2 million; and (iii) a decrease in trade and other payables of RMB50.5 million which was mainly due to the repayment of our bills payables of RMB30.0 million.

We had net cash used in operating activities of RMB12.9 million in 2009, primarily resulting from cash used in operations of RMB10.8 million and interest paid of RMB2.1 million. Our cash generated from operations consisted of cash flow from operating activities of RMB42.1 million before net negative changes in working capital of RMB52.9 million. Net negative changes in working capital primarily reflected (i) a decrease in inventory of RMB11.6 million which reflected the fact that our inventory level as at 31 December 2009 was at a lower level than 31 December 2008; (ii) an increase in restricted bank deposits of RMB15.0 million which were used as the guarantee of our bills payables; (iii) the increase in trade and other receivables and prepayments of RMB37.0 million primarily reflected the increase in prepayment to suppliers of RMB20.0 million and reflected our increase in the total revenue; and (iv) the decrease in trade and other payables of RMB12.5 million.

Cash flows from investing activities

Our cash outflows from investing activities during the Track Record Period mainly consisted of advances to related parties, increase in restricted bank deposits, acquisition of available-for-sale financial assets and purchase of property, plant and equipment. Our cash inflows from investing activities during the Track Record Period mainly consisted of repayments from/advances to related parties, decrease in restricted bank deposits, and dividends received from available-for-sale financial assets.

We had a net cash inflow from investing activities of RMB110.6 million in 2011, primarily resulting from the net repayments from related parties of RMB101.7 million.

We had a net cash outflow from investing activities of RMB71.6 million in 2010, primarily resulting from net advances to related parties of RMB67.7 million, purchase of property, plant and equipment of RMB3.3 million and acquisition of available-for-sale financial asset of RMB2.1 million.

We had a net cash outflow from investing activities of RMB31.1 million in 2009, primarily resulting from purchase of property, plant and equipment of RMB35.6 million and purchase of land use rights of RMB1.8 million which were partially offset by the net repayments from related parties of RMB6.0 million.

As disclosed under "Note 33(b) of Significant Related Party Transactions" of the Accountant's Report as set out in Appendix I, we have made advances to certain related parties, including Suzhou Tailong Real Estate Development Company Limited (蘇州泰隆房地產開發有限公司), Shanghai Orient Control Investment Management Company Limited (上海東控投資管理有限公司), Orient Huaxia Venture Investment Company Limited (東方華夏創業投資有限公司) and Orient Hengxin Capital Holdings Limited (東方恒信資本控股集團有限公司). We entered into these transactions as a general treasury arrangement by the related parties among the related companies. For the purpose of the Listing and to maintain financial independence of the Group from the related parties, all the advances have been fully settled by September 2011 and no similar transaction has been entered into thereafter up to the Latest Practicable Date.

In addition, we have made advances to Orient Holdings, a related party of our Company, as our Company intended to acquire the shares of Orient Holdings in order to participate in its businesses of roads construction and operation. The advances were made without interest as part of the acquisition plan. However, the plan of acquisition was aborted due to our different view on the acquisition price with Orient Holdings. Orient Holdings has since repaid our Company the amount outstanding in full by September 2011.

Cash flow from financing activities

Our cash flow from financing activities during the Track Record Period mainly consisted of proceeds from bank borrowings, proceeds from other borrowing, repayment of bank borrowings, proceeds from capital injection, repayments for long term borrowings, and dividends paid.

We had a net cash outflow from financing activities of RMB123.5 million in 2011, primarily resulting from dividends paid of RMB121.6 million and repayments to a related party of RMB12.2 million the effects of which were partly offset by net proceeds from borrowings of RMB15.4 million.

We had a net cash inflow from financing activities of RMB37.1 million in 2010, primarily resulting from the net proceeds from borrowings of RMB30.5 million, and proceeds from capital injection of RMB16.6 million, the effects of which were partially offset by repayment to a related party of RMB10.0 million.

We had a net cash inflow from financing activities of RMB43.7 million in 2009, primarily resulting from net proceeds from borrowings of RMB24.0 million, net repayment to a related party of RMB17.8 million and proceeds from capital injection of RMB37.6 million.

CAPITAL EXPENDITURES

Our capital expenditures were RMB35.6 million, RMB3.3 million and RMB0.7 million for the three years ended 31 December 2009, 2010 and 2011, respectively. The following table sets forth our capital expenditures during the Track Record Period:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	1,473	3,072	689
Construction in progress	34,163	208	–
	35,636	3,280	689

Capital expenditures for the three years ended 31 December 2011 primarily went towards the technology upgrades and the construction, purchase and installation of residual heat recovery systems.

We may incur additional capital expenditures from time to time as we pursue new opportunities to expand our production capacities, and actual expenditures may differ significantly from our current plans. Our planned capital expenditure projects may also be changed due to changes in business plans such as potential acquisitions, individual project progress, and market conditions and outlook. Further, our ability to obtain sufficient funding for our planned capital expenditure projects in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, economic, political and other conditions in the PRC, Hong Kong and other jurisdictions in which we may operate.

WORKING CAPITAL

Based on our current and anticipated levels of operations and conditions in the market and industry, and taking into account the estimated net proceeds available to us from the Global Offering, our cash at bank and in hand, cash flow from operations, our available banking facilities and future financing, our Directors are of the view that we have sufficient working capital to meet our requirements for at least the next 12 months from the date of publication of this prospectus.

NET CURRENT ASSETS

The table below sets forth, as of the dates indicated, our current assets, current liabilities and net current assets:

	As of 31 December			As of 30 April
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets				
Inventories	14,446	20,925	22,353	31,041
Available-for-sales financial assets	–	–	–	–
Trade and other receivables and prepayments	135,362	180,877	146,258	121,812
Restricted bank deposits	15,000	–	5,000	5,000
Cash and cash equivalents	10,206	18,220	41,402	89,271
Total current assets	**175,014**	**220,022**	**215,013**	**247,124**
Current liabilities				
Trade and other payables	159,861	102,853	71,709	87,210
Current income tax payable	1,292	1,394	2,400	215
Borrowings	38,790	72,669	90,378	95,952
Total current liabilities	**199,943**	**176,916**	**164,487**	**183,377**
Net current (liabilities)/assets	**(24,929)**	**43,106**	**50,526**	**63,747**

As of 30 April 2012, our current assets of RMB247.1 million comprised inventories of RMB31.0 million, trade and other receivables and prepayments of RMB121.8 million, restricted bank deposits of RMB5.0 million and cash and cash equivalents of RMB89.3 million. As of 30 April 2012, our current liabilities of RMB183.4 million comprised trade and other payables of RMB87.2 million, current income tax payable of RMB0.2 million, borrowings of RMB96.0 million.

Our net current assets increased from RMB43.1 million as of 31 December 2010 to RMB50.5 million as of 31 December 2011. The increase was mainly due to an increase in cash and cash equivalents of RMB23.2 million and a decrease in trade and other payables of RMB31.1 million which were partially offset by a decrease in trade and other receivables and prepayments of RMB34.6 million and an increase in borrowings of RMB17.7 million.

Our net current assets position improved from net current liabilities of RMB24.9 million as of 31 December 2009 to net current assets of RMB43.1 million as of 31 December 2010. The increase was mainly due to an increase in trade and other receivables and prepayments of RMB45.5 million primarily reflected our increase in the total revenue, and a decrease in trade and other payables of RMB57.0 million which was mainly due to the settlement for the construction and installation of our residual heat recovery system. The effects of foregoing factors, however, were partially offset by an increase in borrowings of RMB33.9 million, and a decrease in restricted bank deposits of RMB15.0 million.

Trade and other receivables and prepayments

The following table sets forth, as of the dates indicated, trade and bills receivables:

	As of 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables due from third parties	52,833	50,247	59,178
Trade receivable due from related parties	6,369	3,024	2,450
Bills receivable	5,674	18,679	59,088
	64,876	71,950	120,716

Our trade and bills receivables increased from RMB64.9 million as of 31 December 2009 to RMB72.0 million as of 31 December 2010, and further increased to RMB120.7 million as of 31 December 2011, primarily reflecting our increase in total revenue.

The significant increase in bills receivable as at 31 December 2011 was mainly due to the reason that more of our customers chose to settle trade receivables by bank acceptance bills instead of cash in 2011. These bills are generally valid for 6 months and have little credit risk as they are guaranteed by the banks. In addition, the bank acceptance bills can be used to settle our own trade payables. Therefore, we chose to factor only some of the bills to avoid unnecessary finance costs.

Other than those customers which we required them to settle by cash, we generally grant credit period of 30 to 60 days to our customers, 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. For ready-mixed concrete stations customers, our Group 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 have also granted one ready-mixed concrete station a credit period of up to 180 days because of its background as a state-owned enterprise. The trade receivables to be received from this customer amounted to RMB5.2 million, RMB18.5 million and RMB31.5 million as at 31 December 2009, 2010 and 2011 respectively while the amount of sales to this customer amounted to RMB4.4 million, RMB28.6 million and RMB38.5

million, respectively, for the years ended 31 December 2009, 2010 and 2011. We granted a longer credit term of 180 days to this customer because this customer, being an Independent Third Party and a state-owned enterprise under the Shanghai Municipal Government, had a relatively large market share in the Shanghai municipal construction industry and we intend to maintain our business relationship with this customer such that it can be our long term key customer. As as 30 April 2012, the trade receivables of this customer amounted to RMB19.6 million, which was granted 180-day credit period.

We granted a property developer a credit period of 90 days in 2010. The trade receivables due from this customer amounted to RMB0.04 million as at 31 December 2010, while the amount of sales to this customers amounted to RMB1.1 million for the years ended 31 December 2010.

The following table sets forth, for the periods indicated, our average trade and bills receivables turnover days:

	Year ended 31 December		
	2009	**2010**	**2011**
Average trade and bills receivables turnover days	74	70	76

Note:

We calculate average trade and bills receivables turnover days by dividing average trade and bills receivables by turnover for the relevant period and multiplying 365 days, while average trade and bills receivables are obtained by dividing the sum of trade and bills receivables at the beginning of the period and at the end of the period by two. All of our bills are the bank acceptance bills.

The increase in average trade and bill receivable turnover days in 2011 is mainly due to the increase in bills receivables as more of our customers have increasingly used bank acceptance bills to settle their purchases for our products. Such bills receivables are generally payable within 6 months, which are longer than the normal credit period granted to our customers (i.e. 1 to 2 months).

The following table sets forth, as of the dates indicated, an aging analysis of our trade receivables:

	As of 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Below 90 days	23,405	38,582	33,181
From 91 days to 180 days	22,523	4,498	16,871
From 181 days to 1 year	1,572	1,163	2,924
From 1 year to 2 years	998	1,045	542
Over 2 years	4,335	4,959	5,660
	52,833	50,247	59,178

Our management monitors the recoverability of overdue trade and bills receivables, and, when there is objective evidence that our Group may not be able to collect, our management provides for impairment of these receivables. As at 31 December 2009, 2010 and 2011, trade receivables of RMB5.1 million, RMB6.0 million and RMB6.1 million had been impaired and were fully provided for, respectively. Further details are set out in Note 12 of the Accountant's Report.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a wide range of customers that have a good track record with our Group. Based on past experience, our management believes that no additional impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 30 April 2012, RMB31.8 million of total trade receivables have been subsequently settled in which RMB3.0 million are overdue trade receivables. Whilst approximately RMB27.4 million remain unsettled which includes (i) approximately RMB19.6 million due from our single largest customer who is a state-own enterprise with credit period of 180 days we granted; and (ii) approximately RMB6.0 million has been impaired as provision for trade receivable. Having considered the payment records and background of the customers with outstanding trade receivables, our Directors are of the view that our provision for trade receivables is adequate.

The following table sets forth, as of the dates indicated, prepayments and other receivables:

	As of 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments for			
– acquisition of raw materials	29,960	9,794	14,032
– others	–	–	2,890
Due from related parties	34,020	101,686	–
Due from a related party resulting from disposal of available-for-sale financial assets	–	–	13,696
Other receivables	11,559	3,439	995
	75,539	114,919	31,613

Our aggregate prepayments and other receivables increased from RMB75.5 million as of 31 December 2009 to RMB114.9 million as of 31 December 2010 primarily reflecting the increase in amount due from related parties which were partially offset by the decrease in prepayment of RMB20.2 million due to the settlement of bills payable of RMB20.2 million. Our aggregate prepayments and other receivables decreased from RMB114.9 million as of 31 December 2010 to RMB31.6 million as of 31 December 2011, primarily reflecting the repayment by the related parties of RMB101.7 million.

As at 31 December 2009, other receivables mainly consists of two items: (a) receivable of RMB7.9 million due from a third party – Shanghai Baohe Energy Engineering and Technology Company Limited (上海寶和能源工程技術有限公司, "Shanghai Baohe") (Shanghai Baohe originally planned to construct and operate a residual heat power station to supply electricity to the Group and the Group paid RMB7.9 million advance to Shanghai Baohe as a prepayment for electricity. However, the Group was not satisfied with the progress of the construction and decided to construct its own residual heat power station which was completed in 2009. Accordingly, the advance to Shanghai Baohe was classified as other receivable due from Shanghai Baohe as at 31 December 2009 and was subsequently settled in 2010.); and (b) advances to staff amounting to RMB2.7 million, which have subsequently been settled in 2011.

Trade and other payables

The following table sets forth, as of the dates indicated, our trade and other payables:

	As of 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	57,568	56,423	48,232
Bills payable	30,000	–	–
Advance from customers	4,839	4,296	1,265
Other tax payables	1,219	4,572	3,119
Other payables	43,905	25,342	16,197
Amount due to related party	22,220	12,220	2,896
	159,861	102,853	71,709

Trade payables primarily related to the purchases of raw materials and coal from our suppliers. Advances from customers mainly represent the prepayments received from customers for purchase of our products according to the sales contracts. Other taxes payables and other payables primarily consisted of other tax payables and salary and staff welfare expenses payables.

Our aggregate trade and other payables decreased from RMB159.9 million as of 31 December 2009 to RMB102.9 million as of 31 December 2010, primarily reflecting the settlement of bills payable of RMB30.0 million and the settlement of RMB23.5 million for the residual heat recovery system in 2010. Our aggregate trade and other payables decreased from RMB102.9 million as of 31 December 2010 to RMB71.7 million as of 31 December 2011, primarily reflecting the decrease in trade payables of RMB8.2 million, decrease in other payables of RMB9.1 million, and decrease in the amount due to related party of RMB9.3 million.

The credit period granted by our principal suppliers is 30 to 90 days.

The following table sets forth, for the periods indicated, our average trade payables turnover days:

	Year ended 31 December		
	2009	**2010**	**2011**
Average trade payables turnover days	63	68	56

Note:

We calculate trade payables turnover days by dividing average trade payables by cost of sales for the relevant period and multiplying 365 days, while average trade payables are obtained by dividing the sum of trade payables at the beginning of the period and at the end of the period by two.

The decrease in our average trade payables turnover days in 2011 was mainly affected by the shortened payment terms stated in our purchase contracts for raw materials and the fact that we used more bank acceptance bills to settle our payment. Taking into account the fact that our working capital was sufficient for the year ended 31 December 2011, we accepted such shortened payment terms with a view to further ensure a stable supply of our raw materials.

The following table sets forth, as of the dates indicated, an aging analysis of trade and bills payables:

	As of 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Below 30 days	44,233	44,754	23,475
From 30 days to 90 days	28,834	7,159	19,719
From 91 days to 180 days	12,179	907	1,932
From 181 days to 1 year	392	1,509	2,000
From 1 year to 2 years	1,480	1,260	690
Over 2 years	560	834	416
	87,678	56,423	48,232

As at 30 April 2012, RMB32.2 million of total trade payables have been subsequently settled.

Inventories

The following table sets forth, as of the dates indicated, a summary of our balance of inventories:

	As of 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	4,652	13,888	10,776
Work in progress *(Note)*	2,112	2,137	7,002
Finished goods	7,682	4,900	4,575
	14,446	20,925	22,353

Note: For the purpose of the above table, clinker is classified as work in progress.

The increase of our inventories from RMB14.4 million as of 31 December 2009 to RMB20.9 million as of 31 December 2010 primarily reflected the increase in our stock of raw materials as we expected that the raw materials price would further rise. Our inventories slightly increase to RMB22.4 million as of 31 December 2011 primarily due to the growth of our business and sales volume.

The following table sets forth, for the periods indicated, our average inventory turnover days:

	Year ended 31 December		
	2009	**2010**	**2011**
Average inventory turnover days	28	21	23

Note:

Inventory turnover days equal the average inventory divided by cost of sales multiplied by 365 days. Average inventory is the sum of the inventory at the beginning of the period and the inventory at the end of the period divided by two.

There was no significant change in our inventory turnover days during the Track Record Period.

As at 30 April 2012, RMB20.5 million of inventories have been subsequently utilized.

INDEBTEDNESS

Borrowings

All of our borrowings are dominated in RMB. The table below sets forth, as of the dates indicated, our loans and borrowings:

	As of 31 December			As of 30 April
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current:				
Bank borrowings *(Note 1)*	35,000	54,000	73,070	79,770
Other borrowings				
– from non-bank financial institutions *(Note 2)*	500	15,300	15,000	15,000
– from financing arrangement *(Note 3)*	3,290	3,369	2,308	1,182
	38,790	72,669	90,378	95,952
Non-current:				
Other borrowings				
– from financing arrangement *(Note 3)*	5,677	2,308	–	–
	44,467	74,977	90,378	95,952
Representing:				
– unsecured	500	300	–	–
– secured	43,967	74,677	90,378	95,952
	44,467	74,977	90,378	95,952

Notes:

1. The bank borrowings were for general working capital purposes.

2. These other borrowings represented the borrowings from non-bank financial institutions and are to be repaid in full upon Listing. The other borrowings were for general working capital purposes.

3. These other borrowings represented a financing arrangement entered by the Group by the form of a sale and leaseback transaction with repurchase option. The subjects sold and leased back under this financial arrangement are the production equipment of the Company. The total selling price for such production equipment amounted to RMB14,285,715. The total amount involved the lease back of such production equipment was RMB16,627,715, including (i) the first payment of RMB4,285,715 which was settled on 7 August 2009 and (ii) the rental fees approximately RMB12,342,000 which shall be paid every 2 months for 36 months commencing from 7 September 2009 to 7 July 2012. For the first 12 months, the rental fees were RMB753,300 every two months. For the second 12 months, the rental fees were RMB691,300 every two months. For the third 12 months, the rental fees were RMB612,400 every two months. After the term of lease, the Company has the right to repurchase such production equipment at nil consideration. As at 30 April 2012, RMB15,402,915 has been paid by us under the lease back arrangement. As the repurchase price is nil and the Group will definitely exercise its repurchase option, this arrangement is in fact a collateralized borrowing to the Group. For further details about the financing arrangement, please refer to Note 7(c) of Appendix I in this prospectus.

As of 31 December 2009, 2010 and 2011, our Group had bank and other borrowings amounting to RMB44.5 million, RMB75.0 million and RMB90.4 million, of which RMB44.0 million, RMB74.7 million and RMB90.4 million were secured, respectively. Our bank borrowings carried a weighted average interest rate of 6.53%, 5.25% and 6.97% per annum while our other borrowings carried a weighted average interest rate of 16.8%, 12.6% and 14.7% per annum during the years ended 31 December 2009, 2010 and 2011, respectively.

As of 30 April 2012, we had bank and other borrowings amounting to RMB96.0 million, which were secured by our properties, plant and equipment, land use rights, bills receivable, restricted bank deposits and corporate guarantees provided by related or unrelated parties.

Our Directors have confirmed that as at the Latest Practicable Date, we did not have any unutilized banking facilities and all of the banking facilities were committed facilities. We also confirmed that we did not have any non-committed banking facilities. Nevertheless, in view of the good business relationship with China Merchants Bank (Mudu Branch) ("CMB"), our principal banker since 2009, we believe that we will be able to refinance our existing borrowings with new bank borrowings from CMB, which is evidenced by its written confirmation to us confirming that, provided that the Group can fulfil its credit requirements and no unforeseeable material adverse circumstances occur, CMB will extend the term of our existing banking facilities of up to RMB60 million until 30 June 2013.

The following sets out the major restrictive covenants of the Group's banking facilities:

(i) Dongwu Cement is required to obtain written consent from the lender if it undergoes any mergers, splits, reorganization, transfer of shares, transfer of assets, change of capital structure, or enters into any joint ventures (partnership), or makes any foreign investment, or increases any debt financing;

(ii) Dongwu Cement shall not delay in demanding payment or waive its credit rights, and in cases of default by the customers, Dongwu Cement shall not waive its debt holders all of its penalties or shall not improperly penalize its debt holders;

(iii) Dongwu Cement is required to obtain written consent from the lender if it transfers its banking facilities to a third party;

(iv) Dongwu Cement shall not apply the loans in investments such as fixed assets or shareholdings or securities, futures, real estate speculation or other uses not specified in the facilities contract; and

(v) Dongwu Cement and its investors (including our Company), shall not dispose of its capital, transfer its assets or transfer the shares in an effort to avoid repayment of its debt.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities as of 30 April 2012.

FINANCIAL RATIOS

The following table sets forth, as of the periods indicated, our key financial ratios.

		Year ended 31 December		
	Notes	**2009**	**2010**	**2011**
Turnover growth		N/A	21.7%	30.7%
Net profit growth		N/A	169.5%	173.5%
Current ratio	1	0.88	1.24	1.31
Quick ratio	2	0.80	1.13	1.17
Gearing ratio	3	0.10	0.16	0.22
Debt to equity ratio	4	0.15	0.20	0.20
Interest coverage	5	8.05	9.83	15.92
Return on equity	6	5.2%	11.4%	36.2%
Return on total assets	7	2.7%	6.8%	21.4%
Gross margin	8	7.9%	13.9%	26.3%
Net profit margin before interest & tax	9	5.8%	12.5%	25.1%
Net profit margin	10	4.0%	9.0%	18.7%
Inventory turnover days	11	28	21	23
Debtors' turnover days	12	74	70	76
Creditors' turnover days	13	63	68	56

Notes

1. The calculation of current ratio is calculated by dividing total current assets by total current liabilities.

2. The calculation of quick ratio is calculated by dividing current assets (net of inventories) by current liabilities.

3. The calculation of gearing ratio is calculated by dividing total debt by total assets.

4. The calculation of the debt to equity ratio is calculated by dividing net debt by the resulting value of total assets minus total liability.

5. The calculation of the interest coverage is calculated by dividing profit before interest and tax by interest.

6. The calculation of return on equity is calculated by dividing profit attributable to equity holders of the Company by total equity and multiplying the resulting value by 100%.

7. The calculation of return on total assets is calculated by dividing profit attributable to equity holders of the Company by total assets and multiplying the resulting value by 100%.

8. The calculation of gross margin is calculated by dividing gross profit by sales and multiplying the resulting value by 100%.

9. The calculation of net profit margin before interest and tax is calculated by dividing net profit before interest and taxes by sales and multiplying the resulting value by 100%.

10. The calculation of net profit margin is calculated by dividing profit attributable to equity holders of the Company by revenue and multiplying the resulting value by 100%.

11. The calculation of inventory turnover days is calculated by dividing average inventories by cost of sales and multiplying the resulting value by 365 days. The average inventories is the inventories at the beginning of the period plus the inventories at the end of the period with the sum divided by two.

12. The calculation of debtors' turnover days is calculated by dividing average trade and bills receivables by sales and multiplying the resulting value by 365 days. The average trade and bills receivables is the trade and bills receivables at the beginning of the period plus the trade and bills receivables at the end of the period with the sum divided by two.

13. The creditors' turnover days is calculated by dividing trade payable by cost of good sales and multiplying the resulting value by 365 days. The average trade payables is the trade payables at the beginning of the period plus the trade payables at the end of the period with the sum divided by two.

Current ratio

Our current ratio was 0.88, 1.24 and 1.31 for the three years ended 31 December 2011, respectively. The increase in current ratio reflected our increased net current assets during the Track Record Period. Such an increase was mainly due to an increase in the trade and other receivables which amounted to approximately RMB45.5 million.

Quick ratio

Our quick ratio was 0.80, 1.13, and 1.17 for the three years ended 31 December 2011, respectively. For the year ended 31 December 2010, the increase in quick ratio was mainly due to an increase in the trade and other receivables which amounted to approximately RMB45.5 million.

Gearing ratio

Our gearing ratio was 0.10, 0.16 and 0.22 for the three years ended 31 December 2011, respectively. The increase in gearing ratio was mainly due to the increase in borrowings to meet the working capital requirement and to finance the increase in trade and other receivables.

Interest coverage

Our interest coverage was 8.05, 9.83 and 15.92 for the three years ended 31 December 2011, respectively. The significant increase in interest coverage in 2011 was mainly due to the comparatively higher percentage increase in profit before interest and tax as compared with the percentage increase in interest cost.

Return on equity

Our return on equity was 5.2%, 11.4%, and 36.2% for the three years ended 31 December 2011, respectively. For the year ended 31 December 2010, the increase in return on equity was due to an increase in net profit by 169.4% to be offset by an increase in shareholder's equity of 21.9% which was due to an increase in capital of US$2.5 million and an increase in retained earnings of RMB28.1 million. For the year ended 31 December 2011, the increase in return on equity was due to an increase in net profit by 173.5% and a decrease of shareholders' equity by 11.4% which was due to the distribution of dividends that amounted to RMB121.6 million.

Return on total assets

Our return on total assets was 2.7%, 6.8%, and 21.4% for the three years ended 31 December 2011, respectively. For the year ended 31 December 2010, our net profit increased by 169.4% which led to the overall increase of the return on total assets. For the year ended 31 December 2011, return on total assets increased by 212.7% due to an increase in our net profit by 173.5% and the decrease of total assets caused by the distribution of dividends.

Gross margin

Our gross margin was 7.9%, 13.9% and 26.3% for the three years ended 31 December 2011, respectively. The increase in gross profit margin was mainly due to (i) the increase in Group's average selling price of PO 42.5 from RMB217.8 per tonne in 2009 to RMB279.4 per tonne in 2010 and further increased to RMB358.7 per tonne in 2011, and (ii) the increase in Group's average selling price of PC 32.5 from RMB193.4 per tonne in 2009 to RMB234.0 per tonne in 2010 and further increased to RMB302.4 per tonne; and (iii) the comparatively lesser percentage increase in the cost of as compared with the percentage increase in revenue.

Net profit margin before interest and tax

Our net profit margin before interest and tax was 5.8%, 12.5% and 25.1% for the three years ended 31 December 2011, respectively. The improvement of net profit margin before interest and tax of the Company was in line with the improvement in gross profit margin.

Net profit margin

Our net profit margin was 4.0%, 9.0% and 18.7% for the three years ended 31 December 2011, respectively. An increase in the gross profit margin led to an increase in the net profit margin but the increase in the net profit margin was lower as finance costs also increased for the two years ended 31 December 2010 and 2011.

Inventory turnover days

The inventory turnover days was 28, 21, and 23 for the three years ended 31 December 2011, respectively. Inventory turnover days increased in the year ended 31 December 2011 because there was a price increase in the main raw materials during this period. Inventory turnover days was higher in the year ended 31 December 2009 since we kept a higher stock level in this period.

Debtors' turnover days

The increase in average trade and bill receivable turnover days in 2011 was mainly due to the increase in bills receivables as more of our customers have increasingly used bank acceptance bills to settle their purchases for our products. Such bill receivables are generally payable within 6 months, which are longer than the normal credit period granted to our customers (i.e. 1 to 2 months).

Creditors' turnover days

The decrease in our average trade payables turnover days in 2011 was mainly attributable to the shortened payment terms stated in our purchase contracts for raw materials and the fact that we used more bank acceptance bills to settle our payment. Taking into account the fact that our working capital was sufficient for the year ended 31 December 2011, we accepted such shortened payment terms with a view to further ensuring a stable supply of our raw materials.

COMMITMENTS

Capital commitments

The Group has the following capital commitments not provided for in respect of land use rights at the respective balance sheet dates:

	As of 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Authorized but not contracted for			
– Land use rights	5,584	5,584	–

Operating lease commitments

We had future aggregate minimum lease payments under non-cancellable operating leases that are payable as follows:

	As of 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Not later than 1 year	180	329	150
Later than 1 year and not later than 5 years	45	–	–
	225	329	150

Our operating lease commitments as of 31 December 2011 primarily related to the lease agreement in respect of the leasing of production facilities. Leases for properties are generally negotiated for terms of one to two years.

CONTINGENT LIABILITIES

During the Track Record Period, the Group provided three guaranteed borrowings as a guarantor at no charge to three companies. Two guaranteed borrowings were made to entities connected to Mr. Shan Huixing (山惠興). Mr. Shan remained a director of Dongwu Cement as at the Latest Practicable Date and at the material time, Mr. Shan was a director of Dongwu Cement as well as a director and/or a shareholder of these two borrowing or guarantee companies. The other guaranteed borrowing was made by Dongwu Cement as a guarantor to an Independent Third Party. Please refer to the Notes 1, 2 and 3 below for further details.

Although under the terms of the financial guarantee contracts, the Group must make payments to reimburse the lenders upon failure of the guaranteed entities to make payments when due, the Group has since been released from these guaranteed borrowings. Therefore, these guaranteed borrowings will not have an effect on the Group upon Listing and the Company does not anticipate that the Group will enter into such guaranteed borrowings agreement upon Listing.

Terms and face values of the liabilities guaranteed were as follows:

		As of 31 December	
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Borrowing matured in November 2011 *(Note 1)*	–	100,000	–
Borrowing matured in January 2012 *(Note 2)*	–	–	–
Borrowing going to mature in June 2012 *(Note 3)*	–	15,000	–
	–	115,000	–

Notes:

1. The financial guarantee contract, in which the borrower was 上海中澤國際貿易有限公司 (China Fortune (Shanghai) International Trading Co., Ltd., "China Fortune"), covered the bank borrowing of RMB100 million. Mr. Shan Huixing, a director of Dongwu Cement, was also a director of China Fortune. The reason for entering into such guarantee contract was to develop business relationships with the borrower with a view to capturing more potential business opportunities for Dongwu Cement in the future. The guarantee was also considered as low risk since one of the controlling shareholders of the borrower was a state-owned enterprise. Dongwu Cement was released as a guarantor by the relevant lender on 31 December 2011. The principal business activities of China Fortune include operating import and export business of various commodities and technologies for its own or as agent, sales of industrial chemicals, metal materials, construction materials and relevant consultation services, meeting services.

2. The financial guarantee contract was made with an Independent Third Party of the Company, 浙江奧特電梯有限公司 (Zhejiang Aote Elevator Co., Ltd., "Zhejiang Aote"), whose shareholder was a business acquaintance of Mr. Shan Huixing, covered the bank borrowing of RMB8 million. In January of 2011, the lender sought for a guarantor to back up this bank borrowing of Zhejiang Aote. Dongwu Cement acted as a guarantor for the borrower with a view to capturing more potential business opportunities for Dongwu Cement in the future through developing business relationships with Zhejiang Aote. Dongwu Cement was released as a guarantor on 29 December 2011. The principal business activities of Zhejiang Aote include the manufacturing, sales, installation of elevators and provision of aftersales services.

3. Dongwu Cement, Suzhou Hengyuan Investment Co., Ltd. (蘇州恒源投資有限公司) ("Suzhou Hengyuan") and Wujiang Orient Import and Export Co,. Ltd. (吳江東方進出口有限公司) ("Wujiang Orient", an associate of Mr. Tseung) (collectively, the "Borrowers") entered into a revolving loan facility letter (the "Letter") with a finance company (the "Lender") on 22 June 2010, pursuant to which the Lender agreed to grant a revolving loan facility (the "Facility") up to the maximum amount of RMB30 million to any of the Borrowers during the period between 22 June 2010 and 21 June 2012. Each loan approved and granted under the Facility by the Lender to any of the Borrowers under the Letter will be guaranteed by the other two Borrowers.

As at the Latest Practicable Date, Dongwu Cement has utilized RMB15 million of the Facility whilst Suzhou Hengyuan has utilized the remaining RMB15 million. As there is no outstanding loan currently owed by Wujiang Orient under the Facility, there are no liabilities incurred by Wujiang Orient under the Facility which Dongwu Cement is obliged to guarantee in accordance with the Letter for the time being. Regarding the obligations of Dongwu Cement as one of the guarantors in respect of the liabilities of Suzhou Hengyuan for its loan of RMB15 million under the Facility, the Lender has released Dongwu Cement as a guarantor and discharged it from all liabilities in relation to such loan on 30 December 2011.

Wujiang Orient had been, and has resumed as, an associate of Mr. Tseung prior to October 2006 and after December 2011, as Mr. Tseung's spouse was and Mr. Tseung has been the ultimate controlling shareholder of Wujiang Orient prior to October 2006 and after December 2011 respectively. In addition, Mr. Shan Huixing, a director of Dongwu Cement, has been a shareholder and director of Wujiang Orient since October 2006 and Mr. Jin, a director of each of our Company and Dongwu Cement, has been an ultimate shareholder of Wujiang Orient since December 2011. As at the Latest Practicable Date, Wujiang Orient was held as to 10% and 90% by Mr. Shan Huixing and Orient Hengxin Capital Holdings Group Company Limited (東方恒信資本控股集團有限公司), which was held as to 50%, 5% and 5% by Mr. Tseung, Mr. Jin and Mr. Shan Huixing respectively. Save and except for the above and as disclosed in this prospectus, there have been no other relationships between Wujiang Orient and our Group, our Directors and their respective associates, nor were there any changes in such relationships as at the Latest Practicable Date.

Mr. Shan Huixing, a director of Dongwu Cement, was also a minority shareholder (holding 4% of shares) and a director of Suzhou Hengyuan. The reason for entering into such guarantee contract was to develop business relationships with the borrower with a view to capturing more potential business opportunities for Dongwu Cement in the future. The principal business activities of Suzhou Hengyuan include investment, assets management, operating import and export business of various commodities and technologies for its own or as agent. The principal business activities of Wujiang Orient include the sales of electronic machineries, hardware, metal materials and industrial chemicals, operating import and export business of various commodities and technologies for its own or as agent.

Our Directors confirm that the outstanding loan as well as the Facility will be settled and terminated upon the Listing.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we have not entered into any off-balance sheet transactions or arrangements.

RELATED PARTY BALANCES

Details of our balances with related parties during the Track Record Period are set out as follows.

Amounts due from related parties

The following table sets forth, as of the dates indicated, amounts due to us from related parties:

	As of 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills receivables			
Sales of goods			
– Suzhou Tailong Real Estate Development Company Limited	6,369	3,024	2,450
Other receivables			
Advance to related parties			
– Orient Holdings	5,000	75,000	–
– Suzhou Tailong Real Estate Development Company Limited	15,000	23,000	–
– Shanghai Orient Control Investment Management Company Limited	11,020	1,020	–
– Orient Huaxia Venture Investment Company Limited	–	2,000	–
– Orient Hengxin Capital Holdings Limited	3,000	666	–
Amount due from a related party resulting from disposal of available-for-sale financial assets	–	–	13,696 *(Note)*
	40,389	104,710	16,146

Note:

The amount due from a related party resulting from disposal of available-for-sale financial assets in the sum of RMB13,696,000 was derived from the disposal of the Dongwu Cement's interest in the Wujiang Luxiang Rural Small-loan Co., Ltd. to Orient Hengxin Capital Holdings Limited for Listing purpose and has been settled in full by 22 March 2012.

Amounts due to related parties

The following table sets forth, as of the dates indicated, outstanding amounts payable by us to related parties:

	As of 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Other payables			
– Far East International Investment Company Limited	22,220	12,220	2,896

Amount due from and to related parties are unsecured, interest free and repayable on demand.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth in Note 33(b) to the Accountant's Report in Appendix I to this prospectus, our Directors confirmed that these transactions were conducted in the ordinary course of business of our Group and on normal commercial terms and/or such terms that were no less favourable to our Group than those available to Independent Third Parties.

MARKET RISKS

We are exposed to various types of market risks in the normal course of business, including interest rate risks, foreign exchange risks and inflation risks.

Foreign Currency Exchange Rate Risk

We conducted our business primarily in the PRC with most of the transactions denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the PBOC or other institutions authorized to buy and sell foreign exchange. In July 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The PRC government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates. An appreciation of RMB may affect the value of the proceeds from the Global Offering, which will be denominated in HK dollars.

Interest Rate Risk

Our income and operating cash flows are substantially independent of changes in market interest rates. Our exposure to changes in interest rates is mainly attributable to our bank loans, details of which have been disclosed in Note 3.1 of the Accountant's Report set out in Appendix I to this prospectus. As of 30 April 2012, we had total interest bearing bank loans of RMB79.8 million, as described above in "— Indebtedness." Upward fluctuations in interest rates will increase the costs of both our existing and new debt. We have not entered into any interest rate hedging contracts or any other derivative financial instruments.

Credit Risk

Credit risk is the risk of financial loss to us if a customer or counterparty to a financial instrument fails to honor its contractual obligations, and arises principally from our trade and other receivables and other financial assets. The carrying amount of pledged deposits, cash and at bank and in hand, trade receivables, bills receivable and other receivables included in our consolidated balance sheet represents our maximum exposure to credit risk in relation to our financial assets. We have policies in place to ensure that credit sales of products are made to customers with an appropriate credit history and we perform periodic credit evaluations of our customers. Our historical experience in the collection of trade and other receivables falls within the recorded allowances and our Directors are of the opinion that adequate provisions for uncollectible trade receivables has been made in the financial statements.

DIVIDEND POLICY

Dividends may be paid out of our distributable profits as permitted under applicable law, subject to the Articles. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all.

On 12 May 2011, 12 September 2011 and 21 December 2011, Dongwu Cement declared and paid out RMB49.3 million, RMB29.4 million and RMB42.9 million of dividends respectively to its then shareholder at the time, Far East International. Such historical dividend distributions should not be used as a reference or basis to determine the amount of dividends, if any, that may be declared or paid by us in the future. Historical dividend distributions should not be used as a reference or basis to determine the amount of dividends, if any, that may be declared or paid by us in the future.

A decision to declare or to pay any dividends in the future, and the amount of any dividends, depend on a number of factors, including our results of operations, financial condition, the payments by our subsidiaries of cash dividends to us, future prospects and other factors that our Directors may consider important.

Any distributable profits that are not distributed in any given year may be retained and be made available for distribution in subsequent years. For those profits distributed as dividends, such portion of profits will not be available for use in our business operations. There can also be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our future declaration of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board. As at the Latest Practicable Date, our Directors did not have the intention to declare any dividend for the year ending 31 December 2012.

MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the Latest Practicable Date, there were material adverse change in our financial or trading position of our Company since 31 December 2011 (being the date to which our latest consolidated financial results were prepared as set out in the "Accountant's Report" in Appendix I to this prospectus).

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS

Details relating to our Group's property interests are set out in Appendix III to this Prospectus.

The table below shows the reconciliation of aggregate amounts of land and buildings from our Group's audited consolidated balance sheet as of 31 December 2011 to the net book value of our Group's property interests as of 30 April 2012 (based on our management accounts).

	RMB'000
Net book value as of 31 December 2011 (audited)	
– Buildings	93,255
– Land use rights	17,957
Less: Depreciation of buildings for the four months ended 30 April 2012*	(2,202)
Amortization of land use rights for the four months ended 30 April 2012*	(134)
Net book value as of 30 April 2012*	108,876
Valuation surplus	27,624
Valuation as of 30 April 2012 per Appendix III to this Prospectus	136,500

* *Based on our management accounts*

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to the equity holders of the Company as of 31 December 2011 as if the Global Offering had taken place on 31 December 2011, assuming that the Over-allotment Option is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 December 2011 or at any future dates following the Global Offering. It is prepared based on the consolidated net assets of the Group as at 31 December 2011 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2011[1]	Estimated net proceeds from the Global Offering[2], [6]	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as at 31 December 2011	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*[3]	*HK$*[6]
Based on an Offer Price of HK$1.00 per Share	239,942	44,671	284,613	0.57	0.70
Based on an Offer Price of HK$1.28 per Share	239,942	61,232	301,174	0.60	0.74

Notes:

1. The audited consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2011 is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as at 31 December 2011 of RMB239,942,000.

2. The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$1.00 and HK$1.28 per Share, being the lower end and higher end of the offer price range, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any shares which may fall to be issued upon the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 500,000,000 Shares were in issue assuming that the Global Offering and the Capitalization Issue have been completed on 31 December 2011 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Share which be allotted and issued or repurchased by the Company pursuant to the the General Mandate to Issue Shares or the General Mandate to Repurchase Shares as described in the section headed “Share Capital” in this prospectus.

4. As at 30 April 2012, the Group’s land use rights and buildings interests were revalued by Asset Appraisal Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix III – Property Valuation. The revaluation surplus, representing the excess of market value of the land use rights and buildings over their book value, is approximately RMB27,624,000. Such revaluation surplus has not been included in the Group’s consolidated financial information as at 31 December 2011. The above adjustment does not take into account the above revaluation surplus. Had the land use rights and buildings been stated at such valuation, and additional depreciation of RMB938,000 per annum would be charged against the consolidated statement of comprehensive income.

5. No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2011.

6. For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.8130 = HK$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.