**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect about the Offer, this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **Allied Cement Holdings Limited**, you should at once hand this Composite Document and the accompanying Form of Acceptance and Transfer to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities, or other agent through whom the sale or transfer was effected for onward transmission to the purchaser(s) or the transferee(s).

This Composite Document should be read in conjunction with the accompanying Form of Acceptance and Transfer, the contents of which form part of the terms and conditions of the Offer.



**CHINA HEALTH MANAGEMENT INVESTMENT LIMITED**
*(Incorporated in the British Virgin Islands with limited liability)*

**ALLIED CEMENT HOLDINGS LIMITED**
**聯合水泥控股有限公司**
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 1312)**

# COMPOSITE DOCUMENT RELATING TO MANDATORY UNCONDITIONAL CASH OFFER BY YU MING INVESTMENT MANAGEMENT LIMITED ON BEHALF OF CHINA HEALTH MANAGEMENT INVESTMENT LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF ALLIED CEMENT HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY CHINA HEALTH MANAGEMENT INVESTMENT LIMITED AND PARTIES ACTING IN CONCERT WITH IT, AND THOSE SHARES AGREED NOT TO BE THE SUBJECT OF THE OFFER)

**Financial adviser to China Health Management Investment Limited**

禹銘投資管理有限公司
YU MING INVESTMENT MANAGEMENT LIMITED

**Placing agent and Underwriter**

新鴻基金融集團
SUN HUNG KAI FINANCIAL

**Independent financial adviser to the Independent Board Committee**

Quam CAPITAL 華富嘉洛企業融資

Capitalized terms used in this cover page shall have the same meanings as those defined in this Composite Document.

A letter from Yu Ming containing, among other things, details of the terms and conditions of the Offer is set out on pages 7 to 14 of this Composite Document.

A letter from the Board is set out on pages 15 to 20 of this Composite Document.

A letter from the Independent Board Committee to the Independent Shareholders containing its recommendation in respect of the Offer is set out on pages 21 to 22 of this Composite Document.

A letter from Quam Capital containing its advice to the Independent Board Committee in respect of the Offer is set out on pages 23 to 43 of this Composite Document.

The procedures for acceptance and other related information in respect of the Offer are set out in the Appendix I to this Composite Document and the accompanying Form of Acceptance and Transfer. Acceptance of the Offer should be received by the Registrar at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not later than 4:00 p.m. on Tuesday, 4 March 2014 (or such later time and/or date as the Offeror may determine and announce, with the consent of the Executive, in accordance with the Takeovers Code).

Any persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form of Acceptance and Transfer to any jurisdiction outside of Hong Kong should read the section headed "Overseas Shareholders" in the "Letter from Yu Ming" and Appendix I to this Composite Document before taking any action. It is the responsibility of Overseas Shareholders wishing to accept the Offer to satisfy themselves as to full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions. Overseas Shareholders are advised to seek professional advice on deciding whether to accept the Offer.

11 February 2014

# CONTENTS

*The timetable set out below is indicative only and may be subject to change. Any changes to the timetable will be jointly announced by the Offeror and the Company:*

| | **2014** |
|---|---|
| Despatch date of this Composite Document and the Form of Acceptance and Transfer and commencement date of the Offer *(Note 1)* | Tuesday, 11 February |
| Latest time and date for acceptance of the Offer *(Note 2)* | 4:00 p.m. on Tuesday, 4 March |
| Closing Date of the Offer *(Note 2)* | Tuesday, 4 March |
| Announcement of the results of the Offer as at the Closing Date to be posted on the website of the Stock Exchange *(Note 2)* | no later than 7:00 p.m. on Tuesday, 4 March |
| Latest date for posting of remittances in respect of valid acceptances received under the Offer *(Note 3)* | Thursday, 13 March |

*Notes:*

1. The Offer, which is unconditional, is made on the date of posting of this Composite Document, and is capable of acceptance on and from that date until the Closing Date.

2. The latest time and date for acceptance of the Offer will be at 4:00 p.m. on Tuesday, 4 March 2014 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. The Offeror and the Company will jointly issue an announcement through the Stock Exchange website no later than 7:00 p.m. on Tuesday, 4 March 2014, stating whether the Offer has been revised or extended or has expired. In the event that the Offeror decides to extend the Offer and the announcement does not specify the next closing date, at least 14 days' notice by way of an announcement will be given before the Offer is closed, to those Independent Shareholders who have not accepted the Offer.

3. Remittances in respect of the consideration (after deducting the seller's ad valorem stamp duty) payable under the Offer will be despatched to the accepting Independent Shareholders by ordinary post at their own risk as soon as possible, but in any event within 7 Business Days after the date of receipt by the Registrar of all the relevant documents of title to render the acceptance by such Independent Shareholder under the Offer complete and valid in accordance with the Takeovers Code.

4. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances as set out in the section headed "Right of withdrawal" in Appendix I to this Composite Document.

**All references to date and time contained in this Composite Document and the Form of Acceptance and Transfer refer to Hong Kong dates and time.**

*In this Composite Document, unless the context otherwise requires, the following terms shall have the following meanings:*

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| "acting in concert" | has the meaning ascribed to it under the Takeovers Code |
| "associate(s)" | has the meaning ascribed to it under the Takeovers Code |
| "Board" | the board of Directors |
| "Business Day(s)" | a day (other than a Saturday, Sunday, public holidays and days on which a tropical cyclone warning signal no.8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks in Hong Kong are generally open for business throughout their normal business hours |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "China" or "PRC" | the People's Republic of China and for the purpose of this Composite Document, excludes Hong Kong, Macau Special Administrative Region and Taiwan |
| "Closing Date" | Tuesday, 4 March 2014, the closing date of the Offer, which is 21 days after the date on which this Composite Document is posted, or if the Offer is extended, any subsequent closing date of the Offer as extended and announced by the Offeror in accordance with the Takeovers Code |
| "Company" | Allied Cement Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1312) |
| "Completion" | completion of the sale and purchase of the Sale Shares contemplated under the Sale and Purchase Agreement |
| "Composite Document" | this composite offer and response document in respect of the Offer dated 11 February 2014 jointly issued by the Offeror and the Company in accordance with the Takeovers Code containing, among other things, detailed terms of the Offer |

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| "connected person(s)" | has the same meaning ascribed to it under the Listing Rules |
| "Consideration" | consideration for the sale and purchase of the Sale Shares under the Sale and Purchase Agreement, being HK$532.80 million |
| "Director(s)" | director(s) of the Company from time to time |
| "Encumbrances" | any mortgage, charge, pledge, lien, hypothecation, equities, adverse claims, restrictions, pre-emption rights or other encumbrance, priority or security interest or other rights of whatsoever nature or interest or any agreement for any of the same |
| "Executive" | the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director |
| "Form of Acceptance and Transfer" | the form of acceptance and transfer in respect of the Offer accompanying this Composite Document |
| "Group" | the Company and its subsidiaries |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |
| "Hong Kong" | Hong Kong Special Administrative Region of the PRC |
| "Independent Board Committee" | the independent board committee of the Board, comprising all independent non-executive Directors, namely Mr. Chan Sze Chung, Mr. Cheng Kin Chung and Ms. Doris Yang Yan Tung, which has been formed to make recommendation to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance |
| "Independent Shareholder(s)" | holders of the Shares, other than the Offeror Group, SHK, the Vendor and parties acting in concert with any of them. For the avoidance of doubt, parties acting in concert with the Offeror include, among others, SHK and parties acting in concert with any of them |

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| "Joint Announcement" | the announcement jointly published by the Offeror and the Company dated 16 December 2013 in relation to, among other things, the Sale and Purchase Agreement and the Offer |
| "Last Trading Day" | 6 December 2013, the last trading date before the suspension of trading in the Shares pending the publication of the Joint Announcement |
| "Latest Practicable Date" | 7 February 2014, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein |
| "Listing Rules" | The Rules Governing the Listing of Securities on the Stock Exchange |
| "Main Board" | Main Board of the Stock Exchange (excludes the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM Board of the Stock Exchange |
| "Offer" | the mandatory unconditional cash offer for all the issued Shares (other than those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it, and those Shares agreed not to be the subject of the Offer) being made by Yu Ming on behalf of the Offeror at the Offer Price |
| "Offer Period" | commencing from 16 December 2013, being the date of the Joint Announcement was published and ending on the date of the close of the Offer |
| "Offer Price" | HK$1.44 per Offer Share |
| "Offer Share(s)" | 165,000,000 Shares which are the subject of the Offer, being Shares held by Independent Shareholders |
| "Offeror" or "Purchaser" | China Health Management Investment Limited, a company incorporated under the laws of the British Virgin Islands and the purchaser of the Sale Shares under the Sale and Purchase Agreement |
| "Offeror Group" | the Offeror, Waranty Hong Kong, Waranty Shenzhen, Tsinghua Holdings and Shenzhen Aorongxin |

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| "Overseas Shareholder(s)" | Shareholder(s) whose address(es) as stated in the register of members of the Company is or are outside Hong Kong |
| "Quam Capital" | Quam Capital Limited, a licensed corporation under the SFO authorised to carry out regulated activities of type 6 (advising on corporate finance), being appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Offer |
| "Registrar" | Tricor Secretaries Limited, the Hong Kong branch share registrar and transfer office of the Company, with its address at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong |
| "Relevant Period" | the period commencing from 16 June 2013, being the date falling six months prior to 16 December 2013, the commencement date of the Offer Period, and up to the Latest Practicable Date |
| "Retained Shares" | Shares retained by the Vendor after Completion, being 125,000,000 Shares |
| "Sale and Purchase Agreement" | the conditional agreement dated 7 December 2013 entered into between the Purchaser and the Vendor in relation to the sale and purchase of the Sale Shares |
| "Sale Shares" | 370,000,000 Shares acquired by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement, representing approximately 56.06% of the entire issued share capital of the Company as at the Latest Practicable Date and each a Sale Share |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | share(s) of nominal value of HK$0.01 each in the share capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |

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| "Shenzhen Aorongxin" | Shenzhen Aorongxin Investment Development Company Limited* (深圳市奧融信投資發展有限公司), a company incorporated under the laws of the PRC with limited liability. As at the Latest Practicable Date, it is beneficially owned and controlled as to 83.4% by Mr. Huang Yu (黃俞) and 16.6% by Mr. Huang Xuezhong (黃雪忠) |
| "SHK" | Sun Hung Kai International Limited, a company incorporated in Hong Kong with limited liability and a licensed corporation under the SFO authorised to carry out regulated activities of type 1 (dealing in securities), being the exclusive placing agent and underwriter for all the Offer Shares validly tendered for acceptance under the Offer |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Takeovers Code" | The Code on Takeovers and Mergers issued by the SFC |
| "Tian An" | Tian An China Investments Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 28) |
| "Tsinghua Holdings" | Tsinghua Holdings Company Limited* (清華控股有限公司), a solely state-owned corporation with limited liability, is 100% owned by Tsinghua University and is directly supervised by the Assets Management Committee (經營性資產管理委員會) of Tsinghua University |
| "Underwritten Shares" | the Offer Shares validly tendered by Independent Shareholders under the Offer, which are fully underwritten by SHK |
| "Vendor" | Autobest Holdings Limited, a company incorporated under the laws of the British Virgin Islands, the controlling Shareholder of the Company holding 75% of the entire issued share capital prior to Completion and a wholly-owned subsidiary of Tian An |

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| "Waranty Hong Kong" | Waranty Assets Management (HK) Limited (華融泰資產管理(香港)有限公司), an investment holding company incorporated in Hong Kong with limited liability, which holds the entire issued share capital of the Offeror |
| "Waranty Shenzhen" | Shenzhen Waranty Assets Management Company Limited* (深圳市華融泰資產管理有限公司), a company incorporated under the laws of the PRC with limited liability, which holds the entire issued share capital of Waranty Hong Kong. As at the Latest Practicable Date, it is beneficially owned and controlled as to 40% by Tsinghua Holdings and 60% by Shenzhen Aorongxin |
| "Yu Ming" | Yu Ming Investment Management Limited, a company incorporated in Hong Kong with limited liability and a licensed corporation under the SFO authorised to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "%" | per cent. |

*For the purpose of this Composite Document, "*" denotes an English transliteration/translation of a Chinese name and is for identification purposes only. If there is any inconsistency between the Chinese name and the English transliteration/translation, the Chinese name shall prevail.*

禹銘投資管理有限公司
YU MING INVESTMENT MANAGEMENT LIMITED

*To the Independent Shareholders*

11 February 2014

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
YU MING INVESTMENT MANAGEMENT LIMITED
ON BEHALF OF
CHINA HEALTH MANAGEMENT INVESTMENT LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
ALLIED CEMENT HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY OR AGREED
TO BE ACQUIRED BY
CHINA HEALTH MANAGEMENT INVESTMENT LIMITED
AND PARTIES ACTING IN CONCERT WITH IT, AND THOSE
SHARES AGREED NOT TO BE THE SUBJECT OF THE OFFER)**

## INTRODUCTION

On 7 December 2013, the Vendor and the Purchaser had entered into the Sale and Purchase Agreement, pursuant to which the Purchaser had conditionally agreed to acquire and the Vendor had conditionally agreed to sell the Sale Shares, being 370,000,000 Shares for a total Consideration of HK$532.80 million, equivalent to HK$1.44 per Sale Share. The Sale Shares represent approximately 56.06% of the entire issued share capital of the Company as at the Latest Practicable Date. On 28 January 2014, the conditions under the Sale and Purchase Agreement were fulfilled and Completion took place on 4 February 2014.

Immediately following Completion, the Offeror Group and parties acting in concert with any of them hold 370,000,000 Shares, representing approximately 56.06% of the entire issued share capital of the Company, and accordingly, the Offeror is required to make a mandatory unconditional cash offer pursuant to Rule 26.1 of the Takeovers Code for all the issued Shares, other than the Retained Shares, which are not owned or agreed to be acquired by the Offeror Group and parties acting in concert with any of them.

This letter sets out, among other things, the principal terms of the Offer, together with the information on the Offeror and the Offeror's intention regarding the Group. Further details of terms of the Offer and procedures of acceptance are also set out in Appendix I to this Composite Document and the accompanying Form of Acceptance and Transfer.

## THE OFFER

### Principal terms of the Offer

We are making the Offer for and on behalf of the Offeror in compliance with the Takeovers Code on the following basis:-

**For each Offer Share . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .HK$1.44 in cash**

The Offer Price of HK$1.44 per Offer Share equals to the purchase price per Sale Share paid by the Offeror under the Sale and Purchase Agreement.

As at the Latest Practicable Date, there are 660,000,000 Shares in issue and there are no options, warrants, derivatives or convertibles which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares.

The procedures for acceptance and further terms of the Offer are set out in Appendix I to this Composite Document and the accompanying Form of Acceptance and Transfer.

### Comparison of value

The Offer Price of HK$1.44 per Offer Share represents:

(i) a discount of approximately 36.00% to the closing price of HK$2.25 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 33.02% to the average closing price of approximately HK$2.15 per Share for the last five trading days immediately prior to and including the Last Trading Day;

(iii) a discount of approximately 35.14% to the average closing price of approximately HK$2.22 per Share for the last ten trading days immediately prior to and including the Last Trading Day;

(iv) a discount of approximately 33.64% to the average closing price of approximately HK$2.17 per Share for the last thirty trading days immediately prior to and including the Last Trading Day;

(v) a premium of approximately 27.43% over the unaudited net asset value attributable to Shareholders of approximately HK$1.13 per Share as at 30 June 2013 and a premium of approximately 28.57% over the audited net asset value attributable to Shareholders of approximately HK$1.12 per Share as at 31 December 2012; and

(vi) a discount of approximately 20.00% to the closing price of HK$1.80 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

**Highest and lowest prices**

During the Relevant Period, the highest closing price per Share as quoted on the Stock Exchange was HK$2.49 per Share on 21 October 2013 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.78 per Share on 21 June, 24 to 28 June, 24 July, 26 July, 29 to 30 July, 7 to 8 August and 20 to 21 August 2013.

**Value of the Offer**

Based on the Offer Price of HK$1.44 per Offer Share, the entire issued share capital of the Company is valued at approximately HK$950.40 million. Following Completion, the Offeror Group and parties acting in concert with any of them are interested in 370,000,000 Shares and as the Vendor will not accept the Offer in respect of its remaining 125,000,000 Retained Shares, the total number of Offer Shares is 165,000,000 Shares, being the Shares held by the Independent Shareholders. In the event that the Offer is accepted in full, the aggregate amount payable by the Offeror under the Offer will be HK$237.60 million.

**Confirmation of financial resources**

After Completion, the Offeror and the Vendor hold 75% of the entire issued capital of the Company in aggregate. As the Offeror and the Vendor are not considered as public Shareholders (each of them owns more than 10% of the entire issued share capital of the Company), in order to satisfy the public float requirement under the Listing Rules, the Offeror has entered into a placing and underwriting agreement with SHK, pursuant to which, SHK agreed to act as the exclusive placing agent and underwriter of the Offeror. SHK shall place and fully underwrite all the Offer Shares validly tendered for acceptance under the Offer. SHK will place out the Underwritten Shares at placing price of HK$1.44, which equals to the Offer Price, to parties who are not connected persons of the Company upon closing of the Offer. The Offeror does not intend that the payment of interest on, repayment of or security for any liability will depend to any significant extent on the business of the Group.

Yu Ming is satisfied that SHK has sufficient financial resources available to satisfy the full acceptance of the Offer Shares under the Offer.

**Effect of accepting the Offer**

By accepting the Offer, Independent Shareholders will sell their Shares fully paid and free from all liens, charges, Encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them including the right to receive in full all dividends and distributions declared, made or paid, if any, the record date of which is on or after the date on which the Offer is made. From the date of the Joint Announcement up to the Latest Practicable Date, there was no dividend or distribution declared, paid or made by the Company.

The Offer is unconditional in all respects and will open for acceptance from the date of this Composite Document until 4:00 p.m. on the Closing Date. Acceptance of the Offer tendered by the Independent Shareholders shall be irrevocable once given and cannot be withdrawn except in circumstances set out in Rule 19.2 of the Takeovers Code.

**Overseas Shareholders**

The Offeror intends to make the Offer available to all Shareholders, including the Overseas Shareholders. However, the Offer is in respect of securities of a company incorporated in the Cayman Islands and is subject to the procedural and disclosure requirements of Hong Kong which may be different from other jurisdictions. The Overseas Shareholders who wish to participate in the Offer but with a registered address outside Hong Kong are subject to, and may be limited by, the laws and regulations of their respective jurisdictions in connection with their participation in the Offer. Overseas Shareholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe relevant applicable legal or regulatory requirements and, where necessary, seek legal advice. It is the responsibility of Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions).

**Stamp duty**

In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptances of the Offer will be payable by relevant Independent Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, will be deducted from the cash amount payable by the Offeror to such Independent Shareholder on acceptance of the Offer (where the stamp duty calculated includes a fraction of HK$1, the stamp duty would be rounded-up to the nearest HK$1). The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of relevant Independent Shareholders accepting the Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

## INFORMATION ON THE GROUP

The Company was incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange since 2012. The Group is engaged principally in the manufacture and sales of cement, clinker and slag, trading of cement and provision of technical services with operations in Shandong province and Shanghai in the PRC.

## INFORMATION ON THE OFFEROR

The Offeror was incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, Waranty Shenzhen holds 100% interests in Waranty Hong Kong which in turn holds the entire issued share capital of the Offeror. The Offeror is an investment holding company established for the purpose of holding the Sale Shares, prior to the date of the Sale and Purchase Agreement, the Offeror has not conducted any business since its incorporation.

Waranty Shenzhen was incorporated under the laws of the PRC with limited liability in 2009 and is principally engaged in equity investments, asset management, M&A advisory, venture capital and securities investments. Waranty Shenzhen is beneficially owned and controlled as to 40% by Tsinghua Holdings and 60% by Shenzhen Aorongxin. It employs ten professionals and manages assets in hundreds of million in RMB.

Tsinghua Holdings is 100% owned by Tsinghua University and is directly supervised by the Assets Management Committee (經營性資產管理委員會) of Tsinghua University. It manages state-owned assets and state-owned share equity derived from its invested enterprises, and focuses on industrialisation of technical achievements, incubation of high-tech enterprises, investment management, asset/capital operation, etc..

Shenzhen Aorongxin is beneficially owned and controlled as to 83.4% by Mr. Huang Yu (黃俞) and 16.6% by Mr. Huang Xuezhong (黃雪忠). Mr. Huang Yu is the founder and chairman of Waranty Shenzhen. Prior to the establishment of Waranty Shenzhen, he was the manager in China Agriculture Development Trust and Investment Co., Ltd., the general manager of CADTIC Hebei Trading Company, the deputy vice president at Zhongya Trust Co., Ltd., the president of Shenzhen Beirongxin Investment Development Co., Ltd, and the supervisor of Penghua Fund Management Co., Ltd..

## INTENTIONS OF THE OFFEROR REGARDING THE GROUP

Following the close of the Offer, the Offeror intends to continue the existing businesses of the Group. As at the Latest Practicable Date, the Offeror does not intend to introduce any major changes to the existing operation and business of the Company and has no intention or plan (i) for any acquisition or disposal of assets and/or business by the Group; (ii) to redeploy the fixed assets of the Company; and (iii) to discontinue the employment of the Group's employees as a result of the Offer (except for the proposed nomination of new directors to the Board as detailed in the section headed "Proposed change of Board composition of the Company" below).

Up to the Latest Practicable Date, the Offeror does not contemplate any agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any acquisition of business and/or assets, or disposal, termination or scaling-down of the Group's existing business or assets.

Up to the Latest Practicable Date, the Offeror does not have any business plan on the existing business of the Group. Immediately after the close of the Offer, the Offeror will conduct a review of the financial position and operations of the Group in order to formulate a long-term strategy for the Group and explore other business/investment opportunities for enhancing its future development and strengthening its revenue bases. As at the Latest Practicable Date, the Offeror has not identified such investment or business opportunities.

**Proposed change to the Board composition of the Company**

The Offeror intends to nominate new Directors to the Board with effect from the later of (i) the earliest date permitted under the Takeovers Code; and (ii) the date of publication of the financial results of the Company for the year ended 31 December 2013. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement will be made as and when appropriate.

**Maintaining the listing status of the Company**

The Offeror has no intention to privatise the Group. The Offeror intends to maintain the listing of the Shares on the Stock Exchange upon the close of the Offer. The sole director of the Offeror undertakes to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the entire issued share capital of the Company will continue to be held by the public at all times.

The Stock Exchange has indicated that it would consider exercising its discretion to suspend dealing in the Shares if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public or if the Stock Exchange believes that:

(i) a false market exists or may exist in the Shares; or

(ii) there are insufficient Shares in public hands to maintain an orderly market.

**PROCEDURES FOR ACCEPTANCES OF THE OFFER**

To accept the Offer, Independent Shareholders should complete the accompanying Form of Acceptance and Transfer in accordance with the instructions printed thereon. The Form of Acceptance and Transfer forms part of the terms of the Offer.

The completed Form of Acceptance and Transfer should then be forwarded, together with the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of the Shares in respect of which you intend to tender under the Offer, by post or by hand, to the Registrar at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, marked "**Allied Cement Offer**" on the envelope as soon as possible after the receipt of this Composite Document but in any event not later than 4:00 p.m. on the Closing Date.

No acknowledgement of receipt of any Form of Acceptance and Transfer and the title documents will be given.

Your attention is drawn to the paragraph headed "General procedures for acceptance of the Offer" as set out in Appendix I to this Composite Document and the accompanying Form of Acceptance and Transfer.

**Settlement of the Offer**

Provided that the accompanying Form of Acceptance and Transfer, together with the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are valid, complete and in good order and have been received by the Registrar by no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code), a cheque for the amount due to each of the accepting Independent Shareholders in respect of the Shares tendered under the Offer (less seller's ad valorem stamp duty payable by them, as the case maybe) will be despatched to the accepting Independent Shareholders by ordinary post at their own risk within 7 Business Days from the date of receipt of all relevant documents which render such acceptance complete and valid by the Registrar and in accordance with the Takeovers Code.

Settlement to the consideration to which any accepting Independent Shareholder is entitled under the Offer will be paid by the Offeror in full in accordance with the terms of the Offer (save with respect of the payment of seller's ad valorem stamp duty) set out in this Composite Document and the accompanying Form of Acceptance and Transfer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Independent Shareholder.

**Tax implications**

None of the Company, the Offeror, their ultimate beneficial owners and parties acting in concert with any of them, Yu Ming, SHK, Quam Capital, the Registrar or any of their respective directors or any persons involved in the Offer is in a position to advise the Independent Shareholders on their individual tax implications. The Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Offer. It is emphasised that none of the Company, the Offeror, their ultimate beneficial owners and parties acting in concert with any of them, Yu Ming, SHK, Quam Capital, the Registrar or any of their respective directors or any persons involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Offer.

## COMPULSORY ACQUISITION

The Offeror does not intend to exercise any right which may be available to it under the provisions of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) to acquire compulsorily any outstanding Offer Shares not acquired under the Offer after the close of the Offer.

## GENERAL

To ensure equality of treatment of all Shareholders, those Shareholders who hold the Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owner of the Shares, whose investments are registered in nominee names, to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer.

All documents and remittances will be sent to the Shareholders by ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members, in case of joint holders whose name appear first in the said register of members, unless otherwise specified in the accompanying Form of Acceptance and Transfer completed, returned and received by the Registrar. None of the Company, the Offeror, their ultimate beneficial owners and parties acting in concert with any of them, Yu Ming, SHK, Quam Capital, the Registrar or any of their respective directors, officers, associates, agents or any other person involved in the Offer will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

**ADDITIONAL INFORMATION**

Your attention is also drawn to the additional information regarding the Offer set out in the appendices to this Composite Document and the accompanying Form of Acceptance and Transfer, which form part of this Composite Document. In particular, your attention is drawn to the "Letter from the Board", the "Letter from the Independent Board Committee" and the letter of advice by the independent financial adviser to the Independent Board Committee as set out in the "Letter from Quam Capital" in this Composite Document.

Yours faithfully,
For and on behalf of
**Yu Ming Investment Management Limited**
**Warren Lee**
*Managing Director*

# ALLIED CEMENT HOLDINGS LIMITED
# 聯合水泥控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1312)**

*Executive Directors*
Mr. Ng Qing Hai *(Managing Director)*
Mr. Li Chi Kong
Mr. Yu Zhong

*Independent Non-Executive Directors*
Mr. Chan Sze Chung
Mr. Cheng Kin Chung
Ms. Doris Yang Yan Tung

*Registered office*
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

*Head Office and Principal Place of Business*
9th Floor
Allied Kajima Building
138 Gloucester Road
Wanchai, Hong Kong

*To the Independent Shareholders*

11 February 2014

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY YU MING INVESTMENT MANAGEMENT LIMITED ON BEHALF OF CHINA HEALTH MANAGEMENT INVESTMENT LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF ALLIED CEMENT HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY CHINA HEALTH MANAGEMENT INVESTMENT LIMITED AND PARTIES ACTING IN CONCERT WITH IT, AND THOSE SHARES AGREED NOT TO BE THE SUBJECT OF THE OFFER)**

## INTRODUCTION

On 7 December 2013, the Company was informed by the Vendor, that the Vendor and the Purchaser had entered into the Sale and Purchase Agreement, pursuant to which the Purchaser had conditionally agreed to acquire and the Vendor had conditionally agreed to sell the Sale Shares, being 370,000,000 Shares for a total Consideration of HK$532.80 million, equivalent to HK$1.44 per Sale Share. The Sale Shares represent approximately 56.06% of the entire issued share capital of the Company. On 28 January 2014, the conditions under the Sale and Purchase Agreement were fulfilled and Completion took place on 4 February 2014.

Immediately following Completion, the Offeror Group and parties acting in concert with any of them hold 370,000,000 Shares, representing approximately 56.06% of the entire issued share capital of the Company, and accordingly, the Offeror is required to make a mandatory unconditional cash offer pursuant to Rule 26.1 of the Takeovers Code for all the issued Shares, other than the Retained Shares, which are not owned or agreed to be acquired by the Offeror Group and parties acting in concert with any of them.

Pursuant to Rule 2.1 and Rule 2.8 of the Takeovers Code, the Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Chan Sze Chung, Mr. Cheng Kin Chung and Ms. Doris Yang Yan Tung, has been formed to advise the Independent Shareholders as to whether the Offer is fair and reasonable and as to the acceptance. Quam Capital has been appointed as the independent financial adviser to advise the Independent Board Committee on the Offer. The appointment of Quam Capital has been approved by the Independent Board Committee.

The purpose of this Composite Document is to provide you with, among other things, (i) information relating to the Group, the Offeror and the Offer; (ii) the "Letter from the Independent Board Committee" containing its recommendation to the Independent Shareholders in respect of the Offer; and (iii) the "Letter from Quam Capital" containing its advice to the Independent Board Committee in respect of the Offer.

## THE OFFER

### Principal terms of the Offer

Yu Ming is making the Offer on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

**For each Offer Share ....................................HK$1.44 in cash**

The Offer Price of HK$1.44 per Offer Share equals to the purchase price per Sale Share paid by the Offeror under the Sale and Purchase Agreement.

Further details of the Offer, including terms and procedures for acceptance of the Offer are contained in the "Letter from Yu Ming" as set out on pages 7 to 14 and Appendix I to this Composite Document and the accompanying Form of Acceptance and Transfer.

## INFORMATION ON THE GROUP

The Company was incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange since 2012. The Group is engaged principally in the manufacture and sales of cement, clinker and slag, trading of cement and provision of technical services with operations in Shandong province and Shanghai in the PRC.

Set out below is a summary of the audited consolidated results of the Group for each of the two financial years ended 31 December 2011 and 2012, and its unaudited consolidated results for the six months ended 30 June 2013, as extracted from the annual report of the Company for the year ended 31 December 2012 and interim report of the Company for the six months ended 30 June 2013, respectively.

| | **For the six months ended 30 June** | **For the year ended 31 December** | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| *HK$'000* | *(Unaudited)* | *(Audited)* | *(Audited)* |
| Revenue | 306,669 | 704,698 | 725,298 |
| Profit before taxation | 18,363 | 46,516 | 117,810 |
| Profit attributable to owners of the Company | 10,043 | 26,834 | 76,158 |

The unaudited consolidated net assets of the Group attributable to Shareholders as at 30 June 2013 were approximately HK$748.11 million which was equivalent to approximately HK$1.13 per Share. The audited consolidated net assets of the Group attributable to Shareholders as at 31 December 2012 were approximately HK$741.63 million, which was equivalent to approximately HK$1.12 per Share and the audited consolidated net assets of the Group attributable to Shareholders as at 31 December 2011 were approximately HK$570.76 million.

**Shareholding structure of the Company**

The following table sets out the shareholding structure of the Company (i) immediately prior to Completion; and (ii) after Completion and as at the Latest Practicable Date:

| **Name of Shareholders** | *Notes* | **Immediately prior to Completion** *No. of Shares* | *%* | **After Completion and as at the Latest Practicable Date** *No. of Shares* | *%* |
|---|---|---|---|---|---|
| The Vendor | *1* | 495,000,000 | 75.00 | 125,000,000 | 18.94 |
| The Offeror Group and parties acting in concert with any of them | | – | – | 370,000,000 | 56.06 |
| *Public Shareholders* | | | | | |
| Citigroup Inc. | *2* | 57,198,000 | 8.67 | 57,198,000 | 8.67 |
| ASM Co-Investment Opportunity Trust I LP | *2,3* | 38,349,000 | 5.81 | 38,349,000 | 5.81 |
| COL Capital Limited | *2,4* | 33,132,752 | 5.02 | 32,997,752 | 4.99 |
| ASM Asia Recovery (Master) Fund | *2,3* | 18,849,000 | 2.86 | 18,849,000 | 2.86 |
| ASM Co-Investment Term Trust I | *2,3* | 7,800,000 | 1.18 | 7,800,000 | 1.18 |
| Other public Shareholders | | 9,671,248 | 1.46 | 9,806,248 | 1.49 |
| Sub-total | | 165,000,000 | 25.00 | 165,000,000 | 25.00 |
| **Total** | | 660,000,000 | 100.00 | 660,000,000 | 100.00 |

*Notes:*

(1) The Vendor is a wholly-owned subsidiary of Tian An. As at the Latest Practicable Date, Tian An is indirectly interested as to approximately 61.18% (including the interests of Sun Hung Kai & Co. Limited in 188,694,000 shares of Tian An) by Allied Properties (H.K.) Limited ("APL"), and APL is owned as to approximately 74.99% by Allied Group Limited, which in turn is owned as to approximately 69.22% by Lee and Lee Trust (inclusive of Mr. Lee Seng Hui's personal interests). Lee and Lee Trust is a discretionary trust which comprises three trustees, namely Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang.

(2) The interests owned by the Shareholders and information thereof are based on the notices filed under Part XV of the SFO and the public disclosure forms filed under the Takeovers Code.

(3) Argyle Street Management Limited ("Argyle Street Management") is the investment manager of ASM Co-Investment Opportunity Trust I LP ("ASM Co-Investment"), ASM Asia Recovery (Master) Fund and ASM Co-Investment Term Trust I, and, accordingly, Argyle Street Management is deemed to be interested in the Shares held by ASM Co-Investment, ASM Asia Recovery (Master) Fund and ASM Co-Investment Term Trust I. ASM General Partner I Limited ("ASM General Partner") is the general partner of ASM Co-Investment and is therefore deemed to be interested in the Shares held by ASM Co-Investment. As far as the Company is aware, as at the Latest Practicable Date, Argyle Street Management and ASM General Partner are wholly-owned by Argyle Street Management Holdings Limited, which in turn is owned as to approximately 50.94% by Mr. Chan Kin.

(4) As at the Latest Practicable Date, Sparkling Summer Limited and Focus Clear Limited, both being indirect wholly-owned subsidiaries of COL Capital Limited ("COL"), are interested in 32,997,752 Shares in aggregate. Accordingly, COL is deemed to be interested in the Shares held by Sparkling Summer Limited and Focus Clear Limited. Ms. Chong Sok Un is the ultimate beneficial owner of COL holding approximately 72.87% in COL.

## INFORMATION ON THE OFFEROR

Your attention is drawn to the paragraph headed "Information on the Offeror" in the "Letter from Yu Ming" as set out on pages 7 to 14 of this Composite Document.

## INTENTIONS OF THE OFFEROR REGARDING THE GROUP

Your attention is drawn to the paragraph headed "Intentions of the Offeror regarding the Group" in the "Letter from Yu Ming" as set out on pages 7 to 14 of this Composite Document.

The Board has noted the intention of the Offeror in respect of the Group and its employees and is willing to render reasonable cooperation with the Offeror, which is in the interests of the Company and the Shareholders as a whole.

### Maintaining the listing status of the Company

As set out in the "Letter from Yu Ming" on pages 7 to 14 of this Composite Document, the Offeror has no intention to privatise the Group and intends to maintain the listing of the Shares on the Stock Exchange upon the close of the Offer. The sole director of the Offeror undertakes to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the entire issued share capital of the Company will continue to be held by the public at all times.

The Stock Exchange has indicated that it would consider exercising its discretion to suspend dealing in the Shares if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public or if the Stock Exchange believes that:

(i) a false market exists or may exist in the Shares; or

(ii) there are insufficient Shares in public hands to maintain an orderly market.

## RECOMMENDATION

The Independent Board Committee has been established to make recommendation to the Independent Shareholders as to whether the Offer is fair and reasonable and as to acceptance of the Offer.

We recommend Independent Shareholders to read the "Letter from the Independent Board Committee" as set out on pages 21 to 22 of this Composite Document which contains its recommendation to the Independent Shareholders in respect of the Offer, and the "Letter from Quam Capital" as set out on pages 23 to 43 of this Composite Document containing its advice to the Independent Board Committee in respect of the Offer.

Yours faithfully,
For and on behalf of the Board
**Allied Cement Holdings Limited**
**Li Chi Kong**
*Executive Director*

**ALLIED CEMENT HOLDINGS LIMITED**
**聯合水泥控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1312)**

*To the Independent Shareholders*

11 February 2014

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY YU MING INVESTMENT MANAGEMENT LIMITED ON BEHALF OF CHINA HEALTH MANAGEMENT INVESTMENT LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF ALLIED CEMENT HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY CHINA HEALTH MANAGEMENT INVESTMENT LIMITED AND PARTIES ACTING IN CONCERT WITH IT, AND THOSE SHARES AGREED NOT TO BE THE SUBJECT OF THE OFFER)**

We refer to the Composite Document dated 11 February 2014 jointly issued by the Offeror and the Company of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

We have been appointed by the Board to form the Independent Board Committee to advise you as to (i) whether, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) acceptance of the Offer, after taking into account the advice from Quam Capital, the independent financial adviser to the Independent Board Committee.

Details of advice from Quam Capital and the principal factors it has taken into consideration in arriving at its recommendations are set out in the "Letter from Quam Capital" on pages 23 to 43 of this Composite Document. Details of the Offer are set out in the "Letter from Yu Ming" and Appendix I to the Composite Document and the accompanying Form of Acceptance and Transfer.

Having taken into account the advice and recommendations of Quam Capital and the principal factors taken into consideration by it in arriving at its opinion, we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to accept the Offer.

However, Independent Shareholders, in particular those who intend to accept the Offer, are reminded to note the recent fluctuation in the price of the Shares. There is no guarantee that the current market price of the Shares will or will not sustain and will or will not be higher than the Offer Price during and after the period for the acceptance of the Offer. The Independent Shareholders who intend to accept the Offer are reminded to closely monitor the market price and the liquidity of the Shares during the period for the acceptance of the Offer and shall, having regard to their own circumstances and investment objectives, consider selling their Shares in the open market, instead of accepting the Offer, if the net proceeds from the sale of such Shares, net of all transaction costs, would be higher than that receivable under the Offer.

Furthermore, Independent Shareholders are also reminded that their decisions to dispose of or hold their investment in the Shares are subject to their individual circumstances and investment objectives.

Notwithstanding our recommendation, the Independent Shareholders should consider carefully the terms of the Offer and the "Letter from Quam Capital" in the Composite Document.

Yours faithfully,
For and on behalf of the Independent Board Committee
**Allied Cement Holdings Limited**
**Chan Sze Chung** **Cheng Kin Chung** **Doris Yang Yan Tung**
*Independent Non-Executive Directors*

*The following is the full text of a letter of advice from Quam Capital, the independent financial adviser to the Independent Board Committee, which has been prepared for the purpose of incorporation into the Composite Document, setting out its advice to the Independent Board Committee in respect of the Offer.*

Quam Capital Limited
A Member of The Quam Group

11 February 2014

*To the Independent Board Committee*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY YU MING INVESTMENT MANAGEMENT LIMITED ON BEHALF OF CHINA HEALTH MANAGEMENT INVESTMENT LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF ALLIED CEMENT HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY CHINA HEALTH MANAGEMENT INVESTMENT LIMITED AND PARTIES ACTING IN CONCERT WITH IT, AND THOSE SHARES AGREED NOT TO BE THE SUBJECT OF THE OFFER)**

## INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee in respect of the Offer, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the Composite Document dated 11 February 2014, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as defined in the Composite Document.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Chan Sze Chung, Mr. Cheng Kin Chung and Ms. Doris Yang Yan Tung, has been formed to advise the Independent Shareholders in respect of the Offer, in particular as to whether the Offer is fair and reasonable and as to the acceptance of the Offer. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee in such regard. Our appointment has been approved by the Independent Board Committee.

Quam Capital is not associated or connected with the Company or the Offeror, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting in concert with any of them and accordingly, we are considered eligible to give independent advice to the Independent Board Committee in respect of the Offer. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the Offeror, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them.

**BASIS OF OUR OPINION**

In formulating our recommendation, we have relied on (i) the information and facts contained or referred to in the Composite Document; (ii) the information and facts supplied by the Company and its advisers; (iii) the opinions expressed by and the representations of the Directors and management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Composite Document were true, accurate and complete in all respects at the time they were made and as at the Latest Practicable Date and may be relied upon. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Composite Document and that all information or representations regarding the Group and the Offer provided to us by the Company and/or the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and as at the Latest Practicable Date. The Company will notify the Shareholders of any material changes during the Offer Period as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be informed when there are any material changes to the information contained or referred to herein and our opinion as soon as possible after the Latest Practicable Date and throughout the Offer Period. We have also relied on the responsibility statement made by the directors of the Offeror contained in the Composite Document. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors, the management of the Group and the advisers of the Company.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Composite Document so as to provide a reasonable basis for our recommendation. We have neither carried out any independent verification of the information, nor conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or the Offeror or any of their respective subsidiaries or associates.

We have not considered the tax implications on the Independent Shareholders regarding the Offer since these are particular to their individual circumstances. In particular, Independent Shareholders who are resident overseas or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

**PRINCIPAL TERMS OF THE OFFER**

On 16 December 2013, the Offeror and the Company jointly announced that, on 7 December 2013, the Vendor and the Purchaser had entered into the Sale and Purchase Agreement, pursuant to which the Purchaser had conditionally agreed to acquire and the Vendor had conditionally agreed to sell the Sale Shares, being 370,000,000 Shares, for a total Consideration of HK$532.80 million, equivalent to HK$1.44 per Sale Share. The Sale Shares represent approximately 56.06% of the entire issued share capital of the Company as at the date of the Joint Announcement and the Latest Practicable Date. The Offeror and the Company jointly announced on 4 February 2014 that the conditions under the Sale and Purchase Agreement were satisfied, and Completion took place on 4 February 2014.

Immediately following Completion, the Offeror Group and parties acting in concert with any of them hold 370,000,000 Shares, representing approximately 56.06% of the entire issued share capital of the Company. Accordingly, the Offeror is required to make a mandatory unconditional cash offer pursuant to Rule 26.1 of the Takeovers Code for all the issued Shares, other than the Retained Shares, which are not owned or agreed to be acquired by the Offeror Group and parties acting in concert with any of them. The Vendor will not accept the Offer in respect of its remaining 125,000,000 Retained Shares, representing approximately 18.94% of the issued share capital of the Company as at the Latest Practicable Date.

Yu Ming is making the Offer on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

**For each Offer Share . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . HK$1.44 in cash**

The Offer Price of HK$1.44 per Offer Share equals to the purchase price per Sale Share paid by the Offeror under the Sale and Purchase Agreement.

Based on the Offer Price of HK$1.44 per Offer Share, the entire issued share capital of the Company is valued at approximately HK$950.40 million. Following Completion, the Offeror Group and parties acting in concert with any of them are interested in 370,000,000 Shares and as the Vendor will not accept the Offer in respect of its remaining 125,000,000 Retained Shares, the total number of Offer Shares is 165,000,000 Shares, being the Shares held by the Independent Shareholders. In the event that the Offer is accepted in full, the aggregate amount payable by the Offeror under the Offer will be HK$237.60 million.

Details of the terms of the Offer are contained in the letter from Yu Ming and Appendix I to the Composite Document. Independent Shareholders are urged to read the relevant sections in the Composite Document in full.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation to the Independent Board Committee regarding the Offer, we have taken into consideration the principal factors and reasons set out below:

### 1. Information and historical financial performance of the Group

The Company was incorporated in the Cayman Islands with limited liability and the Shares are listed on the Main Board since 2012. The Group is principally engaged in the manufacture and sales of cement, clinker and slag, trading of cement and provision of technical services with operations in Shandong Province and Shanghai in the PRC.

Set out below are the consolidated statements of profit or loss and other comprehensive income of the Group for the three years ended 31 December 2010, 2011 and 2012 as extracted from the annual report of the Company for the year ended 31 December 2011 (the "**2011 Annual Report**") and the annual report of the Company for the year ended 31 December 2012 (the "**2012 Annual Report**") respectively, and the six months ended 30 June 2012 and 2013 as extracted from the interim report of the Company for the six months ended 30 June 2013 (the "**2013 Interim Report**"), which were prepared in accordance with Hong Kong Financial Reporting Standards:

| | **For the six months ended 30 June** | | **For the year ended 31 December** | | |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2012** | **2011** | **2010** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Unaudited)* | *(Unaudited)* | *(Audited)* | *(Audited)* | *(Audited)* |
| Revenue | 306,669 | 344,613 | 704,698 | 725,298 | 451,444 |
| Cost of sales | (282,427) | (312,724) | (645,867) | (613,453) | (399,596) |
| Gross profit | 24,242 | 31,889 | 58,831 | 111,845 | 51,848 |
| Other income | 4,350 | 9,517 | 31,083 | 16,342 | 12,914 |
| Net foreign exchange gain | 789 | 667 | 645 | 19,192 | 13,146 |
| Fair value gains on financial assets designated as at fair value through profit and loss | 8,093 | 8,321 | 13,067 | 12,429 | 5,538 |
| Interest income on other principal protected deposits | 4,827 | 4,351 | 10,404 | 3,943 | – |
| Gain on land resumption exercise | – | – | – | – | 528,396 |
| Reversal of overprovision on land resumption exercise | – | – | 3,128 | 5,766 | – |

| | For the six months ended 30 June | | For the year ended 31 December | | |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2012** | **2011** | **2010** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Unaudited)* | *(Unaudited)* | *(Audited)* | *(Audited)* | *(Audited)* |
| Distribution and selling expenses | (2,196) | (1,861) | (3,856) | (4,183) | (4,529) |
| Administrative expenses | (19,287) | (19,473) | (38,561) | (35,577) | (17,753) |
| Other expenses | – | – | – | (12,189) | – |
| Reversal of (allowance for) bad and doubtful debts | 21 | 2,133 | (23,964) | 5,131 | 292 |
| Goodwill written off | – | – | – | – | (69,479) |
| Finance costs | (2,476) | (2,794) | (4,261) | (4,889) | (4,882) |
| Profit before taxation | 18,363 | 32,750 | 46,516 | 117,810 | 515,491 |
| Taxation | (2,756) | (7,261) | (9,384) | (29,321) | (140,976) |
| Profit for the period/year | 15,607 | 25,489 | 37,132 | 88,489 | 374,515 |
| Profit for the period/year attributable to: | | | | | |
| Owners of the Company | 10,043 | 14,697 | 26,834 | 76,158 | 168,332 |
| Non-controlling interests | 5,564 | 10,792 | 10,298 | 12,331 | 206,183 |
| | 15,607 | 25,489 | 37,132 | 88,489 | 374,515 |

***Financial results for the year ended 31 December 2011 compared with that for year ended 31 December 2010***

The revenue of the Group for the year ended 31 December 2011 increased by approximately HK$273.9 million, representing an increase of approximately 60.7% as compared to that for the year ended 31 December 2010. As disclosed in the 2011 Annual Report, sales of cement and clinker amounted to 2,017,000 tons in 2011, representing an increase of approximately 22.2% over 2010, mainly driven by buoyant market demand in Eastern China and the increase in cement price during the first half of 2011. Notwithstanding, market growth slowed in the second half of 2011 due to tightened monetary policy in the PRC, which brought down cement price. Gross profit margin increased from approximately 11.5% in 2010 to approximately 15.4% in 2011.

For the year ended 31 December 2011, profit attributable to owners of the Company decreased by approximately HK$92.2 million, representing a decrease of approximately 54.8% as compared to that for the year ended 31 December 2010. As disclosed in the 2011 Annual Report, such decrease was mainly due to the non-recurring net gain on land resumption exercise of Shanghai Allied Cement Co., Ltd. ("**Shanghai SAC**"), an indirect wholly-owned subsidiary of the Company, in 2010. The profit attributable to the owners of the Company from this land resumption exercise amounted to HK$128.6 million, representing the gain on land resumption exercise less taxation and non-controlling interests and the goodwill attributable to the relocated Shanghai factory written off.

Compared to the adjusted profit attributable to owners of the Company for the year ended 31 December 2010 (excluding the net gain on land resumption exercise) of approximately HK$39.7 million, the profit attributable to owners of the Company for the year ended 31 December 2011 would represent an increase of more than 90% over 2010. Such increase was mainly attributable to (i) favorable product price; (ii) the waste heat recovery system and cement grinding system of a subsidiary of the Company in Shandong commencing normal operations; and (iii) Shanghai SAC successfully carried out its new business model.

Since December 2009, due to the land resumption exercise, Shanghai SAC has ceased its manufacturing operation to prepare for the dismantling of the plant and equipment during the first half of 2010. The expenses incurred during that period, being mainly administrative in nature, were included in the calculation of the gain on land resumption exercise. Therefore, the administrative expenses in 2010 were significantly less than 2011. In 2011, more administrative expenses were incurred to cope with the expansion of the trading business of Shanghai SAC.

***Financial results for the year ended 31 December 2012 compared with that for the year ended 31 December 2011***

The revenue of the Group for the year ended 31 December 2012 decreased by approximately HK$20.6 million, representing a decrease of approximately 2.8% as compared to that for the year ended 31 December 2011. As disclosed in the 2012 Annual

Report, the overall market selling prices of cement products having significantly declined in 2012 as compared with 2011. As a result, despite the increase in sales volume during 2012, revenue decreased due to a decline in the average selling price. Sales of cement and clinker amounted to 2,405,000 tons for the year ended 31 December 2012, representing an increase of approximately 19.2% over 2011. Contrarily, the gross profit margin decreased from approximately 15.4% in 2011 to approximately 8.3% in 2012.

The overall market demand of cement slowed down as the PRC government temporarily suspended promoting the infrastructure projects as one of the austerity measures and the stringent regulatory control on real estate to cool down the rise in housing prices. In the first half of 2012, the growth of cement production in the PRC was less than 6%. The cement industry appeared to struggle in demand and excessive capacity, leading to a significant decline in the margin of the industry.

For the year ended 31 December 2012, profit attributable to owners of the Company decreased by approximately HK$49.3 million, representing a decrease of approximately 64.8% as compared to that for the year ended 31 December 2011. Such decrease was mainly attributable to the increase in the provision for doubtful debts as a result of the uncertainty in the recoverability of certain receivables relating to the Group's Shanghai operations. Moreover, administrative expenses increased by approximately 8.4% when comparing to 2011, mainly due to the expenses incurred in complying with the relevant rules and regulations after the listing of the Shares on the Stock Exchange in January 2012.

***Financial results for the six months ended 30 June 2013 compared with that for the six months ended 30 June 2012***

The revenue of the Group for the six months ended 30 June 2013 decreased by approximately HK$37.9 million, representing a decrease of approximately 11.0% as compared to that for the six months ended 30 June 2012. The profit attributable to owners of the Company for the six months ended 30 June 2013 reduced by approximately HK$4.7 million, representing a decrease of approximately 31.7% as compared to that for the six months ended 30 June 2012. As disclosed in the 2013 Interim Report, such decrease was mainly attributable to the decrease in the cement price in Northern Jiangsu and Southern Shandong in comparison to the first half of 2012 which affected the prices for cement products of the Group sold in those areas. Cement sales of the Group amounted to 1,080,000 tons for the six months ended 30 June 2013, representing a decrease of approximately 2.1% compared to the same period in the previous year. Gross profit margin decreased from approximately 9.3% for the six months ended 30 June 2012 to approximately 7.9% for the six months ended 30 June 2013.

Despite the approximately 11.0% decrease in the revenue of the Group, the administrative expenses of the Group decreased only slightly compared to the same period of 2012.

Set out below is the summary of the consolidated statements of financial position of the Group as at 31 December 2010, 2011 and 2012 as extracted from the 2011 Annual Report, the 2012 Annual Report and the 2013 Interim Report respectively, which were prepared in accordance with Hong Kong Financial Reporting Standards:

| | As at 30 June | As at 31 December | | |
|---|---|---|---|---|
| | **2013** | **2012** | **2011** | **2010** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Unaudited)* | *(Audited)* | *(Audited)* | *(Audited)* |
| Total assets | 1,580,641 | 1,611,846 | 1,587,749 | 1,426,535 |
| Total liabilities | 406,573 | 450,782 | 593,730 | 779,684 |
| Net assets attributable to owners of the Company | 748,111 | 741,633 | 570,757 | 250,043 |

As at 31 December 2011, the net assets of the Group attributable to the owners of the Company increased by approximately HK$320.7 million, representing an increase of approximately 128.3% as compared to that as at 31 December 2010. Such increase was mainly attributable to the capitalisation of shareholder's loan in relation to the corporate reorganisation of the Company prior to its listing on the Stock Exchange.

The net assets of the Group attributable to the owners of the Company reached approximately HK$748.1 million as at 30 June 2013 which was mainly attributable to the proceed received by the Company for its listing on the Stock Exchange and the contribution of net profit from the respective period/year. As at 30 June 2013, the principal asset of the Group comprised mainly property, plant and equipment of approximately HK$417.8 million, trade and bills receivables of approximately HK$282.1 million and financial assets and other principal protected deposits of approximately HK$575.8 million. Based on a total of 660,000,000 Shares in issue as at the Latest Practicable Date, the unaudited consolidated net asset value of the Group attributable to owners of the Company would be approximately HK$1.13 per Share.

As at 30 June 2013, the Group's material capital commitments comprised the Group's contribution to the registered capital of a joint venture company to be set up to operate and manage the development of new cement production facilities at Bailonggang, Shanghai of RMB400 million, subject to the relevant government approvals. As advised by the management of the Group, the National Development and Reform Commission had issued the "Reply on Starting Preliminary Work for the Demonstrative Base of Comprehensive Utilisation of Resources in Shanghai, issued by the General Office of National Development and Reform Commission" (Fa Gai Ban Chan Ye (2013) No.1875) to the Shanghai Municipal Development and Reform Commission on 24 July 2013. The prerequisites for the establishment of the joint venture company have been satisfied. It is also disclosed in the Company's announcement dated 30 January 2014, that the aforesaid Bailonggong project was approved in principle by 上海市發展和改革委員會 (Shanghai Municipal Development and Reform Commission*) pursuant to an approval letter dated 26 January 2014. The management of the Group expects that approximately RMB180 million will be injected into the joint venture company before the end of 2014.

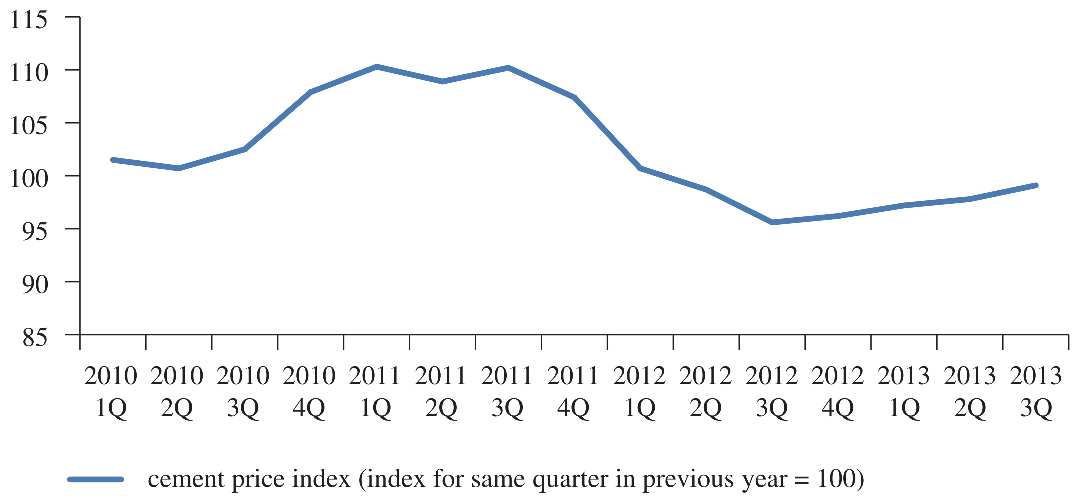
**2. Business prospect of the Group**

As disclosed in the letter from Yu Ming of the Composite Document, the Offeror intends to continue the existing businesses of the Group of manufacturing and sales of cement, clinker and slag, trading of cement and provision of technical services.

According to the National Bureau of Statistics of China, in the first half of 2013, the gross domestic product of PRC amounted to RMB24,800.9 billion, representing an increase of 7.6% over the same period in 2012, and the fixed asset investment nationwide of the PRC reached RMB18,131.8 billion, representing a nominal increase of 20.1% as compared to the same period in 2012. The total production of cement in China was 1,096.07 million tons for the first half of 2013, representing an increase of 9.7% over the same period in 2012. Cement consumption in Shanghai was up 13.11% in the first half of 2013 compared to the same period in 2012.

As illustrated in the following chart, the cement price index in the PRC was on a decreasing trend since the third quarter of 2011. The overall market demand of cement slowed down as the PRC government temporarily suspended promoting the infrastructure projects as one of the austerity measures and the stringent regulatory control on real estate to cool down the rise in housing prices. The cement price index gradually picks up since the third quarter of 2012 as the PRC government revised its strategy to give priority to stabilising growth and granted approvals to large projects as well as resuming the construction of high-speed rails, which facilitated the recovery of the economy. Consequently, the overall performance of the cement industry improved as the demand of cement rebounded in the second half of 2012 with prices recovering gradually. Nonetheless, it should be noted that the cement price index remained below 100 since the second quarter of 2012, which indicated that since the second quarter of 2012, the cement price in the PRC was lower than the same quarter in the previous year.

**Cement price index for in the PRC from first quarter of 2010 to third quarter of 2013**




*Source: National Bureau of Statistics of China*

It is also noted that the PRC government had issued polices and measures in relation to cement industry in 2013. Pursuant to an announcement issued by the Ministry of Industry and Information Technology of the PRC on 25 July 2013, the government has set mandatory targets to phase out outdated capacity in the cement industry. According to the announcement, it is expected that 76.35 million tons of clinker production capacity would be phased out in 2013. Further, in July 2013, the China Cement Association has drafted a plan to promote mergers and acquisitions in the cement industry which aims to help the cement industry to eliminate its out-dated production capacity and increase the concentration ratio of the industry. As advised by the management of the Group, since the Group's current producing facilities are not included in the aforesaid mandatory targets, the Group may benefit from the aforesaid policy which aims to address the problem of oversupply in the cement industry.

We further noted that news were published in relation to the State Council executive meeting (國務院常務會議) on 25 September 2013 in which the State Council agreed to further strengthen the effort on the construction of affordable housing so as to ensure the completion of the pre-determined target. We believe that the aforesaid news may have positive impact on the demand in cement.

Notwithstanding the aforesaid positive news on the cement industry, the Ministry of Environmental Protection of the PRC had issued the emission standard of air pollutants for the cement industry on 27 December 2013, which strengthened the environmental protection requirement for the cement industry. As advised by the management of the Group, in view of the aforesaid standard, the Group may be required to incur additional cost to satisfy the new requirement.

As discussed in the section headed "Information and historical financial performance of the Group" in this letter, the Group's financial performance is highly dependent on the performance of the overall cement industry in the PRC. During the past few years, there have been significant fluctuations in the demand, production capacity and market price of cement in the PRC, which in turn led to significant fluctuations in the Group's revenue and net profit during the three years ended 31 December 2012 and the six months ended 30 June 2013. Although the PRC cement industry showed signs of recovery since the second half of 2012, in view of the historical fluctuations in the cement price, the polices and measures adopted by the PRC governments to control the total production of the cement industry, as well as the changes of the PRC government's policies on controlling fixed asset investment in the PRC, we consider that the prospect of the cement market is subject to high uncertainty. In particular, it should be noted that despite the overall performance of the cement industry improved as the demand of cement rebounded in the second half of 2012 with prices recovering gradually, it has yet to be reflected in the Group's performance for the six months ended 30 June 2013.

Further, the business prospect of the Group depends on, among other things, the successful construction and commencement of operation of the Bailonggang new production facilities, which is still in its early stage of development. In regard to the cement trading business, Shanghai SAC intends to expand its business proactively and soundly, creating new business modes for the Group. Based on the discussion above, we note that the business prospect of the Group and any improvement in the results of the Group could be affected by factors including (i) the performance of the overall cement industry in the PRC; (ii) the successful construction and commencement of operation of the Bailonggang new production facilities; and (iii) whether Shanghai SAC could successfully explore new business modes for the Group which helps maintain the market position of the Company. In addition, as disclosed in the letter from Yu Ming of the Composite Document, immediately after the close of the Offer, the Offeror will conduct a review of the financial position and operations of the Group in order to formulate a long-term strategy for the Group and explore other business/investment opportunities for enhancing its future development and strengthening its revenue bases. However, as at the Latest Practicable Date, the Offeror has not identified such investment or business opportunities. Given the above circumstances, in particular, the improvement of the overall performance of the cement industry in the second half of 2012 has yet to be reflected in the Group's performance, as well as the recent news and policies as discussed above and their expected mixed effects on the Group, the business prospect and improvement in the results of the Group in the near future is considered uncertain.

**3. Information on the Offeror and its intentions regarding the future of the Group**

***(i) Background of the Offeror***

As disclosed in the Composite Document, the Offeror was incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, Waranty Shenzhen holds 100% interests in Waranty Hong Kong which in turn holds the entire issued share capital of the Offeror. The Offeror is an investment holding company established for the purpose of holding the Sale Shares. Prior to the date of the Sale and Purchase Agreement, the Offeror has not conducted any business since its incorporation.

Waranty Shenzhen was incorporated under the laws of the PRC with limited liability in 2009 and is principally engaged in equity investments, asset management, M&A advisory, venture capital and securities investments. Waranty Shenzhen is beneficially owned and controlled as to 40% by Tsinghua Holdings and 60% by Shenzhen Aorongxin. It employs ten professionals and manages assets in hundreds of million in RMB.

Tsinghua Holdings is 100% owned by Tsinghua University and is directly supervised by the Assets Management Committee (經營性資產管理委員會) of Tsinghua University. It manages state-owned assets and state-owned share equity derived from its invested enterprises, and focuses on industrialisation of technical achievements, incubation of high-tech enterprises, investment management, asset/capital operation, etc..

Shenzhen Aorongxin is beneficially owned and controlled as to 83.4% by Mr. Huang Yu (黃俞) and 16.6% by Mr. Huang Xuezhong (黃雪忠). Mr. Huang Yu is the founder and chairman of Waranty Shenzhen. Prior to the establishment of Waranty Shenzhen, he was the manager in China Agriculture Development Trust and Investment Co., Ltd., the general manager of CADTIC Hebei Trading Company, the deputy vice president at Zhongya Trust Co., Ltd., the president of Shenzhen Beirongxin Investment Development Co., Ltd, and the supervisor of Penghua Fund Management Co., Ltd..

***(ii) Intentions of the Offeror regarding the Group***

As disclosed in the letter from Yu Ming of the Composite Document, the Offeror intends to continue the existing businesses of the Group. As at the Latest Practicable Date, the Offeror does not intend to introduce any major changes to the existing operation and business of the Company and has no intention or plan (i) for any acquisition or disposal of assets and/or business by the Group; (ii) to redeploy the fixed assets of the Company; and (iii) to discontinue the employment of the Group's employees as a result of the Offer (except for the proposed nomination of new directors to the Board as detailed below).

Up to the Latest Practicable Date, the Offeror does not contemplate any agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any acquisition of business and/or assets, or disposal, termination or scaling-down of the Group's existing business or assets.

As further stated in the letter from Yu Ming of the Composite Document, up to the Latest Practicable Date, the Offeror does not have any business plan on the existing business of the Group. Immediately after the close of the Offer, the Offeror will conduct a review of the financial position and operations of the Group in order to formulate a long-term strategy for the Group and explore other business/investment opportunities for enhancing its future development and strengthening its revenue bases. As at the Latest Practicable Date, the Offeror has not identified such investment or business opportunities.

***(iii) Intentions of the Offeror regarding the composition of the Board***

As disclosed in the letter from Yu Ming of the Composite Document, the Offeror intends to nominate new Directors to the Board with effect from the later of (i) the earliest date permitted under the Takeovers Code; and (ii) the date of publication of the financial results of the Company for the year ended 31 December 2013. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement will be made as and when appropriate.

***(iv) Public float and maintaining the listing status of the Company***

As disclosed in the letter from Yu Ming of the Composite Document, the Offeror has no intention to privatise the Group and intends to maintain the listing of the Shares on the Stock Exchange upon the close of the Offer. The sole director of the Offeror undertakes to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the entire issued share capital of the Company will continue to be held by the public at all times.

Upon Completion, the Offeror and the Vendor hold 75% of the entire issued capital of the Company in aggregate. As the Offeror and the Vendor are not considered as public Shareholders (each of them owns more than 10% of the issued share capital of the Company), in order to satisfy the aforesaid public float requirement under the Listing Rules, the Offeror has entered into a placing and underwriting agreement with SHK, pursuant to which, SHK agreed to act as the exclusive placing agent and underwriter of the Offeror. SHK shall place and fully underwrite all the Offer Shares validly tendered for acceptance under the Offer. SHK will place out the Underwritten Shares at placing price of HK$1.44, which equals to the Offer Price, to parties who are not connected persons (as defined under the Listing Rules) of the Company upon closing of the Offer. The Offeror does not intend that the payment of interest on, repayment of or security for any liability will depend to any significant extent on the business of the Group.

Please note that the Stock Exchange has indicated that it would consider exercising its discretion to suspend dealing in the Shares if, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public or if the Stock Exchange believes that:

(i) a false market exists or may exist in the Shares; or

(ii) there are insufficient Shares in public hands to maintain an orderly market.

**4. Offer Price**

The Offer is being made by Yu Ming, on behalf of the Offeror, at an Offer Price of HK$1.44 per Offer Share in cash, which is the same as the purchase price per Sale Share paid by the Offeror to the Vendor under the Sale and Purchase Agreement.

The Offer Price of HK$1.44 per Offer Share represents:

(a) a discount of approximately 36.00% to the closing price of HK$2.25 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a discount of approximately 33.02% to the average closing price of approximately HK$2.15 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to and including the Last Trading Day;

(c) a discount of approximately 35.14% to the average closing price of approximately HK$2.22 per Share as quoted on the Stock Exchange for the last ten trading days immediately prior to and including the Last Trading Day;

(d) a discount of approximately 33.64% to the average closing price of approximately HK$2.17 per Share as quoted on the Stock Exchange for the last thirty trading days immediately prior to and including the Last Trading Day;

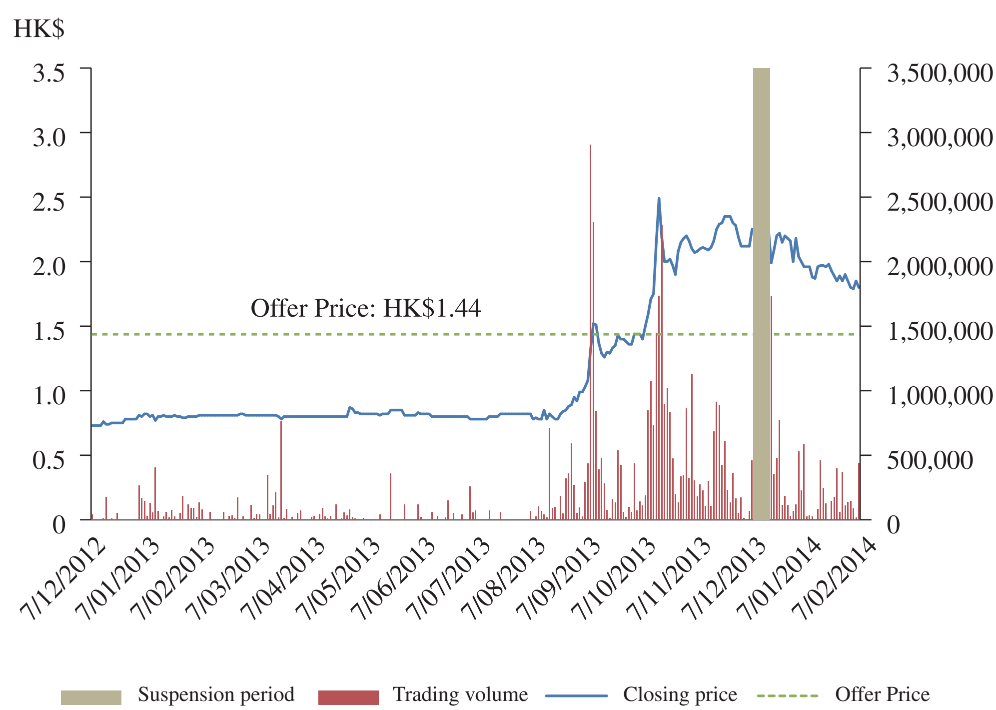
(e) a discount of approximately 20.00% to the closing price of HK$1.80 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(f) a premium of approximately 27.43% over the unaudited net assets value attributable to Shareholders of approximately HK$1.13 per Share as at 30 June 2013 (being the date to which the latest unaudited interim financial results of the Group were made up) and a premium of approximately 28.57% over the audited net asset value attributable to Shareholders of approximately HK$1.12 per Share as at 31 December 2012 (being the date to which the latest audited consolidated financial results of the Group were made up).

***(i) Historical price performance of the Shares***

As the Company is a listed company, prices of the Shares should reflect the prevailing market assessment of its fair value. Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange from 7 December 2012, being the twelve-month period leading up to 6 December 2013, being the Last Trading Day (both days inclusive) (the "**Pre-Announcement Period**") and from 17 December 2013, being the first day of trading after the publication of the Joint Announcement, to the Latest Practicable Date (both days inclusive) (the "**Post-Announcement Period**", collectively referred to as the "**Review Period**"):

**Share price and trading volume of the Shares during the Review Period**




*Source: Website of the Stock Exchange*

*The Pre-Announcement Period*

With reference to the above chart, the closing price of the Shares ranged from HK$0.73 per Share to HK$2.49 per Share with an average of HK$1.07 per Share during the Pre-Announcement Period. The Offer Price is above or equal to the closing prices of the Shares on 200 trading days out of a total of 242 trading days (i.e. approximately 82.6% of the total number of trading days) in the Pre-Announcement Period, and represented a significant premium of approximately 97.3% over the lowest closing price of the Shares of HK$0.73 per Share recorded on 7, 10, 11 and 12 December 2012 respectively, and a premium of approximately 34.6% over the average closing price of the Shares of HK$1.07 per Share during the Pre-Announcement Period.

As shown in the above chart, the closing price of the Shares was relatively stable throughout the Pre-Announcement Period until August 2013, when the Share Price started to surge. The closing price of the Shares was far below the Offer Price throughout the Pre-Announcement Period until September 2013. The closing price of the Shares first exceeded the Offer Price on 12 September 2013. After that, the closing price of the Shares dropped below the Offer Price and exceeded the Offer Price again on 11 October 2013. We noted that save for the publication of the Company's interim result announcement and interim report for the six months ended 30 June 2013 on 21 August 2013 and 9 September 2013 respectively, the Company has not published any price sensitive information since August 2013 until the date of the Joint Announcement. As discussed in the section headed "Business prospect of the Group" above, we noted certain government policies announced in July and September 2013 respectively to help eliminate out-dated production capacity and increase the concentration ratio of the cement industry and further strengthen the effort on the construction of affordable housing. We believe that the aforesaid news may help reduce competition in the cement industry as well as drive the demand in cement, and consider that the fluctuation in the price of the Shares in the relevant period might have reflected the market speculation on the future prospect of the Group based on the market news. Despite the aforementioned positive news on the PRC cement industry, there are uncertainties on the prospect of the cement industry in the PRC and whether the Group could improve its business prospect and profitability in the near future as discussed in the section headed "Business prospect of the Group" in this letter, and hence the sustainability of the recent Share price level could be uncertain.

*The Post-Announcement Period*

During the Post-Announcement Period, the closing price of the Shares ranged from HK$1.79 per Share to HK$2.22 per Share. As at the Latest Practicable Date, the closing price of the Shares was HK$1.80 per Share. We noted that besides the Joint Announcement and the other subsequent related announcements, the Company had not published other price sensitive information during the Post-Announcement Period. The Directors also advised that they are not aware of any particular reason for such price movement.

*(ii) Trading volume of the Shares*

The following table sets out the trading volume of the Shares during the Review Period:

| Month/period | Total trading volume for the month/period (Number of Shares) | Average daily trading volume for the month/period (Note 1) (Number of Shares) | Percentage of average daily trading volume to total number of Shares in issue as at the Latest Practicable Date | Percentage of average daily trading volume to total number of Shares held by public Shareholders as at the Latest Practicable Date (Note 2) |
|---|---|---|---|---|
| **2012** | | | | |
| December (from 7 December 2012) | 297,000 | 19,800 | 0.0030% | 0.0120% |
| **2013** | | | | |
| January | 2,009,023 | 91,319 | 0.0138% | 0.0553% |
| February | 636,000 | 37,412 | 0.0057% | 0.0227% |
| March | 1,950,000 | 97,500 | 0.0148% | 0.0591% |
| April | 597,240 | 29,862 | 0.0045% | 0.0181% |
| May | 657,000 | 31,286 | 0.0047% | 0.0190% |
| June | 741,000 | 39,000 | 0.0059% | 0.0236% |
| July | 438,000 | 19,909 | 0.0030% | 0.0121% |
| August | 2,421,000 | 115,286 | 0.0175% | 0.0699% |
| September | 9,782,000 | 489,100 | 0.0741% | 0.2964% |
| October | 13,150,000 | 626,190 | 0.0949% | 0.3795% |
| November | 8,623,500 | 410,643 | 0.0622% | 0.2489% |
| December | 4,488,000 | 320,571 | 0.0486% | 0.1943% |
| **2014** | | | | |
| January | 3,930,000 | 187,143 | 0.0284% | 0.1134% |
| February (up to the Latest Practicable Date) | 690,000 | 172,500 | 0.0261% | 0.1045% |

*Source: Website of the Stock Exchange*

*Notes:*

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which excludes any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.

2. Based on 165,000,000 Shares held by public Shareholders as at the Latest Practicable Date.

As illustrated in the table above, the average daily trading volume for the respective month/period during the Review Period ranged from approximately 19,800 Shares to approximately 626,190 Shares, representing approximately 0.0030% to 0.0949% of the total number of Shares in issue as at the Latest Practicable Date, and approximately 0.0120% to 0.3795% of the total number of Shares held by public Shareholders as at the Latest Practicable Date. The average daily trading volume for the month/period surged since August 2013, which is in line with the surge of the closing price of the Shares.

Given the thin historical daily trading volume of the Shares, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of Shares in the open market within a short timeframe without exerting a downward pressure on the market price of the Shares. Therefore, the Offer represents an opportunity and a viable alternative exit for the Independent Shareholders, particularly for those who hold a large volume of Shares, to dispose of their entire holdings at the Offer Price to realise their investment in the Company if they so wish.

***(iii) Comparison with comparable companies***

The Group is principally engaged in the manufacture and sales of cement, clinker and slag, trading of cement and provision of technical services with operations in Shandong Province and Shanghai in the PRC. In assessing the fairness and reasonableness of the Offer, we have attempted to compare the pricing ratios represented by the Offer Price against the market valuation of other listed companies in Hong Kong which are engaged in business similar to that of the Group. Price-to-earnings ratio (the "**P/E ratio(s)**") and price-to-book ratio ("**P/B ratio(s)**") have been used in the analysis. In general, in assessing whether a business segment is principal to a company, we consider it is a justifiable basis to make reference to the revenue generated from a business segment which contributes more than half of the total revenue of a company. We have, based on the information available from the website of the Stock Exchange, identified the following 5 comparables (the "**Comparables**"), being companies listed on the Stock Exchange, which (i) are principally engaged in the manufacture and sales of cement, clinker and slag and trading of cement; (ii) have revenue derived from the manufacture and sale of cement, clinker and related products represents not less than 50% of the total revenue for their respective latest financial year; and (iii) have market capitalisation ranged from HK$0.5 billion to HK$10 billion as at the Latest Practicable Date. We consider that the Comparables are fair and representative samples for comparison as the principal business of the Comparables is similar to the businesses of the Group. In forming our opinion, we have also considered the results of the comparison together with the other factors stated in this letter as a whole. The list of the Comparables is exhaustive and their respective P/E ratios and P/B ratios are set out below:

| **Company name (stock code)** | **Principal activities** | **P/E ratio** | **P/B ratio** | **Market capitalisation as at the Latest Practicable Date** |
|---|---|---|---|---|
| | | *(Note 1)* *(times)* | *(Note 2)* *(times)* | *(Note 3)* *(HK$ million)* |
| China Shanshui Cement Group Ltd. (691) | Produce clinker and cement in the PRC | 3.82 | 0.64 | 7,434.1 |
| Dongwu Cement International Ltd. (695) | Produce cement and clinker | 477.62 | 1.60 | 634.9 |
| Asia Cement (China) Holdings Corporation (743) | Manufacture and sell cement, concrete and related products | 16.85 | 0.77 | 8,528.3 |
| China Tianrui Group Cement Co. Ltd. (1252) | Excavation of limestone, production, sale and distribution of clinker and cement | 5.46 | 0.65 | 5,474.1 |
| West China Cement Ltd. (2233) | Produce and sell a variety of cement products in Shaanxi Province, the PRC | 8.37 | 0.63 | 3,910.6 |
| | **Average** *(Note 4)* | **8.63** | **0.86** | |
| | **Maximum** | **477.62** | **1.60** | |
| | **Minimum** | **3.82** | **0.63** | |
| **The Company** | **Manufacture and sales of cement, clinker and slag, trading of cement and provision of technical services with operations in Shandong Province and Shanghai in the PRC** | **35.12** *(Note 5)* | **1.27** *(Note 6)* | **950.4** *(Note 7)* |

*Source: Website of the Stock Exchange*

*Notes:*

1. P/E ratio of the Comparables are calculated based on their respective closing share price as at the Latest Practicable Date and the net profit attributable to the shareholders of the Comparables as extracted from their respective latest annual report divided by the total number of issued shares as extracted from their respective latest monthly return.

2. P/B ratio of the Comparables are calculated based on their respective closing share price as at the Latest Practicable Date and the net assets value attributable to the shareholders of the Comparables as extracted from their respective latest published balance sheet divided by the total number of issued shares as extracted from their respective latest monthly return.

3. Market capitalisation of the Comparables are calculated based on their respective closing share price as at the Latest Practicable Date and the total number of issued shares as extracted from their respective latest monthly return.

4. The average P/E ratio of the Comparables has excluded the exceptionally high P/E ratio of Dongwu Cement International Ltd. ("**Dongwu**").

5. Calculated based on the Offer Price and the net profit attributable to the Shareholder as extracted from the latest annual report divided by the total number of issued Shares as at the Latest Practicable Date.

6. Calculated based on the Offer Price and the net assets attributable to the Shareholder as extracted the latest published balance sheets divided by the total number of issued Shares as at the Latest Practicable Date.

7. Calculated based on the Offer Price and the total number of issued Shares as at the Latest Practicable Date.

As shown in the above table, the P/E ratios of the Comparables ranged from approximately 3.82 to 477.62 times, with an average of approximately 8.63 times (excluding the exceptionally high P/E ratio of Dongwu). The P/B ratios of the Comparables ranged from approximately 0.63 to 1.60 times, with an average of approximately 0.86 times. The P/E ratio of the Company as implied by the Offer Price of approximately 35.12 times was higher than the respective P/E ratio of the Comparables (excluding Dongwu) and the P/B ratio of the Company of approximately 1.27 times as implied by the Offer Price was within the range of the respective P/B ratio of the Comparables, which suggest that, insofar as the P/E ratio and P/B ratio are concerned, the Offer Price appears attractive as compared to the share prices of the Comparables relative to their respective earnings and net assets value, which is considered favourable so far as the Independent Shareholders are concerned.

## 5. Discussion

We consider the terms of the Offer, including the Offer Price, are fair and reasonable so far as the Independent Shareholders are concerned after taking into account the above principal factors and reasons, in particular:

- the Group recorded a decline in net profit for the last two consecutive years;

- in view of the historical fluctuations in the cement price, the polices and measures adopted by the PRC government to control the total production of the cement industry, as well as the changes in the PRC government's policies on controlling fixed asset investment in the PRC, the prospect of the cement market is subject to high uncertainty;

- uncertainty on the business prospect of the Group and any improvement in the results of the Group are dependent on (i) the performance of the overall cement industry in the PRC; (ii) the successful construction and commencement of operation of the Bailonggang new production facilities; and (iii) whether Shanghai SAC could successfully explore new business modes for the Group which helps maintain the market position of the Company;

- given the decline in the Group's net profit for the last two consecutive years and the uncertainties of the business prospect of the Group as discussed in the section headed "Business prospect of the Group" above, it is uncertain whether the recent surge in the prices of the Shares will continue in the near future. As such, the Independent Shareholders are suggested to review the closing prices of the Shares over a longer period to better assess the value of the Shares. Although the Offer Price represents a discount to the recent trading prices of the Shares, when comparing to a relatively longer period (i.e. the Pre-Announcement Period), it is above or equal to the closing prices of the Shares on approximately 82.6% of the total number of trading days during the Pre-Announcement Period. Further, the Offer Price represents a premium of approximately 27.43% over the unaudited net assets value attributable to Shareholders as at 30 June 2013 and a premium of approximately 28.57% over the audited net asset value attributable to Shareholders as at 31 December 2012;

- in view of the thin historical daily trading volume of the Shares, the Offer represents an opportunity and a viable alternative exit for the Independent Shareholders, particularly for those who hold a large volume of Shares, to dispose of their entire holdings at the Offer Price to realise their investment in the Company within a short timeframe without exerting a downward pressure on the market price of the Shares; and

- the P/E ratio and P/B ratio of the Company as implied by the Offer Price appear attractive as compared to the respective P/E ratio and P/B ratio of the Comparables.

**RECOMMENDATION**

Having considered the principal factors and reasons discussed above, we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Offer.

The Independent Shareholders, in particular those who intend to accept the Offer, are reminded to note the recent fluctuation in the price of the Shares. There is no guarantee that the current market price of the Shares will or will not sustain and will or will not be higher than the Offer Price during and after the period for the acceptance of the Offer. The Independent Shareholders who intend to accept the Offer are reminded to closely monitor the market price and the liquidity of the Shares during the period for the acceptance of the Offer and shall, having regard to their own circumstances and investment objectives, consider selling their Shares in the open market, instead of accepting the Offer, if the net proceeds from the sale of such Shares, net of all transaction costs, would be higher than that receivable under the Offer.

The Independent Shareholders are also reminded that their decisions to dispose of or hold their investment in the Shares are subject to their individual circumstances and investment objectives. The Independent Shareholders should read carefully the procedures for accepting the Offer as detailed in the Composite Document, the appendices to the Composite Document and the Form of Acceptance and Transfer, if they wish to accept the Offer.

Yours faithfully,
For and on behalf of
**Quam Capital Limited**
**Gary Mui**
*Managing Director*

## 1. GENERAL PROCEDURES FOR ACCEPTANCE OF THE OFFER

To accept the Offer, you should complete and sign the accompanying Form of Acceptance and Transfer in accordance with the instructions printed thereon, which instructions form part of the terms of the Offer.

(a) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are in your name, and you wish to accept the Offer, you must send the duly completed Form of Acceptance and Transfer together with the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) by post or by hand to the Registrar at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, marked "**Allied Cement Offer**" on the envelope.

(b) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your Shares, you must either:

(i) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the duly completed Form of Acceptance and Transfer together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

(ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the duly completed Form of Acceptance and Transfer together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

(iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set by HKSCC Nominees Limited (which is normally 1 Business Day before the latest date on which acceptances of the Offer must be received by the Registrar). In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

(iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited (which is normally 1 Business Day before the latest date on which acceptances of the Offer must be received by the Registrar).

(c) If the Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your Shares, the Form of Acceptance and Transfer should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

(d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete the Form of Acceptance and Transfer and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to Yu Ming and/or the Offeror or their respective agent(s) to collect from the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such Share certificate(s) to the Registrar, and to authorise and instruct the Registrar to hold such Share certificate(s), subject to the terms and conditions of the Offer, as if it was/they were delivered to the Registrar with the Form of Acceptance and Transfer.

(e) Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance and Transfer is received by the Registrar by no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and announce with the consent of the Executive in accordance to the Takeovers Code) and the Registrar has recorded that the acceptance and the relevant documents as required under this paragraph have been so received, and is:

(i) accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if the Share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares; or

(ii) from a registered Shareholder or his/her/its personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or

(iii) certified by the Registrar or the Stock Exchange.

(f) If the Form of Acceptance and Transfer is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

(g) Seller's ad valorem stamp duty for transfer of Shares registered on the Registrar arising in connection with acceptance of the Offer will be payable by relevant Independent Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, will be deducted from the cash amount payable by the Offeror to such Independent Shareholder on acceptance of the Offer (where the stamp duty calculated includes a fraction of HK$1, the stamp duty would be rounded-up to the nearest HK$1). The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of relevant Independent Shareholders accepting the Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

(h) No acknowledgement of receipt of any Form of Acceptance and Transfer, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

## 2. ACCEPTANCE PERIOD AND REVISIONS

(a) Unless the Offer has previously been revised or extended with the consent of the Executive in accordance with the Takeovers Code, the Form of Acceptance and Transfer must be received by 4:00 p.m. on the Closing Date in accordance with the instructions printed on the relevant Form of Acceptance and Transfer, and the Offer will be closed on the Closing Date.

(b) The Offeror and the Company will jointly issue an announcement through the website of the Stock Exchange no later than 7:00 p.m. on the Closing Date stating whether the Offer has been revised or extended or has expired.

(c) In the event that the Offeror decides to extend the Offer, at least 14 days' notice by way of announcement will be given before the Offer is closed, to those Independent Shareholders who have not accepted the Offer.

(d) If the Offeror revises the terms of the Offer, all Independent Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms. The revised Offer must be kept open for at least 14 days following the date on which the revised offer document is posted.

(e) If the closing date of the Offer is extended, any reference in this Composite Document and in the Form of Acceptance and Transfer to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offer so extended.

## 3. ANNOUNCEMENT

(a) As required under Rule 19 of the Takeovers Code, by 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offer. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the Offer has been revised or extended or has expired.

Such announcement must state the following:

(i) the total number of Shares and rights over Shares for which acceptances of the Offer have been received;

(ii) the total number of Shares and rights over Shares held, controlled or directed by the Offeror or its concert parties before the Offer Period;

(iii) the total number of Shares and rights over Shares acquired or agreed to be acquired by the Offeror or its concert parties during the Offer Period;

(iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or any parties acting in concert with it has borrowed or lent, save for any borrowed securities which have been either on-lent or sold; and

(v) the percentages of the relevant classes of share capital of the Company and the percentages of voting rights of the Company represented by these numbers.

(b) In computing the total number of Shares represented by acceptances, only valid acceptances in complete and good order and which have been received by the Registrar no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offer, shall be included.

## 4. RIGHT OF WITHDRAWAL

(a) Acceptance of the Offer tendered by the Independent Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in subparagraph (b) below.

(b) If the Offeror is unable to comply with the requirements set out in "3. Announcement" of this Appendix above, the Executive may require pursuant to Rule 19.2 of the Takeovers Code that the Independent Shareholders who have tendered acceptances to the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirement of Rule 19 of the Takeovers Code can be met.

In such case, when the Independent Shareholders withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event within 7 Business Days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form of Acceptance and Transfer to the relevant Independent Shareholder(s).

## 5. SETTLEMENT OF THE OFFER

Provided that the accompanying Form of Acceptance and Transfer, together with the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are valid, complete and in good order and have been received by the Registrar by no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code), a cheque for the amount due to each of the accepting Independent Shareholders in respect of the Shares tendered under the Offer (less seller's ad valorem stamp duty payable by them, as the case maybe) will be despatched to the accepting Independent Shareholders by ordinary post at their own risk within 7 Business Days from the date of receipt of all relevant documents which render such acceptance complete and valid by the Registrar and in accordance with the Takeovers Code.

Settlement of the consideration to which any accepting Independent Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer (save with respect of the payment of seller's ad valorem stamp duty) set out in this Composite Document and the accompanying Form of Acceptance and Transfer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Independent Shareholder.

## 6. OVERSEAS SHAREHOLDERS

The Offeror intends to make the Offer available to all Shareholders, including the Overseas Shareholders. However, the Offer is in respect of securities of a company incorporated in the Cayman Islands and is subject to the procedural and disclosure requirements of Hong Kong which may be different from other jurisdictions. The Overseas Shareholders who wish to participate in the Offer but with a registered address outside Hong Kong are subject to, and may be limited by, the laws and regulations of their respective jurisdictions in connection with their participation in the Offer. Overseas Shareholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe relevant applicable legal or regulatory requirements and, where necessary, seek legal advice. It is the responsibility of Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions).

## 7. TAX IMPLICATIONS

The Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Offer. It is emphasised that none of the Company, the Offeror, their ultimate beneficial owners and parties acting in concert with any of them, Yu Ming, SHK, Quam Capital, the Registrar or any of their respective directors or any persons involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Offer.

## 8. GENERAL

(a) All communications, notices, Form of Acceptance and Transfer, Share certificates, transfer receipts and other documents of title or of indemnity or of any other nature and remittances to settle the consideration payable under the Offer to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Company, the Offeror, their ultimate beneficial owners and parties acting in concert with any of them, Yu Ming, SHK, Quam Capital, the Registrar or any of their respective directors or any other person involved in the Offer accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.

(b) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares tendered under the Offer are sold by such person or persons free from all liens, charges, claims, equities, Encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the rights to receive dividends if any, declared, made or paid by the Company, the record date of which is on or after the date on which the Offer is made.

(c) Any acceptance of the Offer by any Shareholder(s) will be deemed to constitute a representation and warranty from such Shareholder(s) to the Offeror that (i) all local laws and requirements in connection with such acceptance have been complied with; and (ii) the Offer can be accepted by such Shareholder(s) under the laws and regulations of the relevant jurisdiction and such acceptance shall be valid and binding in accordance with all applicable laws and regulations. Any such Shareholder(s) will be responsible for any such issue, transfer and other applicable taxes or other governmental payments payable by such Shareholder(s). Shareholder(s) should consult their professional advisers if in doubt.

(d) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares in respect of which it is indicated in the Form of Acceptance and Transfer the aggregate number of Shares held by such nominee for such beneficial owners who accept the Offer.

(e) The provisions set out in the accompanying Form of Acceptance and Transfer form part of the terms of the Offer.

(f) The accidental omission to despatch this Composite Document and/or the accompanying Form of Acceptance and Transfer or either of them to any person to whom the Offer is made shall not invalidate the Offer in any way.

(g) The Offer is, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.

(h) Due execution of the Form of Acceptance and Transfer will constitute an authority to the Offeror, Yu Ming or such person(s) as the Offeror may direct to complete and execute on behalf of the person accepting the Offer, and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, or such other person as it may direct.

(i) References to the Offer in this Composite Document and the Form of Acceptance and Transfer shall include any revision and/or extension thereof.

(j) The Offer is made in accordance with the Takeovers Code.

(k) The English text of this Composite Document and of the accompanying Form of Acceptance and Transfer shall prevail over the Chinese text.

## 1. THREE-YEAR SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited financial results of the Group for each of three years ended 31 December 2012 as extracted from the annual reports of the Company for the year ended 31 December 2011 and 2012 and the unaudited financial results of the Group for the six months ended 30 June 2013 as extracted from the interim report of the Company for the six months ended 30 June 2013.

| | For the six months ended 30 June 2013 | | For the year ended 31 December 2011 | |
|---|---|---|---|---|
| | | 2012 | | 2010 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Unaudited)* | *(Audited)* | *(Audited)* | *(Audited)* |
| Revenue | 306,669 | 704,698 | 725,298 | 451,444 |
| Profit before taxation | 18,363 | 46,516 | 117,810 | 515,491 |
| Taxation | (2,756) | (9,384) | (29,321) | (140,976) |
| Profit for the period/year | 15,607 | 37,132 | 88,489 | 374,515 |
| Profit for the period/year attributable to: | | | | |
| Owners of the Company | 10,043 | 26,834 | 76,158 | 168,332 |
| Non-controlling interests | 5,564 | 10,298 | 12,331 | 206,183 |
| | 15,607 | 37,132 | 88,489 | 374,515 |
| Dividend | – | 13,200 | 13,200 | – |
| Dividend per share | – | HK2.00 cents | HK2.00 cents | – |
| Earnings per share: | | | | |
| Basic | HK1.52 cents | HK4.11 cents | HK21.31 cents | HK47.73 cents |

For the year ended 31 December 2010, there was a one-off exceptional gain on land resumption exercise amounting to approximately HK$528.40 million in relation to a compensation of land resumed to the Shanghai Municipal Government. Save as disclosed above, the Group did not have any other extraordinary items or items which were exceptional because of its size, nature or incidence for each of the six months ended 30 June 2013 and the three years ended 31 December 2012.

The auditor's reports issued by Deloitte Touche Tohmatsu in respect for each of the three financial years ended 31 December 2010, 2011 and 2012 did not contain any qualifications.

## 2. FINANCIAL INFORMATION OF THE COMPANY

### (i) For the six months period ended 30 June 2013

Set out below is the full text of the unaudited consolidated financial statements of the Company for the six months ended 30 June 2013 extracted from the interim report of the Company for the six months ended 30 June 2013.

**Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income**
*(for the six months ended 30 June 2013)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2013** | **2012** |
| | | **Unaudited** | **Unaudited** |
| | *Notes* | *HK$'000* | *HK$'000* |
| Revenue | *3* | 306,669 | 344,613 |
| Cost of sales | | (282,427) | (312,724) |
| Gross profit | | 24,242 | 31,889 |
| Other income | *4* | 4,350 | 9,517 |
| Net foreign exchange gain | | 789 | 667 |
| Fair value gains on financial assets designated as at fair value through profit or loss | | 8,093 | 8,321 |
| Interest income on other principal protected deposits | | 4,827 | 4,351 |
| Distribution and selling expenses | | (2,196) | (1,861) |
| Administrative expenses | | (19,287) | (19,473) |
| Reversal of bad and doubtful debts | | 21 | 2,133 |
| Finance costs | *5* | (2,476) | (2,794) |
| Profit before taxation | | 18,363 | 32,750 |
| Taxation | *6* | (2,756) | (7,261) |
| Profit for the period | *7* | 15,607 | 25,489 |
| Other comprehensive income: | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Exchange difference arising on translation to presentation currency | | 14,797 | (845) |
| Total comprehensive income for the period | | 30,404 | 24,644 |

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2013** | **2012** |
| | | **Unaudited** | **Unaudited** |
| | *Notes* | *HK$'000* | *HK$'000* |
| Profit for the period attributable to: | | | |
| Owners of the Company | | 10,043 | 14,697 |
| Non-controlling interests | | 5,564 | 10,792 |
| | | 15,607 | 25,489 |
| Total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | 19,678 | 14,300 |
| Non-controlling interests | | 10,726 | 10,344 |
| | | 30,404 | 24,644 |
| | | *HK cents* | *HK cents* |
| Earnings per share | *8* | | |
| Basic | | 1.52 | 2.28 |

**Condensed Consolidated Statement of Financial Position**

*(at 30 June 2013)*

| | Notes | At 30 June 2013 Unaudited HK$'000 | At 31 December 2012 Audited HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 417,797 | 414,696 |
| Deposits for equipment and machineries | | 85,338 | 84,284 |
| Prepaid lease payments on land use rights | | 7,482 | 7,486 |
| Mining right | | 7,692 | 7,692 |
| Loan receivable | 11 | 32,036 | 33,068 |
| | | 550,345 | 547,226 |
| **Current assets** | | | |
| Properties held for sale | | 2,417 | 2,387 |
| Inventories | | 44,918 | 68,530 |
| Trade and bills receivables | 12 | 282,087 | 247,299 |
| Other receivables, deposits and prepayments | | 39,855 | 49,353 |
| Financial assets designated as at fair value through profit or loss | 13 | 196,428 | 308,956 |
| Other principal protected deposits | 14 | 379,381 | 216,613 |
| Prepaid lease payments on land use rights | | 195 | 193 |
| Pledged short-term bank deposits | | 5,800 | 79,398 |
| Time deposits | | – | 61,729 |
| Bank balances and cash | | 79,215 | 30,162 |
| | | 1,030,296 | 1,064,620 |
| **Current liabilities** | | | |
| Trade and bills payables | 15 | 86,005 | 138,470 |
| Other payables and deposits received | | 48,242 | 31,379 |
| Amount due to other related party | 22 | 4,200 | 1,870 |
| Tax liabilities | | 141,187 | 147,198 |
| Bank borrowings due within one year | 16 | 31,068 | 59,878 |
| | | 310,702 | 378,795 |
| **Net current assets** | | 719,594 | 685,825 |
| **Total assets less current liabilities** | | 1,269,939 | 1,233,051 |

| | *Notes* | **At 30 June 2013 Unaudited** *HK$'000* | **At 31 December 2012 Audited** *HK$'000* |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | *17* | 6,600 | 6,600 |
| Share premium and reserves | | 741,511 | 735,033 |
| Equity attributable to owners of the Company | | 748,111 | 741,633 |
| Non-controlling interests | | 425,957 | 419,431 |
| **Total equity** | | 1,174,068 | 1,161,064 |
| **Non-current liabilities** | | | |
| Bank borrowings due after one year | *16* | 67,069 | 42,118 |
| Deferred taxation | | 28,802 | 29,869 |
| | | 95,871 | 71,987 |
| | | 1,269,939 | 1,233,051 |

## Condensed Consolidated Statement of Changes in Equity

*(for the six months ended 30 June 2013)*

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Share premium *HK$'000* | Translation reserve *HK$'000* | Special reserve *HK$'000* | Capital reserve *HK$'000* | Other reserves *HK$'000* | Retained profits *HK$'000* | Total *HK$'000* | Non-controlling interests *HK$'000* | Total equity *HK$'000* |
| At 1 January 2012 (audited) | 4,950 | 575,063 | 28,126 | (392,735) | 824 | 15,125 | 339,404 | 570,757 | 423,262 | 994,019 |
| Profit for the period | – | – | – | – | – | – | 14,697 | 14,697 | 10,792 | 25,489 |
| Exchange difference arising on translation to presentation currency | – | – | (397) | – | – | – | – | (397) | (448) | (845) |
| Total comprehensive income for the period | – | – | (397) | – | – | – | 14,697 | 14,300 | 10,344 | 24,644 |
| Issue of shares pursuant to public offering and placing | 1,650 | 163,350 | – | – | – | – | – | 165,000 | – | 165,000 |
| Expenses incurred in connection with issue of new shares pursuant to public offering and placing | – | (7,361) | – | – | – | – | – | (7,361) | – | (7,361) |
| Dividend recognised as distribution | – | – | – | – | – | – | (13,200) | (13,200) | – | (13,200) |
| Dividend distribution to non-controlling interests | – | – | – | – | – | – | – | – | (13,681) | (13,681) |
| At 30 June 2012 (unaudited) | 6,600 | 731,052 | 27,729 | (392,735) | 824 | 15,125 | 340,901 | 729,496 | 419,925 | 1,149,421 |
| Profit and total comprehensive income for the period | – | – | – | – | – | – | 12,137 | 12,137 | (494) | 11,643 |
| At 31 December 2012 (audited) | 6,600 | 731,052 | 27,729 | (392,735) | 824 | 15,125 | 353,038 | 741,633 | 419,431 | 1,161,064 |
| Profit for the period | – | – | – | – | – | – | 10,043 | 10,043 | 5,564 | 15,607 |
| Exchange difference arising on translation to presentation currency | – | – | 9,635 | – | – | – | – | 9,635 | 5,162 | 14,797 |
| Total comprehensive income for the period | – | – | 9,635 | – | – | – | 10,043 | 19,678 | 10,726 | 30,404 |
| Dividend recognised as distribution | – | – | – | – | – | – | (13,200) | (13,200) | – | (13,200) |
| Dividend distribution to non-controlling interests | – | – | – | – | – | – | – | – | (4,200) | (4,200) |
| At 30 June 2013 (unaudited) | 6,600 | 731,052 | 37,364 | (392,735) | 824 | 15,125 | 349,881 | 748,111 | 425,957 | 1,174,068 |

**Condensed Consolidated Statement of Cash Flows**

*(for the six months ended 30 June 2013)*

| | Six months ended 30 June 2013 Unaudited *HK$'000* | 2012 Unaudited *HK$'000* |
|---|---|---|
| Net cash (used in) from operating activities | (40,146) | 86,424 |
| Net cash from (used in) investing activities | | |
| Proceeds from disposal of property, plant and equipment | 93 | – |
| Purchase of property, plant and equipment | (10,807) | (45,748) |
| Advance of loans receivable | – | (216,049) |
| Purchase of financial assets designated as at fair value through profit or loss | (125,000) | (262,963) |
| Placement of other principal protected deposits | (375,000) | (98,765) |
| Proceeds from redemption of financial assets designated as at fair value through profit or loss | 249,481 | 386,142 |
| Withdrawal of other principal protected deposits | 212,500 | 123,456 |
| Placement of pledged short-term bank deposits | – | (30,864) |
| Withdrawal of pledged short-term bank deposits | 74,518 | – |
| Placement of time deposits | (226,250) | – |
| Withdrawal of time deposits | 288,750 | 68,179 |
| Interest received from loan receivable | 3,188 | – |
| Interest received from other principal protected deposits | 7,267 | 4,973 |
| Other interest received | 12,492 | 3,745 |
| | 111,232 | (67,894) |
| Net cash used in financing activities | | |
| Proceeds of issue of shares | – | 165,000 |
| Payment of expenses attributable to issue of new shares | – | (6,048) |
| Interest paid | (2,475) | (2,795) |
| New loans raised | 378 | 27,778 |
| Repayments of loans | (4,595) | (38,521) |
| Dividends paid to equity shareholders | (13,200) | (13,200) |
| Dividends paid to non-controlling interests | (1,150) | (21,153) |
| Repayment to a fellow subsidiary | – | (134,322) |
| Repayment to ultimate holding company | – | (1,807) |
| Repayment to a substantial shareholder | – | (1) |
| Repayment to non-controlling interests | (720) | – |
| | (21,762) | (25,069) |
| Net increase (decrease) in cash and cash equivalents | 49,324 | (6,539) |
| Cash and cash equivalents at the beginning of the period | 30,162 | 100,596 |
| Effect of foreign exchange rate changes | (271) | – |
| Cash and cash equivalents at the end of the period, represented by bank balances and cash | 79,215 | 94,057 |

## Notes to the Condensed Consolidated Financial Statements

*(for the six months ended 30 June 2013)*

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

| | |
|---|---|
| HKFRS 10 | Consolidated Financial Statements |
| HKFRS 11 | Joint Arrangements |
| HKFRS 12 | Disclosure of Interests in Other Entities |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |
| HKFRS 13 | Fair Value Measurement |
| HKAS 19 (Revised in 2011) | Employee Benefits |
| HKAS 27 (Revised in 2011) | Separate Financial Statements |
| HKAS 28 (Revised in 2011) | Investments in Associates and Joint Ventures |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009 – 2011 Cycle |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine |

**HKFRS 10 "Consolidated Financial Statements"**

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and HK(SIC) – Int 12 "Consolidation – Special Purpose Entities". HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee; (b) it is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013. The directors of the Company ("Directors") concluded that the application of HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (Revised in 2011) and HKAS 28 (Revised in 2011) do not have material impact on the amounts reported in the condensed consolidated financial statements but may result in more extensive disclosures in the consolidated financial statements in annual report for the year ending 31 December 2013.

**HKFRS 13 "Fair Value Measurement"**

The Group has applied HKFRS 13 for the first time in the current period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information in accordance with the consequential amendments of HKAS 34 are set out in note 21. The application of HKFRS 13 has no material financial impact on the fair value measurements of the Group's assets and/or liabilities.

**Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"**

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Except as described above, the application of the other new or revised HKFRSs in the current period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

## 3. SEGMENT INFORMATION

| | **Six months ended 30 June** | |
|---|---|---|
| | **2013** | **2012** |
| | **Unaudited** | **Unaudited** |
| | *HK$'000* | *HK$'000* |
| Manufacture and sales and trading of: | | |
| Cement | 306,669 | 339,117 |
| Clinker | – | 5,496 |
| | 306,669 | 344,613 |

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

For management purpose, the Group operates in one business unit based on its products and service, and has one operating segment: manufacture and sales of cement, clinker and slag, trading of cement and provision of technical services, if any. The chief operating decision maker monitors the revenue, results, assets and liabilities of its business unit as a whole based on the monthly sales reports, monthly delivery reports and monthly management accounts, and considers the segment assets and segment liabilities of the Group have included all assets and liabilities as stated in the condensed consolidated statement of financial position respectively, and considers the segment revenue and segment results of the Group have represented all revenue and profit for the period as stated in the condensed consolidated statement of profit or loss and other comprehensive income respectively.

## 4. OTHER INCOME

| | Six months ended 30 June 2013 Unaudited *HK$'000* | 2012 Unaudited *HK$'000* |
|---|---|---|
| Interest income from banks | 2,101 | 3,602 |
| Interest income from loans receivable | 1,744 | 3,838 |
| Overprovision of listing expenses | – | 1,257 |
| Sundry income | 505 | 820 |
| | 4,350 | 9,517 |

## 5. FINANCE COSTS

The amounts represent the interests on bank loans wholly repayable within five years.

## 6. TAXATION

| | Six months ended 30 June 2013 Unaudited *HK$'000* | 2012 Unaudited *HK$'000* |
|---|---|---|
| The (charge) credit comprises: | | |
| Current tax | | |
| – The People's Republic of China ("PRC") Enterprise Income Tax | (6,995) | (9,743) |
| Overprovision in prior years | | |
| – PRC Enterprise Income Tax | 2,799 | 2,227 |
| Deferred tax | 1,440 | 255 |
| | (2,756) | (7,261) |

## 7. PROFIT FOR THE PERIOD

| | Six months ended 30 June 2013 Unaudited *HK$'000* | 2012 Unaudited *HK$'000* |
|---|---|---|
| Profit for the period has been arrived at after charging (crediting): | | |
| Amortisation of mining right (included in administrative expenses) | 94 | 93 |
| Depreciation of property, plant and equipment | 10,684 | 9,915 |
| Total amortisation and depreciation | 10,778 | 10,008 |
| Cost of inventories recognised as expenses | 282,427 | 312,724 |
| Release of prepaid lease payments on land use rights | 98 | 97 |
| Net (gain) loss on disposal and write-off of property, plant and equipment | (20) | 27 |
| Operating lease rentals in respect of premises | 449 | 137 |

**8. EARNINGS PER SHARE**

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | **2012** |
| | **Unaudited** | **Unaudited** |
| | *HK$'000* | *HK$'000* |
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company) | 10,043 | 14,697 |

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | **2012** |
| | **Unaudited** | **Unaudited** |
| | *Shares* | *Shares* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 660,000,000 | 644,587,912 |

No diluted earnings per share has been presented for both periods as there was no outstanding potential ordinary share during both periods and at the end of the reporting periods.

**9. DIVIDEND**

The Board does not recommend the payment of an interim dividend (2012: Nil).

The Company declared and paid dividends of HK$13,200,000 (2012: HK$13,200,000), representing HK2 cents per share being the final dividend of 2012 (2012: HK2 cents per share being the special dividend of 2011), during the current period.

**10. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2013, the Group acquired property, plant and equipment at a consideration of HK$8,661,000 (year ended 31 December 2012: HK$57,374,000).

**11. LOAN RECEIVABLE**

| | **At 30 June 2013** | **At 31 December 2012** |
|---|---|---|
| | **Unaudited** | **Audited** |
| | *HK$'000* | *HK$'000* |
| **Loan receivable** | | |
| Trust loan | 32,036 | 33,068 |

The trust loan represented units that were denominated in Renminbi ("RMB") with an aggregate principal amount of RMB25,000,000 (equivalent to HK$31,250,000) in a trust scheme. The trust scheme is secured by pledged assets. The trust loan is classified as loans and receivables and is repayable in November 2014 at par by the trust and carries effective interest of 11.16% per annum.

## 12. TRADE AND BILLS RECEIVABLES

The Group has a policy of allowing its trade customers credit periods normally ranging from 120 days to 1 year. The aged analysis of trade and bills receivables, net of allowance for bad and doubtful debts, is presented based on the invoice date at the end of the reporting period as follows:

| | **At 30 June 2013 Unaudited** *HK$'000* | **At 31 December 2012 Audited** *HK$'000* |
|---|---|---|
| 0 to 90 days | 195,547 | 161,594 |
| 91 to 180 days | 34,832 | 58,306 |
| 181 to 365 days | 51,158 | 25,318 |
| Over 1 year | 550 | 2,081 |
| | 282,087 | 247,299 |

As at 30 June 2013, none of the Group's bills receivables were transferred to banks by discounting the bills receivables on a full recourse basis (31 December 2012: HK$3,951,000).

## 13. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **At 30 June 2013 Unaudited** *HK$'000* | **At 31 December 2012 Audited** *HK$'000* |
|---|---|---|
| **Financial assets designated as at fair value through profit or loss** | | |
| Exchange rate linked structured deposits | 196,428 | 308,956 |

During the six months ended 30 June 2013, the Group entered into new principal protected exchange rate linked structured deposits that were denominated in RMB with the aggregate principal amount of RMB100,000,000 (equivalent to HK$125,000,000) with a bank with maturity periods ranging from one month to twelve months.

Structured deposits with aggregate principal amount of RMB188,000,000 (equivalent to HK$235,000,000) had matured and been redeemed at RMB199,585,000 (equivalent to HK$249,481,000) during the six months ended 30 June 2013 and resulted in fair value gains on financial assets designated as at fair value through profit or loss of RMB4,190,000 (equivalent to HK$5,238,000) for the six months ended 30 June 2013. The balance of financial assets designated as at fair value through profit or loss as at 30 June 2013 represented structured deposits with maturity dates ranging from July 2013 to February 2014.

Interest rates of these structured deposits vary depending on the movement of exchange rate between the United States Dollars and Euro or the United States Dollars and the Australian Dollars. Such structured deposits are designated as financial assets at fair value through profit or loss on initial recognition.

The fair values of structured deposits classified as financial assets designated as at fair value through profit or loss as at 30 June 2013 have been arrived at the basis on the valuation carried out at that date by Norton Appraisals Limited, a firm of independent and qualified professional valuers not connected with the Group, and resulted in fair value gains on financial assets designated as at fair value through profit or loss of RMB2,284,000 (equivalent to HK$2,855,000) for the six months ended 30 June 2013.

**14. OTHER PRINCIPAL PROTECTED DEPOSITS**

| | At 30 June 2013 Unaudited *HK$'000* | At 31 December 2012 Audited *HK$'000* |
|---|---|---|
| **Other principal protected deposits** | | |
| Interest rate linked structured deposits | 279,297 | 216,613 |
| Other deposit | 100,084 | – |
| | 379,381 | 216,613 |

**(a) Interest rate linked structured deposits**

During the six months ended 30 June 2013, the Group entered into principal protected interest rate linked structured deposits that were denominated in RMB with the aggregate principal amount of RMB220,000,000 (equivalent to HK$275,000,000) with a bank with maturity periods ranging from one month to twelve months and carried interest ranged from 4.10% to 4.80% per annum.

During the six months ended 30 June 2013, structured deposits with aggregate principal amount of RMB170,000,000 (equivalent to HK$212,500,000) had matured and been redeemed. The balance as at 30 June 2013 represented structured deposits with maturity dates ranging from July 2013 to June 2014.

Interest rates of these structured deposits vary depending on the movement of the Shanghai Interbank Offered Rate ("SHIBOR"). Such structured deposits are classified as loans and receivables and stated at amortised cost.

The Group has options for early redemption of these outstanding structured deposits as at 30 June 2013 at par plus the interest at interest rate ranged from 2.50% to 5.30% per annum when SHIBOR increases or decreases by at least 500 basis points comparing with SHIBOR at initial recognition date. The early redemption options are not closely related to the host contracts. However, the fair values of such options at initial recognition and the end of the reporting period are negligible.

**(b) Other deposit**

During the six months ended 30 June 2013, the Group entered into other deposit that is principal protected and denominated in RMB with the principal amount of RMB80,000,000 (equivalent to HK$100,000,000) with a bank. The deposit is repayable in June 2014 and carries an interest rate of approximately 5.10% per annum. Such deposit is classified as loans and receivables and stated at amortised cost.

**15. TRADE AND BILLS PAYABLES**

An aged analysis of the Group's trade and bills payables, presented based on the invoice date, at the end of the reporting period is as follows:

| | At 30 June 2013 Unaudited *HK$'000* | At 31 December 2012 Audited *HK$'000* |
|---|---|---|
| 0 to 90 days | 66,693 | 62,076 |
| 91 to 180 days | 11,378 | 68,941 |
| 181 to 365 days | 3,922 | 3,330 |
| Over 1 year | 4,012 | 4,123 |
| | 86,005 | 138,470 |

## 16. BANK BORROWINGS

During the six months ended 30 June 2013, the Group obtained new bank loans of HK$378,000 (30 June 2012: HK$27,778,000) and repaid bank loans of HK$4,595,000 (30 June 2012: HK$38,521,000). Proceeds from new borrowings were used to finance the general operating activities of the Group. The bank loans of the Group are repayable within 2 years and bear interest at floating market rates which on average range from 3.06% to 6.15% per annum.

## 17. SHARE CAPITAL

| | **Number of shares** | **Value** |
|---|---|---|
| | | *HK$'000* |
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| At 1 January 2012, 31 December 2012 and 30 June 2013 | 20,000,000,000 | 200,000 |
| Issued and fully paid: | | |
| At 1 January 2012 | 495,000,000 | 4,950 |
| Issue of shares pursuant to public offering and placing | 165,000,000 | 1,650 |
| At 31 December 2012 and 30 June 2013 | 660,000,000 | 6,600 |

## 18. CAPITAL COMMITMENTS

The Group had the following capital commitments:

| | **At 30 June 2013** | **At 31 December 2012** |
|---|---|---|
| | **Unaudited** | **Audited** |
| | *HK$'000* | *HK$'000* |
| Capital commitments contracted for but not provided in the condensed consolidated financial statements: | | |
| – capital contribution to a joint venture | 500,000 | 493,827 |
| – acquisition of property, plant and equipment | 2,566 | 1,129 |
| | 502,566 | 494,956 |

As announced by the Company on 15 February 2012, Shanghai Allied Cement Co., Ltd. ("Shanghai SAC") entered into the《關於建設「白龍港項目」合作協議 》(Bailonggang Project Construction Cooperation Agreement) ("Cooperation Agreement") and the《關於設立合資公司(原則)協議》(Principle Agreement for the Establishment of the Joint Venture Company) ("JV Principle Agreement") with 上海建築材料(集團)總公司 (Shanghai Building Material (Group) General Company) ("Shanghai Building Material"), a state-owned enterprise, for the purpose of setting up a joint venture company ("JV Company") pursuant to the terms and conditions therein on 13 February 2012. Pursuant to the Cooperation Agreement, Shanghai Building Material and Shanghai SAC agreed to establish the JV Company to operate and manage the development of new cement production facilities at Bailonggang, Pudong, Shanghai ("Bailonggang Project") under the terms of the JV Principle Agreement within three months after the relevant government approvals for the Bailonggang Project being obtained. The commitment on capital contribution to a joint venture represents the 50% share of registered capital of the JV Company by the Group amounting to RMB400,000,000 (equivalent to approximately HK$500,000,000 (31 December 2012: HK$493,827,000)). Details of the transaction were set out in the announcement and circular of the Company dated 15 February 2012 and 16 March 2012 respectively.

On 28 September 2012, Shanghai SAC entered into three purchase agreements for the purchases of certain equipment and machineries at the aggregate consideration of RMB380,000,000 (equivalent to approximately HK$475,000,000 (31 December 2012: HK$469,136,000)). As at 30 June 2013, Shanghai SAC has settled the respective first payments of the total consideration in an aggregate amount of RMB68,270,000 (31 December 2012: RMB68,270,000) (equivalent to approximately HK$85,338,000 (31 December 2012: HK$84,284,000)) under the three purchase agreements. The equipment and machineries under the three purchase agreements were purchased for future use in the Bailonggang Project and the Group and the Company does not intend to retain such equipment and machineries for their own use. After the JV Company is established, Shanghai SAC may transfer, by way of disposal or otherwise, the equipment and machineries purchased at cost or novate the rights and obligations of the purchase agreements at cost to the JV Company in accordance with the relevant PRC rules and regulations, or subject to the relevant PRC rules and regulations, may transfer such equipment and machineries at cost by way of contribution in kind to satisfy its proportion of the registered capital of the JV Company. Details of the transaction were set out in the announcement and circular of the Company dated 3 October 2012 and 15 November 2012 respectively.

Since the equipment and machineries under the three purchase agreements were purchased for future use in the Bailonggang Project, the total commitment of the Group to the Bailonggang Project, including the commitment under the three purchase agreements, would be limited to RMB400,000,000 (equivalent to approximately HK$500,000,000 (31 December 2012: HK$493,827,000)) being the commitment on capital contribution to a joint venture.

## 19. CONTINGENT LIABILITIES

A former constructor and material supplier of the Group has initiated legal proceeding in the PRC against subsidiaries of the Company during the year ended 31 December 2009 in relation to a dispute over the outstanding construction and material supply costs plus compensation. The amount claimed by the former constructor and material supplier was RMB6,980,000 (equivalent to approximately HK$8,725,000 (31 December 2012: HK$8,617,000)). A total of approximately RMB3,607,000 (equivalent to approximately HK$4,509,000 (31 December 2012: HK$4,454,000)) was recognised as trade and other payables as at 30 June 2013 in relation to the claim. The judgment of Zaozhuang City Intermediate People's Court was held in favour of the former constructor and material supplier. The Group has appealed to the Shandong Province High People's Court which turned down the judgment of Zaozhuang City Intermediate People's Court and ordered retrial to the case. As at 30 June 2013, the case was still under trial by the court in the PRC and subject to further directions to be given by Zaozhuang City Intermediate People's Court. The Group has assessed the claim and obtained legal advice, and considers that the final outcome of the claim will not have material effect on the financial position and results of the Group.

## 20. PLEDGE OF ASSETS

At the end of the reporting period, certain of the Group's buildings and structures and plant and machinery with aggregate carrying amount of HK$90,731,000, prepaid lease payments on land use rights with carrying amount of HK$6,646,000, certain other principal protected deposits with carrying value of HK$51,375,000 together with short-term bank deposits, carrying no interest, of HK$5,800,000 (31 December 2012: certain of the Group's buildings and structures and plant and machinery with aggregate carrying amount of HK$92,149,000, prepaid lease payments on land use rights with carrying amount of HK$6,645,000, certain bills receivables with carrying amount of HK$3,951,000, certain other principal protected deposits with carrying value of HK$38,457,000 together with short-term bank deposits of HK$79,398,000) were pledged to secure bank loans to the extent of HK$73,137,000 (31 December 2012: HK$77,305,000) granted to the Group and short-term bank facilities in respect of the issuance of bills payable to suppliers amounting to HK$51,375,000 (31 December 2012: HK$101,411,000).

## 21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group's financial assets designated as at fair value through profit or loss are measured at fair value at the end of each reporting period. The following table gives information about how the fair values are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Fair value At 30 June 2013 *HK$'000* | Fair value hierarchy | Valuation technique and key inputs |
|---|---|---|---|
| Exchange rate linked structured deposits | 196,428 | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of the Group or the counterparties, as appropriate. |

*Note:* The Directors consider that the carrying amount of the Group's financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

## 22. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2013, the Group had transactions and balances with related parties as follows:

### (a) Summary of transactions

| | | Six months ended 30 June | |
|---|---|---|---|
| | | 2013 | 2012 |
| | | Unaudited | Unaudited |
| | *Notes* | *HK$'000* | *HK$'000* |
| **Allied Properties (H.K.) Limited ("APL") and its subsidiaries (other than Sun Hung Kai & Co. Limited ("SHK") and its subsidiaries) and its ultimate holding company** | *(i)* | | |
| Rent, property management and air-conditioning fees | | 246 | 76 |
| Administrative expenses | | 69 | – |
| Management service fee | | 733 | – |
| **SHK and its subsidiaries** | (i) | | |
| Insurance paid | | – | 1 |
| **The ultimate holding company** | | | |
| Administrative expenses | | 128 | – |
| **A partnership of which a non-executive director of the ultimate holding company of the Company is a partner** | | | |
| Legal and professional fees | | 76 | 458 |

**(b) Key management personnel compensation**

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | **2012** |
| | **Unaudited** | **Unaudited** |
| | *HK$'000* | *HK$'000* |
| Salaries and other short-term benefits | 2,851 | 2,342 |
| Post-employment costs | 176 | 113 |
| | 3,027 | 2,455 |

Certain key management personnel of the Group received remuneration from a company, or a wholly-owned subsidiary of such company, which has significant beneficial interests in the Company. Such company provided management services to the Group and charged the Group a fee, which has been included in management service fee as disclosed in part (a) of this note, for services provided by those personnel as well as others who were not key management personnel of the Group.

The above-mentioned management service fee is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the above key management personnel. The total of such apportioned amounts, which has been included in the key management personnel compensation above, is HK$213,000 (2012: Nil).

**(c) Summary of balances**

| | | **At 30 June 2013** | **At 31 December 2012** |
|---|---|---|---|
| | | **Unaudited** | **Audited** |
| | *Notes* | *HK$'000* | *HK$'000* |
| **Current liabilities** | | | |
| Dividend payable to a non-controlling shareholder of the Group's subsidiary | *(ii)* | 4,200 | 1,150 |
| Amount due to a non-controlling shareholder of the Group's subsidiary | *(ii)* | – | 720 |
| Amount due to other related party | | 4,200 | 1,870 |
| Amounts due to APL and its subsidiaries (other than SHK and its subsidiaries) (included in other payables and deposits received) | *(ii)* | 413 | 310 |
| Amount due to a partnership of which a non-executive director of the ultimate holding company of the Company is a partner (included in other payables and deposits received) | *(ii)* | 76 | 326 |

*Notes:*

(i) APL is a substantial shareholder with significant influence over the ultimate holding company of the Company. SHK is a subsidiary of APL as at 30 June 2013 and 31 December 2012.

(ii) The balances are unsecured, non-interest bearing and are repayable on demand.

**(ii) For the year ended 31 December 2012**

Set out below is the full text of the audited consolidated financial statements of the Company for the year ended 31 December 2012 extracted from the annual report of the Company for the year ended 31 December 2012.

**Consolidated Statement of Comprehensive Income**

*(For the year ended 31 December 2012)*

| | *Notes* | **2012** *HK$'000* | **2011** *HK$'000* |
|---|---|---|---|
| Revenue | *7* | 704,698 | 725,298 |
| Cost of sales | | (645,867) | (613,453) |
| Gross profit | | 58,831 | 111,845 |
| Other income | *9* | 31,083 | 16,342 |
| Net foreign exchange gain | | 645 | 19,192 |
| Fair value gains on financial assets designated as at fair value through profit or loss | *27* | 13,067 | 12,429 |
| Interest income on other structured deposits | *28* | 10,404 | 3,943 |
| Reversal of overprovision on land resumption exercise | *10* | 3,128 | 5,766 |
| Distribution and selling expenses | | (3,856) | (4,183) |
| Administrative expenses | | (38,561) | (35,577) |
| Other expenses | *11* | – | (12,189) |
| (Allowance for) reversal of bad and doubtful debts | *25* | (23,964) | 5,131 |
| Finance costs | *12* | (4,261) | (4,889) |
| Profit before taxation | | 46,516 | 117,810 |
| Taxation | *14* | (9,384) | (29,321) |
| Profit for the year | *15* | 37,132 | 88,489 |
| Other comprehensive income | | | |
| Exchange difference arising on translation to presentation currency | | (845) | 37,202 |
| Total comprehensive income for the year | | 36,287 | 125,691 |

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Profit for the year attributable to: | | | |
| Owners of the Company | | 26,834 | 76,158 |
| Non-controlling interests | | 10,298 | 12,331 |
| | | 37,132 | 88,489 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | 26,437 | 93,409 |
| Non-controlling interests | | 9,850 | 32,282 |
| | | 36,287 | 125,691 |
| | | *HK cents* | *HK cents* |
| Earnings per share | *16* | | |
| Basic | | 4.11 | 21.31 |

**Consolidated Statement of Financial Position**

*(At 31 December 2012)*

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | 414,696 | 377,794 |
| Deposits for equipment and machineries | 19 | 84,284 | – |
| Prepaid lease payments on land use rights | 20 | 7,486 | 7,679 |
| Mining right | 21 | 7,692 | 7,879 |
| Loans receivable | 22 | 33,068 | – |
| | | 547,226 | 393,352 |
| **Current assets** | | | |
| Properties held for sale | 23 | 2,387 | 2,387 |
| Inventories | 24 | 68,530 | 55,317 |
| Trade and bills receivables | 25 | 247,299 | 269,639 |
| Other receivables, deposits and prepayments | 26 | 49,353 | 40,410 |
| Financial assets designated as at fair value through profit or loss | 27 | 308,956 | 351,167 |
| Other structured deposits | 28 | 216,613 | 189,225 |
| Prepaid lease payments on land use rights | 20 | 193 | 193 |
| Pledged short-term bank deposits | 43 | 79,398 | 43,210 |
| Time deposits | 29 | 61,729 | 142,253 |
| Bank balances and cash | | 30,162 | 100,596 |
| | | 1,064,620 | 1,194,397 |
| **Current liabilities** | | | |
| Trade and bills payables | 30 | 138,470 | 79,275 |
| Other payables and deposits received | 31 | 31,379 | 60,693 |
| Amount due to a fellow subsidiary | 32 | – | 134,322 |
| Amount due to ultimate holding company | 32 | – | 1,807 |
| Amounts due to other related parties | 44 | 1,870 | 9,288 |
| Tax liabilities | | 147,198 | 150,562 |
| Bank borrowings due within one year | 33 | 59,878 | 93,119 |
| | | 378,795 | 529,066 |
| **Net current assets** | | 685,825 | 665,331 |
| **Total assets less current liabilities** | | 1,233,051 | 1,058,683 |

| | Notes | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | *34* | 6,600 | 4,950 |
| Share premium and reserves | *36* | 735,033 | 565,807 |
| Equity attributable to owners of the Company | | 741,633 | 570,757 |
| Non-controlling interests | | 419,431 | 423,262 |
| **Total equity** | | 1,161,064 | 994,019 |
| **Non-current liabilities** | | | |
| Bank borrowings due after one year | *33* | 42,118 | 29,500 |
| Deferred taxation | *37* | 29,869 | 35,164 |
| | | 71,987 | 64,664 |
| | | 1,233,051 | 1,058,683 |

## Consolidated Statement of Changes In Equity

*(For the year ended 31 December 2012)*

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Translation reserve HK$'000 | Special reserve HK$'000 (note a) | Capital reserve HK$'000 | Other reserves HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2011 | – | – | 10,875 | (40,027) | 824 | 15,125 | 263,246 | 250,043 | 396,808 | 646,851 |
| Profit for the year | – | – | – | – | – | – | 76,158 | 76,158 | 12,331 | 88,489 |
| Exchange difference arising on translation to presentation currency | – | – | 17,251 | – | – | – | – | 17,251 | 19,951 | 37,202 |
| Total comprehensive income for the year | – | – | 17,251 | – | – | – | 76,158 | 93,409 | 32,282 | 125,691 |
| Reserves arising from the corporate reorganisation ("Corporate Reorganisation") | 3,527 | 349,181 | – | (352,708) | – | – | – | – | – | – |
| Reserves arising from settlement of shareholders' loans *(note b)* | 1,423 | 225,882 | – | – | – | – | – | 227,305 | – | 227,305 |
| Dividends distribution to non-controlling interests | – | – | – | – | – | – | – | – | (5,828) | (5,828) |
| At 31 December 2011 | 4,950 | 575,063 | 28,126 | (392,735) | 824 | 15,125 | 339,404 | 570,757 | 423,262 | 994,019 |
| Profit for the year | – | – | – | – | – | – | 26,834 | 26,834 | 10,298 | 37,132 |
| Exchange difference arising on translation to presentation currency | – | – | (397) | – | – | – | – | (397) | (448) | (845) |
| Total comprehensive income for the year | – | – | (397) | – | – | – | 26,834 | 26,437 | 9,850 | 36,287 |
| Issue of shares pursuant to public offering and placing | 1,650 | 163,350 | – | – | – | – | – | 165,000 | – | 165,000 |
| Expenses incurred in connection with issue of new shares pursuant to public offering and placing | – | (7,361) | – | – | – | – | – | (7,361) | – | (7,361) |
| Dividend recognised as distribution | – | – | – | – | – | – | (13,200) | (13,200) | – | (13,200) |
| Dividend distribution to non-controlling interests | – | – | – | – | – | – | – | – | (13,681) | (13,681) |
| **At 31 December 2012** | 6,600 | 731,052 | 27,729 | (392,735) | 824 | 15,125 | 353,038 | 741,633 | 419,431 | 1,161,064 |

*Notes:*

(a) The special reserve amounting to HK$40,027,000, being the amount brought forward from 1 January 2011, represents the difference between the nominal amount of the share capital of Shanghai Allied Cement Holdings Limited ("SACHL") and SAC Intellectual Properties Limited ("SAC IP") at the date on which they were acquired by Splendid Link Limited ("Splendid Link") and the consideration of HK$50,027,000 and US$1 respectively under the Corporate Reorganisation as set out in note 1. The special reserve amounting to HK$352,708,000 arising from the Corporate Reorganisation represents the difference between the nominal amount of the share capital of Splendid Link at the date on which it was acquired by the Company at a consideration of HK$352,708,000 settled by the issue of 352,707,832 shares under the Corporate Reorganisation.

(b) The share premium amounting to HK$225,882,000 represents the excess amount of the balances of shareholders' loans HK$227,305,000 over par value of the issue of 142,292,167 shares as set out in note 34(d).

**Consolidated Statement of Cash Flows**
*(For the year ended 31 December 2012)*

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **OPERATING ACTIVITIES** | | |
| Profit before taxation | 46,516 | 117,810 |
| Adjustments for: | | |
| Amortisation and depreciation | 20,605 | 19,266 |
| Release of prepaid lease payments on land use rights | 193 | 188 |
| Allowance for (reversal of) bad and doubtful debts | 23,964 | (5,131) |
| Finance costs | 4,261 | 4,889 |
| Interest income from loans receivable | (8,317) | (2,273) |
| Interest income on other structured deposits | (10,404) | (3,943) |
| Interest income from banks | (6,627) | (9,756) |
| Interest income from a fellow subsidiary | – | (1,119) |
| Loss on disposal and write-off of property, plant and equipment | 28 | 474 |
| Reversal of overprovision on land resumption exercise | (3,128) | (5,766) |
| Fair value gains on financial assets designated as at fair value through profit or loss | (13,067) | (12,429) |
| Operating cash inflow before movements in working capital | 54,024 | 102,210 |
| Increase in inventories | (13,213) | (12,144) |
| Increase in trade and bills receivables | (11,162) | (63,160) |
| Increase in other receivables, deposits and prepayments | (11,008) | (1,542) |
| Increase (decrease) in trade and bills payables | 59,195 | (18,127) |
| (Decrease) increase in other payables and deposits received | (14,461) | 8,257 |
| Cash generated from operations | 63,375 | 15,494 |
| Income tax paid | (18,064) | (23,103) |
| **NET CASH FROM (USED IN) OPERATING ACTIVITIES** | 45,311 | (7,609) |

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **INVESTING ACTIVITIES** | | |
| Proceeds from disposal of property, plant and equipment | 26 | 508 |
| Deposits for equipment and machineries | (84,284) | – |
| Purchase of property, plant and equipment | (69,099) | (27,376) |
| Payment for addition on properties held for sales | – | (1,319) |
| Repayment from fellow subsidiaries | – | 48,193 |
| Advance of loans receivable | (216,049) | (120,482) |
| Purchase of financial assets designated as at fair value through profit or loss | (330,864) | (816,867) |
| Placement of other structured deposits | (209,877) | (180,723) |
| Proceeds from redemption of loans receivable | 185,185 | 180,752 |
| Proceeds from redemption of financial assets designated as at fair value through profit or loss | 386,142 | 523,057 |
| Withdrawal of other structured deposits | 185,185 | – |
| Proceeds from land resumption exercise | – | 61,728 |
| Placement of pledged short-term bank deposits | (116,808) | (72,839) |
| Withdrawal of pledged short-term bank deposits | 80,620 | 77,778 |
| Placement of time deposits | (224,692) | (80,525) |
| Withdrawal of time deposits | 305,216 | 234,568 |
| Interest received from loans receivable | 6,113 | 3,942 |
| Interest received from other structured deposits | 7,708 | – |
| Other interest received | 8,691 | 3,072 |
| **NET CASH USED IN INVESTING ACTIVITIES** | (86,787) | (166,533) |

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **FINANCING ACTIVITIES** | | |
| Proceeds of issue of shares | 165,000 | – |
| Payment of expenses attributable to issue of new shares | (7,361) | – |
| Interest paid | (4,261) | (4,889) |
| New loans raised | 46,490 | 41,464 |
| Repayments of loans | (57,575) | (23,054) |
| Dividends paid to equity shareholders | (13,200) | – |
| Dividends paid to non-controlling interests | (21,976) | – |
| Advance from immediate holding company | – | 19,493 |
| Advance from non-controlling interests | 55 | – |
| Repayment to ultimate holding company | (1,807) | – |
| Repayment to a fellow subsidiary | (134,322) | (14,084) |
| Repayment to a substantial shareholder | (1) | – |
| Repayment to non-controlling interests | – | (1,892) |
| **NET CASH (USED IN) FROM FINANCING ACTIVITIES** | (28,958) | 17,038 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (70,434) | (157,104) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | 100,596 | 269,619 |
| Effect of foreign exchange rate changes | – | (11,919) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by** | | |
| bank balances and cash | 30,162 | 100,596 |

## Notes to the Consolidated Financial Statements

*(For the year ended 31 December 2012)*

### 1. GENERAL AND CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 March 2011 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") with effect from 18 January 2012. Its parent is Autobest Holdings Limited ("Autobest"), a private limited company which is incorporated in the British Virgin Islands. Its ultimate holding company is Tian An China Investments Company Limited ("TACI"), a public limited company which is incorporated in Hong Kong and listed on the Stock Exchange. The address of the registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KYI-1108, Cayman Islands and the head office and principal place of business of the Company is 9th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

Pursuant to the Corporate Reorganisation, which was completed by incorporating the Company and Splendid Link as the parent of SACHL and SAC IP, the Company became the holding company of the companies now comprising the Group on 20 December 2011 by issuing the shares of the Company to Autobest, under the payment instructions of Sunwealth Holdings Limited ("Sunwealth"), the then holding company of Splendid Link, in exchange for the entire equity interest in Splendid Link from Sunwealth. Details of the Corporate Reorganisation were set out in "Corporate Reorganisation" under the section headed "Corporate reorganisation and group structure" of the prospectus of the Company dated 30 December 2011.

The Corporate Reorganisation was completed on 20 December 2011 and was regarded as a reorganisation of companies under common control. Accordingly, the Group resulting from the Corporate Reorganisation including the Company and its subsidiaries is regarded as a continuing entity. The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2011 have been prepared as if the group structure immediately after the Corporate Reorganisation had been in existence throughout the year ended 31 December 2011, or since the respective dates of incorporation of the relevant entity, where this is a shorter period.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 46.

The consolidated financial statements are presented in Hong Kong dollar ("HK$") which is different from the functional currency of the Company, Renminbi ("RMB"), as the directors of the Company ("Directors") consider that HK$ is the most appropriate presentation currency in view of its place of listing in Hong Kong.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| Amendments to HKAS 12 | Deferred Tax: Recovery of Underlying Assets |
| Amendments to HKFRS 7 | Financial Instruments: Disclosures – Transfers of Financial Assets |

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

**Amendments to HKFRS 7 "Disclosures – Transfers of Financial Assets"**

The Group has applied for the first time the amendments to HKFRS 7 "Disclosures – Transfers of Financial Assets" in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain bills receivables. The arrangements are made through discounting those receivables to banks on a full recourse basis. Specifically, if the bills receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the receivables and has recognised the unsettled balance as secured bank borrowings (note 33). The relevant disclosures have been made regarding the transfer of these bills receivables on application of the amendments to HKFRS 7 (note 25). In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

**New and revised standards and interpretations issued but not effective**

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009 – 2011 Cycle[1] |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities[2] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 10 | Consolidated Financial Statements[1] |
| HKFRS 11 | Joint Arrangements[1] |
| HKFRS 12 | Disclosure of Interests in Other Entities[1] |
| HKFRS 13 | Fair Value Measurement[1] |
| HKAS 19 (Revised in 2011) | Employee Benefits[1] |
| HKAS 27 (Revised in 2011) | Separate Financial Statements[1] |
| HKAS 28 (Revised in 2011) | Investments in Associates and Joint Ventures[1] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[4] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[2] |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

**HKFRS 9 "Financial Instruments"**

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

***Key requirements of HKFRS 9 are described as follows:***

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The Directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the financial year ending 31 December 2015 and that the application of the new standard may have impact on amounts reported in respect of the Group's financial assets.

**New and revised standards on consolidation, joint arrangements, associates and disclosures**

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (Revised in 2011) and HKAS 28 (Revised in 2011).

***Key requirements of HKFRS 10 and HKFRS 12 are described below.***

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and HK (SIC) – Int 12 "Consolidation – Special Purpose Entities" will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The Directors anticipate that the application of these five standards will have no material impact on the amounts reported in the consolidated financial statements but may result in more extensive disclosures in the consolidated financial statements.

**HKFRS 13 "Fair Value Measurement"**

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial Instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The Directors anticipate that the application of the new standard will have no material impact on the amounts reported in the consolidated financial statements but may result in more extensive disclosures in the consolidated financial statements.

**Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"**

The amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied.

For other new and revised standards, amendments or interpretations, the Directors anticipate that their application will have no material impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, and in accordance with HKFRSs issued by the HKICPA.

In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

***Allocation of total comprehensive income to non-controlling interests***

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (Effective from 1 January 2010 onwards).

***Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010***

The cost of the acquisition of additional interest in a subsidiary is measured at the consideration paid for the additional interest. The goodwill is calculated as the difference between the consideration paid and the carrying amount of the net assets of the subsidiary attributable to the additional interest acquired.

***Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010***

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained profits as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

**Business combinations**

***Business combination that took place after 1 January 2005 but prior to 1 January 2010***

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

**Revenue recognition**

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

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

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

Technical services income is recognised when services are provided.

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

**Property, plant and equipment**

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purpose other than construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on prospective basis.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Mining right**

On initial recognition, mining right acquired separately is recognised at cost. After initial recognition, mining right is carried at costs less accumulated amortisation and any accumulated impairment losses.

Gain or loss arising from derecognition of mining right is measured at the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the profit or loss when the asset is derecognised.

**Impairment of tangible assets and mining right**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets and mining right with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Leasing**

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

***The Group as lessee***

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

**Leasehold land and building**

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments on land use rights" in the consolidated statement of financial position and is released over the lease term on a straight-line basis.

**Properties held for sale**

Properties held for sale are stated at cost less any impairment loss.

**Inventories**

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

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit before tax as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income or expense that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary difference. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Borrowing costs**

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

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

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange rate prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

**Government grants**

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are received or receivable as compensation for expenses already incurred with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Retirement benefit costs**

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

**Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

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

Interest income is recognised on an effective interest basis for debt instruments.

*Financial assets at fair value through profit or loss*

The Group's financial assets at FVTPL are those designated as at FVTPL on initial recognition.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, other structured deposits, loans receivable, pledged short-term bank deposits, time deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. The accounting policy on impairment loss of financial assets is set out below.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

***Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

*Financial liabilities*

Financial liabilities (including trade and bills payables, other payables, amount due to a fellow subsidiary, amount due to ultimate holding company, amounts due to other related parties and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial assets, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Estimated allowance for bad and doubtful debts**

The policy of allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required. As at 31 December 2012, the carrying amount of the trade receivables is HK$97,273,000 (net of impairment loss of HK$29,409,000) (2011: HK$90,078,000 (net of impairment loss of HK$5,445,000)). Details of the allowance for bad and doubtful debts are disclosed in note 25.

**Impairment loss on properties held for sale**

Properties held for sale are stated at cost less any impairment loss. The amount of impairment loss is measured as the difference between the carrying amount of properties and the market value of the properties at the end of reporting period which was estimated by the Directors base on the current market condition. As at 31 December 2012, the carrying amount of the properties held for sales is HK$2,387,000 (2011: HK$2,387,000), no impairment loss is provided.

**Estimated useful lives of property, plant and equipment**

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industry experiences over the usage of property, plant and equipment and also by reference to the relevant industry norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period. As at 31 December 2012, the carrying amount of the property, plant and equipment is HK$414,696,000 (2011: HK$377,794,000).

**Fair value of financial assets designated as at fair value through profit or loss**

At the end of the reporting period, the fair value of financial assets designated as at fair value through profit or loss are based on the valuation performed by an independent professional valuer. The valuations are principally based on discounted cash flow analysis by taking into account the specific terms and structure as well as the risk-free rate and specific risk of the counterparty banks as the discount rate. In relying on the valuation report, the management has exercised their judgement and is satisfied that the assumptions used in valuation is reflective of the current market conditions. Details of the carrying amount of financial assets designated as at fair value through profit or loss and the assumptions used in the valuation are disclosed in note 27.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which mainly includes the bank borrowings disclosed in note 33 and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits. The Directors review the capital structure on an annual basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through issuance of new share issues and share buy-back as well as the issuance of new debts or the redemption of existing debts.

## 6. FINANCIAL INSTRUMENTS

**Categories of financial instruments**

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Financial assets | | |
| Financial assets designated as at fair value through profit or loss *(note 27)* | 308,956 | 351,167 |
| Loans and receivables | | |
| Trade and bills receivables *(note 25)* | 247,299 | 269,639 |
| Other receivables (included in other receivables, deposits and prepayments) *(note 26)* | 7,472 | 3,386 |
| Bank interest income receivable (included in other receivables, deposits and prepayments) *(note 26)* | 10,263 | 8,199 |
| Other structured deposits *(note 28)* | 216,613 | 189,225 |
| Loans receivable *(note 22)* | 33,068 | – |
| Pledged short-term bank deposits | 79,398 | 43,210 |
| Time deposits *(note 29)* | 61,729 | 142,253 |
| Bank balances and cash | 30,162 | 100,596 |
| | 686,004 | 756,508 |
| | 994,960 | 1,107,675 |
| Financial liabilities measured at amortised cost | | |
| Trade and bills payables *(note 30)* | 138,470 | 79,275 |
| Other payables (included in other payables and deposits received) *(note 31)* | 230 | 673 |
| Payables for acquisition of property, plant and equipment (included in other payables and deposits received) *(note 31)* | 12,789 | 24,514 |
| Other accrued operating expenses (included in other payables and deposits received) *(note 31)* | 4,378 | 20,515 |
| Amount due to a fellow subsidiary *(note 32)* | – | 134,322 |
| Amount due to ultimate holding company *(note 32)* | – | 1,807 |
| Amounts due to other related parties *(note 44)* | 1,870 | 9,288 |
| Bank borrowings *(note 33)* | 101,996 | 122,619 |
| | 259,733 | 393,013 |

**Financial risk management objectives and policies**

The Group's major financial instruments are listed above. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

***Market risk***

*Interest rate risk*

The Group's fair value interest rate risk relates primarily to certain fixed-rate pledged short-term bank deposits, time deposits, loans receivable and bank borrowings (see note 33 for details of these bank borrowings).

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances and bank borrowings (see note 33 for details of these bank borrowings). For other structured deposits, interest varies depending on the movement of the Shanghai Interbank Offered Rate ("SHIBOR").

The Group has not used any interest rate swaps to mitigate its exposure associated with interest rate risk. However, management monitors interest rate exposure and will consider necessary actions when significant interest rate exposure is anticipated.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate and the interest rates quoted by the People's Bank of China arising from the Group's bank borrowings.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rate for non-derivative instruments relating to bank balances and floating-rate bank borrowings at the end of the reporting period. The analysis is prepared assuming the amount of assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 200 basis points increase or decrease for bank borrowings and a 15 basis points increase for bank balances represent management's assessment of the reasonably possible change in interest rates. It is expected that the interest rate for bank balances will not decrease in the next twelve months from end of the reporting period.

If interest rates had been increased/decreased by 200 basis points in respect of bank borrowings and all other variables were held constant, the Group's profit for the years ended 31 December 2012 and 2011 would decrease/increase by HK$1,545,000 and HK$1,924,000 respectively.

In addition, if interest rates had been increased by 15 basis points in respective of bank balances and all other variables were held constant, the Group's profit for the years ended 31 December 2012 and 2011 would increase by HK$34,000 and HK$113,000 respectively.

The Group is exposed to interest rate risk through its other structured deposits which are principal protected and their interest varies depending on the movement of the SHIBOR. The sensitivity analysis has been determined based on the exposure to the fluctuation of the SHIBOR. Based on the terms of the principal protected structured deposits, the interest would be adjusted only when there is at least a 440 basis points decrease (2011: 600 basis points increase) in the SHIBOR. The management considers that the opportunity for such movement is remote based on current market situation and there is no significant change on the profit for the year ended 31 December 2012.

*Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rate. The Group's operations are mainly in the People's Republic of China ("PRC") other than Hong Kong. As at 31 December 2012, the Group has bank balances, amounts due to other related parties and bank borrowings (2011: bank balances, amount due to a fellow subsidiary, amount due to ultimate holding company, amounts due to other related parties and bank borrowings) denominated in HK$ which is the currency other than the functional currency of the respective group entities. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arises.

The carrying amount of monetary assets and monetary liabilities that are denominated in HK$, which is a currency other than the functional currency of the group entities are as follows:

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Assets | 1,426 | 1,612 |
| Liabilities | 75,224 | 225,027 |

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against HK$5% sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes the financial assets and financial liabilities denominated in HK$, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive number below indicates an increase in profit for the year where RMB strengthen 5% against HK$. For a 5% weakening of RMB against in HK$, there would be an equal and opposite impact on the profit for the year, and the balance below would be negative.

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit for the year | 2,767 | 8,378 |

*Other price risk*

The Group is exposed to other price risk through its financial assets designated as at fair value through profit or loss, which are principal protected structured deposits and their interest varies depending on the movement of exchange rates. Based on current market situation, the management does not expect further material movement and accordingly sensitivity analysis is not presented.

***Credit risk***

The Group's credit risk is primarily attributable to trade and bills and other receivables, financial assets designated as at fair value through profit or loss, other structured deposits, loans receivable, pledged short-term bank deposits, time deposits and bank balances.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Independent companies are engaged to investigate the credibility of customers, and guarantees or pledges of assets provided by them on a needed basis. In addition, management reviews the recoverable amount of each individual trade debt and other receivables regularly to ensure that adequate impairment losses are recognised for irrecoverable amounts.

The credit risk on financial assets designated as at fair value through profit or loss, other structured deposits and loans receivable are limited because they are principal protected structured deposits and unlisted debt securities which are deposited in or issued by reputable banks and financial institution in the PRC.

The credit risk on liquid funds is limited because the Group's pledged short-term bank deposits, time deposits and bank balances are deposited with banks of high credit ratings in Hong Kong and the PRC.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings and on balances mentioned above, the Group does not have significant concentration of credit risk on trade and other receivables as the exposure spread over a number of counterparties and customers.

***Liquidity risk***

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings as a significant source of liquidity. Management monitors the utilisation of bank borrowings.

The following table details the Group's contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

***Liquidity and interest risk tables***

| | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | 5 + years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2012** | | | | | | | | |
| Trade and bills payables and other payables | – | 65,280 | 47,948 | 42,639 | – | – | 155,867 | 155,867 |
| Dividends payable to non-controlling interests | – | 1,150 | – | – | – | – | 1,150 | 1,150 |
| Amounts due to non-controlling interests | – | 720 | – | – | – | – | 720 | 720 |
| Bank borrowings – fixed rate | 5.04 | – | 4,000 | – | – | – | 4,000 | 3,951 |
| Bank borrowings – variable rate | 3.79 | – | 29,815 | 28,212 | 43,434 | – | 101,461 | 98,045 |
| | | 67,150 | 81,763 | 70,851 | 43,434 | – | 263,198 | 259,733 |
| **At 31 December 2011** | | | | | | | | |
| Trade and bills payables and other payables | – | 79,526 | 45,451 | – | – | – | 124,977 | 124,977 |
| Dividends payable to non-controlling interests | – | 8,622 | – | – | – | – | 8,622 | 8,622 |
| Amount due to a fellow subsidiary | – | 134,322 | – | – | – | – | 134,322 | 134,322 |
| Amount due to ultimate holding company | – | 1,807 | – | – | – | – | 1,807 | 1,807 |
| Amounts due to non-controlling interests | – | 665 | – | – | – | – | 665 | 665 |
| Amount due to a substantial shareholder | – | 1 | – | – | – | – | 1 | 1 |
| Bank borrowings – variable rate | 4.18 | – | 345 | 97,896 | 30,289 | – | 128,530 | 122,619 |
| | | 224,943 | 45,796 | 97,896 | 30,289 | – | 398,924 | 393,013 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change, if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

***Fair values***

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets designated as at fair value through profit or loss is determined in accordance with generally accepted pricing model based on quoted exchange rate of the relevant foreign currencies and interest rate matching maturity of the instrument as input.

- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

*Fair value measurements recognised in the statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | **2012** | **2011** |
|---|---|---|
| | **Level 2** | **Level 2** |
| | *HK$'000* | *HK$'000* |
| Financial assets designated as at fair value through profit or loss | | |
| – structured deposits | 308,956 | 351,167 |

There have been no transfers between Level 1, 2 and 3 during the year ended 31 December 2012 and 2011.

## 7. REVENUE

Revenue represents the sales amount from the manufacturing and sales of cement and clinker and trading of cement net of discount and sales related tax.

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Manufacture and sales of cement and clinker | 372,098 | 431,240 |
| Trading of cement | 332,600 | 294,058 |
| | 704,698 | 725,298 |

## 8. SEGMENT INFORMATION

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

For management purpose, the Group operates in one business unit based on its products and service, and has one operating segment: manufacture and sales of cement, clinker and slag, trading of cement and provision of technical services, if any. The chief operating decision maker monitors the revenue, results, assets and liabilities of its business unit as a whole based on the monthly sales reports, monthly delivery reports and monthly management accounts, and considers the segment assets and segment liabilities of the Group have included all assets and liabilities as stated in the consolidated statement of financial position respectively, and considers the segment revenue and segment results of the Group have represented all revenue and profit for the year as stated in the consolidated statement of comprehensive income respectively.

**Information about major products**

The revenue of the major products is analysed as follows:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Manufacture and sales and trading of: | | |
| Cement | 677,359 | 692,862 |
| Clinker | 27,339 | 32,436 |
| | 704,698 | 725,298 |

**Information about major customers**

For the year ended 31 December 2012, revenue from a customer amounting to HK$73,009,000 individually represents more than 10% of the Group's revenue. No revenue from transaction with single external customer is amounted to 10% or more of the Group's revenue for the previous year.

**Geographical information**

As all the Group's revenue is derived from customers based in the PRC and all the Group's identifiable assets are principally located in the PRC by location of assets, no geographical segment information is presented.

## 9. OTHER INCOME

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest income from banks | 6,627 | 9,756 |
| Interest income from a fellow subsidiary | – | 1,119 |
| Interest income from loans receivable | 8,317 | 2,273 |
| Overprovision of listing expenses | 1,432 | – |
| Government subsidy – value added tax refunded | 7,302 | – |
| Government subsidy – others | 5,629 | – |
| Sundry income | 1,776 | 3,194 |
| | 31,083 | 16,342 |

## 10. REVERSAL OF OVERPROVISION ON LAND RESUMPTION EXERCISE

On 27 November 2009, Shanghai Allied Cement Co., Ltd. ("Shanghai SAC"), a subsidiary of the Company, entered into a land resumption compensation agreement ("Compensation Agreement") with Shanghai Municipal Government. Pursuant to the Compensation Agreement, the Group would be entitled to a total compensation of approximately HK$941,059,000 after fulfilling all the required conditions under the Compensation Agreement. During the year ended 31 December 2010, Shanghai SAC fulfilled all the required conditions including the cancellation of land use right certificate and handover of land. Up to 31 December 2010, Shanghai SAC had received approximately HK$882,235,000 from Shanghai Municipal Government. During the year ended 31 December 2010, the Group recognised HK$528,396,000 as gain on this land resumption exercise.

At 31 December 2010, Shanghai SAC had made a provision on staff compensation regarding the laying off of staff amounting to HK$90,000,000 because of such relocation of the factory by Shanghai Municipal Government. Year 2010 provision was based on average compensation amount stated in severance payment agreement signed with staff which was around RMB270,000 per person. In 2011, some of the staff had forfeited the severance payment and the entity no longer had the obligation to pay. Accordingly, HK$5,766,000 being compensation payable overprovided has been reversed and recognised as reversal of overprovision on land resumption exercise for the year ended 31 December 2011. In 2012, the staff compensation was completed and HK$3,128,000 being compensation payable overprovided has been reversed and recognised as reversal of overprovision on land resumption exercise for the year ended 31 December 2012.

## 11. OTHER EXPENSES

The amount represented professional fees and other expenses related to the listing of shares of the Company. Pursuant to HKAS 32 "Financial Instruments: Presentation", the transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are directly attributable to the issuing of new shares. The remaining costs are recognised as an expense when incurred.

## 12. FINANCE COSTS

The amounts represent the interests on bank loans wholly repayable within five years.

## 13. DIRECTORS', EMPLOYEES' AND SENIOR MANAGEMENT'S EMOLUMENTS

### Directors' emoluments

The remuneration paid or payable to each of the six (2011: six) directors of the Company were as follows:

| | 2012 | | | | |
|---|---|---|---|---|---|
| | **Directors' fees** | **Salaries/ Service fee and other benefits** | **Performance related bonuses** | **Retirement benefits scheme contributions** | **Total emoluments** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive Directors:** | | | | | |
| Mr. Ng Qing Hai | 10 | 2,194 | 847 *(note a)* | 98 | 3,149 |
| Mr. Li Chi Kong | 10 | 148 | 159 | 7 | 324 |
| Mr. Yu Zhong | 10 | 527 | 298 *(note b)* | 69 | 904 |
| **Independent Non-Executive Directors:** | | | | | |
| Mr. Chan Sze Chung | 10 | 66 | – | – | 76 |
| Mr. Cheng Kin Chung | 10 | 86 | – | – | 96 |
| Ms. Doris Yang Yan Tung | 10 | 66 | – | – | 76 |
| | 60 | 3,087 | 1,304 | 174 | 4,625 |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | **Directors' fees** | **Salaries and other benefits** | **Performance related bonuses** | **Retirement benefits scheme contributions** | **Total emoluments** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive Directors:** | | | | | |
| Mr. Ng Qing Hai | – | 1,119 | 16 | – | 1,135 |
| Mr. Li Chi Kong | – | – | – | – | – |
| Mr. Yu Zhong | – | 305 | 146<br>*(note c)* | 60 | 511 |
| **Independent Non-Executive Directors:** | | | | | |
| Mr. Chan Sze Chung | – | – | – | – | – |
| Mr. Cheng Kin Chung | – | – | – | – | – |
| Ms. Doris Yang Yan Tung | – | – | – | – | – |
| | – | 1,424 | 162 | 60 | 1,646 |

None of the Directors waived any emoluments during the years ended 31 December 2012 and 2011.

A Director received remuneration from a company, or a subsidiary of such company which has significant beneficial interests in the Company. Such company provided management services to the Group and charged the Group a fee, which has been included in management service fee as disclosed in note 44(b), for services provided by the Director as well as other management personnel who were not Directors and staff of the Company.

The above-mentioned management service fee is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the Director mentioned above. The total of such apportioned amounts, which has been included in the above table, is HK$101,000 (2011: Nil).

*Notes:*

(a) The amount represented the actual discretionary bonus of the preceding year and the actual bonus on monthly target scheme approved and paid to the Director during the year.

(b) The amount represented the actual discretionary bonus of the preceding year and the actual bonus on monthly sales incentive scheme approved and paid to the Director during the year.

(c) The amount represented the actual bonus on monthly sales incentive scheme approved and paid to the Director during the respective year.

**Employees' emoluments**

Of the five individuals with the highest emoluments in the Group, two (2011: two) were the directors of the Company whose emoluments are included in the disclosure above. The emoluments of the remaining three (2011: three) highest paid individuals for the year ended 31 December 2012 were as follows:

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries and other benefits | 1,718 | 1,182 |
| Performance related bonuses | 365 | 713 |
| Retirement benefits scheme contributions | 69 | 61 |
| | 2,152 | 1,956 |

Their emoluments were within the following bands:

| | **2012** | **2011** |
|---|---|---|
| | *Number of employees* | *Number of employees* |
| HK$1,000,000 or below | 2 | 2 |
| HK$1,000,001 to HK$1,500,000 | 1 | 1 |

During the year ended 31 December 2012, no emoluments (2011: Nil) were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group.

**Senior management's emoluments**

Of the senior management of the Group, six (2011: six) were the directors of the Company whose emoluments are included in the disclosure above. The emoluments of the remaining four (2011: four) individuals for the year ended 31 December 2012 were as follows:

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries and other benefits | 1,512 | 989 |
| Performance related bonuses | 292 | 593 |
| Retirement benefits scheme contributions | 69 | 60 |
| | 1,873 | 1,642 |

Their emoluments were within the following bands:

| | **2012** | **2011** |
|---|---|---|
| | *Number of employees* | *Number of employees* |
| HK$1,000,000 or below | 3 | 3 |
| HK$1,000,001 to HK$1,500,000 | 1 | 1 |

The biographies of members of the senior management are disclosed in the section on the Biographical Details of Directors and Senior Management in this annual report.

The performance related bonuses included an incentive scheme adopted by the Company's certain subsidiaries, namely Shanghai SAC, Shandong Allied Wangchao Cement Limited and Shandong Shanghai Allied Cement Co., Ltd. ("Shandong SAC"). Criterion on the incentive scheme are:

a. Amount of profits

b. Average cost of production

c. Quantities of cement and clinker produced

d. Electricity consumption

e. Coal consumption

f. Aggregate amount of aging debts

g. Sales volume

Each company bases on its annual budgeted performance to set its targets. If pre-set targets are achieved in a particular month, all staff will be entitled to performance related bonus as determined for in each target level as well as on individual's assessed performance during the subject month.

**14. TAXATION**

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| The (charge) credit comprises: | | |
| Current tax | | |
| – PRC Enterprise Income Tax | (18,326) | (21,721) |
| – Hong Kong Profits Tax | (19) | – |
| | (18,345) | (21,721) |
| Over (under) provision in prior years | | |
| – PRC Enterprise Income Tax | 3,666 | (2,235) |
| Deferred tax *(note 37)* | 5,295 | (5,365) |
| | (9,384) | (29,321) |

The PRC Enterprise Income Tax is calculated at the rates applicable to respective subsidiaries. In accordance with the tax legislations applicable to foreign investment enterprises, a subsidiary is entitled to exemption from the PRC Enterprise Income Tax for the two years commencing from the first profit-making year of operation in 2007 and thereafter, entitled to a 50% relief from the PRC Enterprise Income Tax for the following three years ("Tax Holiday"). The subsidiary can continue to entitle such tax concession according to the Law of the PRC on Enterprise Income Tax promulgated on 16 March 2007 and the charge of PRC Enterprise Income Tax for the year ended 31 December 2011 has been provided for after taking these tax incentives into account. The applicable tax rate for that subsidiary for the year ended 31 December 2012 and for other subsidiaries established in PRC for the years ended 31 December 2012 and 2011 is 25%. The PRC Enterprise Income Tax for a subsidiary incorporated in Hong Kong is calculated at the withholding tax rate prevailing in the PRC on the interest income from lendings to a PRC subsidiary.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years. In the prior year, no provision for Hong Kong Profits Tax had been made as the Group had no assessable profits arising in Hong Kong.

The taxation charge for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit before taxation | 46,516 | 117,810 |
| Tax at the domestic income tax rate of 25% (2011: 25%) | (11,629) | (29,452) |
| Tax effect of expenses not deductible for tax purpose | (1,736) | (3,417) |
| Tax effect of income not taxable for tax purpose | 516 | 3,645 |
| Tax effect of tax loss not recognised | (518) | (526) |
| Tax effect of utilisation of tax losses previously not recognised | 238 | 149 |
| Effect of Tax Holiday granted to a PRC subsidiary | – | 9,543 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 467 | 438 |
| Withholding tax on undistributed earnings | 743 | (3,556) |
| PRC withholding tax upon dividend declared | (1,026) | (4,515) |
| Over (under) provision in prior years | 3,666 | (2,235) |
| Others | (105) | 605 |
| Taxation charge for the year | (9,384) | (29,321) |

The domestic tax rate represents the statutory tax rate of the major group companies operating in the PRC.

## 15. PROFIT FOR THE YEAR

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit for the year has been arrived at after charging: | | |
| Staff costs (including Directors' emoluments) | | |
| Salaries and other costs | 22,472 | 20,945 |
| Contributions to retirement benefits schemes | 3,206 | 2,611 |
| | 25,678 | 23,556 |
| Auditor's remuneration | 1,000 | 1,815 |
| Cost of inventories recognised as expense | 645,867 | 613,453 |
| Amortisation of mining right (included in administrative expenses) | 187 | 183 |
| Depreciation of property, plant and equipment | 20,418 | 19,083 |
| Total amortisation and depreciation | 20,605 | 19,266 |
| Release of prepaid lease payments on land use rights | 193 | 188 |
| Loss on disposal and write-off of property, plant and equipment | 28 | 474 |
| Operating lease rentals in respect of premises | 381 | 157 |

The staff costs do not include the apportionment of management service fee as disclosed in notes 13 and 44 to the consolidated financial statements for a Director as well as certain management personnel who are not Directors or staff of the Company.

During the year ended 31 December 2012, the Group paid HK$6,529,000 (2011: HK$4,800,000) services fee to a personnel services company providing temporary labours to the Group. Such amounts are excluded from the total staff costs as mentioned on above.

### 16. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Earnings:** | | |
| Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company) | 26,834 | 76,158 |
| | *Shares* | *Shares* |
| **Number of shares:** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 652,336,066 | 357,385,932 |

The calculations of basic earnings per share for the year ended 31 December 2011 is based on the 352,707,833 ordinary shares issued on the assumption that the Corporate Reorganisation had been effective on 1 January 2011 and the weighted average effect of 142,292,167 ordinary shares issued pursuant to the settlement of shareholders' loans completed on 20 December 2011 as disclosed in note 34.

No diluted earnings per share has been presented for the both years as there was no outstanding potential ordinary share during both years and at the end of the reporting periods.

### 17. DIVIDEND

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Dividend recognised as distributions during the year: | | |
| Special dividend for 2011 paid of HK2 cents per share (2011: Nil) | 13,200 | – |
| Dividend proposed: | | |
| Final dividend proposed | | |
| – HK2 cents per share (2011: Nil) | 13,200 | – |
| Special dividend proposed | | |
| – Nil (2011: HK2 cents per share) | – | 13,200 |
| | 13,200 | 13,200 |

The final dividend of HK2 cents (2011: Nil) per share in respect of the financial year ended 31 December 2012 has been proposed by the board of directors of the Company ("Board") and is subject to approval by the shareholders of the Company ("Shareholders") at the forthcoming annual general meeting of the Company.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Buildings and structures | Leasehold improvements | Plant and machinery | Construction in progress | Furniture, fixtures and equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **COST** | | | | | | | |
| At 1 January 2011 | 122,140 | 507 | 164,952 | 115,079 | 3,376 | 8,488 | 414,542 |
| Effect of exchange adjustments | 6,040 | 25 | 8,204 | 5,683 | 167 | 376 | 20,495 |
| Additions | 2,061 | – | 2,636 | 28,000 | 503 | 1,079 | 34,279 |
| Disposals and write-off | (38) | – | (292) | – | (10) | (1,760) | (2,100) |
| Reclassification | 69,098 | 3,466 | 75,078 | (147,762) | 120 | – | – |
| Transfer from properties held for sale | 370 | – | – | – | – | – | 370 |
| At 31 December 2011 | 199,671 | 3,998 | 250,578 | 1,000 | 4,156 | 8,183 | 467,586 |
| Additions | 32,222 | – | 2,397 | 22,139 | 375 | 241 | 57,374 |
| Disposals and write-off | – | – | – | – | – | (364) | (364) |
| Reclassification | 1,882 | – | 751 | (2,633) | – | – | – |
| At 31 December 2012 | 233,775 | 3,998 | 253,726 | 20,506 | 4,531 | 8,060 | 524,596 |
| **DEPRECIATION** | | | | | | | |
| At 1 January 2011 | 14,186 | 489 | 47,410 | – | 2,235 | 3,696 | 68,016 |
| Effect of exchange adjustments | 826 | 24 | 2,662 | – | 116 | 183 | 3,811 |
| Provided for the year | 5,101 | 61 | 12,513 | – | 281 | 1,127 | 19,083 |
| Eliminated on disposals and write-off | (5) | – | (16) | – | (1) | (1,096) | (1,118) |
| At 31 December 2011 | 20,108 | 574 | 62,569 | – | 2,631 | 3,910 | 89,792 |
| Provided for the year | 5,995 | 125 | 12,954 | – | 356 | 988 | 20,418 |
| Eliminated on disposals and write-off | – | – | – | – | – | (310) | (310) |
| At 31 December 2012 | 26,103 | 699 | 75,523 | – | 2,987 | 4,588 | 109,900 |
| **CARRYING VALUES** | | | | | | | |
| At 31 December 2012 | 207,672 | 3,299 | 178,203 | 20,506 | 1,544 | 3,472 | 414,696 |
| At 31 December 2011 | 179,563 | 3,424 | 188,009 | 1,000 | 1,525 | 4,273 | 377,794 |

The above property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings and structures | 2.5% – 9% |
| Leasehold improvements | 4.5% – 18% |
| Plant and machinery | 5% – 9% |
| Furniture, fixtures and equipment | 9% – 20% |
| Motor vehicles | 18% |

The buildings of the Group are situated on the leasehold land in the PRC under medium-term leases.

At 31 December 2012, the Group pledged its buildings and structures and plant and machinery with aggregate carrying amount of HK$92,149,000 (2011: HK$290,874,000) to secure for a bank loan of HK$29,500,000 (2011: HK$35,500,000).

The transfer of legal title of a building to the Group with carrying amount of HK$2,457,000 (2011: HK$2,593,000) as at 31 December 2012 was in progress.

**19. DEPOSITS FOR EQUIPMENT AND MACHINERIES**

On 28 September 2012, Shanghai SAC entered into three purchase agreements for the purchases of certain equipment and machineries at the aggregate consideration of RMB380,000,000 (equivalent to approximately HK$469,136,000). The equipment and machineries under the three purchase agreements were purchased for future use in the development of new cement production facilities at Bailonggang, Pudong, Shanghai ("Bailonggang Project") and the Group and the Company does not intend to retain such equipment and machineries for their own use. As at 31 December 2012, Shanghai SAC has settled the respective first payments of the total consideration in an aggregate amount of RMB68,270,000 (equivalent to approximately HK$84,284,000) under the three purchase agreements. Details of the transaction were set out in the announcement and circular of the Company dated 3 October 2012 and 15 November 2012 respectively and note 41 to these consolidated financial statements.

**20. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS**

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| The prepaid lease payments on land use rights comprise: | | |
| Leasehold land in the PRC under medium-term lease | 7,679 | 7,872 |
| Analysed for reporting purposes as: | | |
| Non-current | 7,486 | 7,679 |
| Current | 193 | 193 |
| | 7,679 | 7,872 |

The leasehold land is released on a straight-line basis over the remaining term of leases.

## 21. MINING RIGHT

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2011 | 8,685 |
| Effect on exchange adjustments | 429 |
| At 31 December 2011 and 31 December 2012 | 9,114 |
| **AMORTISATION** | |
| At 1 January 2011 | 999 |
| Effect on exchange adjustments | 53 |
| Charge for the year | 183 |
| At 31 December 2011 | 1,235 |
| Charge for the year | 187 |
| At 31 December 2012 | 1,422 |
| **CARRYING VALUE** | |
| At 31 December 2012 | 7,692 |
| At 31 December 2011 | 7,879 |

The license period for the mining of limestone quarry located in the PRC is 10 years and renewable for another 10 years or more at minimal charges. The mining right is amortised on a straight-line basis over its estimated useful life of 50 years.

## 22. LOANS RECEIVABLE

| | 2012 | 2011 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Loans receivable** | | |
| Trust loan | 33,068 | – |

During the year ended 31 December 2012, the Group entered into a trust agreement to subscribe units that were denominated in RMB with an aggregate principal amount of RMB25,000,000 (equivalent to HK$30,864,000) in a trust scheme. The trust scheme is secured by pledged assets. The amount is classified as loans and receivables and is repayable in November 2014 at par by the trust and carries effective interest of 11.16% per annum.

## 23. PROPERTIES HELD FOR SALE

The balance represented properties located in PRC.

## 24. INVENTORIES

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Inventories consist of the following: | | |
| Raw materials | 36,037 | 39,727 |
| Work in progress | 304 | 303 |
| Finished goods | 32,189 | 15,287 |
| | 68,530 | 55,317 |

## 25. TRADE AND BILLS RECEIVABLES

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Trade receivables | 126,682 | 95,523 |
| Less: Allowance for trade receivables | (29,409) | (5,445) |
| | 97,273 | 90,078 |
| Bills receivables | 150,026 | 179,561 |
| | 247,299 | 269,639 |

The Group has a policy of allowing its trade customers credit periods normally ranging from 120 days to 1 year. The aged analysis of trade and bills receivables, net of allowance for bad and doubtful debts, is presented based on the invoice date at the end of the reporting period as follows:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| 0-90 days | 161,594 | 176,728 |
| 91-180 days | 58,306 | 72,310 |
| 181-365 days | 25,318 | 20,601 |
| Over 1 year | 2,081 | – |
| | 247,299 | 269,639 |

Before accepting any new customer, the Group will assess the potential customer's credit quality and define credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Approximately 99% (2011: approximately 100%) of the trade and bills receivables after allowance were neither past due nor impaired. Management of the Group is of the opinion that the credit quality of the trade receivables balances that are neither past due nor impaired at the end of the reporting period is of good quality and these customers have long term relationship with the Group.

At 31 December 2012, included in the Group's trade and bills receivables balances are debtors with aggregate carrying amount of HK$2,081,000 (2011: Nil) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

The following is an aged analysis of trade receivables that were past due at the end of the reporting period but not impaired:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 1-2 years | 2,081 | – |

**Transfer of financial assets**

As at 31 December 2012, the Group's bills receivables with carrying amount of HK$3,951,000 were transferred to banks by discounting the bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to the bills receivables, it continues to recognise the full carrying amount of the receivables and has recognised the advances obtained on the transfer as secured bank loans with carrying amount of HK$3,951,000 (note 33).

The carrying amount of the trade receivables is after netting off the following impairment allowances:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Balance at beginning of the year | 5,445 | 5,521 |
| Exchange difference | – | 368 |
| Impairment losses recognised on receivables | 26,642 | 3,867 |
| Amounts recovered during the year | (2,678) | (8,998) |
| Amounts written off as uncollectible | – | 4,687 |
| | 29,409 | 5,445 |

At 31 December 2012, included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of HK$29,409,000 (2011: HK$5,445,000) which included amounts in dispute with debtors or amounts have been placed under liquidation and in severe financial difficulties. The Group does not hold any collateral over these balances.

## 26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Advance to suppliers | 18,275 | 12,715 |
| Deposits paid | 210 | 3,181 |
| Prepayments | 6,026 | 8,809 |
| Other receivables | 7,472 | 3,386 |
| Value added tax receivable | 7,107 | 4,120 |
| Bank interest income receivable | 10,263 | 8,199 |
| | 49,353 | 40,410 |

## 27. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Financial assets designated as at fair value through profit or loss** | | |
| Exchange rate linked structured deposits | 308,956 | 351,167 |

During the year ended 31 December 2012, the Group entered into new principal protected structured deposits that were denominated in RMB with the aggregate principal amount of RMB268,000,000 (equivalent to HK$330,864,000) (2011: RMB678,000,000 (equivalent to HK$816,867,000)) with banks with maturity periods ranging from three months to twelve months.

Interest rates of these structured deposits vary depending on the movement of exchange rate between the United States Dollars and Euro or the United States Dollars and the Australian Dollars. Such structured deposits are designated as financial assets at fair value through profit or loss on initial recognition.

Structured deposits with aggregate principal amount of RMB305,000,000 (equivalent to HK$376,543,000) and RMB428,000,000 (equivalent to HK$515,983,000) had matured and been redeemed at RMB312,775,000 (equivalent to HK$386,142,000) and RMB434,138,000 (equivalent to HK$523,057,000) during the years ended 31 December 2012 and 31 December 2011 respectively and resulted in fair value gains on financial assets designated as at fair value through profit or loss of RMB3,330,000 (equivalent to HK$4,111,000) and RMB5,871,000 (equivalent to HK$7,074,000) for the years ended 31 December 2012 and 31 December 2011 respectively. The balance of financial assets designated as at fair value through profit or loss as at 31 December 2012 and 31 December 2011 represented structured deposits with maturity dates ranging from April 2013 to October 2013 and from January 2012 to September 2012 respectively.

The fair values of structured deposits classified as financial assets designated as at fair value through profit or loss as at 31 December 2012 and 2011 have been arrived at the basis on the valuation carried out at that date by Norton Appraisals Limited, a firm of independent and qualified professional valuers not connected with the Group, and resulted in fair value gains on financial assets designated as at fair value through profit or loss of RMB7,254,000 (equivalent to HK$8,956,000) and RMB4,445,000 (equivalent to HK$5,355,000) for the years ended 31 December 2012 and 31 December 2011. The valuations are principally based on discounted cash flow analysis by taking into account the specific terms and structure of the structured deposits as well as the risk-free rate and specific risk of the counterparty banks as the discount rate.

**28. OTHER STRUCTURED DEPOSITS**

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Other structured deposits** | | |
| Interest rate linked structured deposits | 216,613 | 189,225 |

During the year ended 31 December 2012, the Group entered into principal protected structured deposits that were denominated in RMB with the aggregate principal amount of RMB170,000,000 (equivalent to HK$209,877,000) with banks with maturity periods ranging from five months to twelve months and carried interest ranged from 4.90% to 5.95% per annum.

During the year ended 31 December 2011, the Group entered into principal protected structured deposits that were denominated in RMB with the aggregate principal amount of RMB150,000,000 (equivalent to HK$180,723,000) with banks with maturity periods ranging from three months to nine months and carried interest ranged from 5.25% to 5.80% per annum.

During the year ended 31 December 2012, structured deposits with aggregate principal amount of RMB150,000,000 (equivalent to HK$185,185,000) (2011: Nil) had matured and been redeemed. The balance of other structured deposits as at 31 December 2012 and 31 December 2011 represented structured deposits with maturity dates ranging from April 2013 to July 2013 and from March 2012 to September 2012 respectively.

Interest rates of these structured deposits vary depending on the movement of the SHIBOR. Such structured deposits are classified as loans and receivables and stated at amortised cost.

The Group has an option for early redemption of some of these structured deposits at par plus the interest at interest rate ranged from 4.20% to 5.40% per annum when SHIBOR increases or decreases by 500 basis points comparing with SHIBOR at initial recognition date.

## 29. TIME DEPOSITS

Time deposits held by the Group comprised bank balances held by the Group and carried fixed interest rate which was 3.33% per annum at 31 December 2012 (2011: 2.79% to 3.33%).

## 30. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables, presented based on the invoice date, at the end of the reporting period is as follows:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0-90 days | 62,076 | 61,886 |
| 91-180 days | 68,941 | 12,636 |
| 181-365 days | 3,330 | 1,157 |
| Over 1 year | 4,123 | 3,596 |
| | 138,470 | 79,275 |

## 31. OTHER PAYABLES AND DEPOSITS RECEIVED

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Payables for acquisition of property, plant and equipment | 12,789 | 24,514 |
| Receipt in advance from customers | 9,939 | 8,286 |
| Other tax payable | 3,933 | 4,098 |
| Other payables | 230 | 673 |
| Accrued cost in relation to land resumption | – | 2,534 |
| Other accrued operating expenses | 4,378 | 20,515 |
| Deposits received | 110 | 73 |
| | 31,379 | 60,693 |

## 32. AMOUNTS DUE TO A FELLOW SUBSIDIARY/ULTIMATE HOLDING COMPANY

Amounts due to a fellow subsidiary and ultimate holding company were unsecured, non-interest bearing and repayable on demand. Amount due to a fellow subsidiary and amount due to ultimate holding company with outstanding amount of HK$134,322,000 and HK$1,807,000 respectively as at 31 December 2011 were fully repaid in January 2012 after the listing of shares of the Company on the Main Board of the Stock Exchange.

## 33. BANK BORROWINGS

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Bank loans | 101,996 | 122,619 |
| Secured | 77,305 | 35,500 |
| Unsecured | 24,691 | 87,119 |
| | 101,996 | 122,619 |

The maturity profile of the above bank loans is as follows:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within one year | 59,878 | 93,119 |
| More than one year but not exceeding two years | 42,118 | 29,500 |
| | 101,996 | 122,619 |
| Less: Amount repayable within one year and shown under current liabilities | (59,878) | (93,119) |
| Amount due after one year | 42,118 | 29,500 |

Included in bank loans were proceeds from discounted bills receivables with full recourse of HK$3,951,000 (2011: Nil) at 31 December 2012.

Bank loans of HK$73,354,000 (2011: HK$85,582,000) were denominated in HK$ at 31 December 2012, the currency other than the functional currency of the relevant group entities.

At 31 December 2011, bank loans of HK$85,582,000 were guaranteed by the ultimate holding company, TACI. The guarantees were released in January 2012 and replaced by guarantees in name of the Company after the listing of its shares on the Main Board of the Stock Exchange.

Details of the assets of the Group pledged to secure bank loans are set out in note 43.

The exposures of the Group's fixed-rate and variable-rate bank borrowings are as follows:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Fixed-rate borrowings: | | |
| Bank loans repayable within one year | 3,951 | – |
| Variable-rate borrowings: | | |
| Bank loans repayable within one year | 55,927 | 93,119 |
| Bank loans repayable in more than one year but not more than two years | 42,118 | 29,500 |
| | 98,045 | 122,619 |
| | 101,996 | 122,619 |

The variable-rate bank borrowings carry interest rate, which are repriced periodically, as follows:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Hong Kong Interbank Offered Rate plus 2.3% | 29,500 | 85,582 |
| Hong Kong Interbank Offered Rate plus 2.85% | 43,854 | – |
| 1-year People's Bank of China benchmark interest rate multiplied by 105% | 24,691 | 37,037 |
| | 98,045 | 122,619 |

The ranges of effective interest rates (which are also equal to contracted interest rates) of the Group's bank borrowings during the year ended 31 December 2012 are as follows:

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Effective interest rate: | | |
| Fixed-rate bank borrowings | 5.04%-7.20% | 7.80% |
| Variable-rate bank borrowings | 2.54%-7.87% | 2.44%-7.87% |

## 34. SHARE CAPITAL

| | *Notes* | **Number of shares** | **Value** *HK$'000* |
|---|---|---|---|
| Ordinary shares of HK$0.01 each | | | |
| Authorised: | | | |
| At 21 March 2011 (date of incorporation) | *(a)* | 38,000,000 | 380 |
| Increase in authorised share capital | *(b)* | 19,962,000,000 | 199,620 |
| At 31 December 2011 and 31 December 2012 | | 20,000,000,000 | 200,000 |
| Issued and fully paid: | | | |
| Allotted and issued on 21 March 2011 | *(a)* | 1 | – |
| Issue of shares upon the Corporate Reorganisation | *(c)* | 352,707,832 | 3,527 |
| Issue of shares to settle shareholders' loans | *(d)* | 142,292,167 | 1,423 |
| At 31 December 2011 | | 495,000,000 | 4,950 |
| Issue of shares pursuant to public offering and placing | *(e)* | 165,000,000 | 1,650 |
| At 31 December 2012 | | 660,000,000 | 6,600 |

*Notes:*

The following changes in the share capital of the Company took place during the period from 21 March 2011 (date of incorporation) to 31 December 2012:

(a) The Company was incorporated on 21 March 2011 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each, of which 1 ordinary share with par value of HK$0.01 was allotted and issued by the Company to its then sole shareholder on the same date.

(b) Pursuant to the written resolutions of the sole shareholder passed on 20 December 2011, the authorised share capital of the Company was increased from HK$380,000 to HK$200,000,000 by the creation of the additional 19,962,000,000 new shares of HK$0.01 each.

(c) Pursuant to a deed of reorganisation dated 20 December 2011, the Company acquired one share with par value of US$1.00 in the capital of Splendid Link, representing the entire issued share capital of Splendid Link, from Sunwealth, the then holding company of Splendid Link, at a total consideration of HK$352,708,000. In consideration of such acquisition, the Company allotted and issued additional 352,707,832 new shares of HK$0.01 each to Autobest, the parent company of the Company, under the payment instructions of Sunwealth at the issue price of HK$1.00 per share. The transfer of one share in Splendid Link from Sunwealth to the Company was completed on the same date and Splendid Link became the direct wholly-owned subsidiary of the Company accordingly.

(d) Pursuant to a deed of loan assignment dated 20 December 2011, a shareholder's loan in the amount of HK$50,039,000 owed by Splendid Link to Sunwealth and a shareholder's loan in the amount of HK$177,266,000 owned by SACHL to Sunwealth were assigned from Sunwealth to the Company. Pursuant to the deed of reorganisation dated 20 December 2011, these two loans were assigned to the Company at consideration of HK$142,292,000 by allotment and issue of an aggregate of 142,292,167 new shares of the Company to Autobest on 20 December 2011 in accordance with the payment instructions given by Sunwealth to the Company.

(e) On 18 January 2012, 165,000,000 ordinary shares with a par value of HK$0.01 each of the Company were issued at a price of HK$1.00 by way of public offering and placing. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange. Part of the proceeds of HK$1,650,000 representing the par value of the shares of the Company were credited to the Company's share capital. The remaining proceeds of HK$163,350,000, before deducting any issuing expenses, were credited to share premium account.

**35. SHARE OPTION SCHEME**

The share option scheme of the Company ("Scheme") was adopted on 28 April 2011 for the purpose of providing incentives to participants to contribute to the Group and to enable the Group to recruit and retain high-calibre employees and attract and retain human resources that are valuable to the Group. The Board may grant an option to subscribe for the shares in the Company to any individual being an employee, officer, agent, consultant or representative of any members of the Group (including any executive or non-executive director of any member of the Group) who, as the Board may determine in its absolute discretion, has made valuable contribution to the business of the Group based on his/her performance, years of service, or is regarded to be a valuable human resource of the Group based on his/her working experience, knowledge in the industry and other relevant factors. The Scheme shall be valid and effective for a period of ten years commencing on 18 January 2012 and will expire on 17 January 2022.

The limit on the total number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme(s) of the Company (excluding lapsed and cancelled options) must not exceed 30% of the total number of the Company's shares in issue from time to time. In addition, the total number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme, together with all options to be granted under any other share option scheme(s) of the Company (excluding lapsed options), must not represent more than 10% of the total number of the Company's shares in issue as at the date of commencement of the listing of shares of the Company on the Main Board of the Stock Exchange ("Scheme Mandate Limit") or as at the date of approval of the refreshed Scheme Mandate Limit.

The total number of shares issued and to be issued upon exercise of the options granted to each participant, together with all options granted and to be granted to him/her under any other share option scheme(s) of the Company within the 12-month period immediately preceding the proposed date of grant (including exercised, cancelled and outstanding options) shall not exceed 1% of the total number of the Company's shares in issue as at the proposed date of grant. Any further grant of options to a participant in excess of the 1% limit shall be subject to the shareholders' approval of the Company with such participant and his/her associates abstaining from voting.

Any option to be granted under the Scheme to a Director, chief executive or substantial Shareholder of the Company or any of their respective associates must be approved by Independent Non-Executive Directors (excluding Independent Non-Executive Director who is the grantee). In addition, any option to be granted to a substantial Shareholder or an Independent Non-Executive Director or any of their respective associates which will result in the shares issued and to be issued in excess of 0.1% of the issued shares or with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK$5,000,000 within any 12-month period is subject to approval by the Shareholders in general meeting.

An offer for grant of options must be accepted within 28 days from the date of grant. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.00. The exercisable period will be determined by the Board and in any event must not be more than 10 years from the date of the grant of the option.

The subscription price for the Company's shares on the exercise of options under the Scheme shall be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the 5 business days immediately preceding the date of grant; and (c) the nominal value of the share.

No options have been granted under the Scheme since its adoption and accordingly there were no options outstanding at 31 December 2012 and 2011.

**36. SHARE PREMIUM AND RESERVES**

The amounts of the Group's share premium and reserves and the movement therein for the current and prior years are presented in the consolidated statement of changes in equity.

Other reserves as at 31 December 2012 and 2011 comprise reserve fund of HK$10,423,000 and enterprise expansion fund of HK$4,702,000 of Shanghai SAC and Shandong SAC. The reserve fund is to be used to expand the enterprise's working capital. When the enterprise suffers losses, the reserve fund may be used to make up unrecovered losses under special circumstances. The enterprise expansion fund is to be used for business expansion and, if approved, can also be used to increase capital.

The remittance of retained profits of the subsidiaries established in the PRC outside the PRC is subject to approval of the local authorities and the availability of foreign currencies generated and retained by these subsidiaries.

**37. DEFERRED TAXATION**

At the end of the reporting period and during the current and prior years, deferred tax liabilities (assets) were recognised in respect of the temporary differences attributable to the following:

| | Accelerated tax depreciation | Allowance for doubtful debts | Withholding tax on undistributed earnings | Others | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2011 | 29,094 | (4,950) | 4,279 | 46 | 28,469 |
| Exchange differences | 1,241 | (267) | 299 | 57 | 1,330 |
| Charge (credit) to consolidated statement of comprehensive income for the year | 519 | (961) | 3,556 | 2,251 | 5,365 |
| At 31 December 2011 | 30,854 | (6,178) | 8,134 | 2,354 | 35,164 |
| (Credit) charge to consolidated statement of comprehensive income for the year | – | (5,991) | (743) | 1,439 | (5,295) |
| At 31 December 2012 | 30,854 | (12,169) | 7,391 | 3,793 | 29,869 |

The Group had estimated unused tax losses of HK$21,780,000 (2011: HK$21,333,000) at 31 December 2012, which were available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unused tax losses may be carried forward indefinitely.

The deferred tax liabilities included in others as at 31 December 2012 and 31 December 2011 represented the temporary difference on the unrealised fair value gain recognised on financial assets designated as at fair value through profit or loss and accrued interest income on other structured deposits.

**38. MAJOR NON-CASH TRANSACTION**

On 20 December 2011, as part of the Corporation Reorganisation, the Company acquired one share with par value of US$1.00 in the capital of Splendid Link, representing the entire issued share capital of Splendid Link, from Sunwealth at a total consideration of HK$352,708,000. In consideration of such acquisition, the Company allotted and issued 352,707,832 new shares to Autobest under the payment instructions of Sunwealth at the issue price of

HK$1.00 per share. The transfer of one share in Splendid Link from Sunwealth to the Company was completed on the same date and Splendid Link has become the direct wholly-owned subsidiary of the Company. On 20 December 2011, a shareholder's loan in the amount of HK$50,039,000 owed by Splendid Link to Sunwealth and a shareholder's loan in the amount of HK$177,266,000 owed by SACHL to Sunwealth were assigned from Sunwealth to the Company. These two loans were assigned to the Company at an aggregate consideration of HK$142,292,000 which was satisfied by the allotment and issue of an aggregate of 142,292,167 new shares at the issue price of HK$1.00 per share to Autobest in accordance with the payment instructions given by Sunwealth to the Company.

During the year ended 31 December 2012, bills receivables with recourse offset against corresponding bank loans upon maturity was HK$9,538,000 (2011: Nil).

## 39. RETIREMENT BENEFITS SCHEMES

The PRC employees of the Group are members of state-managed retirement benefits schemes operated by the local government. The Group is required to contribute certain percentage of their payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The Group also operates a Mandatory Provident Fund Scheme ("MPF Scheme"). All qualifying employees in Hong Kong are required to join the MPF Scheme. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Both employees' and the Group's contributions are calculated at 5% of the employee's monthly relevant income with the mandatory cap, and the Group will make 5% top-up contribution if an employee's monthly basic salary exceeds the mandatory cap.

The retirement benefits scheme contributions of the Directors and staff for the year end are stated in notes 13 and 15 respectively.

## 40. OPERATING LEASE COMMITMENTS

The Group entered into an arrangement with a third party in the PRC to lease rented premises as the production facilities for manufacture of cement with a term of twenty years. Other operating leases for rented premises were negotiated for terms from two to ten years.

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Minimum lease payments under operating leases recognised as expense | 381 | 157 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under the above arrangement and other non-cancellable operating leases for premises and plant and equipment which fall due as follows:

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Not later than one year | 1,480 | 1,093 |
| Later than one year and not later than five years | 4,033 | 3,951 |
| Later than five years | 3,374 | 4,362 |
| | 8,887 | 9,406 |

## 41. CAPITAL COMMITMENTS

The Group had the following capital commitments:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Capital commitments contracted for but not provided in the consolidated financial statements: | | |
| – capital contribution to a jointly controlled entity | 493,827 | – |
| – acquisition of property, plant and equipment | 1,129 | 29,081 |
| | 494,956 | 29,081 |

As announced by the Company on 15 February 2012, Shanghai SAC entered into the 《關於建設「白龍港項目」合作協議》 (Bailonggang Project Construction Cooperation Agreement) ("Cooperation Agreement") and the 《關於設立合資公司(原則)協議》(Principle Agreement for the Establishment of the Joint Venture Company) ("JV Principle Agreement") with 上海建築材料(集團)總公司 (Shanghai Building Material (Group) General Company) ("Shanghai Building Material"), a state-owned enterprise, for the purpose of setting up a joint venture company ("JV Company") pursuant to the terms and conditions therein on 13 February 2012. Pursuant to the Cooperation Agreement, Shanghai Building Material and Shanghai SAC agreed to establish the JV Company for the development of Bailonggang Project under the terms of the JV Principle Agreement within three months after the relevant government approvals for the Bailonggang Project being obtained. The commitment on capital contribution to a jointly controlled entity represents the 50% share of registered capital of the JV Company by the Group amounting to RMB400,000,000 (equivalent to approximately HK$493,827,000). Details of the transaction were set out in the announcement and circular of the Company dated 15 February 2012 and 16 March 2012 respectively.

On 28 September 2012, Shanghai SAC entered into three purchase agreements for the purchases of certain equipment and machineries at the aggregate consideration of RMB380,000,000 (equivalent to approximately HK$469,136,000). As at 31 December 2012, Shanghai SAC has settled the respective first payments of the total consideration in an aggregate amount of RMB68,270,000 (equivalent to approximately HK$84,284,000) under the three purchase agreements. The equipment and machineries under the three purchase agreements were purchased for future use in the development of Bailonggang Project and the Group and the Company does not intend to retain such equipment and machineries for their own use. After the JV Company is established, Shanghai SAC may transfer, by way of disposal or otherwise, the equipment and machineries purchased at cost or novate the rights and obligations of the purchase agreements at cost to the JV Company in accordance with the relevant PRC rules and regulations, or subject to the relevant PRC rules and regulations, may transfer such equipment and machineries at cost by way of contribution in kind to satisfy its proportion of the registered capital of the JV Company. Details of the transaction were set out in the announcement and circular of the Company dated 3 October 2012 and 15 November 2012 respectively.

Since the equipment and machineries under the three purchase agreements were purchased for future use in the development of Bailonggang Project, the total commitment of the Group to the Bailonggang Project, including the commitment under the three purchase agreements, would be limited to RMB400,000,000 (equivalent to approximately HK$493,827,000) being the commitment on capital contribution to a jointly controlled entity.

## 42. CONTINGENT LIABILITIES

A former constructor and material supplier of the Group has initiated legal proceeding in the PRC against subsidiaries of the Company during the year ended 31 December 2009 in relation to a dispute over the outstanding construction and material supply costs plus compensation. The amount claimed by the former constructor and material supplier approximates HK$8,617,000. A total of approximately HK$4,454,000 was recognised as trade and other payables as at 31 December 2012 and 2011 respectively in relation to the claim. The judgment of Zaozhuang City Intermediate People's Court was held in favour of the former constructor and material supplier. The Group had appealed in the Shandong Province High People's Court which turned down the judgment of Zaozhuang City Intermediate People's Court and ordered retrial to the case. As at 31 December 2012, the case was still under trial by the court in the PRC and subject to further directions to be given by Zaozhuang City Intermediate People's Court. The Group has assessed the claim and obtained legal advice, and considers that the final outcome of the claim will not have material effect on the financial position of the Group.

### 43. PLEDGE OF ASSETS

At the end of the reporting period, certain of the Group's buildings and structures and plant and machinery with aggregate carrying amount of HK$92,149,000 (2011: HK$290,874,000), prepaid lease payments on land use rights with carrying amount of HK$6,645,000 (2011: Nil), certain bills receivables with carrying amount of HK$3,951,000 (2011: Nil), certain other structured deposits with carrying value of HK$38,457,000 (2011: Nil) together with short-term bank deposits, carried fixed interest rate ranging from 3.08% to 3.33% per annum (2011: 3.33% per annum), of HK$79,398,000 (2011: HK$43,210,000) were pledged to secure bank loans to the extent of HK$77,305,000 (2011: HK$35,500,000) granted to the Group and short-term bank facilities in respect of the issuance of bills payable to suppliers amounting to HK$101,411,000 (2011: HK$33,097,000).

### 44. RELATED PARTY TRANSACTIONS AND BALANCES

During the year ended 31 December 2012 and 2011, the Group had transactions and balances with related parties as follows:

(a) The ultimate holding company, TACI, provided guarantees to secure bank loans of HK$85,582,000 of the Group at 31 December 2011. The guarantees were released in January 2012 and replaced by guarantees in name of the Company after the listing of its shares on the Main Board of the Stock Exchange.

(b) Summary of transactions

| | | **(Income)/Expense** | |
|---|---|---|---|
| | | **2012** | **2011** |
| | *Notes* | *HK$'000* | *HK$'000* |
| **Allied Properties (H.K.) Limited ("APL") and its subsidiaries and its ultimate holding company (other than Sun Hung Kai & Co. Limited ("SHK") and its subsidiaries)** | *(i)* | | |
| Rent paid | | 370 | – |
| Office expenses | | 120 | – |
| Management service fee *(note)* | | 310 | – |
| **SHK and its subsidiaries** | *(i)* | | |
| Underwriting commission and disbursements | | – | 4,155 |
| Insurance paid | | 242 | – |
| **A fellow subsidiary** | | | |
| Interest income | | – | (1,119) |
| **A partnership of which a non-executive director of the ultimate holding company of the Company is a partner** | | | |
| Legal and professional fees | | 992 | 1,735 |
| **A non-controlling shareholder of the Group's subsidiary** | | | |
| Management fee expense | | 55 | 81 |

*Note:* Apart from the management service fee charged pursuant to the sharing of administrative services and management services agreement entered into by the Company with the ultimate holding company of APL, none of the above related party transactions constitutes a discloseable connected transaction as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(c) Key management personnel compensation

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries and other short-term benefits | 6,342 | 3,168 |
| Post-employment costs | 244 | 121 |
| | 6,586 | 3,289 |

Certain key management personnel of the Group received remuneration from a company, or a wholly-owned subsidiary of such company, which has significant beneficial interests in the Company. Such company provided management services to the Group and charged the Group a fee, which has been included in management service fee as disclosed in part (b) of this note, for services provided by those personnel as well as others who were not key management personnel of the Group.

The above-mentioned management service fee is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the above key management personnel. The total of such apportioned amounts, which has been included in the key management personnel compensation above, is HK$189,000 (2011: Nil).

(d) Summary of balances

| | | 2012 | 2011 |
|---|---|---|---|
| | *Notes* | *HK$'000* | *HK$'000* |
| **Current liabilities** | | | |
| Dividends payable to non-controlling shareholders of the Group's subsidiaries | *(ii)* | 1,150 | 8,622 |
| Amounts due to a non-controlling shareholder of the Group's subsidiary | *(ii)* | 720 | 665 |
| Amount due to APL's ultimate holding company | *(ii)* | – | 1 |
| Amounts due to other related parties | | 1,870 | 9,288 |
| Amount due to APL's ultimate holding company (included in other payables and deposits received) | *(ii)* | 310 | – |
| Amount due to SHK and its subsidiaries (included in other payables and deposit received) | *(ii)* | – | 4,155 |
| Amount due to a partnership of which a non-executive director of the ultimate holding company of the Company is a partner (included in other payables and deposit received) | *(ii)* | 326 | 1,095 |

*Notes:*

(i) APL is a substantial shareholder with significant influence over the ultimate holding company of the Company. SHK is a subsidiary of APL as at 31 December 2012 and 31 December 2011.

(ii) The balances are unsecured, non-interest bearing and are repayable on demand.

## 45. FINANCIAL INFORMATION OF THE COMPANY

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Non-current assets** | | |
| Property, plant and equipment | 33 | – |
| Investments in subsidiaries | 421,736 | 344,371 |
| Amounts due from subsidiaries | 328,379 | 249,993 |
| | 750,148 | 594,364 |
| **Current assets** | | |
| Other receivables and deposits | 219 | 7,828 |
| Amounts due from subsidiaries | 14,000 | 14,000 |
| Bank balances | 1,387 | 2 |
| | 15,606 | 21,830 |
| **Current liabilities** | | |
| Accrued expenses | 1,448 | 14,536 |
| Amount due to a related company | – | 1 |
| | 1,448 | 14,537 |
| **Net current assets** | 14,158 | 7,293 |
| **Total assets less current liabilities** | 764,306 | 601,657 |
| **Capital and reserves** | | |
| Share capital | 6,600 | 4,950 |
| Share premium and reserves *(note)* | 757,706 | 596,707 |
| **Total equity** | 764,306 | 601,657 |

Particulars of all subsidiaries of the Company at 31 December 2012 and 2011 are set out in note 46 to the consolidated financial statements.

*Note:*

**Share premium and reserves**

| | Share premium *HK$'000* | Retained profits *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Issue of shares upon completion of the Corporate Reorganisation on 20 December 2011 | 349,181 | – | 349,181 |
| Reserve arising upon settlement of shareholders' loans | 225,882 | – | 225,882 |
| Profit for the year of the Company | – | 21,644 | 21,644 |
| At 31 December 2011 | 575,063 | 21,644 | 596,707 |
| Issue of shares pursuant to public offering and placing | 163,350 | – | 163,350 |
| Expenses incurred in connection with issue of new shares pursuant to public offering and placing | (7,361) | – | (7,361) |
| Profit for the year of the Company | – | 18,210 | 18,210 |
| Dividend recognised as distribution | – | (13,200) | (13,200) |
| At 31 December 2012 | 731,052 | 26,654 | 757,706 |

The Company's reserves available for distribution to Shareholders as at 31 December 2012 represented the share premium of HK$731,052,000 and retained profits of HK$26,654,000 (2011: share premium of HK$575,063,000 and retained profits of HK$21,644,000).

## 46. PARTICULARS OF SUBSIDIARIES

Particulars of all subsidiaries of the Company as at 31 December 2012 and 2011 are as follows:

| Name of company | Place of incorporation/ registration | Place of operations | Paid up issued ordinary share capital/Paid up registered capital | Effective equity interest attributable to the Group 2012 % | 2011 % | Principal activities |
|---|---|---|---|---|---|---|
| AII-cement Limited | British Virgin Islands | Hong Kong | US$1 | 100 | 100 | Investment holding |
| AII-Shanghai Inc. | British Virgin Islands | Hong Kong | US$15,376,500 | 83.33 | 83.33 | Investment holding and cement business |
| Fortunate Gold Limited | British Virgin Islands | Hong Kong | US$1 | 100 | – | Investment holding |
| SAC Intellectual Properties Limited | British Virgin Islands | Hong Kong | US$1 | 100 | 100 | Investment holding |
| Shandong Allied Wangchao Cement Limited | People's Republic of China | People's Republic of China | US$14,360,000 | 100 | 100 | Manufacture and sales of cement and clinker |

| Name of company | Place of incorporation/ registration | Place of operations | Paid up issued ordinary share capital/Paid up registered capital | Effective equity interest attributable to the Group 2012 % | 2011 % | Principal activities |
|---|---|---|---|---|---|---|
| Shandong Shanghai Allied Cement Co., Ltd. | People's Republic of China | People's Republic of China | US$1,000,000 | 100 | 100 | Manufacture and sales of slag |
| Shanghai Allied Cement Co., Ltd. | People's Republic of China | People's Republic of China | US$24,000,000 | 50* | 50* | Trading of cement and Clinker |
| Shanghai Allied Cement Holdings Limited | Hong Kong | Hong Kong | HK$10,000,000 | 100 | 100 | Investment holding |
| Splendid Link Limited | British Virgin Islands | Hong Kong | US$1 | 100 | 100 | Investment holding |

None of the subsidiaries had issued any debt securities at the end of the year.

*Remark:*

* This company is held and controlled by a 83.33%-owned subsidiary of the Company.

## 3. INDEBTEDNESS

As at the close of business on 30 November 2013, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this Composite Document, the Group had outstanding borrowings of approximately HK$105.6 million comprising secured bank loans of approximately HK$89.5 million, unsecured bank loans of approximately HK$11.9 million and unsecured borrowings of approximately HK$4.2 million from a non-controlling shareholder. The Group's secured bank loans were secured by charges over its assets, including property, plant and equipment, prepaid lease payments on land use rights, bills receivables and pledged short-term bank deposits.

In addition, there were contingent liabilities arising from litigation regarding proceedings relating to a former limestone excavation services provider of the Group. The construction and material supply costs and compensation claimed by the former services provider amounted to approximately HK$8.8 million, out of which a total of approximately HK$4.6 million were recognised as trade and other payables as at 30 November 2013 in relation to the claim. Further particulars are set out in the section headed "6. Litigation" in Appendix III to this Composite Document.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 November 2013.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 30 November 2013, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

## 4. MATERIAL CHANGE

The Directors confirm that save as and except for disclosed below, there is no material change in the financial or trading position or outlook of the Group since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up and up to and including the Latest Practicable Date.

(i) as compared to the results of the Group for the year ended 31 December 2012, the unaudited consolidated management accounts of the Group for the eleven months ended 30 November 2013 shows (a) decrease in inventories; (b) increase in trade and bills receivables; and (c) decrease in tax liabilities mainly due to the settlement of tax during 2013. The Company has yet to finalise the annual results of the Group for the year ended 31 December 2013 and is not in a position to quantify the financial statements of the Group for the year ended 31 December 2013.

(ii) the update of contingent liabilities arising from the litigation as disclosed in "6. Litigation" in Appendix III to this Composite Document.

## 1. RESPONSIBILITY STATEMENT

The information contained herein relating to the Offeror, the terms of the Offer and intentions of the Offeror in respect of the Group has been supplied by Mr. Yan Zhi Min, the sole director of the Offeror, and Mr. Huang Yu, the sole director of Shenzhen Aorongxin, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document relating to the Offeror, the terms and conditions of the Offer and the intentions of the Offeror in respect of the Group and confirms, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Group and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The information contained herein other than information relating to the Offeror, the terms of the Offer and intentions of the Offeror in respect of the Group has been supplied by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Offeror and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained herein misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company of HK$0.01 each as at the Latest Practicable Date were as follows:

| | |
|---|---|
| *Authorised Shares* | *HK$* |
| 20,000,000,000 | 200,000,000.00 |
| *Issued Shares* | |
| 660,000,000 | 6,600,000.00 |

Save for the Shares, the Company has no outstanding securities, options, derivatives, warrants and other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

All Shares in issue rank pari passu in all respects with each other including rights to dividends, voting and return of capital. The Company has not issued any Shares since 31 December 2012, the date to which the latest audited financial statements of the Company were made up.

## 3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, details of interests in the shares, underlying shares, debentures or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company held or controlled by the Offeror and parties acting in concert with it are as follows:

| Name of Shareholder | Capacity and nature of interest | Number of Shares held | Approximate % of interest |
|---|---|---|---|
| The Offeror | Beneficial owner | 370,000,000 | 56.06% |
| Waranty Hong Kong | Interest of controlled Corporation | 370,000,000 | 56.06% |
| Waranty Shenzhen | Interest of controlled Corporation | 370,000,000 | 56.06% |
| Tsinghua Holdings | Interest of controlled Corporation | 370,000,000 | 56.06% |
| Shenzhen Aorongxin | Interest of controlled Corporation | 370,000,000 | 56.06% |
| Tsinghua University | Interest of controlled Corporation | 370,000,000 | 56.06% |
| Huang Xuezhong | Interest of controlled Corporation | 370,000,000 | 56.06% |
| Huang Yu | Interest of controlled Corporation | 370,000,000 | 56.06% |

SHK agreed to act as the exclusive placing agent and underwriter of the Offeror. SHK shall place and fully underwrite all the Shares validly tendered for acceptance under the Offer. Save for the aforesaid Offer Shares to be underwritten by SHK, as at the Latest Practicable Date, there is no agreement, arrangement or understanding entered into by the Offeror that the securities acquired in pursuance of the Offer would be transferred, charged or pledged to any other persons.

SHK will take up all the Offer Shares validly tendered for acceptance under the Offer and it will place out the aforesaid Offer Shares to parties who are not connected persons of the Company upon closing of the Offer, so that SHK will not become a substantial Shareholder of the Company after the close of the Offer.

Save as disclosed above, as at the Latest Practicable Date, none of the Offeror and parties acting in concert with it had any interest in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

## 4. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS

(a) Save for the acquisition of the Sale Shares pursuant to the Sale and Purchase Agreement, none of the Offeror or its director, Waranty Hong Kong, Waranty Shenzhen, Tsinghua Holdings, Shenzhen Aorongxin, Tsinghua University, Mr. Huang Xuezhong, Mr. Huang Yu or any persons acting in concert with any of them owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date, and save for the entering into of the Sale and Purchase Agreement (which was completed on 4 February 2014), none of the Offeror or its director, Waranty Hong Kong, Waranty Shenzhen, Tsinghua Holdings, Shenzhen Aorongxin, Tsinghua University, Mr. Huang Xuezhong, Mr. Huang Yu or any persons acting in concert with any of them had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period. The entire issued share capital of the Offeror is owned by Waranty Hong Kong.

(b) The Vendor which retains 125,000,000 Shares has irrevocably undertaken to the Offeror not to accept the Offer and not to transfer the Shares it holds during the Offer Period in respect of the Offer. Save as the above, as at the Latest Practicable Date, no person had, prior to posting of this Composite Document, irrevocably committed himself to accept or reject the Offer.

(c) As at the Latest Practicable Date, the Offeror, Waranty Hong Kong, Waranty Shenzhen, Tsinghua Holdings, Shenzhen Aorongxin, Tsinghua University, Mr. Huang Xuezhong, Mr. Huang Yu or any persons acting in concert with any of them, had not entered into any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any other persons.

(d) As at the Latest Practicable Date, the Offeror, Waranty Hong Kong, Waranty Shenzhen, Tsinghua Holdings, Shenzhen Aorongxin, Tsinghua University, Mr. Huang Xuezhong, Mr. Huang Yu or any persons acting in concert with any of them, had not borrowed or lent any Shares or any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

(e) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) exists between the Offeror, Waranty Hong Kong, Waranty Shenzhen, Tsinghua Holdings, Shenzhen Aorongxin, Tsinghua University, Mr. Huang Xuezhong, Mr. Huang Yu or any persons acting in concert with any of them and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or was dependent upon the Offer.

(f) As at the Latest Practicable Date, there was no agreement or arrangement to which the Offeror is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer.

(g) As at the Latest Practicable Date, there was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code between Offeror, Waranty Hong Kong, Waranty Shenzhen, Tsinghua Holdings, Shenzhen Aorongxin, Tsinghua University, Mr. Huang Xuezhong, Mr. Huang Yu or any persons acting in concert with any of them or the Offeror's associate, and any other person.

(h) Save as the Retained Shares, the Vendor does not own or control any other Shares, convertible securities, warrants, options or derivatives of the Company. Save for the Sale Shares, the Vendor had not dealt for value in any Shares, convertible securities, warrants, options or other derivatives of the Company during the Relevant Period.

(i) As at the Latest Practicable Date, the Company did not have any beneficial interest in the shares, convertible securities, warrants, options and derivatives of the Offeror, and the Company had not dealt for value in any shares, convertible securities, warrants, options or derivatives of the Offeror during the Relevant Period.

(j) As at the Latest Practicable Date, none of the Directors had any interests in any Shares, convertible securities, warrants, options or other derivatives of the Company, and none of the Directors had dealt for value in any Shares, convertible securities, warrants, options or other derivatives of the Company during the Relevant Period.

(k) As at the Latest Practicable Date, none of the Directors had any interests in any shares, convertible securities, warrants, options or other derivatives of the Offeror, and none of the Directors had dealt for value in any shares, convertible securities, warrants, options or other derivatives of the Offeror during the Relevant Period.

(l) None of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of a subsidiary of the Company; or (iii) any advisers to the Company (as specified in class (2) of the definition of "associate" under the Takeovers Code) had any interest in the Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date, and none of them had dealt in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(m) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code.

(n) No Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by any fund managers connected with the Company as at the Latest Practicable Date, and none of them had dealt in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(o) As at the Latest Practicable Date, no Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company had been borrowed or lent by any of the Directors or by the Company.

(p) As at the Latest Practicable Date, no benefit (other than statutory compensation) was or will be given to any Director as compensation for loss of office or otherwise in connection with the Offer.

(q) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

(r) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any Director has a material personal interest.

## 5. MARKET PRICES

The table below sets out the closing prices of the Shares on the Stock Exchange on (i) the last Business Day of each of the calendar months during the Relevant Period; (ii) the Last Trading Date; and (iii) the Latest Practicable Date:

| **Date** | **Closing price** *(HK$)* |
|---|---|
| 28 June 2013 | 0.78 |
| 31 July 2013 | 0.85 |
| 30 August 2013 | 0.89 |
| 30 September 2013 | 1.40 |
| 31 October 2013 | 2.15 |
| 29 November 2013 | 2.19 |
| Last Trading Day | 2.25 |
| 31 December 2013 | 2.16 |
| 30 January 2014 | 1.85 |
| Latest Practicable Date | 1.80 |

During the Relevant Period, the highest closing price per Share as quoted on the Stock Exchange was HK$2.49 per Share on 21 October 2013 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.78 per Share on 21 June, 24 to 28 June, 24 July, 26 July, 29 to 30 July, 7 to 8 August and 20 to 21 August 2013.

As the shares of the Offeror are not listed on the Stock Exchange or any other stock exchange and the Offeror was newly incorporated for the purpose of holding the Sale Shares, there is no information available as to the number and price of transactions which have taken place during the Relevant Period.

## 6. LITIGATION

A former limestone excavation service provider (the "Former Contractor") initiated legal proceedings against Shandong Allied Wangchao Cement Limited ("Allied Wangchao") and Shandong Shanghai Allied Cement Co., Ltd. ("Shandong SAC"), both wholly-owned subsidiaries of the Company, in November 2009 at Zaozhuang City Intermediate People's Court (棗莊市中級人民法院) ("Zaozhuang City Court") for the failure of Allied Wangchao to settle service fees in respect of infrastructure at Langshan, Taierzhuang (台兒莊狼山礦區) and supply of limestone excavated from Langshan quarry in accordance with the contract entered into between Allied Wangchao and the Former Contractor on 6 September 2004. Under this legal proceeding, the Former Contractor claimed for outstanding service fees for infrastructure of approximately RMB2.7 million and for excavation and supply of minerals of approximately RMB4.3 million, totaling approximately RMB7.0 million. In addition, the Former Contractor further claimed for damages of RMB1.4 million for alleged breach of contract. Allied Wangchao and Shandong SAC counterclaimed against the Former Contractor for the damages of approximately RMB2.8 million as compensation for the monetary losses caused by the Former Contractor's failure to provide Allied Wangchao the relevant invoices for claiming value added tax refund in the same year. On 5 July 2010, the Zaozhuang City Court handed down a judgment in favour of the Former Contractor concluding that Allied Wangchao and Shandong SAC shall pay the Former Contractor a total sum of approximately RMB8.4 million. The Group appealed to a higher court and on 10 December 2010, the Shandong Province High People's Court (山東省高級人民法院) ("Shandong High Court") set aside the judgment of the Zaozhuang City Court and remitted the case for re-trial. On 20 November 2013, the Zaozhuang City Court ruled in favour of the Former Contractor for its claims and awarded an aggregate of approximately RMB5.8 million in respect of outstanding service fees for infrastructure and excavation and supply of minerals, together with damages for alleged breach of contract. However, the Zaozhuang City Court also ruled that the Former Contractor shall pay Allied Wangchao and Shandong SAC approximately RMB2.8 million as compensation for monetary losses. The Group appealed again to the Shandong High Court on 27 December 2013 against the parts of the ruling of Zaozhuang City Court which are in favour of the Former Contractor in respect of excavation and supply of minerals and damages for alleged breach of contract.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

## 7. MATERIAL CONTRACTS

As at the Latest Practicable Date, save as the following contracts, no contracts (not being contracts entered into in the ordinary course of business) have been entered into by any member of the Group within the two years preceding the date of the Joint Announcement and ending on the Latest Practicable Date and are or maybe material in relation to the business of the Group as a whole:

(a) a deed of reorganisation dated 20 December 2011 entered into between the Company, Sunwealth Holdings Limited ("Sunwealth Holdings", an indirect wholly-owned subsidiary of Tian An) and Tian An, pursuant to which Sunwealth Holdings agreed to sell the one share in Splendid Link Limited ("Splendid Link", a wholly-owned subsidiary of the Company) and the shareholder's loan in the total amount of HK$227,305,017.43 owed by Splendid Link and its subsidiary, namely Shanghai Allied Cement Holdings Limited ("SAC Holdings"), to the Company in consideration of the Company's allotting and issuing 494,999,999 Shares of HK$0.01 each credited as fully paid at an issue price of HK$1.00 per Share to Sunwealth Holdings or as it may direct (the "Deed of Reorganisation");

(b) pursuant to terms and conditions of the Deed of Reorganisation, a deed of loan assignment dated 20 December 2011 entered into between the Company, Sunwealth Holdings, Splendid Link and SAC Holdings in relation to the assignment of a loan in the amount of HK$227,305,017.43 due from Splendid Link and SAC Holdings to Sunwealth Holdings;

(c) a deed of non-competition dated 20 December 2011 entered into between the Company and Tian An;

(d) a deed of indemnity dated 20 December 2011 given by the Vendor and Tian An in favour of the Company;

(e) the underwriting agreement dated 29 December 2011 entered into, among others, the Company, the Executive Directors, the Vendor, Tian An and the underwriter with respect to the share offer of the Company;

(f) 《關於建設「白龍港項目」合作協議》(Bailonggang Project Construction Cooperation Agreement*) dated 13 February 2012 entered into between 上海建築材料(集團)總公司 (Shanghai Building Material (Group) General Company*) ("Shanghai Building Material") and 上海聯合水泥有限公司 (Shanghai Allied Cement Co., Ltd.*) ("Shanghai SAC") (an indirect non wholly-owned subsidiary of the Company) with respect to the development of new cement production facilities at Bailonggang (白龍港), Pudong, Shanghai, the PRC;

(g) 《關於設立合資公司(原則)協議》(Principle Agreement for the Establishment of the JV Company*) dated 13 February 2012 entered into between Shanghai Building Material and Shanghai SAC setting out the principle and principal terms of the joint venture company to be established in the PRC by Shanghai Building Material and Shanghai SAC pursuant to which Shanghai SAC would invest a sum of RMB400,000,000 to the joint venture company;

(h) the purchase agreement dated 28 September 2012 (as amended and supplemented by a supplemental agreement signed on 28 September 2012 by the same parties) entered into between Shanghai SAC as purchaser and 成都利君實業股份有限公司 (Chengdu Leejun Industrial Co., Ltd.*) ("Chengdu Leejun") as supplier pursuant to which Shanghai SAC agreed to purchase certain equipment and machineries from Chengdu Leejun at a consideration of RMB42.00 million;

(i) the purchase agreement dated 28 September 2012 (as amended and supplemented by a supplemental agreement signed on 28 September 2012 by the same parties) entered into between Shanghai SAC as purchaser and 萊歇研磨機械製造(上海)有限公司 (Loesche (Shanghai) Co., Ltd.*)("Loesche Shanghai") as supplier pursuant to which Shanghai SAC agreed to purchase certain equipment and machineries from Loesche Shanghai at a consideration of RMB103.00 million; and

(j) the purchase agreement dated 28 September 2012 (as amended and supplemented by a supplemental agreement signed on 28 September 2012 by the same parties) entered into between Shanghai SAC as purchaser and 中材裝備集團有限公司 (Sinoma Technology & Equipment Group Co. Ltd.*) ("Sinoma Technology") as supplier pursuant to which Shanghai SAC agreed to purchase certain equipment and machineries from Sinoma Technology at a consideration of RMB235.00 million.

## 8. EXPERTS AND CONSENTS

The followings are the qualifications of the experts contained in this Composite Document:

| Name | Qualification |
|---|---|
| Yu Ming | a licensed corporation permitted to carry out Types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO |
| Quam Capital | a licensed corporation permitted to carry out Type 6 (advising on corporate finance) regulated activities under the SFO |

Each of Yu Ming and Quam Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter and/or report, recommendation or opinion, and/or the reference to its name in the form and context in which they are included herein.

As at the Latest Practicable Date, none of Yu Ming and Quam Capital had any shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of Yu Ming and Quam Capital had any direct or indirect interest in any assets which have been, since 31 December 2012 (the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 9. DIRECTORS' SERVICE CONTRACTS

Upon the expiry of their previous terms of appointment, each of Mr. Chan Sze Chung ("Mr. Chan"), Mr. Cheng Kin Chung ("Mr. Cheng") and Ms. Doris Yang Yan Tung ("Ms. Yang"), all being the independent non-executive Directors ("INEDs") of the Company, has entered into a letter of appointment on 3 January 2014 with the Company, with term of service commencing from 18 January 2014 until 17 January 2016 and subject to retirement by rotation and re-election pursuant to the articles of association of the Company. Pursuant to the letters of appointment, all INEDs are entitled to a Directors' fee of HK$10,000 per annum and each of Mr. Chan, Mr. Cheng and Ms. Yang is entitled to a service fee of HK$79,500, HK$102,000 and HK$79,500 per annum respectively. No variable remuneration is payable under the letters of appointment of Mr. Chan, Mr. Cheng and Ms. Yang.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months preceding the date of the Joint Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

## 10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) on the website of the Company (http://www.alliedcement.com.hk); (ii) on the website of the SFC (http://www.sfc.hk); and (iii) at the office of Messrs P.C. Woo & Co. at 12th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong (during normal business hours on any business day) from the date of this Composite Document up to and including the Closing Date or the date on which the Offer lapses or is withdrawn (whichever is earlier):

(a) the memorandum and articles of association of the Offeror;

(b) the memorandum and articles of association of the Company;

(c) the annual reports of Company for the two years ended 31 December 2011 and 2012;

(d) the Letter from Yu Ming, the text of which is set out on pages 7 to 14 of this Composite Document;

(e) the Letter from the Board, the text of which is set out on pages 15 to 20 of this Composite Document;

(f) the Letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 of this Composite Document;

(g) the Letter from Quam Capital, the text of which is set out on pages 23 to 43 of this Composite Document;

(h) each of the contracts as set out under the section headed "Material Contracts" in this appendix;

(i) the letters of appointment of Mr. Chan, Mr. Cheng and Ms. Yang as referred to in the section headed "Directors' service contracts" in this appendix; and

(j) the written consents from Yu Ming and Quam Capital referred to in the section headed "Expert and Consent" in this appendix.

## 11. GENERAL

As at the Latest Practicable Date:

(a) The registered office of the Company is situated at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands and its head office and principal place of business in Hong Kong is 9th Floor, Allied Kajima Building 138 Gloucester Road, Wanchai, Hong Kong.

(b) The branch share registrar and transfer agent of the Company in Hong Kong is Tricor Secretaries Limited, which is situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(c) The registered office of the Offeror is situated at Unit 8, 3rd Floor, Qwomar Trading Complex, Blackburne Road, Port Purcell, Road Town, Tortola, British Virgin Islands, VG1110.

(d) The registered office of Waranty Hong Kong is situated at 10th Floor, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

(e) The registered office of Yu Ming is situated at Room 1801, 18th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

(f) The registered office of SHK is situated at 42nd Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

(g) The English text of this Composite Document and the accompanying Form of Acceptance and Transfer shall prevail over their respective Chinese text in case of inconsistency.