
ACQUISITION OF INTERESTS IN TAIHANG HUAXIN

BACKGROUND

Pursuant to the Taihang Huaxin Entrustment Agreement, our Parent entrusted to us all the rights and benefits (except for certain reserved matters as described in “*Relationship with Controlling Shareholder—Entrustment Agreement in Respect of Taihang Cement*”) in the Entrusted Equity Interests, including the voting rights, the right to nominate directors and the right to receive dividends, etc. As a result, we are a controlling shareholder of Taihang Huaxin. In addition, we have an option to acquire the Entrusted Equity Interests at any time during the entrustment period on terms and conditions to be determined by our Parent and our Company. We and our Parent currently intend that the purchase price of the Entrusted Equity Interests will be based on the lowest price as allowed by competent PRC authority, including SASAC, calculated by reference to the valuation and market value of the Entrusted Equity Interests. We believe that such purchase price would be commercially favourable to us and that it would be in the best interest of our Company to purchase the Entrusted Equity Interests at such a price.

Our Company intends to acquire the Entrusted Equity Interests within the first 12 months following 21 December 2009, the expiry date of the lock-up period imposed on our Parent pursuant to the share transfer agreement entered into by our Parent and Handan SASAC dated 16 September 2006 regarding the transfer of 50.84% equity interests in Taihang Huaxin.

The Taihang Huaxin Entrustment Agreement will terminate upon the earlier of (a) our acquisition of all or part of the Entrusted Equity Interests, or (b) our exercise of our right to terminate the agreement on at least 10 business days’ prior written notice. Upon the expiry of the initial three-year term, commencing 6 August 2008, if we have not acquired any of the Entrusted Equity Interests, the Taihang Huaxin Entrustment Agreement will, subject to compliance with the requirements of the applicable law and regulations (including requirements under the Listing Rules relating to connected transactions), automatically be renewed for a further term of three years unless our Company otherwise notifies our Parent in writing. The terms and conditions of the Taihang Huaxin Entrustment Agreement (including the renewal provision) will continue to bind the parties thereto. Pursuant to the terms of the Taihang Huaxin Entrustment Agreement, our Company may terminate the Taihang Huaxin Entrustment Agreement by giving to our Parent 10 business days’ prior written notice while our Parent has no right to unilaterally terminate the Taihang Huaxin Entrustment Agreement under its terms. The Taihang Huaxin Entrustment Agreement is intended to be an interim arrangement prior to our acquisition of the equity interests in Taihang Huaxin held by our Parent. For further details, see “*Relationship with Controlling Shareholder—Entrustment Agreement in respect of Taihang Huaxin*”.

Proceeds from the Global Offering will not be used to acquire the Entrusted Equity Interests.

CORPORATE AND REGULATORY PROCEDURES

Set forth below is a summary of the key steps which we intend to take if we are to exercise our option to purchase the Entrusted Equity Interests:

- a proposal to exercise our option to purchase the Entrusted Equity Interests shall be submitted by us to our Board for approval and by our Parent to its board of directors for approval;
- according to the PRC *Law on State-owned Asset of Enterprises* (中華人民共和國企業國有資產法) (which was implemented on 1 May 2009), if a company, in which the State has a controlling

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stake, transfers material assets, then a valuation of the relevant assets should be carried out in accordance with the relevant regulations. Since the Entrusted Equity Interests are State-owned assets, an asset valuation of the Entrusted Equity Interests shall be carried out in accordance with the relevant regulations and after obtaining approval from Beijing SASAC;

- unless a waiver is obtained from the Beijing SASAC, the consideration to be paid by us must be based on the asset valuation, and such consideration cannot be less than 90.0% of the total appraised value of the Entrusted Equity Interests as approved by the Beijing SASAC;
- under PRC laws, except with a waiver from the Beijing SASAC, our Parent is required to publicly solicit potential purchasers of the Entrusted Equity Interests by publishing for 20 days the proposed terms of the sale in financial press available for sale in Beijing or related internet sites. If more than two parties express interest in purchasing the Entrusted Equity Interests, the transaction shall be conducted by way of an auction process. On 6 July 2009, our Parent received written confirmation from the Beijing SASAC indicating that the Beijing SASAC has agreed in principle that our Parent may transfer the Entrusted Equity Interests pursuant to a share transfer agreement between our Parent and our Company. Our PRC legal advisor is of the opinion that, based on the written confirmation from the Beijing SASAC, our Parent is exempt from the publishing and auction requirement with respect to the sale of the Entrusted Equity Interests and that an auction process will not be applicable;
- the share transfer agreement in connection with the transfer of the Entrusted Equity Interests shall be submitted to the Beijing SASAC for its approval;
- our Company will disclose any opinion of the independent non-executive Directors with respect to the exercise of the option to acquire the Entrusted Equity Interests by way of disclosure in our annual reports or interim reports or by way of timely announcements to the public; and
- the acquisition will, where applicable, be subject to disclosure and approval requirements under the Listing Rules. If we decide to renew, terminate or exercise the option to acquire the Entrusted Equity Interests under the Taihang Huaxin Entrustment Agreement, and (i) the percentage ratios (other than profits ratio) calculated by reference to Rule 14.07 of the Listing Rules exceed 2.5% and (ii) the consideration is more than HK\$10.0 million, then independent Shareholders' approval will be required under Rule 14A.35 of the Listing Rules.

OPERATIONAL EFFECT

If we acquire the Entrusted Equity Interests

Upon completion of the acquisition of the Entrusted Equity Interests, we will continue to enjoy all our current rights and benefits in the Entrusted Equity Interests and will, in addition, enjoy the rights and benefits of the reserved matters described in “*Relationship with Controlling Shareholder — Entrustment Agreement in Respect of Taihang Huaxin*”.

We intend to exercise our option to acquire the Entrusted Equity Interests. After such acquisition, our Parent's only interest in Taihang Cement will be indirectly held through its equity interests in our Company. We intend to acquire the Entrusted Equity Interests to resolve a potential competition issue between the cement businesses of our Company and our Parent.

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If we do not acquire the Entrusted Equity Interests

If do not exercise our option to acquire the Entrusted Equity Interests but we allow the Taihang Huaxin Entrustment Agreement to automatically renew, as is our option, our rights and obligations with respect to the Entrusted Equity Interests will remain the same as they are currently.

We currently intend to continue to allow the automatic renewal of the Taihang Huaxin Entrustment Agreement until we exercise our option to acquire the Entrusted Equity Interests. However, if we terminate the Taihang Huaxin Entrustment Agreement without exercising our option to acquire the Entrusted Equity Interests, the rights and obligations of our Parent and us shall be the same as before the effective date of the Taihang Huaxin Entrustment Agreement. Hence, our Parent would enjoy and exercise all rights and interests in relation to the Entrusted Equity Interests as provided for in the PRC Company Law and as stated in the articles of association of Taihang Huaxin, and we would have none. In addition, if we terminate the Taihang Huaxin Entrustment Agreement prior to the completion of the Asset Restructuring, as a result of which our Parent will indirectly hold a controlling interest in Taihang Cement, our Parent may need to implement certain additional measures to resolve potential competition between our cement businesses (other than Taihang Cement) and our Parent's controlling interest in Taihang Cement.

FINANCIAL EFFECT

If we acquire the Entrusted Equity Interests

If we exercise our option to acquire the Entrusted Equity Interests, we will need to pay consideration for the purchase of the Entrusted Equity Interests in an amount equal to at least 90.0% of the total appraised value of the Entrusted Equity Interests as approved by the Beijing SASAC. Since currently we have financial control of Taihang Huaxin and are entitled to any dividends it pays with respect to the Entrusted Equity Interests, there is not expected to be any financial effect on our Group upon completion of the acquisition of the Entrusted Equity Interests other than payment by us of the purchase price. Since Taihang Huaxin currently is accounted for as a subsidiary of the Company, after acquiring the Entrusted Equity Interests, our accounting treatment with respect to Taihang Huaxin will remain the same, except that the minority interest in our Group's accounts attributable to our Parent's 61.67% interests in Taihang Huaxin will no longer be present.

If we do not acquire the Entrusted Equity Interests

If we do not exercise our option to acquire the Entrusted Equity Interests but we continue to allow the automatic renewal of the Taihang Huaxin Entrustment Agreement, we will continue to be entitled to any dividends paid by Taihang Huaxin with respect to the Entrusted Equity Interests and Taihang Huaxin will continue to be accounted for as a subsidiary of the Company.

If we terminate the Taihang Huaxin Entrustment Agreement without exercising our option to acquire the Entrusted Equity Interests, we will no longer be entitled to any dividends paid with respect to the Entrusted Equity Interests. In addition, Taihang Huaxin will no longer be accounted for as a subsidiary of our Company as we would then control only 33.33% of Taihang Cement's equity interests rather than 95.0%. As a result, the items of income, expenses, assets and liabilities of Taihang Huaxin will no longer be consolidated line by line into our Group's consolidated accounts. However, because the Group would continue to hold a 33.33% direct equity interest in Taihang Huaxin, the 33.33% of the results of Taihang Huaxin attributable to our Group would be

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accounted for as “share of profits and losses of an associate” on the consolidated income statement of the Group and the Group’s 33.33% share of the net assets of Taihang Huaxin would be accounted for as “interest in an associate” on the consolidated statement of financial position of the Group.