WEST CHINA CEMENT LIMITED
PLACING AND ADMISSION TO AIM
BY INSINGER DE BEAUFORT

WEST CHINA
CEMENT
中国西部水泥

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN ANY DOUBT ABOUT THE CONTENTS OF THIS DOCUMENT AND WHAT ACTION YOU SHOULD TAKE YOU ARE RECOMMENDED IMMEDIATELY TO SEEK YOUR OWN FINANCIAL ADVICE FROM YOUR STOCKBROKER, SOLICITOR, ACCOUNTANT OR OTHER INDEPENDENT ADVISER WHO SPECIALISES IN ADVISING ON THE ACQUISITION OF SHARES AND OTHER SECURITIES AND IS AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000.

This document is drawn up as an admission document in accordance with the AIM Rules. This document does not constitute an offer to the public in accordance with the provisions of Section 85 of FSMA and is not a prospectus for the purposes of the Prospectus Rules. Accordingly, this document has not been approved by the FSA. The document has been approved as a prospectus by the Jersey Financial Services Authority.

A copy of this document has been delivered to the Registrar of Companies in Jersey in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, as amended, and he has given, and has not withdrawn, his written consent to its circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 2 of the Control of Borrowing (Jersey) Order 1958, as amended, to the issue of the Ordinary Shares in the Company. It must be distinctly understood that, in giving these consents, neither the Registrar of Companies in Jersey nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Company or for the correctness of any statements made, or opinions expressed, with regard to it. The Jersey Financial Services Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended, against any liability arising from the discharge of its functions under that law.

The Company and the Directors are the persons responsible for this document. The Company and the Directors (whose names and functions appear on page i of this document) accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

Application has been made for the whole of the ordinary share capital of West China Cement Limited in issue and to be issued pursuant to the Placing to be admitted to trading on AIM. Dealings in the Ordinary Shares are expected to commence on AIM on 4 December 2006. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document.

West China Cement Limited

(A company incorporated in Jersey with registered number 94796)

Placing of 20,952,381 New Ordinary Shares
at a price of 105p per share
and
Admission to trading on AIM

Nominated Adviser and Lead Broker
Insinger de Beaufort

Joint Broker to the Placing
Blue Oak Capital Limited

Ordinary Share Capital following Admission

Authorised			*Issued and Fully Paid*	
Number	*Nominal Value*		*Number*	*Nominal Value*
200,000,000	£20,000,000	Ordinary Shares of 10p each	63,688,366	£6,368,836.60

Your attention is drawn to Part II of this document, which sets out certain risk factors relating to any investment in Ordinary Shares. All statements regarding the Company's business, financial position and prospects should be viewed in light of the risk factors set out in Part II of this document.

Law may restrict the distribution of this document in jurisdictions other than the United Kingdom and, therefore, any persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

This document does not constitute an offer for sale or an invitation to subscribe for, or the solicitation of an offer to buy or subscribe for, Placing Shares in any jurisdiction where such an offer or solicitation is unlawful and, subject to certain exceptions is not for distribution in or into the United States, Canada, Japan, Australia, Ireland or South Africa. The New Ordinary Shares have not been, and will not be, registered under the US Securities Act or under the applicable securities laws of Canada, Japan, Australia, Ireland or South Africa nor has this document been filed in Ireland and, subject to certain exceptions, may not be offered for sale or subscription, or sold or subscribed directly or indirectly, within the United States, Canada, Japan, Australia, Ireland or South Africa or to or by any national, resident or citizen of such countries.

Insinger de Beaufort which is regulated by the FSA, is acting exclusively as nominated adviser and broker to the Company in connection with the arrangements set out in this document and is not acting for any other person and will not be responsible to any other person for providing the protections afforded to customers of Insinger de Beaufort, or for advising any other person in connection with the arrangements set out in this document. Insinger de Beaufort as nominated adviser to the Company under the AIM rules owes certain responsibilities solely to the London Stock Exchange, which are not owed to the Company or the Directors or to any other person in respect of his decision to acquire New Ordinary Shares in reliance on any part of this document. The information contained in this document has been prepared solely for the purposes of the Placing and Admission and is not intended to inform or be relied upon by any subsequent purchasers of Ordinary Shares (whether on or off exchange) and accordingly no duty of care is accepted in relation to them.

The Placing Shares being issued pursuant to the Placing will rank *pari passu* in all respects with the existing issued Ordinary Shares of the Company and will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company.

FURTHER INFORMATION FOR OVERSEAS INVESTORS

FRANCE

This document, which does not constitute an offer of financial instruments to the public within the meaning of Article L.411-1 of the French Code Monétaire et Financier ("CMF") and Article 211-1 of the Réglement Général of the French Autorité des Marchés Financiers ("RGAMF"), nor a solicitation to enter into a transaction involving financial instruments, and which has not been submitted to and is not subject to the prior approval ("visa") of the Autorité des Marchés Financiers under conditions set out inter alia by articles 212-1 et seq. of the RGAMF, nor any information contained therein or any offering material relating to the Company's shares, may be distributed or caused to be distributed to the public in France.

The shares may only be offered or sold, in accordance with Article L.411-2-4° of the CMF, to qualified investors (investisseurs qualifiés) listed under Article D.411-1 of the CMF and/or to a restricted circle of investors (cercle restreint d'investisseurs), of less than 100 investors pursuant to Article D.411-2 of the CMF, in each case acting for their own account, within the meaning of, and in compliance with Articles D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the CMF and undertaking not to offer, market or distribute, sell or resell or otherwise retransfer, directly or indirectly to the public in France, any shares purchased as a result, other than, if relevant, in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the CMF.

HONG KONG

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This document is delivered to the recipient solely for the purpose of evaluating a possible investment in the Company and may not be used, copied, reproduced or distributed in whole or in part, to any other person (except in circumstances which do not constitute an offer to the public for the purposes of the Hong Kong Companies Ordinance or the Securities and Futures Ordinance). This document may not be passed on and applications from any person other than the person to whom it is addressed will not be accepted.

SINGAPORE

The offer which is the subject of this document is not allowed to be made to the retail public. This document is not a prospectus as defined in the Securities And Futures Act (Cap. 289) of Singapore ("SFA".) It has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. You should consider carefully whether the investment is suitable for you.

The shares to be issued by West China Cement are offered pursuant to exemptions invoked under Sections 274 and 275 of the SFA. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor specified in Section 274 of the SFA, (ii) to a relevant person, and in accordance with the conditions specified in Section 275(1) of the SFA or (iii) to a person referred to, and in accordance with the conditions specified in Section 275(1A) of the SFA or (iv) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

SPAIN

This document is being distributed in Spain only to qualified investors, as defined in the Spanish Securities Market Act and in Spanish Royal Decree 1310/2005. This document is neither approved by nor registered in the administrative registries of the Spanish Comisión Nacional del Mercado de Valores. The Placing Shares may not be offered or sold in Spain or targeted to Spanish resident investors save in compliance with the requirment of the Spanish Securities Markets Law, as amended and restated, from time to time, and decrees, regulations and any further subsequent legislation issued thereunder.

CONTENTS

DIRECTORS, SECRETARY AND ADVISERS

Directors	Robert Robertson *(Non-Executive Chairman)* Jimin Zhang *(Chief Executive Officer)* Jianli Wang *(Technical Director)* Zhenjun Tian *(Financial Director)* Brett Lance Miller *(Non-executive director)*
	All of:
Registered office	47 Esplanade St Helier Jersey JE1 0BD
Company Secretary	Tian Zhenjun
Assistant Secretary	Dominion Corporate Services Limited 47 Esplanade St Helier Jersey JE1 0BD
Nominated Adviser and Lead Broker	Insinger de Beaufort 131 Finsbury Pavement London EC2A 1NT UK
Joint Broker to the Placing	Blue Oak Capital Limited Savannah House 11-12 Charles II Street London SW1Y 4QU
Legal Advisers to the Company (UK)	Halliwells LLP St James's Court Brown Street Manchester M2 2JF
Legal Advisers to the Company (PRC)	Zong Heng Room 339 Number 12 east Chang An Avenue Beijing 100742
Solicitors to the Placing	Memery Crystal LLP 44 Southampton Buildings London WC2A 1AP UK
Reporting Accountants	PKF (UK) LLP 1 Farringdon Place 20 Farringdon Road London EC1M 3AP
Auditors (UK)	PKF (UK) LLP Pannell House 6 Queen Street Leeds LS1 2TW

Auditors (PRC and BVI)	PKF, Certified Public Accountants 26/F, Citicorp Centre 18 Whitfield Road Causeway Bay Hong Kong
Public Relations	Haggie Financial Limited Roman House Wood Street London EC2Y 5BA UK
Registrars	Computershare Investor Services (Channel Islands) Limited Ordnance House 31 Pier Road St Helier Jersey JE4 8PW

KEY INFORMATION

The following information is derived from, and should be read in conjunction with, the full text of this document. You should read the whole of this document before making any investment decision with respect to the Ordinary Shares and not just rely on the key information set out below. In particular, your attention is drawn to the risk factors set out in Part II of this document.

- West China Cement is a producer and distributor of cement, based in Shaanxi Province in the Peoples' Republic of China and headquartered in Xi'an, the provincial capital of Shaanxi Province.

- The Group operates three cement production lines in the Pucheng area, approximately 150km to the North East of Xi'an, with a combined annual capacity of 1.5 million tonnes. The production lines are currently operating at full capacity being approximately 300 days of operations per year.

- The Group is in the process of constructing two new production lines at Lantian, 35km from Xi'an. Each line will have an anticipated annual capacity of 1 million tonnes of cement with the first line expected to be in production by March 2007 and the second by November 2007.

- The Lantian plant will be the nearest large-scale NCPP cement production facility to Xi'an and is situated next to the new Xikang Expressway, facilitating the efficient transport of cement to the Xi'an market.

- The PRC Government is actively promoting the restructuring of the Chinese cement industry with a shift away from small-scale and environmentally harmful producers towards large, modern production plants.

- The Group's plants utilise modern and environmentally friendly production processes and it therefore receives favourable taxation treatment.

- The Directors believe that the Shaanxi Province 11th Five Year Development Plan coupled with the PRC Government policy of "Western Development" will lead to the continued growth in demand for cement. Reflecting the large infrastructural development envisaged by these policies, it is anticipated that the Group's sales will be increasingly focussed on infrastructure related projects.

- The Group is profitable and has grown both turnover and profits in recent years. In the year ended December 2005 Yaobai Cement achieved a net profit after tax of RMB44.4 million on sales of RMB238.2 million. In the first six months of 2006, it achieved a profit after taxation of RMB27.6 million on sales of RMB138.0 million. The Directors anticipate that continued growth in demand for cement coupled with the restructuring of the cement industry will enable the Group to continue to grow turnover as expanded capacity comes on stream.

- While the Directors do not anticipate that a dividend will be declared in respect of the current year, it is the intention of the Board to pay a progressive level of dividends consistent with the Group's profitability, capital expenditure requirements and cash resources.

- The Company is seeking admission to AIM to enable the funding of new production capacity and associated working capital requirements.

PLACING STATISTICS

Placing Price	105p per Placing Share
Number of Ordinary Shares in issue at Admission	63,688,366
Number of Placing Shares being placed on behalf of the Company	20,952,381
Percentage of Enlarged Issued Share Capital represented by the Placing Shares	32.9%
Gross proceeds of the Placing	£22,000,000
Net amount, after expenses, being raised for the Company	£20,100,000
Market capitalisation at Admission at the Placing Price	£66,872,784

EXPECTED TIMETABLE

Admission effective and dealings anticipated to commence on AIM in the Enlarged Issued Share Capital	4 December 2006
CREST member accounts credited (where applicable)	4 December 2006
Expected despatch of definitive share certificates for the New Ordinary Shares (where applicable)	by 11 December 2006

EXCHANGE RATES

For reference only, unless otherwise stated, the following exchange rates were used for the purpose of this document:

GBP £1.00: RMB15: HK$14.8

DEFINITIONS

In this document, where the context permits, the expressions set out below shall have the following meanings:

"Acquisition"	the acquisition of the entire issued share capital of West China (BVI) by the Company pursuant to the Acquisition Agreement
"Acquisition Agreement"	the acquisition agreement pursuant to which the Company acquired the entire issued share capital of West China (BVI), described in paragraph 11.2 of Part V of this document
"Act"	the Companies Act 1985 (as amended)
"Admission"	admission of the Ordinary Shares to trading on AIM and such admission becoming effective in accordance with Rule 6 of the AIM Rules
"AIM"	a market operated by the London Stock Exchange
"AIM Rules"	the rules for AIM published by the London Stock Exchange governing admission to and the operation of AIM
"Articles"	the articles of association of the Company
"Board" or "Directors"	the directors of the Company whose names appear on page i of this document
"Bureau"	the National Bureau of Statistics of China
"BVI"	the British Virgin Islands
"Combined Code"	the Combined Code on the principles of good corporate governance and code of best practice published in June 2006 by the Financial Reporting Council
"Company" or "WCC" or "West China Cement"	West China Cement Limited
"CREST"	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by CRESTCo
"CRESTCo"	CRESTCo Limited, a company incorporated under the laws of England and Wales and operator of CREST
"CREST Regulations"	the Uncertified Securities Regulations 2001 (SI 2001 No. 01/3755)
"Enlarged Issued Share Capital"	the entire issued ordinary share capital of the Company immediately following Admission
"Existing Issued Shares"	the 42,735,985 Ordinary Shares in issue at the date of this document
"FSA"	the Financial Services Authority
"FSMA"	the Financial Services and Markets Act 2000, as amended
"GDP"	gross domestic product

"Group"	the Company and its subsidiaries as at Admission
"Hong Kong"	the Hong Kong Special Administrative Region of PRC
"Insinger de Beaufort"	Insinger de Beaufort, the nominated adviser and broker to the Company, authorised and regulated by the FSA
"Ireland"	Republic of Ireland
"Lantian"	Lantian, Shaanxi Province, PRC
"Lantian Cement"	Xi'an Lantian Yaobai Cement Co. Ltd, a wholly owned subsidiary of Yaobai Cement incorporated in PRC with registered number 6101221130053
"Lock-In Persons"	Jimin Zhang, Professor Zhaoyang Ma and Zhifeng Liu, and each of their related parties
"London Stock Exchange"	London Stock Exchange plc
"Jersey"	the Island of Jersey
"Jersey Act"	Companies (Jersey) Law 1991, as amended
"NCPP"	new cyclone preheated process technology
"NDRC"	National Development and Reform Commission
"New Ordinary Shares" or "Placing Shares"	the new Ordinary Shares in the capital of the Company being placed by Insinger de Beaufort, as agent for the Company, pursuant to the Placing at the Placing Price
"Official List"	the official list of the UK Listing Authority
"Ordinary Shares"	the ordinary shares of 10p each in the capital of the Company
"Placing"	the placing by Insinger de Beaufort, as agent for the Company, of the Placing Shares, details of which are set out in this document
"Placing Agreement"	the conditional agreement between Insinger de Beaufort, the Directors, the Company and the Lock-In Persons relating to the Placing, details of which are set out in paragraph 18 of Part V of this document
"Placing Price"	105p per Placing Share
"Proposals"	the Placing and Admission
"PRC" or "China"	the Peoples' Republic of China
"PRC Government"	the State Council of the PRC, including all government sub-divisions (including provincial, municipal and other regional or local government entities)
"Prospectus Rules"	the prospectus rules, brought into effect on 1 July 2005 pursuant to Commission Regulation (EC) No. 809/2004, as published by the FSA pursuant to section 73A of FSMA, which set out the regime for statutory responsibility for prospectuses
"Pucheng"	Pucheng, Shaanxi Province, PRC

"Renminbi" or "RMB"	Renminbi or Yuan, the lawful currency of the PRC
"SDRT"	stamp duty reserve tax
"Shaanxi", "Shaanxi Region"or "Shaanxi Province"	the area which is under administrative control of Shaanxi Province, PRC
"Share Option Scheme"	the Company's Unapproved Share Option Scheme, details of which are set out in paragraph 10 of Part V of this document
"Shareholders"	shareholders in the Company
"uncertificated" or "in uncertificated form"	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
"UK or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority"	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA
"US Securities Act"	the United States Securities Act of 1933, as amended
"Warrants"	1,273,767 warrants, each entitling the holder thereof to subscribe for one Ordinary Share at the Placing Price at any time from Admission to the third anniversary of Admission
"Warrant Instrument"	a warrant instrument of the Company executed on 29 November 2006 creating the Warrants, further details of which are contained in paragraph 11.8 of Part V of this document
"West China (BVI)"	West China Cement Co., Ltd, a company incorporated in BVI with registered number 1039765
"Yaobai Cement"	Shaanxi Yaobai Special Cement Co., Ltd, a company incorporated in PRC with registered number Qi Du Shaanxi An Zong Zi 002389

PART I

INFORMATION ON THE COMPANY

1. Introduction

The Group owns and operates three cement production plants in Pucheng, the first of which has been operational since 1977 and they now have a combined production capacity of 1.5 million tonnes per annum. A new cement production plant is being constructed at Lantian with a planned production capacity of 2 million tonnes per annum, in order to service the growing demand for cement in the region.

2. Business Activities

The Group manufactures three types of cement, as well as clinker, a cement compound:

(a) Ordinary Portland Cement is a mixture of clinker, mineral admixtures (accounting for 6 to 15 per cent.) and gypsum, which is widely used in industrial and civil construction projects;

(b) Flyash Portland Cement is a mixture of clinker, flyash and gypsum. The content of flyash by weight ranges from 20 per cent. to 40 per cent. depending on its intended use;

(c) Composite Portland Cement is a mixture of clinker, at least two kinds of prescribed mineral admixtures and gypsum, which is widely used in industrial and civil construction projects; and

(d) Clinker is the base of the above mentioned products, the principal raw material of which is limestone. The Group does not intend to sell clinker as a separate product in the future.

These products are predominantly sold in the Weinan, Xi'an and Yan'an areas of Shaanxi Province and the sales breakdown in the six months to June 2006 was 34 per cent. Ordinary Portland Cement, 29 per cent. Flyash Portland Cement, and 36 per cent. Composite Portland Cement. Major clients include ready mix concrete plants, public construction contractors and wholesale cement distributors. The Group has three sales offices, employing a total of 51 staff, based in Xi'an, Weinan and Yan'an.

Yaobai Cement is ranked 54th out of "100 Top Chinese Companies with Growing Potential" in Forbes China's 2006 List.

3. Location, History, Awards and Structure

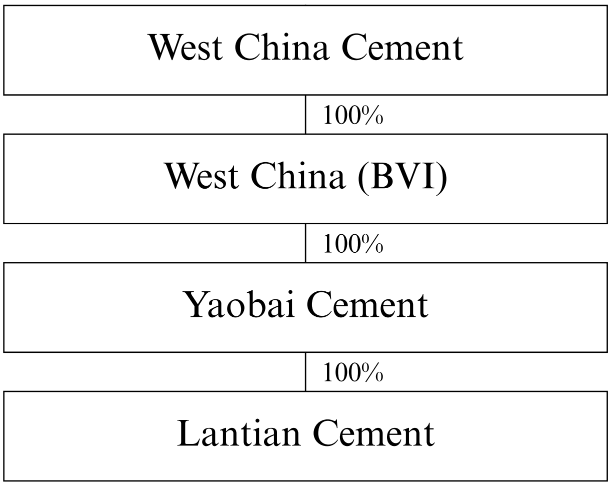
West China Cement was established on 16 October 2006 following a re-organisation of the Group, but its history can be traced back to 1977. Headquartered in Xi'an, the capital of Shaanxi Province, as at 23 November 2006 the Group employed 1,085 people.

Pucheng County Hanjing Town Commune Cement Factory was established in 1977 by the Hanjing Commune (a level of local government). In 1989 it became a legal entity and its name was changed to Pucheng County Hanjing Cement Factory. In March 1994 its name was changed to Shaanxi Province Pucheng Hanjing Cement Industry Company and Mr Zhang was appointed as its legal representative. Under Mr Zhang's direction the company undertook a number of reorganisations to facilitate its growth and strategy and its name was changed to Yaobai Cement which now holds the entire issued share capital of Lantian Cement. On 18 July 2006, West China (BVI) acquired the entire issued share capital of Yaobai Cement. On 26 October 2006, West China Cement acquired the entire issued share capital of West China (BVI). Further details of the acquisitions are set out in paragraphs 11.2 and 11.6 of Part V of this document.

The Group has won a number of awards and accolades, including the following:

- March 2006, *AAA Credit Company for Quality Service*, Shaanxi Province, by China Market Inspection and Test Center;
- 16 March 2005, *Enterprise of Good Credit*, by Shaanxi Enterprise Credit Association;
- 19 November 2004, *Renowned Brand of Shaanxi Province*, by Shaanxi Provincial Administration for Industry & Commerce;
- June 2004, *Enterprise of Good Credit*, by Shaanxi Banking Industry Association;
- April 2004, *Outstanding Enterprise for Environment Protection*, by Weinan Government;
- 9 September 2003, *Outstanding Enterprise for Resources Saving and Comprehensive Utilization*, by Shaanxi Provincial Economy and Trade Committee; and
- 8 December 2000, *ISO 9001:2000 Certificate for Quality Management System*, by China Building Material Quality System Attestation Center.

The Group is currently structured as follows:



4. The PRC Economy and Cement Industry

The PRC economy has sustained consistently strong growth since the PRC Government first introduced economic reforms in 1978. The economy expanded at an average rate of 8.74 per cent. between 1995 and 2005, whilst the country rapidly emerged as a developing power in the global economy. Investment has been a driving force of this expansion, leading to heavy spending on infrastructure, housing and property. The Bureau reports that fixed asset investment in China has grown from RMB3,689.8 billion in 2001 to RMB8,860.4 billion in 2005. The Bureau also reports that the output of cement in China increased by 65.6 per cent. between 2001 and 2005 on the back of this growth in investment spending. China is the world's largest consumer and producer of cement, with output currently exceeding 1.06 billion tonnes per annum.

In recent years, the PRC Government has become more concerned about the uneven pace of economic development in China, with the coastal areas clearly outperforming inland (or 'western') provinces.

Spreading the gains of economic growth has become a clear aim of economic and social policy, as witnessed by the policies of "Promoting the Western Development" and "Building a New Socialist Countryside". Whilst infrastructural spending is expected to be driven by these policies, the Directors anticipate that this will continue to encourage related growth in the wider construction industry.

The PRC's cement market has expanded during the last fifteen years. The Directors consider that the NCPP cement which the Group is currently producing has good growth potential with an annual cumulative growth rate of approximately 13.5 per cent. in the next 10 years.

Structural issues and market opportunities

The PRC Government planners play an important role in that part of the cement industry which utilises environmentally friendly technology by approving new capacity and encouraging the closure of smaller plants. Despite the high growth in demand for cement, a rush to increase supply meant that the industry became highly competitive and therefore had little pricing power. The price of cement has generally remained within the range of RMB230 to RMB232 per tonne nationally in the first half of 2006 and between RMB220 and RMB260 per tonne from 1996 to 2006 in Shaanxi Province.

The NDRC has stated that it aims to reduce the number of cement producers from over 5,000 to about 3,500 by 2010 through mergers and acquisitions, the increase of the scale of the cement producers and, if necessary, by the forced closure of small and/or environmentally unfriendly producers. All new production lines are to be officially approved and have a minimum capacity of 2,000 tonnes of clinker per day. This is part of PRC Government policy to reduce the issue of oversupply in the industry which resulted in 36 per cent. of producers suffering financial losses in 2005. Foreign investment has been active in this process and there have been a number of deals in recent years with foreign companies buying cement production capacity in China.

China's cement industry is highly fragmented, comprising over 5,000 producers, each with an average annual capacity of 220,000 tonnes. The 10 largest cement producers accounted for just 15 per cent. of national output in 2005; by contrast the six largest cement producers in the world were responsible for over 42 per cent. of global (excluding China) cement sales. Large scale production lines are expensive to construct and, following the PRC Government's decision to increase the scale of the cement producers, only financially strong companies are able to construct new lines.

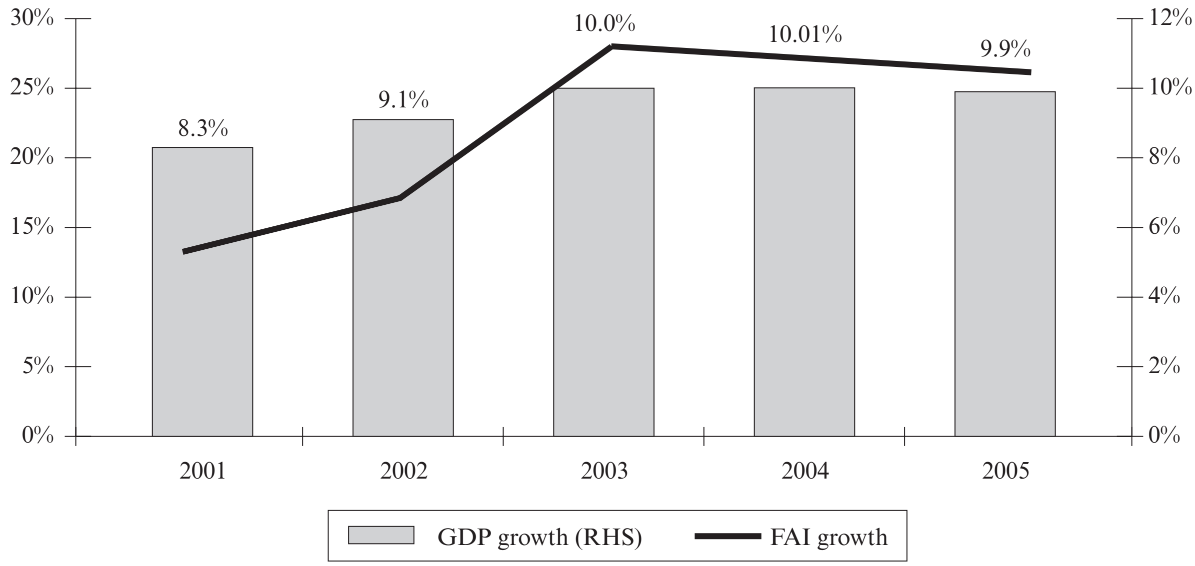
The PRC Government has in recent years become concerned about the environmental degradation caused by China's rapid economic development. The cement industry is a major cause of pollution, being responsible for approximately 40 per cent. of all dust discharged by industrial enterprises in China into the atmosphere. In an attempt to address this issue, the PRC Government has prohibited the construction of new production plants using vertical kiln technology (or "wet" process) and encouraged more energy efficient and environmentally friendly technology. NCPP technology is more environmentally friendly and generally produces better quality cement. Although the high level of demand for cement has meant that most vertical kiln capacity remains active, it is clear that NCPP production has been growing market share and, due to PRC Government policy, is responsible for all new capacity growth.

The PRC Government is also promoting the growth of bulk sales of cement, which boosts profit margins for cement manufacturers, given that the cost of packaging accounts for approximately 2 per cent. of the total cost of sales for NCPP cement. By promoting an increase of commercial concrete mixing stations in the country and rolling out a national ban on on-site mixing, the percentage of national sales that are in bulk form is expected to rise from the current level of 36.6 per cent. of all sales towards 55 per cent. by 2010.

Official policy, environmental concerns and corporate activity are all forces for consolidation of the cement industry in China. The NDRC targets that 70 per cent. of production will be NCPP and that 55 per cent. of national sales will be in bulk form by 2010.

In April 2004, the PRC Government began to implement policies to slow down the growth of the economy. As a result, the price of cement fell substantially from the second quarter of 2004 until the second quarter of 2005 due to the slowing down of fixed asset investment and the release of new capacity. The price remained at the low end throughout the year.

From the beginning of 2006, the position of the Chinese cement industry has changed, with both output and price rising. Between January 2006 and April 2006, output increased by 21.8 per cent. compared to that in the same period in 2005. Since March 2006, the price has been increasing, for example the price of Ordinary Portland Cement "42.5" and Ordinary Portland Cement "32.5" (both types of cement produced by the Group) increased by 3.7 per cent. and by 2.6 per cent. respectively.



Source: National Bureau of Statistics of China

5. Shaanxi Cement Market and Competition

Despite being near to the geographical centre of China and hence a key transportation hub, the level of economic growth in Shaanxi Province has lagged behind the average level of China to the extent that GDP per capita in Shaanxi is US$1,202 (RMB9,844, based on the then prevailing exchange rate) as compared with a national average of US$1,703. However in 2005, the GDP of Shaanxi Province grew by 12.6 per cent. (as compared to 10.2 per cent. for the PRC as a whole) led by fixed asset investment growth of 28.3 per cent..

Cement output in Shaanxi Province has grown from 11.1 million tonnes in 2001, to 19.7 million tonnes in 2005. There is little competition from producers in other provinces for geographical reasons and due to the high costs of transportation. According to the Shaanxi 11th Five Year Development Plan, ratified by 10th Peoples' Congress of Shaanxi Province on 22 January 2006, the total demand for cement in the province is estimated to reach 35 million tonnes by 2010, driven by infrastructural spending growth of 13 per cent. per annum over the period.

The local cement industry faces the same pressures for consolidation that are described above. There are presently 156 cement companies including 18 larger cement producers in Shaanxi Province. In 2005, NCPP production lines represented 8.3 million tonnes of production and it is forecast that by 2010 this will grow to 25 million tonnes.

Main players in the cement market

Within the Shaanxi Province, currently six cement producers are considered to be direct competitors of the Group. The Company's competitors in Shaanxi Province are Fufeng Jidong Cement Co. Ltd., Shaanxi Qinling Cement (Group) Joint Stock Co. Ltd., Shengwei Group, Baoji Zhongxi Cement Co. Ltd., Shaanxi Shehui Cement Co. Ltd. and Shaanxi Guangyu Cement Company. Yaobai Cement enjoys a dominant position in and around its existing plants at Pucheng. In the opinion of the Directors, Yaobai Cement services Xi'an and eastern Shaanxi with limited competition from the other cement companies.

Table 5.1: Location and production capacity

Company name and location	*Current capacity in tonnes (million)*	*2005 output in tonnes (million)*	*Expected increase in capacity in tonnes (million)*
Qinling Cement – Tongchuan	2.6	2.4	2.0
Fufeng Jidong Cement – Fufeng, Jingyang	1.5	1.0	2.0
Shengwei Cement – Jingyang, Tongchuan	2.4	1.0	–
Yaobai Cement – Pucheng County	1.5	1.13	2.0
Guangyu Cement – Fuping	–	–	2.0
Shehui Cement – Mei County	1.2	0.75	–
Zhongxi Cement – Qishan County	1.5	1.5	1.0

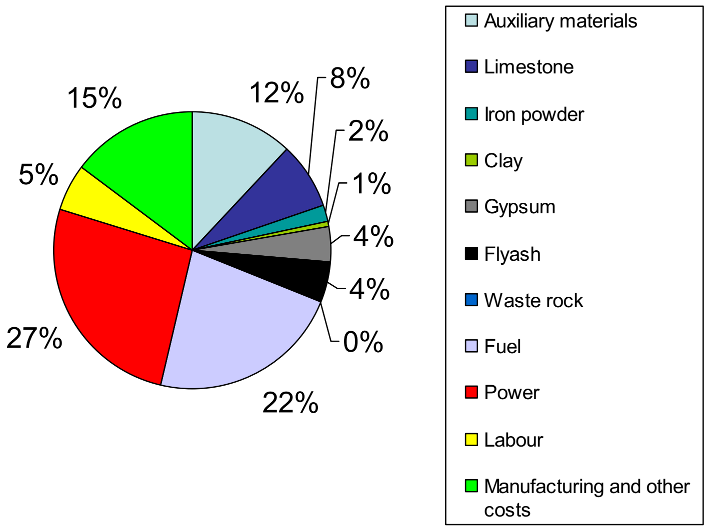
6. West China Cement – operations

West China Cement currently operates from three locations, all of which are in Shaanxi Province. The headquarters are in Xi'an, the three production lines are based in Pucheng and a new site at Lantian is under construction.

All three of the Group's plants utilise NCPP technology in their operations. It allows for an energy efficient manner of traditional cement production which limits the pollution caused by production. The Group has worked in conjunction with the Xi'an University of Architecture & Technology as part of the research and development of its NCPP production.

Due to high transportation costs for bulk raw materials and output, it is advantageous for a company to be able to locate its production base as near to both a limestone quarry and its customer base as possible, and to have the appropriate infrastructural environment to facilitate the efficient transportation of bulk goods. Energy costs typically make up over 50 per cent. of the whole production costs, so pricing as well as security of supply is an important issue.

Table 6.1: Breakdown of Operating Costs of Yaobai Cement in 2005



The Pucheng production plants are situated in the Weinan region to the North East of Xi'an. The Group is the largest cement manufacturer in the region. There are three production lines in Pucheng with annual cement production capacity of 1.2 million tonnes (commissioned in January of 2004), 150,000 tonnes (converted to NCCP in March of 2002) and 150,000 tonnes (converted to NCCP in February of 2001) respectively. The Company utilises two limestone mines in the Pucheng area, Yao Mountain and Jinsu Mountain. Yao Mountain has an indicated resource of 83.9 million tonnes and Jinsu Mountain has an indicated resource to 5.45 million. Yao Mountain is approximately 1 kilometre from production line 1 (with an annual production capacity of 1.2 million tonnes) and 1 kilometre from production line 2 (with an annual production capacity of 150,000 tonnes) and is currently the main limestone resource for these production lines. The mining licence for the Yao Mountain is valid until November 2013. The limestone used in production line 3 is bought from third parties.

The sales radius of Yaobai Cement currently covers three areas, Pucheng, Xi'an and Yan'an. The following projects are amongst those being implemented over the next four years within this sales radius:

Project	*Cement required*	*Estimated timing*
The Zhengxi Passenger Railway Line	4 million tonnes	2004-2008
New power plant capacity in Pucheng, Fenglingdu and Hancheng	240,000 tonnes	2006-2008
Expressway from Shaaxi-Shanxi border to Shaanxi-Gansu border	1.76 million tonnes	2007-2012
Xiyan Multitrack Railway	2 million tonnes	2009-2014
Yanliang Aviation Industrial Park	200,000 tonnes	2009-2012
Expressway from Weizhuang-Luofu	510,000 tonnes	2009-2012
Xinfeng Grouping Station	120,000 tonnes	2006-2007

The Pucheng Plant as at 9 October 2006

The Group's second production centre is currently under construction in Lantian, 35 kilometres from Xi'an. The first line with 1 million tonnes of production capacity is expected to start operations by March 2007 and the second line with 1 million tonnes of production capacity is expected to start production by November 2007. These two lines both utilise NCPP technology. The limestone mine which will be used for the Lantian plant is called Xiaozhai, which is 4 kilometres away from the plant and has an indicated resource of 91.9 million tonnes. The mining licence for Xiaozhai is valid until September 2016. The total cost of construction of both lines is estimated to be in the region of RMB420 million.

The Lantian plant will mainly cater for the Xi'an area as it is the closest production plant to the provincial capital. There are a number of different projects currently being implemented or anticipated in this area that the plant will aim to service, including the Zhengxi Passenger Railway Line as mentioned above, and as set out below.

With the anticipated increase in production capacity in Lantian, the Group's total annual production capacity would increase to 3.5 million tonnes. The following projects are being implemented within the Lantian Plant's sales radius:

Project	*Cement required*	*Estimated timing*
Xikang Railway	2 million tonnes	2006-2009
Xikang Expressway	3 million tonnes	2006-2010
Shanglan Expressway	830,000 tonnes	2005-2007
Expressway from Shangzhou to Shaanxi-Henan border	2 million tonnes	2005-2008
Shangman Expressway	900,000 tonnes	2007-2010
Xihan Expressway	2 million tonnes	2004-2007
Xi'an Subway Line 1 and 2	600,000 tonnes	2006-2015
Xi'an-Pingliang Railway	1.71 million tonnes	2006-2009
Expressway from Xianyang to Shaanxi-Gansu border	1.48 million tonnes	2005-2008

Lantian plant under construction and the new road to Xi'an as at 9 October 2006

7. Cement Production Process

Products used and stability of supply for the Group

The primary materials used in cement production are limestone, gypsum, clay, iron powder, marl and flyash. Limestone is gathered from the Yao Mountain site, located near Pucheng. The Group holds mining rights in this area until 2013. Gypsum is used to regulate the setting time of cement. The Group sources gypsum from Xining (Qinghai region) and Linfen (Shanxi Region), who have independent rights to gypsum mines. Clay is a principal ingredient in cement production. The Group has excavation rights to three clay mines located 0.5 kilometres from the Group's plant. These clay mine resources have been officially estimated by Pucheng County Mining Resource Management Station as holding 12 million tonnes of clay. Iron powder is used as a corrective component in cement. The Group sources iron powder from Lianhuasi and Shaanxi. Flyash is a bi-product of an electric power generating process. The Group purchases flyash from local coal power stations and its price has been stable over the past three years.

Production process

Limestone is extracted from quarries using a blasting and ripping process. Wheel loaders and dumper trucks transport these raw materials to crushing installations, where they are refined into a fine compound. The crushed materials are transported via conveyor belts and cable-ways into a storage facility where they are homogenised on blending beds. The raw materials are dried and mixed into roller grinding mills. These materials are mixed at different consistencies, depending on the type of cement desired to be produced. For example, adding iron powder to the grinding mill allows for greater stability in the quality of cement produced. After the raw materials are ground, they are placed in a raw meal silo. Thereafter, the materials are burned in a "sintering" process to produce clinker. The clinker is then cooled down in clinker silos and placed in ball mills or roller presses. It is ground into a finer compound to which further materials are added in order to attain the desired properties in the cement. Thereafter, the cement is stored in silos, before being shipped to its distribution chain.

8. Corporate Strategy

The Group aims to maintain its market share in East Shaanxi and consolidate its market share in Xi'an and South Shaanxi. It aims to expand its production capacity to 3.5 million tonnes by the end of 2007 via the completion of the Lantian production base. Should favourable market conditions exist, further expansion of its capacity will be considered. The Company will also evaluate any opportunities that may exist for investment in new strategic sites.

One such opportunity is the Group's planned expansion into Xunyang County, Shaanxi Province where it plans to construct a new cement plant. A conditional agreement has been entered into between Yaobai Cement and the government of Xunyang County in respect of this proposal, further details of which are set out in paragraph 11.10 of Part V of this document. The Group plans to commission a feasibility research report, one of the key documents required for Chinese government approval, and to submit its approval application before the end of 2006. If the Group obtains the relevant government approvals and if the required finance facilities are available, the Directors' intention is that construction will commence in June 2007 with a target completion date of June 2008.

9. Directors, Officers and Management

Directors

Robert Robertson *(aged 54, Non-Executive Chairman)*

Robert Robertson has over 30 years global experience in the extractive industry. He headed Anglo American's Industrial Minerals division for nine years, a period of major growth. He was Chief executive of Tarmac, its building materials subsidiary and major aggregates, concrete, asphalt, cement and lime producer with operations in the EU, Eastern Europe, the Middle East and Asia. He held a number of senior industry positions. Previously his career was in finance, holding a number of senior positions in London, Paris, Johannesburg, New York and Rio de Janeiro. He has an MA from Oxford University.

Mr. Zhang Jimin *(aged 52, Chief Executive Officer)*

Mr Zhang is a founder of the Group. He began his career in the cement industry in Hanjing Cement and has more than 30 years of industry experience. From 1992 to 1994, he led the development of low-heat slag cement, moderate-heat Portland cement and highway cement, which won the Second Grade Science and Technology Progress Prize issued by the Province Government. Mr. Zhang is currently undertaking an MBA at the North West University of China.

Mr. Wang Jianli *(aged 43, Executive Director, Vice General Manager and Chief Engineer)*

Mr Wang graduated from Luoyang Building Material Industry College with a degree in Cement Technology. He worked at the Shaanxi Design & Research Institute of Building Materials from January 1983 to March 2002 with a range of positions including technician, assistant engineer, engineer, senior engineer and director. He has been in his current position at Yaobai Cement since March 2003.

Mr. Tian Zhenjun *(aged 47, Executive Director, Vice General Manager and Chief Financial Officer)*

Mr Tian has an undergraduate degree in accountancy from Xi'an Finance & Economy College. From 1988 to 1998 he worked in the financial department of Pucheng County Coal Mine Cement Factory. He joined Yaobai Cement in September 1998 and has held the following positions: general accountant, director of the financial department, assistant general manager and sales manager. Mr.Tian is a qualified accountant.

Brett Lance Miller *(aged 38, Non-Executive Director)*

Brett Miller graduated from the University of the Witwatersrand (South Africa) with a Batchelors degree majoring in law and economics and additionally holds a law degree from the London School of Economics (after having relocated to the United Kingdom in 1988). He joined Nabarro Nathanson, a London-based law firm, in September 1993 where he practiced until December 1997. He has specialised in mergers and acquisitions and corporate finance in the energy and natural resources and smaller companies sectors. He is currently managing director and a key shareholder of Ruegg & Co Limited, a London based corporate finance boutique which is active in bringing new issues to the AIM and PLUS markets. Brett is also a director of Pactolus Hungarian Property plc, an AIM listed property fund that invests in residential property in Hungary. He has considerable experience in raising equity capital for smaller companies, having been the driving force behind numerous small company flotations in a variety of sectors. He also has considerable experience in corporate finance, corporate governance issues, corporate restructurings and optimising financial capital structures.

Senior management

Mr. Zhixin Chen *(aged 46, Vice General Manager of Yaobai Cement, Pucheng)*

Mr. Chen has an undergraduate degree in engineering from the National University of Defence Technology and holds an EMBA from Northwest University of China. From February 1978 to January 2002, Mr Chen worked in the Xi'an Satellite Control Center. From November 2002 to August 2005, he worked as vice general manager of the Shaanxi West Cyber Information Co. Ltd. He has also been the Chairman of Shaanxi Yinshui Technology Co. Ltd. Mr Cheng joined Yaobai Cement in September 2005 and is currently the Vice General Manager of Yaobai Cement in charge of operations in respect of the Lantian project.

Mr. Wenyu Li *(aged 46, Vice General Manager of Yaobai Cement, Sales)*

Mr. Li holds an Executive MBA from Northwest University of China. He has been involved in the building material industry for 16 years since his position as a sales manager in the Shangwang Building Material Factory in 1990. In 1998, Mr. Li joined Yaobai Cement and has held a sales position since then. Mr Li was involved in the incident described in paragraph 16.2 of Part V to this document.

10. Yaobai Cement Financial Record

	Year ended 31/12/03 000's RMB	*Year ended 31/12/04 000's RMB*	*Year ended 31/12/05 000's RMB*	*Period ended 30/06/06 000's RMB*
Revenue	55,472	150,184	238,241	138,025
Cost of sales	(40,972)	(110,427)	(179,041)	(88,714)
Gross profit	14,500	39,757	59,200	49,311
Other operating income	5,423	4,970	21,101	2,726
Selling and distribution costs	(1,984)	(3,363)	(5,051)	(2,948)
Administrative expenses	(4,311)	(11,005)	(14,527)	(5,500)
Profit from operations	13,628	30,359	60,723	43,589
Finance costs	(5,455)	(12,490)	(20,701)	(11,184)
Profit before tax	8,173	17,869	40,022	32,405
Income tax (expense) / credit	1,811	10,408	4,380	(4,803)
Profit after tax	9,984	28,277	44,402	27,602

11. Corporate Governance

The Board recognises the importance of sound corporate governance and intends, where practicable for a company of West China Cement's size and stage of development, to comply with the Combined Code. The Directors have appointed an audit and remuneration committee comprising the non-executive director and the Chairman of the Company. Any new non-executive directors appointed by the Company will be invited to join the audit and remuneration committees. Whilst one of the non-executive directors has a small holding of Ordinary Shares and both non-executive directors have been granted options over small numbers of Ordinary Shares, the Board considers the non-executive directors to be appropriate to act as members of the audit and remuneration committees.

The remuneration committee will determine the terms and conditions of service of the executive Directors, including the remuneration and grant of options to executive Directors under any share option plans and arrangements adopted by the Company. The audit committee will have primary responsibility for monitoring the quality of internal control and ensuring that the financial performance of the Company is properly measured and reported on and for reviewing reports from the Company's auditors relating to the Company's accounting and internal controls.

The Board intends to comply, and to procure compliance, with Rule 21 of the AIM Rules relating to dealings in the Company's securities by the Directors and other applicable employees. To this end, the Company has adopted a code for directors' dealings appropriate for a company whose shares are admitted to trading on AIM and will take all reasonable steps to ensure compliance by the Directors and any relevant employees. The form of this code is substantially the same as the model code contained in the rules of the Official List.

As required by PRC company law, a committee of supervisors has been established in respect of both Yaobai Cement and Lantian Cement. In each case, this committee comprises three supervisors, two of whom are appointed by the relevant company's shareholders while the other one is elected by its employees. The directors and senior management of Yaobai Cement and Lantian Cement are prohibited from holding the position of supervisor. The key powers and responsibilities of the committee of supervisors in respect of each of Yaobai Cement and Lantian Cement are as follows:

(a) examining the financial position of the company;

(b) supervising the conduct of the directors and senior management and, if necessary, reporting to shareholders any misconduct that they feel may be damaging to the company;

(c) offering shareholders the right to propose the dismissal of a director or senior manager; and

(d) bringing an accusation of misconduct against a director or member of senior management, who has breached any PRC law, regulation or the company's articles of association that may be damaging to the company.

In addition, the Board has resolved to ratify the appointment of an additional non-executive director should, in the opinion of the non-executive directors and the Company's Nominated Adviser (as they may be from time to time), such further appointment be in the best interests of the Company and/or its shareholders.

The Chairman has the power to veto any transaction between the Company and any Related Party (as the term is defined in the AIM Rules), and any proposal for the appointment of any additional executive directors.

12. Reasons for Admission and Use of Proceeds

The cement industry is capital intensive and Admission will establish a platform for attracting equity investors, which, in turn, is expected to enable the Company to take advantage of any investment opportunities that the Directors believe exist for the Company.

It is the Company's intention to use the £20,100,000 million (net of expenses) raised as follows:

- to part fund the construction of "Lantian Line 1" with an annual production capacity of 1 million tonnes of cement and shared infrastructure and equipment in the Lantian plant;
- to build "Lantian Line 2" with an annual production capacity of 1 million tonnes of cement; and
- for additional working capital for the Group.

13. Share Options

The Directors have established the Share Option Scheme, details of which are set out in paragraph 10 of Part V of this document. As at the date of this document, no options have been granted pursuant to the Share Option Scheme. The Directors intend to grant options over Ordinary Shares in the future in order to incentivise certain Directors and senior management. It is the Director's intention to grant options over Ordinary Shares in respect of no more than 10 per cent. of the share capital of the Company at the time of such grants. Any options granted pursuant to the Share Option Scheme will be at an exercise price of no less than the then prevailing market price.

The Board has granted certain options to Brett Miller and Robert Robertson. Further details of these options are set out in paragraphs 5.2 and 5.3 of Part V of this document.

14. Dividend Policy

It is the intention of the Board to pay a progressive level of dividends consistent with the Company's profitability, capital expenditure requirements and cash resources. The Directors do not anticipate that a dividend will be declared in respect of the current year.

15. Working Capital

The Directors, having made due and careful enquiry, are of the opinion, taking account of the net proceeds of the Placing receivable by the Company, that the Company has sufficient working capital available for its present requirements, that is for at least the 12 months from the date of Admission.

16. Admission, Dealing Arrangements and Settlement within CREST

Application has been made to the London Stock Exchange for the Existing Issued Ordinary Shares and the Placing Shares to be admitted to trading on AIM. It is expected that Admission will become effective and dealings, for normal settlement, will commence at 8.00 am on 4 December 2006.

The SEDOL number for the Ordinary Shares is B1G5G52 and the ISIN number is JE00B1G5G525.

It is expected that share certificates will be despatched by the Company's registrars no later than 7 days following Admission and Ordinary Shares will be delivered into CREST on 4 December 2006. CREST is a paperless settlement procedure enabling securities to be evidenced other than by certificate and transferred otherwise than by written instrument. Application has been made by the Company's registars for the issued and to be issued Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within CREST if the individual Shareholders so wish. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

17. Lock-in and Orderly Market Arrangements

The Lock-In Persons and the executive Directors who are interested in an aggregate of 42,735,985 Ordinary Shares representing 67.1 per cent. of the Enlarged Issued Share Capital, have undertaken to the Company and Insinger de Beaufort that (and subject to the exceptions permitted by the AIM Rules) they will not dispose of any interest in Ordinary Shares for a period of 12 months from Admission and for a following 12 month period will only dispose of any Ordinary Shares through Insinger de Beaufort or the broker of the Company from time to time, so as to ensure the maintenance of an orderly market in the Ordinary Shares.

Further details are set out in paragraph 18 of Part V of this document.

18. Taxation

General information regarding UK taxation in relation to the Ordinary Shares is set out in paragraph 13 of Part V of this document. **If you are in any doubt as to your tax position, you should consult your own independent financial adviser immediately.**

19. The City Code on Takeovers and Mergers

The Company is managed and controlled outside the UK. For this reason the City Code on Takeovers and Mergers (the "City Code") does not apply to the Company. It is emphasised that, although the Ordinary Shares will trade on AIM, the Company will not be subject to takeover regulation in the UK. Certain protections (the "Protections") have been incorporated into the Articles which, to an extent, mirror provisions of the City Code (the "Relevant Code Provisions"). The Articles provide that if an acquisition of Ordinary Shares were to increase the aggregate holding of the acquiror and its concert parties to shares carrying 30 per cent. or more of the voting rights in the Company, the acquiror and, depending on the circumstances, its concert parties, would be required (except with the agreement of the Company in general meeting by special resolution) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for the Ordinary Shares by the acquiror or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of shares by a person holding (together with its concert parties) shares carrying between 30 and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights. The main difference between these provisions and the Relevant Code Provisions is that the Panel on Takeovers and Mergers does not have any jurisdiction to exercise its discretion in waiving any of the provisions of the Articles. Details of the Articles may be found in paragraph 4 of Part V of this document.

20. Further Information

Your attention is drawn to Part II of this document, which contains risk factors relating to any investment in the Company, and to Parts III and IV of this document which contain financial information on the Company, as well as further additional information on the Company in Part V of this document.

PART II

RISK FACTORS

An investment in Ordinary Shares involves a high degree of risk. Accordingly, prospective investors should carefully consider the specific risk factors set out below in addition to the other information contained in this document before investing in Ordinary Shares. The Directors consider the following risks and other factors to be the most significant for potential investors in the Company, but the risks listed do not purport to comprise all those risks associated with an investment in the Company and are not set out in any particular order of priority. Reference should also be made to Parts III and IV of this document which contain financial information on the Group.

If any of the events described in the following risks actually occurs, the Company's business, financial condition, capital resources, results or future operations could be materially adversely affected. In this event, the price of Ordinary Shares could decline and investors may lose all or part of their investment. The investment offered in this document may not be suitable for all of its recipients. This document contains forward looking statements that could involve risk or uncertainty. Before making an investment decision, prospective investors should consult a person authorised under FMSA who specialises in advising on the acquisition of shares and other securities. A prospective investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her.

1. Operational and business risk

Management of growth

The Company is planning to significantly increase capacity over the next year. This will place additional demands on the Company's management resources and marketing abilities. If the Company is unable to manage this expansion effectively then this could impact on profitability and cash flow as well as causing reputational damage. The Company is very dependant on the ability and expertise of senior management including the Chief Executive Officer and major shareholder, Mr Jimin Zhang, and any significant loss of senior personnel would be detrimental to the Company's operational and financial outlook. In managing its expected high level of growth, the Company is also likely to have to increase the senior management resources available as well as the number of technical and sales personnel employed. The increase in the number of staff will impact on the Company's operating expenses. If the Company is unable to attract and retain the senior staff necessary to manage its growth effectively then it is possible that operational and financial risk will be higher than would otherwise be the case.

Mr Jimin Zhang has significant control over the Company's management and affairs

Mr Jimin Zhang, the Company's Chief Executive Officer, will own approximately 59 per cent. of the Company's issued share capital following Admission. As a result, Mr Jimin Zhang will be able to exercise control over all matters requiring approval by Shareholders including the election of directors and approval of mergers, consolidations, sales of assets, recapitalisations and amendments to the Articles. Mr Jimin Zhang may take actions with which investors do not agree, including actions that delay, defer or prevent a change of control, and could cause the price that investors are willing to pay for Ordinary Shares to decline.

Mr Jimin Zhang has entered into a relationship agreement with the Company under which he has undertaken at all times to exercise his voting rights so as to procure that the Company is capable at all times of carrying on its business and making decisions independently of Mr Jimin Zhang's shareholding. The principal terms of this agreement are summarised in paragraph 11.9 of Part V of this document.

In addition, the Board has resolved to ratify the appointment of an additional non-executive director should, in the opinion of the non-executive directors and the Company's Nominated Adviser (as they may be from time to time), such a further appointment be in the best interests of the Company and/or its shareholders.

Until such time as a third non-executive is appointed to the Board, the independent Chairman has the power to veto any Related Party Transaction (as defined in the AIM Rules) and, the appointment of any additional executive directors.

Competition and the restructuring of the PRC cement industry

The local and national cement industries in Shaanxi province and the PRC respectively are highly competitive and fragmented. Although the authorities are aware of this, and are trying to restructure the industry, there is no guarantee that they will be successful in this regard. If they are not, then there is a possibility that the problem of over-supply of cement and the associated pressure on cement prices will remain a depressing factor on profitability for the entire industry. Although the industry is characterised by a large number of small producers currently, it is also possible that restructuring will mean that the Group could face new competition from other large, financially strong companies including multinational corporations. This could place pressure on the level of sales, profitability, pricing and market share, particularly if the Group faces such competition in markets that it had previously dominated. It is possible that the Group would have to reduce its prices in order to compete with other producers. Competition from other producers could also affect the Group's ability to recruit and retain suitably qualified employees. Whilst the current policies of the PRC Government towards the cement industry are generally market-orientated and favour larger suppliers, the PRC Government monitors the industry closely and there is no guarantee that the PRC Government will not seek to change and implement new policies.

In addition, the SDRC, a PRC Government authority, intends to identify 10 national star companies and 30 local star companies and provide more support to their development (which is expected to include special treatments for the grant of land use rights and financing). If the Group fails to achieve any of the promoted standards or if it not selected as a star company, then the Group's business may be adversely affected.

Rights to limestone deposits

The Group has the rights to mine the limestone deposits at Yaoshan, Xiaozhai and Jinsushau for ten, ten and one years respectively. In return the Group pays a resource tax of RMB2 per tonne of limestone mined to the local government. It is possible that this level of royalty will change in the future, which could impact on the Group's cost base and hence its level of profitability. Failure to comply with the terms and licence may result in it being withdrawn. It is also possible that these mining licences will not be renewed on expiry. Should this occur the Group would have to seek alternative sources of limestone that may be a greater distance away from their production plants and thus face higher transportation costs greater expense and/or delays in production. If alternative supplies are not available the relevant plant may be unable to continue its operations.

Financing of expansion

The Group may need to raise additional capital in the future to fund the development of further cement production lines or to acquire existing cement production facilities in the Shaanxi Province meaning that there is the possibility of further issues of equity that could be dilutive to Shareholders. Alternatively, the Group may have to seek further bank loans that could place restrictions on future financial activity and operational expansion. Failure to obtain future financing on acceptable terms from internal or external sources could delay or postpone the Group's expansion plans.

The price of inputs and their availability

The Group's cost base is dependant on the price of electricity and coal, which made up 26 per cent. and 24 per cent. of the cost of sales in during the first half of 2006. Any significant price rise in electricity or coal would significantly impact upon the Group's profit margins if it was unable to pass such a cost rise through to its customers in the form of higher cement prices.

Similarly any interruption to the supply of electricity or coal would severely impact on the Group's operations and reduce the level of output and hence profitability if the Group was unable to find alternative sources of supply. The Group is currently reliant on a small number of key suppliers with just one supplier of electricity, Weinan Electricity Supply Bureau and three suppliers of coal being Tongchuan Mining Bureau, Yunyi Zhongda Yanjiahe Coal Mine and Shaanxi Cangcun Shuanglong

Mine. On completion of the construction of the Lantian plant, the Group will be similarly reliant on a small number of key supplier with Lantian Electricity Supply Bureau being the sole supplier of electricity and coal supplied primarily by Tongchuan Mining Bureau and Bin County Xiagou Coal Mine.

Taxation

The Group currently enjoys a favourable corporation tax regime thanks to a notice issued by the Ministry of Finance, the State Administration of Taxation and Customs Office on 30 December 2001. This notice, lasting until 2010, reduces the basic rate of corporation tax levied on the Yaobai Cement from 30 per cent. to 15 per cent. This notice was issued to encourage domestic enterprises and wholly owned foreign enterprises to invest in the western region of the PRC. Yaobai Cement is also able to set off taxable profits against the capital cost of certain PRC-made equipment. Yaobai Cement is not expected to have fully utilised this benefit for several months. Finally, Yaobai Cement is in a VAT reclaim position under the current PRC VAT environment. Should the PRC authorities decide to change the legislation underpinning these favourable benefits and tax regimes, then the Group would suffer an adverse impact to both its cash flow and profitability.

Third Party Guarantors

Currently, Yaobai Cement has certain loans guaranteed by third parties. These third party companies are contacts of the current management team and, whilst the Group has written assurances that these guarantees will not be withdrawn in the foreseeable future, any change to these arrangements, or to the credit worthiness of the guarantors, could adversely impact on the Group's cash flow should these loans be required to be repaid.

Bank Loan Repayment

The Group has secured agreement from its bankers that the repayment schedules of outstanding loans will be frozen until June 2008. Should the banks wish to change this arrangement then this may have a significant impact on the Group's cash flow.

Environmental regulations

The Chinese Government has become increasingly concerned about the environmental degradation caused by China's rapid economic development and by the construction industry's contribution to this. The cement industry is one of the largest polluters in the PRC and is subject to national and provincial environmental laws, regulations and administrative decisions. Although regulations so far have tended to benefit larger companies with modern production processes, there is no guarantee that the level of regulation will not get more onerous in the future. Should this occur the Group may have to incur additional expense in order to comply with any new requirements, which may adversely affect its profitability.

Dependence on one production site

The Group is currently heavily dependant on production from the main Pucheng production plant and will become dependent on the production from its Lantian plant. Therefore, should there be an interruption to production at one of the Group's sites, whether due to natural or operational problems, this may have a significant impact on the Group's profitability, output and reputation.

Reliance on key customers

Although the Group's customer base is expected to become more diversified after the completion of its new plant, it is reliant on a number of key customers. In the first half of 2006, the top ten customers accounted for 42 per cent. of sales compared to 40 per cent. in 2005 and 44.4 per cent. in 2004, but significantly below the 70.9 per cent. level of 2003. There can be no guarantee that these major customers will continue their purchases of cement from the Group at current levels. If one of the Group's major customers were to encounter operational or financial problems, or to move their customer to another supplier, this could have a major impact on sales and profitability if the Group was not able to obtain substitute orders of comparative size.

Future profitability

The Directors have relied on a number of factors, including current and forecast industry trends, the Shaanxi Province 11th Five Year Development Plan and the PRC Government's policy of "Western Development", together with industry reports and customers' interests to determine the strategy and focus of the Group's business. There can be no guarantee that the Group will achieve the level and rate of growth of sales and profits targeted by the Directors.

Delay in the opening of the Lantian plant

Although it is currently on schedule, unforeseen circumstances may result in the commencement of production of either or both of the production lines at the Lantian plant being delayed. This would have an impact on the Group's profitability and reputation.

Disputes with the local community

In July 2004, certain employees of Yaobai Cement and others were involved in an incident, further details of which are set out in paragraph 16.2 of Part V of this document. Subsequently Yaobai Cement has made efforts to improve relations with its local community including the making of donations to 3 local schools and the Board believes that it now enjoys a good relationship with the villagers in the Yao Mountain region. While no instances of conflict between the Group and its community have occurred since July 2004 there can be no guarantee that further instances will not occur in the future. Such disputes may result in a disruption to the Group's operations.

2. Macro-economic and country-specific risk factors

Investors doing business in emerging markets such as the PRC should be aware that these markets are subject to greater risks than more developed markets and can include significant legal, economic and political risks. Fast growing emerging markets such as the PRC are subject to rapid change so the information contained in this document could become outdated quickly.

Economic reform and political and social risk

Since 1978, the PRC Government has promoted a dramatic reform of the country's economic system with a move towards a market-based framework and the promotion of an environment conducive to foreign investment. These policies have resulted in a high level of economic growth but many of these reforms are unprecedented, or experimental, and are likely to be reformed or moderated from time to time. It is possible that these rapid changes in the economic structure of the country will have significant impact on social and political conditions in the PRC possibly resulting in changes of government policy. As the Group's operations and customer base are entirely in the PRC, the financial conditions of the Group are likely to be affected by any changes in the PRC's political, economic and social conditions and by changes in the policies of the PRC Government or by changes in the interpretation or implementation of applicable laws and regulations.

The development of the PRC legal system

The PRC legal system is made up of written laws and regulations, circulars and directives. This system is still regarded as being in the process of developing, particularly with regard to the corporate sector, and therefore there is some degree of uncertainty in terms of how existing laws and regulations will apply to certain events and circumstances in future. Precedents on the interpretation, implementation and enforcement of the PRC's laws and regulations are limited and decisions on precedent cases are not binding on lower courts. As such, the outcome of dispute resolutions may not be as consistent or predictable as in more developed jurisdictions and there is no assurance that this will not have an adverse impact on the Group's business or prospects.

PRC Government spending and the promotion of infrastructural development

The PRC Government is actively promoting the development of China's basic infrastructure including land, rail and air transportation and power supply, all of which consume large quantities of cement in construction. This policy is on a national basis but has a particular emphasis in relatively under-developed parts of the country such as Shaanxi Province. If there were to be a downturn in the Chinese economy and PRC Government finances came under strain, it is possible that the funding for such projects may slow down or cease. In the absence of finding alternative sources of demand for cement, such a scenario could have a negative impact on the Group's financial performance.

3. Ordinary Shares – risk factors

General

An investment in Ordinary Shares is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment, or other investors who have been professionally advised with regard to such an investment, and who have sufficient resources to be able to bear any losses that may arise therefrom (which may be equal to the whole amount invested). Such an investment should be seen as complementary to existing investments in a wide spread of other financial assets and should not form a major part of an investment portfolio. Investors should not consider investing in the Ordinary Shares unless they already have a diversified investment portfolio.

AIM

The Ordinary Shares will be admitted to trading on AIM. An investment in shares quoted on AIM may be less liquid and may carry a higher risk than an investment in shares quoted on the Official List. The rules of AIM are less demanding than those of the Official List. Further, the London Stock Exchange has not itself examined or approved the contents of this document. A prospective investor should be aware of the risks of investing in a company whose shares are traded on AIM and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial advisor.

Volatility of the value of the Ordinary Shares

Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.

In addition, the price at which investors may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company, and others of which are extraneous. These factors could include the performance of the Company's investments, large purchases or sales of Ordinary Shares, the level of liquidity in the Ordinary Shares, response to announcements and any future fund raisings by the Company, currency fluctuations, legislative, regulatory or taxation changes, market sentiment and general economic conditions. The value of the Ordinary Shares may therefore fluctuate and may not reflect their underlying asset value.

Dividends

There can be no guarantee as to the level of future dividends expected to be paid by the Company. The declaration, payment and amount of any future dividends are subject to the Directors' discretion, and will depend on, amongst other things, the Company's earnings, capital expenditure finanical position, cash requirements and availability of profits.

The Company's objectives may not be fulfilled

The value of an investment in the Company is dependent upon the Company achieving the aims set out in this document. There can be no guarantee that the Company will achieve the level of success that the Board expects.

Shares eligible for future sale

The sale of a substantial number of Ordinary Shares in the public market following Admission could adversely affect the market price of the Ordinary Shares. On Admission, there will be 63,688,366 Ordinary Shares in issue. All of the Ordinary Shares will be freely tradeable (save as mentioned below) without restriction or further registration under the AIM rules.

It should be noted that the Lock-In Persons and the executive Directors have undertaken to the Company and Insinger de Beaufort that (and subject to the exceptions permitted by the AIM Rules) they will not dispose of any interest in Ordinary Shares for a period of twelve months from Admission and for a following twelve month period will only dispose of any Ordinary Shares through Insinger de Beaufort or the broker of the Company from time to time, so as to ensure the maintenance of an orderly market in the Ordinary Shares.

Further details of these arrangements are set out in paragraphs 17 of Part I and 18 of Part V of this document.

Currency exchange risk

The Group's financial statements are presented in RMB, being the currency in which the majority of its transactions are denominated. RMB is not a freely convertible currency. A portion of the Group's RMB revenue or profit will have to be converted into other currencies to meet foreign currency obligations of the Group such as the payment of dividends, if declared. The PRC Government has stated that it intends to make RMB freely convertible in the future. However, uncertainty exists as to whether the PRC Government may restrict access to foreign currency for current account transactions if foreign currency becomes scarce in the PRC.

PART III (A)

HISTORICAL FINANCIAL INFORMATION
SHAANXI YAOBAI SPECIAL CEMENT COMPANY LIMITED ("YAOBAI CEMENT") AND ITS SUBSIDIARY COMPANY, XI'AN LANTIAN YAOBAI CEMENT COMPANY LIMITED (TOGETHER "THE YAOBAI GROUP")

Introduction

The directors of Yaobai Cement Company Limited report on the financial information set out below, which has been prepared for inclusion in the admission document of West China Cement Limited (the "Company") dated 29 November 2006 (the "Admission Document") relating to the proposed admission of the Company to AIM.

For the purpose of this report, the consolidated results of Yaobai Cement are referred to as the "Yaobai Group", which consists of:

Name of company	*Nature of business*	*Country of Registration*	*Proportion of shares held*
Shaanxi Yaobai Special Cement Company Limited	Cement production	China	100%
Xi'an Lantian Yaobai Cement Limited	Cement production	China	90%

Yaobai Cement was incorporated on 21 December 2000 as a joint stock limited company under company number Qi Du Shaanxi An Zong Zi No. 002389.

Basis of preparation of financial information

The financial information set out below is based upon the statutory financial statements prepared by the directors and covers the period from 1 January 2003 to 30 June 2006. The financial statements were audited by PKF, Certified Public Accountants of Hong Kong.

The audit report dated 26 October 2006 was unqualified.

The financial information has been presented under International Financial Reporting Standards ("IFRS").

CONSOLIDATED INCOME STATEMENTS

	Notes	*Year ended 31/12/03 000's RMB*	*Year ended 31/12/04 000's RMB*	*Year ended 31/12/05 000's RMB*	*Period ended 30/06/06 000's RMB*
Revenue	2	55,472	150,184	238,241	138,025
Cost of sales		(40,972)	(110,427)	(179,041)	(88,714)
Gross profit		14,500	39,757	59,200	49,311
Other operating income	2	5,423	4,970	21,101	2,726
Selling and distribution costs		(1,984)	(3,363)	(5,051)	(2,948)
Administrative expenses		(4,311)	(11,005)	(14,527)	(5,500)
Profit from operations	3	13,628	30,359	60,723	43,589
Finance costs	5	(5,455)	(12,490)	(20,701)	(11,184)
Profit before tax		8,173	17,869	40,022	32,405
Income tax (expense)/credit	6	1,811	10,408	4,380	(4,803)
Profit after tax		9,984	28,277	44,402	27,602
Attributable to equity holders of parent		9,984	28,277	44,402	27,602
Minority interest		–	–	–	–
		9,984	28,277	44,402	27,602

CONSOLIDATED BALANCE SHEETS

	Notes	At 31/12/03 000's RMB	At 31/12/04 000's RMB	At 31/12/05 000's RMB	At 30/06/06 000's RMB
ASSETS					
Non-current assets					
Property, plant and equipment	8	271,212	330,712	348,781	391,384
Land use rights and other intangible assets	9	8,179	8,187	7,963	7,861
Deferred tax assets	17	541	16,162	10,032	5,229
		279,932	355,061	366,776	404,474
Current assets					
Inventories	11	7,530	16,665	22,082	24,227
Trade and other receivables	12	23,273	56,427	70,470	65,766
Pledged deposits	13	5,311	3,650	4,643	32,427
Cash and cash equivalents	13	16,874	10,682	19,583	16,940
		52,988	87,424	116,778	139,360
TOTAL ASSETS		332,920	442,485	483,554	543,834
EQUITY					
Registered capital	14	60,000	60,000	105,000	105,000
Reserves	15	9,815	38,091	23,731	51,332
		69,815	98,091	128,731	156,332
MINORITY INTERESTS		–	–	1,000	1,000
TOTAL EQUITY		69,815	98,091	129,731	157,332
LIABILITIES					
Current liabilities					
Trade and other payables	18	38,319	56,969	80,264	113,634
Taxes payable		6,478	16,477	4,146	12,884
Dividend payable		12	12	512	512
Bank loans and overdrafts	16	21,630	53,230	100,030	131,530
		66,439	126,688	184,952	258,560
Net current liabilities		13,451	39,264	68,174	119,200
Non-current liabilities					
Bank loans	16	179,300	204,700	157,800	114,300
Long term payables	16	17,366	13,006	11,071	13,642
		196,666	217,706	168,871	127,942
TOTAL LIABILITIES		263,105	344,394	353,823	386,502
NET EQUITY AND LIABILITIES		332,920	442,485	483,554	543,834

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of Yaobai Cement				
	Share capital 000's RMB	*Statutory reserves 000's RMB*	*Retained earnings 000's RMB*	*Minority interest 000's RMB*	*Total equity 000's RMB*
Balance at 1 January 2003	60,000	1,344	3,347	–	64,691
Net profit for the year	–	–	9,984	–	9,984
Dividends	–	–	(4,860)	–	(4,860)
Transferred to reserve fund	–	1,544	(1,544)	–	–
Balance at 31 December 2003	60,000	2,888	6,927	–	69,815
Net profit for the year	–	–	28,277	–	28,277
Transferred to reserve fund	–	2,284	(2,284)	–	–
Balance at 31 December 2004	60,000	5,172	32,920	–	95,092
Net profit for the year	–	–	44,402	–	44,402
Dividends 2003	–	–	(6,000)	–	(6,000)
Dividends 2004	–	–	(6,000)	–	(6,000)
– prior period adjustments	–	(264)	(1,500)	–	(1,764)
Increase in registered capital	45,000	–	(45,000)	–	–
Capital contribution by minority shareholders	–	–	–	1,000	1,000
Transfer to reserve funds	–	7,848	(7,848)	–	–
Balance at 31 December 2005	105,000	12,756	10,974	1,000	129,730
Net profit for the period	–	–	27,602	–	27,602
Transfer to reserve funds	—-	4,976	(4,976)	–	–
Balance at 30 June 2006	105,000	17,732	33,600	1,000	157,332

CONSOLIDATED CASH FLOW STATEMENT

	Notes	*Year ended 31/12/03 000's RMB*	*Year ended 31/12/04 000's RMB*	*Year ended 31/12/05 000's RMB*	*Period ended 30/06/06 000's RMB*
OPERATING ACTIVITIES					
Cash generated from operations	19	57,828	17,843	89,197	95,794
Income tax paid		629	–	–	–
Other taxes paid		(392)	4,785	(3,583)	8,738
Interest paid		(5,455)	(12,490)	(20,701)	(11,184)
Interest received		619	300	659	173
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		53,229	10,438	65,572	93,521
INVESTING ACTIVITIES					
Proceeds on disposal of property, plant and equipment		2,668	3,984	12,198	1,255
Purchases of property, plant and equipment		(180,069)	(79,326)	(57,496)	(57,635)
Payment to acquire land use rights		(559)	(209)	–	–
Increase/(decrease) in pledged deposits		(1,538)	1,661	(993)	(27,784)
Government grants received		300	260	220	–
NET CASH USED IN INVESTING ACTIVITIES		(179,198)	(73,630)	(46,071)	(84,164)
FINANCING ACTIVITIES					
Dividends paid		(5,576)	–	(11,500)	–
Proceeds from/(repayments) of borrowings		144,440	57,000	(100)	(12,000)
Capital contribution to subsidiaries from minority shareholders		–	–	1,000	–
NET CASH (USED IN)/FROM FINANCING ACTIVITIES		138,864	57,000	(10,600)	(12,000)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		12,895	(6,192)	8,901	(2,643)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		3,979	16,874	10,682	19,583
CASH AND BANK BALANCES AT 31 DECEMBER/30 JUNE		16,874	10,682	19,583	16,940

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with IFRS except in respect of revaluation of land and buildings.

The adoption of such IFRSs will not result in substantial changes to the Yaobai Group's accounting policies.

Yaobai Group assesses the carrying value of land and buildings at each balance sheet date as detailed in the Property, plant and equipment note below.

The financial statements have been prepared on the historical cost basis.

The principal accounting policies adopted are set out below.

Basis of preparation

The policies set out below have been consistently applied to all the years presented.

When preparing the financial statements, management has adopted certain accounting, valuation and consolidation methods to comply with IFRS. The preparation of these financial statements also requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

Yaobai Cement has elected not to follow early adoption of the following new IFRSs which are effective for annual periods beginning on or after 1 January 2007. The adoption of such IFRSs will not result in substantial changes to the Yaobai Group's accounting policies.

IFRS 7 Financial Instruments: Disclosures

IAS 1 (Amendment) Presentation of Financial Statements: Capital Disclosures

Basis of consolidation

The consolidated financial statements comprise the financial statements of the companies comprising the Yaobai Group.

All material intra-group transactions and balances, and any unrealised gains arising from intra-group transactions, have been eliminated on consolidation.

Minority interests at balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Yaobai Group, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Minority interests in the results of the Yaobai Group are also separately disclosed in the consolidated income statement.

Subsidiary

A subsidiary is an entity controlled by Yaobai Cement. Control exists when Yaobai Cement has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Revenue recognition

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

Sales of goods are recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

Interest income 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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 the income statement in the period in which they are incurred.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and that all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match them on a systematic basis to the costs which it is intended to compensate. When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

Dividend distribution

Dividend distribution to Yaobai Cement's shareholders is recognised as a liability in the period in which the dividends are approved by its shareholders.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

PRC corporate income tax is provided at rates applicable to enterprises in the PRC on Yaobai Cement and its subsidiary's income for financial reporting purposes, as adjusted for income and expenses items which are not assessable or deductible for income tax purposes.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and provision for any impairment in value.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the assets, after taking into accounting its estimated residual value of 5 per cent. as follows:

Property and plant	20 years
Motor vehicles	8 years
Electric equipment	5 years
Machinery	12 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress represents a building, plant, machinery and equipment under construction and pending installation, which is stated at cost less any impairment loss, and is not depreciated. Cost comprises direct costs of construction and interest charges on related borrowed funds during the period of construction, installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for 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 derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

The Yaobai Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Yaobai Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Yaobai Groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

Land use rights

Land use rights represent operating lease payments paid to the PRC government authorities. Land use rights are stated at cost less accumulated amortisation and any impairment losses. The land use rights are amortised on a straight line basis over the terms of the rights of 50 years.

Impairment of tangible and intangible assets excluding goodwill

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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 costs to completion and costs to be incurred in marketing, selling and distribution.

Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and financial liabilities are recognised on the Yaobai Group's balance sheet when the Yaobai Group has become a party to the contractual provisions of the instrument.

Accounts and other receivables

Accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost less provision for impairment. When the effect of discounting would be immaterial, the receivables are stated at cost less provision for impairment. A provision for impairment is established when there is objective evidence that the Yaobai Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and its recoverable amount. The amount of the provision is recognised in the consolidated income statement.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Yaobai Group after deducting all of its liabilities.

Equity instruments issued by the Yaobai Group are recorded at the proceeds received, net of direct issue costs.

Bank borrowings

All loans and borrowing, which are interest-bearing, are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with borrowing, and are subsequently measured at amortised cost using the effect interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gain and losses are recognised in net profit or loss when liabilities are derecognised or impaired, as well as through amortisation process.

Accounts and other payables

Liabilities for accounts and other payables which are normally settled on credit terms are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Yaobai Group.

Provisions

Provisions are recognised when the Yaobai Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Yaobai Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into accounting of their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Yaobai Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year the estimate is charged in the future period.

Provision for bad and doubtful debts

The Yaobai Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Yaobai Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has been identified. Credit losses have historically been within the Yaobai Group's expectations and the Yaobai Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

Income tax

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the period in which such determination is made.

NOTES TO THE CONSOLIDATED HISTORIC FINANCIAL STATEMENTS

1. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with IFRS.

These financial statements are presented in RMB since that is the currency in which the majority of the Yaobai Group's transactions are denominated.

2. REVENUE

An analysis of the Yaobai Group's revenue is as follows:

	Year ended 31/12/03 000's RMB	*Year ended 31/12/04 000's RMB*	*Year ended 31/12/05 000's RMB*	*Period ended 30/06/06 000's RMB*
Continuing operations:	55,472	150,184	238,241	138,025
Provision for repair and maintenance service	581	820	–	–
Interest income	619	300	659	173
Refund of VAT	2,809	3,307	18,901	2,016
Property rental income	–	–	113	36
Sundry income	733	392	1,345	–
Gains on disposal of property, plant and equipment	144	151	83	18
Written back on provision for doubtful debts	537	–	–	483
	5,423	4,970	21,101	2,726
Total revenue	60,895	155,154	259,342	140,751

3. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/(crediting):

	Year ended 31/12/03 000's RMB	*Year ended 31/12/04 000's RMB*	*Year ended 31/12/05 000's RMB*	*Period ended 30/06/06 000's RMB*
Research and development costs	92	146	130	89
Government subsidies	(300)	(260)	(220)	–
Amortisation of internally generated assets included in other operating expenses	249	201	224	102
Depreciation				
– owned assets	8,258	15,993	27,312	13,796
Staff costs (see note 4)	5,869	9,629	13,126	6,527
Auditors' remuneration for audit services (see below)	10	20	30	30
Audit services				
– statutory audit	10	20	30	30
Other services	–	–	50	40
	10	20	80	70

4. STAFF COSTS

The average monthly number of employees (including executive directors) for the year for each of the Yaobai Group's principal divisions was as follows:

	Year ended 31/12/03	*Year ended 31/12/04*	*Year ended 31/12/05*	*Period ended 30/06/06*
Engineers	18	21	26	28
Construction workers – Lantian project	–	–	5	54
Security staff	46	55	79	65
Production staff	534	577	623	641
Sales representatives	36	59	60	50
Head office and administration	54	76	65	85
	688	788	858	923

The aggregate remuneration comprised:

	Year ended 31/12/03 000's RMB	*Year ended 31/12/04 000's RMB*	*Year ended 31/12/05 000's RMB*	*Period ended 30/06/06 000's RMB*
Wages and salaries	5,735	9,355	12,763	6,303
Social security costs	134	274	363	224
	5,869	9,629	13,126	6,527

5. FINANCE COSTS

	Year ended 31/12/03 000's RMB	*Year ended 31/12/04 000's RMB*	*Year ended 31/12/05 000's RMB*	*Period ended 30/06/06 000's RMB*
Interest on bank overdrafts and loans	14,754	18,513	20,701	11,184
Less amounts capitalised as construction in progress	(9,299)	(6,023)	–	–
Total borrowing costs	5,455	12,490	20,701	11,184

6. INCOME TAX EXPENSE

The Yaobai Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Yaobai Group are domiciled and operate.

	Year ended 31/12/03 000's RMB	*Year ended 31/12/04 000's RMB*	*Year ended 31/12/05 000's RMB*	*Period ended 30/06/06 000's RMB*
Charge/(credit) for the period	(1,540)	5,214	(10,510)	–
Deferred tax (note 17)	(271)	(15,622)	6,130	4,803
Total tax charge for the period	(1,811)	(10,408)	(4,380)	4,803

Pursuant to the relevant PRC tax regulations, Yaobai Cement was exempted from PRC corporate income tax ("CIT") for five years, commencing from date of its incorporation on 21 December 2000.

PRC CIT has been provided at a rate of 15 per cent. on the taxable income as reported in the statutory financial statements of Yaobai Cement, which are prepared in accordance with PRC GAAP.

In 2003, Yaobai Cement received a corporate income tax refund of RMB 1,467,219 relating to 2001 and RMB 3,607,299 relating to 2002 pursuant to the notices issued by the local tax bureau of Shaanxi municipality as follows:

No. (2003)99 Re: Entitlement to exemption from Corporate Income Tax for 2001 of Shaanxi Yaobai Special Cement Co., Ltd.

No. (2003)338 Re: Entitlement to exemption from Corporate Income Tax for 2002 of Shaanxi Yaobai Special Cement Co., Ltd.

In 2005 Yaobai Cement received a corporate income tax refund of RMB4,568,906 relating to 2003 and RMB 5,941,284 relating to 2004 pursuant to the notices issued by the local tax bureau of Wei municipality as follows:

No. (2005)17 Re: Entitlement to exemption from Corporate Income Tax for 2003 of Shaanxi Yaobai Special Cement Co., Ltd.

No. (2005)326 Re: Entitlement to exemption from Corporate Income Tax for 2004 of Shaanxi Yaobai Special Cement Co., Ltd.

Pursuant to notice (1999)290 Re: Interim measures for corporate income tax credits for investment in homemade equipment in technological transformation and notice (2004)049 Using homemade equipment for corporate income tax credits certificate issued by local tax bureau of Shaanxi municipality, Yaobai Cement had full deduction of corporate income tax for 2005.

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 31/12/03 000's RMB	*Year ended 31/12/04 000's RMB*	*Year ended 31/12/05 000's RMB*	*Period ended 30/06/06 000's RMB*
Profit before tax	8,173	17,869	40,022	32,405
Tax at the PCR statutory domestic income tax rate of 15%	1,226	2,680	6,003	4,860
Income tax refund	(5,074)	–	(10,510)	
Effect of income tax arising from purchasing prescribed eligible local fixed assets	–	(15,491)	6,378	4,977
Effects of non-taxable profits arising from purchasing the prescribed eligible local fixed assets	–	–	(6,378)	(4,977)
Effect of taxable profits	2,308	2,533	374	116
Effect of (deductible)/non-deductible expenses	(271)	(130)	(247)	(173)
Tax expense and effective tax rate for the year	(1,811)	(10,408)	(4,380)	(4,803)

7. DIVIDENDS

In 2005, a dividend of RMB6 million relating to the 2004 financial year and RMB6 million relating to the 2003 financial year was declared to shareholders. In 2003, a dividend of RMB4.86 million was declared to shareholders.

In respect of 2005, the directors do not propose payment of any dividend.

8. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings 000's RMB	*Properties under construction 000's RMB*	*Motor vehicles 000's RMB*	*Plant & Machinery 000's RMB*	*Total 000's RMB*
COST OR VALUATION					
At 1 January 2003	57,908	15,248	1,921	54,293	129,370
Additions	537	176,268	807	5,557	183,169
Disposals	(367)	(1,097)	(212)	(1,664)	(3,340)
Transfers	–	(3,099)	–	–	(3,099)
At 31 December 2003	58,078	187,320	2,516	58,186	306,100
Additions	118,804	84,091	1,604	140,205	344,704
Disposals	(181)	(2,719)	(1,154)	(1,272)	(5,326)
Transfers	–	(265,379)	–	–	(265,379)
At 31 December 2004	176,701	3,313	2,966	197,119	380,099
Additions	17,089	19,410	992	23,188	60,679
Disposals	(314)	(10,179)	(488)	(5,112)	(16,093)
Transfers	–	(3,183)	–	–	(3,183)
At 31 December 2005	193,476	9,361	3,470	215,195	421,502
Additions	151	55,473	1,594	470	57,688
Disposals	–	–	(622)	(801)	(1,423)
Transfers	–	(52)	–	–	(52)
At 30 June 2006	193,627	64,782	4,442	214,864	477,715
ACCUMULATED DEPRECIATION					
At 1 January 2003	12,682	–	307	14,456	27,445
Charge for the year	3,674	–	187	4,397	8,258
Eliminated on disposals	–	–	(55)	(760)	(815)
At 31 December 2003	16,356	–	439	18,093	34,888
Charge for the year	6,323	–	313	9,357	15,993
Eliminated on disposals	(158)	–	(349)	(987)	(1,494)
At 31 December 2004	22,521	–	403	26,463	49,387
Charge for the year	10,043	–	351	16,918	27,312
Eliminated on disposals	(125)	–	(137)	(3,716)	(3,978)
At 31 December 2005	32,439	–	617	39,665	72,721
Charge for the year	5,028	–	244	8,524	13,796
Eliminated on disposals	–	–	(81)	(105)	(186)
At 30 June 2006	37,467	–	780	48,084	86,331
NET BOOK VALUE					
At 31 December 2003	41,722	187,320	2,077	40,093	271,212
At 31 December 2004	154,180	3,313	2,563	170,656	330,712
At 31 December 2005	161,037	9,361	2,853	175,530	348,781
At 30 June 2006	156,160	64,782	3,662	166,780	391,384

Depreciation expense of RMB 13.133 million in the 6 month period to 30 June 2006 (RMB 26.055 million in 2005, RMB 19.980 million in 2004 and RMB 7.571 million in 2003) has been charged to costs of sales and RMB 0.664 million in the 6 month period to 30 June 2006 (RMB 1.256 million in 2005, RMB 1.013 million in 2004 and RMB 0.687 million in 2003) has been charged to administration expenses.

The carrying amounts of the Yaobai Group's property, plant and equipment and construction in progress included capitalised interest of RMB 10,406,875, RMB 16,430,109, RMB 16,430,109 and RMB 16,430,109 as at 31 December 2003, 2004 and 2005 and 30 June 2006 respectively. Interest was capitalised at an average annual rate of 7.488 per cent., 7.488 per cent., nil per cent. and nil per cent. for the year ended 31 December 2003, 2004 and 2005 and period ended 30 June 2006 respectively.

The Yaobai Group had entered into contractual commitments for the acquisition of property, plant and equipment at 30 June 2006 amounting to RMB 20.113 million.

At the balance sheet dates, certain of the Yaobai Group's property, plant and equipment, which had aggregate net book value as follows, were pledged to secure bank loans granted to the Yaobai Group.

	Year ended 31/12/03 000's RMB	*Year ended 31/12/04 000's RMB*	*Year ended 31/12/05 000's RMB*	*Period ended 30/06/06 000's RMB*
Net book value	4,545	10,493	24,509	83,573

9. INTANGIBLE ASSETS

	Land use rights 000's RMB	*ISO 9000 000's RMB*	*Total 000's RMB*
COST			
At 1 January 2003	7,779	90	7,869
Additions	533	26	559
At 31 December 2003	8,312	116	8,428
Additions	209	–	209
At 31 December 2004	8,521	116	8,637
Additions	–	–	–
At 31 December 2005	8,521	116	8,637
Additions	–	–	–
At 30 June 2006	8,521	116	8,637
AMORTISATION			
At 1 January 2003	–	–	–
Charge for the year	216	33	249
At 31 December 2003	216	33	249
Charge for the year	163	38	201
At 31 December 2004	379	71	450
Charge for the year	179	45	224
At 31 December 2005	558	116	674
Charge for the year	102	–	102
At 30 June 2006	660	116	776
CARRYING AMOUNT			
At 31 December 2003	8,096	83	8,179
At 31 December 2004	8,142	45	8,187
At 31 December 2005	7,963	–	7,963
At 30 June 2006	7,861	–	7,861

Amortisation in all periods has been charged to administrative expenses.

10. SUBSIDIARIES

Details of Yaobai Cement's subsidiary at 30 June 2006 are as follows:

Name of subsidiary	*Place of incorporation (or registration) and operation*	*Proportion of ownership interest %*	*Proportion of voting power held %*	*Principal activity*
Xi'an Lantian Yaobai Cement Limited	PRC	90	90	Cement production

Xi'an Lantian Yaobai Cement Limited ("Lantian") was 90 per cent. owned by Yaobai, 4 per cent. owned by Zhang Lili and 6 per cent. owned by Wang JianLi as at 30 June 2006.

On 15 July 2006, Zhang Lili and Wang JianLi transferred their equity interest in Lantian to Yaobai at par value – Lantian then became a 100 per cent. subsidiary of Yaobai.

11. INVENTORIES

	2003 000's RMB	*2004 000's RMB*	*2005 000's RMB*	*2006 000's RMB*
Raw Materials	5,350	8,097	11,403	10,456
Consumables	268	491	486	515
Materials in transit	–	(38)	141	716
Work-in-progress	1,533	5,192	9,227	9,047
Finished goods	379	2,923	825	3,493
	7,530	16,665	22,082	24,227

12. OTHER FINANCIAL ASSETS

	2003 000's RMB	*2004 000's RMB*	*2005 000's RMB*	*2006 000's RMB*
Trade accounts receivable	11,994	43,769	61,683	52,570
Deposit and prepayments	1,334	5,469	4,112	8,596
Amounts due from directors	1,921	1,347	–	–
Bills receivable	–	–	600	–
Other receivables	8,024	5,842	4,075	4,600
	23,273	56,427	70,470	65,766

The average credit period taken on sale of goods in the period ended 30 June 2006 is 93 days, (31 December 2005: 82 days, 2004: 68 days and 2003: 40 days).

An allowance has been made for estimated irrecoverable amounts from the sale of goods at 30 June 2006 of RMB 6.327 million (2005: RMB 6.857 million, 2004: RMB 4.863 million, 2003: RMB 1.332 million) and other receivables, at 30 June 2006 of RMB 0.206 million (2005: RMB 0.206 million, 2004: 0.392 million RMB, 2003: RMB 0.536 million).

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

The Yaobai Group's credit risk is primarily attributable to its trade receivables. The credit risk on trade receivables is minimal because from past experience, customers seldom default

The Yaobai Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and short-term deposits held by the Yaobai Group. Certain cash balances are pledged as security to the bank for bills payable. The carrying amount of these assets approximates to their fair value.

	2003	*2004*	*2005*	*2006*
	000's RMB	*000's RMB*	*000's RMB*	*000's RMB*
Cash at bank and in hand	22,185	14,333	24,226	49,367
Pledged deposits	(5,311)	(3,650)	(4,643)	(32,427)
Free cash	16,874	10,683	19,583	16,940

Liquidity risk

The Yaobai Group maintains sufficient cash and liquid assets and the availability of funding through an adequate amount of committed credit facilities. Consequently, the directors consider the Yaobai Group's liquidity risk is minimal.

14. REGISTERED CAPITAL

	2003	*2004*	*2005*	*2006*
	000's RMB	*000's RMB*	*000's RMB*	*000's RMB*
Authorised:	60,000	60,000	105,000	105,000
Issued and fully paid:	60,000	60,000	105,000	105,000

The Company has one class of registered capital which carry no right to fixed income.

On 15 October 2005, pursuant to resolutions passed at the shareholders' meeting and approvals from relevant government authorities, Yaobai Cement made a capitalisation issue of reserves, resulting in an increase in issued registered capital of RMB 45 million.

15. RESERVES

	Statutory Reserves	*Retained earnings*	*Total*
	000's RMB	*000's RMB*	*000's RMB*
Balance at 1 January 2003	1,344	3,347	4,691
Movement	1,544	3,580	5,124
Balance at 31 December 2003	2,888	6,927	9,815
Movement	2,284	25,992	28,276
Balance at 31 December 2004	5,172	32,919	38,091
Movement	7,584	(21,944)	(14,360)
Balance at 31 December 2005	12,756	10,975	23,731
Movement	4,976	22,625	27,601
Balance at 30 June 2006	17,732	33,600	51,332

16. BANK AND LONG TERM PAYABLES

	2003 000's RMB	2004 000's RMB	2005 000's RMB	2006 000's RMB
Bank loans	200,930	257,930	257,830	245,830
Long term payables	17,366	13,006	11,071	13,642
	218,296	270,936	268,901	259,472
Bank loans are repayable as follows:				
On demand or within one year	21,630	53,230	100,030	131,530
In two to five years	58,000	85,900	157,800	114,300
Over five years	121,300	118,800	–	–
	200,930	257,930	257,830	245,830
Long term payables are repayable as follows:				
On demand or within one year	16,880	12,520	10,585	13,156
In two to five years	–	–	–	–
Over five years	486	486	486	486
	17,366	13,006	11,071	13,642
The weighted average interest rates paid were:				
Bank loans	1.32%	2.52%	7.58%	3.49%
Other borrowings	1.47%	9.32%	8.12%	14.62%

17. DEFERRED TAX ASSETS

	Allowances 000's RMB	Provisions 000' RMB	Total 000's RMB
As at 31 December 2002	–	(270)	(270)
(Credit)/charge to income statement for the year	–	(271)	(271)
As at 31 December 2003	–	(541)	(541)
(Credit)/charge to income statement for the year	(15,491)	(130)	(15,621)
As at 31 December 2004	(15,491)	(671)	(16,162)
(Credit)/charge to income statement for the year	6,378	(248)	6,130
As at 31 December 2005	(9113)	(919)	(10,032)
(Credit)/charge to income statement for the year	4,976	(173)	4,803
As at 30 June 2006	(4,137)	(1,092)	(5,229)

18. OTHER FINANCIAL LIABILITIES

	2003 000's RMB	2004 000's RMB	2005 000's RMB	2006 000's RMB
Accounts payable	12,530	37,688	51,278	41,655
Bills payable	7,301	3,451	4,662	36,650
Amount due to directors	–	–	123	8
Receipt in advance	482	2,698	9,819	16,656
Other payables and accruals	18,006	13,132	14,382	18,665
	38,319	56,969	80,264	113,634

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken as at 30 June 2006 for trade purchases is 92 days, (31 December 2005: 81 days, 2004: 35 days, 2003: 49 days).

The directors consider that the carrying amount of trade payables approximates to their fair value.

19. RECONCILIATION OF PROFIT FROM OPERATIONS TO NET CASH FROM/ (USED IN) OPERATING ACTIVITIES

	2003 000's RMB	2004 000's RMB	2005 000's RMB	2006 000's RMB
Profit from operations	8,173	17,869	40,022	32,405
Adjustments for:				
Interest income	(619)	(300)	(659)	(173)
Interest expenses	5,455	12,490	20,701	11,184
Amortisation on land use rights	250	201	224	102
Depreciation	8,258	15,993	27,312	13,796
Write back on provision for doubtful debts	(1,074)	3,531	1,994	(483)
Provision for doubtful debts	146	144	(187)	–
Gains on disposal of property, plant and equipment	(145)	(151)	(83)	(18)
Government subsidies	(300)	(262)	(220)	–
Operating profit before working capital changes	20,144	49,515	89,104	56,813
(Increase)/decrease in inventories	(1,891)	(9,134)	(5,418)	(2,145)
(Increase)/decrease in accounts receivable	10,740	(35,306)	(19,908)	9,595
(Increase)/decrease in bills receivable	–	–	(600)	600
(Increase)/decrease in deposits, prepayments and other receivables	9,079	(2,097)	3,310	(5,009)
(Increase)/decrease in amounts due from directors	(1,863)	574	1,348	–
Increase/(decrease) in accounts payable	(1,818)	25,158	13,591	(9,623)
Increase/(decrease) in bills payable	7,300	(3,850)	1,212	31,988
Increase/(decrease) in receipts in advance	(273)	2,217	7,120	6,836
Increase/(decrease) in amounts due to directors	–	–	123	(115)
Increase/(decrease) in accrued expenses and other payables	9,177	(4,874)	1,250	4,283
Increase/(decrease) in other borrowings	7,233	(4,360)	(1,935)	2,571
Cash generated from operations	57,828	17,843	89,197	95,794

20. RELATED PARTY TRANSACTIONS

Apart from the transactions as disclosed in note 14 above, the Yaobai Group had the following material transactions carried out with related parties:

	2003	*2004*	*2005*	*2006*
	000's RMB	*000's RMB*	*000's RMB*	*000's RMB*
Key management compensation				
Salaries	758	803	705	330
Other welfare expenses	25	30	37	19
	783	833	742	349

21. CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities current or impending against the Yaobai Group.

22. SUBSEQUENT EVENTS

On the 15 July 2006, the 10 per cent. of shares in Xi'an Lantian Yaobai Cement Limited not owned by Shaanxi Yaobai Special Cement Company Limited were acquired making it a 100 per cent. owned subsidiary.

The Directors
Shaanxi Yaobai Special Cement Co Ltd
Room 1903A Road 4
Gaoke Square, Hi-Tech Development Zone
Xian, Shaanxi Province
Peoples Republic of China

and

The Directors
Insinger de Beaufort
131 Finsbury Pavement
London EC2A 1NT

29 November 2006

Dear Sirs

Shaanxi Yaobai Special Cement Co Ltd ("Yaobai Cement") and its subsidiary company

We report on the financial information set out in Part III(A), which has been prepared for inclusion in the Admission Document dated 29 November 2006 of West China Cement Limited on the basis of the accounting policies set out in Part III(A).

This letter is required by Paragraph (a) of Schedule Two of the AIM Rules, and is given for the purpose of complying with Paragraph (a) of Schedule Two of the AIM Rules and for no other purpose.

Responsibilities

The Directors of West China Cement Limited are responsible for preparing the financial information contained in Part III(A) of the Admission Document.

It is our responsibility to form an opinion as to whether this financial information gives a true and fair view, for the purposes of the Admission Document and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

The audit report, dated 26 October 2006, was unqualified.

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Opinion

In our opinion, the financial information contained in Part III(A) of the Admission Document gives, for the purposes of the Admission Document dated 29 November 2006, a true and fair view of the state of affairs of Yaobai Cement as at the dates stated and of its profits, cashflows, recognised gains and losses and changes in equity for the periods then ended in accordance with the basis of preparation set out in Part III(A).

Declaration

For the purposes of Paragraph a) of Schedule Two of the AIM Rules, we are responsible for this letter as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this letter is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to offset its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

PKF (UK) LLP

PART III(B)

HISTORICAL FINANCIAL INFORMATION ON WEST CHINA CEMENT CO LTD ("West China (BVI)")

Introduction

The directors of West China (BVI) report on the financial information set out below, which has been prepared for inclusion in the admission document of West China Cement Limited dated 29 November 2006 (the "Admission Document") relating to the proposed admission of West China Cement Limited to AIM.

West China (BVI) was incorporated on 14 July 2006 under company number 1039765 in the British Virgin Islands.

Basis of preparation of financial information

The financial information set out below is based upon the non-statutory financial statements prepared by the directors and covers the period from 14 July 2006 to 30 September 2006. The financial statements were audited by PKF, Certified Public Accountants of Hong Kong.

The audit report dated 26 October 2006 was unqualified, other than for the omission of consolidated accounts. The Historic Financial Information on West China (BVI)'s subsidiaries is contained in Part III(A) of this document.

The financial information has been presented under International Financial Reporting Standards ("IFRS").

INCOME STATEMENT

	Notes	*Period from 14 July to 30 September 2006 HK$*
Revenue		–
Cost of sales		–
Gross profit		–
Administrative expenses		73,792
Profit (loss) from operations	2	(73,792)
Finance costs		–
(Loss) before tax		(73,792)
Income tax expense	3	–
(Loss) after tax		(73,792)

BALANCE SHEET

	Notes	*30 September 2006 HK$*
ASSETS		
Non-current assets		
Investments in subsidiaries	4	123,719,858
		123,719,858
Current assets		
Cash and cash equivalents	5	7,800
		7,800
TOTAL ASSETS		123,727,658
LIABILITIES		
Current liabilities		
Trade and other payables	9	58,050
Amount due to shareholder	12	10,000
TOTAL LIABILITIES		68,050
NET ASSETS		123,659,608
EQUITY		
Share capital	6	7,800
Capital reserves	7	123,725,600
Accumulated profits	8	(73,792)
Equity attributable to equity holders of the parent		123,659,608
Minority interest		–
TOTAL EQUITY		123,659,608

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of West China (BVI)			
	Share capital HK$	*Capital reserves HK$*	*Retained earnings HK$*	*Total equity HK$*
Share issue	7,800	–	–	7,800
Share premium arising from shares issued	–	123,725,600	–	123,725,600
Net loss for the year	–	–	(73,792)	(73,792)
Balance at 30 September 2006	7,800	123,725,600	(73,792)	123,659,608

CASH FLOW STATEMENT

	Notes	*Period ended 30 September 2006 HK$*
Operating activities		
Cash used in operations	10	(5,742)
Interest paid		–
Net cash used in operating activities		(5,742)
Investing activities		
Acquisition of subsidiaries	11	123,719,858
Net cash used in investing activities		123,719,858
Financing activities		
Issue of new shares		123,733,400
Net cash from financing activities		123,733,400
Net increase in cash and cash equivalents		7,800
Cash and cash equivalents at beginning of period		–
Cash and cash equivalents at end of period		
Bank balances and cash		7,800

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared on the historical cost basis, except for the revaluation of land and buildings and certain financial instruments. The principal accounting policies adopted are set out below.

Investments in subsidiaries

A subsidiary is a company in which West China (BVI), directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investment in subsidiaries is stated in the balance sheet at cost less any identified impairment loss. Income from subsidiaries is recognised in these financial statements on the dividends declared by the subsidiaries.

Group financial statements have not been prepared for West China (BVI) and its subsidiaries as the directors are of the opinion that the preparation of group financial statements would involve expense and delay out of proportion to the value of the shareholders.

Revenue recognition

Interest income 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income is recognised when the shareholders' rights to receive payment have been established.

Foreign currencies

Transactions in currencies other than HK$ are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Taxation

The 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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised 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 which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when West China (BVI) has become a party to the contractual provisions of the instrument.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by West China (BVI) are recorded at the proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The management considers there is no estimate and assumption that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE HISTORIC FINANCIAL STATEMENTS

1. Presentation of financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards

These financial statements are presented in HK$ since that is the currency in which the majority of the group's transactions are denominated.

2. Profit from operations

Profit from operations has been arrived at after charging/(crediting):

	30 September 2006 HK$
Auditors' remuneration for audit services (see below)	50,000

Amounts payable to PKF Hong Kong and their associates in respect of both audit and non-audit services.

	Period ended 30 September 2006 HK$
Audit services	
– Non-statutory audit	50,000

3. Income tax expenses

The charge for the year can be reconciled to the profit per the income statement as follows:

	Period ended 30 September 2006 HK$
Loss before tax	(73,792)
Tax at the profits tax rate of 17.5%	12,914
Tax effect of expenses that are not deductible in determining taxable profit	(12,914)
Tax expense for the year	–

4. Subsidiaries

The financial statements of the subsidiaries set out below are not consolidated in West China (BVI)'s financial statements as the subsidiaries were acquired close to the period end date and are stated at cost.

Details of West China (BVI)'s subsidiaries at 30 September 2006 are as follows:

Name of subsidiary	*Place of establishment*	*Registered capital*	*Percentage of equity holding held by West China (BVI)*		*Proportion of voting power held*	*Principal activity*
			Directly	*Indirectly*		
		RMB	*%*	*%*	*%*	
Shaanxi Yaobai Special Cement Co Ltd	PRC	105,000,000	100		100	Manufacturing and selling of cement
Xian Lantian Yaobai Cement Co Ltd	PRC	10,000,000		100	100	Manufacturing and selling of cement

5. Other financial assets

Cash and cash equivalents – comprise cash and short-term deposits held by West China (BVI)'s treasury function. The carrying amount of these assets approximates their fair value.

Credit risk – West China (BVI)'s principal financial assets are bank balances and cash, which represent the Company's maximum exposure to credit risk in relation to financial assets.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk – Liquidity risk is minimal as the management considers that West China (BVI) will have sufficient funds from its bank and shareholders to meet its liquidity requirement.

Foreign exchange risk – West China (BVI) has certain foreign exchange risks arising from financial assets denominated in Renminbi at the balance sheet date. The directors consider no significant exposure to foreign exchange fluctuations as the fluctuation of exchange rate between Hong Kong dollar and Renminbi currency is not expected to be significant.

Fair value estimation – All of the carrying amounts of West China (BVI)'s financial assets and liabilities approximate their fair values due to their short term maturities.

6. Share capital

	No. of shares	At 30 September 2006 HK$
Ordinary shares at US$ 1 each	50,000	390,000
Authorised:		
Issued and Fully Paid:	1,000	7,800

West China (BVI) has one class of ordinary shares which carry no right to fixed income.

West China (BVI) was incorporated on 14 July 2006 with an authorised share capital of US$ 50,000 divided into 50,000 registered shares with a par value of US$1 each. Three subscribers invested a total of HK$ 123,743,400 in cash and 1,000 registered shares were issued to form the initial working capital base. The difference between the funds invested and the total par value of the shares issued represented a share premium of HK$ 123,725,600.

7. Capital reserves

	Share Premium HK$
Created on issue of ordinary shares	123,725,600
Balance at 30 September 2006	123,725,600

8. Accumulated losses

	At 30 September 2006 HK$
Net loss for the period	(73,792)
Balance at the end of the period	(73,792)

9. Other financial liabilities

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs.

The directors consider that the carrying amount of trade payables approximates to their fair value.

10. Reconciliation of profit from operations to net cash used in operating activities

	Period ended 30 September 2006 HK$
Loss from operations	(73,792)
Adjustments for:	
Increase in amount due to shareholder	10,000
Increase in payables	58,050
Cash generated from operations	(5,742)

11. Acquisition of subsidiary

On 18 July 2006, West China (BVI) acquired 100 per cent. of the issued share capital of Shaanxi Yaobai Special Cement Co Limited for a cash consideration of HK$ 123,719,858.

12. Related party transactions

The amounts outstanding due to a shareholder are unsecured and will be settled in cash. No guarantees have been given or received.

13. Subsequent events

On 26 October 2006, the entire issued share capital of West China (BVI) was acquired by West China Cement Limited, a company incorporated in Jersey.

PKF

The Directors
West China Cement Co Ltd
PO Box 957
Offshore Operations Centre
Road Town
Tortola
BVI

and

The Directors
Insinger de Beaufort
131 Finsbury Pavement
London EC2A 1NT

29 November 2006

Dear Sirs

West China Cement Co Ltd ("West China (BVI)") and its subsidiary companies

We report on the financial information set out in Part III(B), which has been prepared for inclusion in the Admission Document dated 29 November 2006 of West China Cement Limited on the basis of the accounting policies set out in Part III(B).

This letter is required by Paragraph (a) of Schedule Two of the AIM Rules, and is given for the purpose of complying with Paragraph (a) of Schedule Two of the AIM Rules and for no other purpose.

Responsibilities

The Directors of West China Cement Limited are responsible for preparing the financial information contained in Part III(B) of the Admission Document.

It is our responsibility to form an opinion as to whether this financial information gives a true and fair view, for the purposes of the Admission Document and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

The audit report, dated 26 October 2006, was qualified, solely because of the lack of consolidated accounts.

Opinion

In our opinion, the financial information contained in Part III(B) of the Admission Document gives, for the purposes of the Admission Document dated 29 November 2006, a true and fair view of the state of affairs of West China (BVI) as at the dates stated and of its losses, cashflows, recognised gains and losses and changes in equity for the periods then ended in accordance with the basis of preparation set out in Part III(B).

Declaration

For the purposes of Paragraph a) of Schedule Two of the AIM Rules, we are responsible for this letter as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this letter is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to offset its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

PKF (UK) LLP

PART III(C)

HISTORICAL FINANCIAL INFORMATION ON WEST CHINA CEMENT LIMITED ("West China")

Introduction

The directors of West China report on the financial information set out below, which has been prepared for inclusion in the admission document of West China Cement Limited dated 29 November 2006 (the "Admission Document") relating to the proposed admission of West China Cement Limited to AIM.

West China was incorporated on 16 October 2006 under company number 94796 under Companies (Jersey) Law 1991.

Basis of preparation of financial information

The financial information set out below is based upon the non-statutory financial statements prepared by the directors and covers the period from 16 October 2006 to 30 October 2006.

The audit report dated 27 November 2006 was unqualified, other than for the omission of consolidated accounts. The Historic Financial Information on West China subsidiaries is contained in Parts III(A) and III(B) of this document.

The financial information has been presented under International Financial Reporting Standards ("IFRS").

BALANCE SHEET

	Notes	*30 October 2006* *£'000*
ASSETS		
Non-current assets		
Investments in subsidiaries	2 & 5	30,000
TOTAL ASSETS		30,000
LIABILITIES		
Current liabilities		–
TOTAL LIABILITIES		–
NET ASSETS		30,000
EQUITY		
Share capital	4	4,274
Share Premium Account		25,726
Accumulated profits		–
Equity attributable to equity holders of the parent		30,000
		–
TOTAL EQUITY		30,000

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of West China			
	Share capital £'000	*Share premium £'000*	*Retained earnings £'000*	*Total equity £'000*
Share issue	4,274	–	–	4,274
Share premium arising from shares issued	–	25,726	–	25,726
Result for the period	–	–	–	–
Balance at 30 October 2006	4,274	25,726	–	30,000

CASH FLOW STATEMENT

	Notes	*Period ended 30 October 2006 £'000*
Operating activities		
Cash used in operations		–
Interest paid		–
Net cash used in operating activities		–
Investing activities		
Acquisition of subsidiaries		–
Net cash used in investing activities		–
Financing activities		
Issue of new shares		–
Net cash from financing activities		–
Net increase in cash and cash equivalents		–
Cash and cash equivalents at beginning of period		–
Cash and cash equivalents at end of period		
Bank balances and cash		–

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared on the historical cost basis, except for the revaluation of land and buildings and certain financial instruments. The principal accounting policies adopted are set out below.

Investments in subsidiaries

A subsidiary is a company in which West China, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investment in subsidiaries is stated in the balance sheet at cost less any identified impairment loss. Income from subsidiaries is recognised in these financial statements on the dividends declared by the subsidiaries.

Group financial statements have not been prepared for West China and its subsidiaries as the directors are of the opinion that the preparation of group financial statements would involve expense and delay out of proportion to the value of the shareholders.

Revenue recognition

Interest income 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income is recognised when the shareholders' rights to receive payment have been established.

Foreign currencies

Transactions in currencies other than £ sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Taxation

The 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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised 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 which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when West China has become a party to the contractual provisions of the instrument.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by West China are recorded at the proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The management considers there is no estimate and assumption that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE HISTORIC FINANCIAL STATEMENTS

1. Presentation of financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards

These financial statements are presented in £ sterling since that is the currency in which the majority of the Group's transactions are denominated.

2. Subsidiaries

The financial statements of the subsidiaries set out below are not consolidated in West China financial statements as the subsidiaries were acquired close to the period end date and are stated at cost.

Details of West China subsidiaries at 30 October 2006 are as follows:

Name of subsidiary	*Place of establishment*	*Registered capital RMB*	*Percentage of equity holding held by the Company Directly %*	*Indirectly %*	*Proportion of voting power held %*	*Principal activity*
West China Cement Company Limited	BVI	US$ 1,000	100		100	Intermediate holding company
Shaanxi Yaobai Special Cement	PRC	RMB 105,000,000		100	100	Manufacturing and selling of cement
Xian Lantian Yaobai Cement Co Ltd	PRC	RMB 10,000,000		100	100	Manufacturing and selling of cement

3. Other financial assets

Cash and cash equivalents – comprise cash and short-term deposits held by West China treasury function. The carrying amount of these assets approximates their fair value.

Credit risk – West China principal financial assets are bank balances and cash, which represent the Company's maximum exposure to credit risk in relation to financial assets.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk – Liquidity risk is minimal as the management considers that West China will have sufficient funds from its bank and shareholders to meet its liquidity requirement.

Foreign exchange risk – West China has certain foreign exchange risks arising from financial assets denominated in Renminbi at the balance sheet date. The directors consider no significant exposure to foreign exchange fluctuations as the fluctuation of exchange rate between Hong Kong dollar and Renminbi currency is not expected to be significant.

Fair value estimation – All of the carrying amounts of West China financial assets and liabilities approximate their fair values due to their short term maturities.

4. Share capital

	No. of shares	*At 30 October 2006 £'000*
Authorised:		
Ordinary shares at £0.10 each	200,000,000	20,000
Issued and Fully Paid:	42,735,985	4,274

West China has one class of ordinary shares which carry no right to fixed income.

West China was incorporated on 16 October 2006 with an authorised share capital of £10,000 divided into 10,000 registered shares with a par value of £1 each. Two shares were issued on incorporation. On 27 October 2006 each £1 share was split into 10 shares of £0.10 each and the authorised capital was increased to £20,000,000. On 27 October 2006 42,735,965 ordinary shares were issued as consideration for the acquisition of the directly owned subsidiary. The difference between the fair value of the investment acquired and the par value of the shares issued resulted in a share premium account of £25,726,402.

5. Acquisition of subsidiary

On 27 October 2006, West China Cement acquired 100 per cent. of the issued share capital of West China (BVI) by way of a 'share for share exchange'. The directors consider the fair value of this investment to be £30,000,000.

The Directors
West China Cement Limited
47 Esplanade
St. Helier
Jersey JE1 0BD

and

The Directors
Insinger de Beaufort
131 Finsbury Pavement
London EC2A 1NT

29 November 2006

Dear Sirs

West China Cement Limited ("the Company") and its subsidiary companies

We report on the financial information set out in Part III(C), which has been prepared for inclusion in the Admission Document dated 29 November 2006 on the basis of the accounting policies set out in Part III(C).

This letter is required by Paragraph (a) of Schedule Two of the AIM Rules, and is given for the purpose of complying with Paragraph (a) of Schedule Two of the AIM Rules and for no other purpose.

Responsibilities

The Directors of West China Cement Limited are responsible for preparing the financial information contained in Part III(C) of the Admission Document.

It is our responsibility to form an opinion as to whether this financial information gives a true and fair view, for the purposes of the Admission Document and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

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The audit report, dated 27 November 2006, was qualified, solely because of the lack of consolidated accounts.

Opinion

In our opinion, the financial information contained in Part III(C) of the Admission Document gives, for the purposes of the Admission Document dated 29 November 2006, a true and fair view of the state of affairs of West China Cement Limited as at the dates stated and of its losses, cashflows, recognised gains and losses and changes in equity for the periods then ended in accordance with the basis of preparation set out in Part III(C).

Declaration

For the purposes of Paragraph a) of Schedule Two of the AIM Rules, we are responsible for this letter as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this letter is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to offset its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

PKF (UK) LLP

PART IV

ILLUSTRATIVE PRO-FORMA STATEMENT OF NET ASSETS

The Directors set out below, for illustrative purposes only, a pro forma statement of net assets as at 30 June 2006. The figures in respect of the Yaobai Group as at 30 June 2006 have been extracted without material adjustment from the historical financial information, which is set out in Part III of this document. For both West China (BVI) and West China Cement the figures are extracted from the balance sheets contained in Part III (B) and (C) respectively, as if those balance sheets had existed as at 30 June 2006.

The statement is hypothetical and is based on the premise that the Placing had occurred at 30 June 2006. Because of its nature the statement will not necessarily give a fair representation of the Enlarged Group's net asset position following the admission of the Company to AIM.

	Yaobai Group as at 30 June 2006 RMB 000's	*West China Cement Co Limited (BVI) RMB 000's*	*West China Cement Limited RMB 000's*	*Consolidation adjustments RMB 000's*	*Placing adjustment RMB 000's*	*Pro forma total RMB 000's*
ASSETS						
Goodwill	–	–	–	(156,827)	–	(156,827)
Investments in subsidiaries	–	127,347	443	(127,790)	–	–
Property, plant and equipment	391,384	–	–	–	–	391,384
Land use rights	7,861	–	–	–	–	7,861
Deferred tax asset	5,229	–	–	–	–	5,229
	404,474	127,347	443	(284,617)	–	247,647
Current assets						
Inventory	24,227	–	–	–	–	24,227
Trade and other receivables	65,766	–	–	–	–	65,766
Pledged deposits	32,427	–	–	–	–	32,427
Cash and cash equivalents	16,940	8	–	–	291,511	308,459
	139,360	8	–	–	291,511	430,879
TOTAL ASSETS	543,834	127,355	443	(284,617)	291,511	678,526
LIABILITIES						
Current liabilities						
Trade and other payables	(113,634)	(70)	–	–	–	(113,704)
Taxes payable	(12,884)	–	–	–	–	(12,884)
Dividend payable	(512)	–	–	–	–	(512)
Bank loans and overdraft	(131,530)	–	–	–	–	(131,530)
	(258,560)	(70)	–	–	–	(258,630)
Non-current liabilities						
Bank loans	(114,300)	–	–	–	–	(114,300)
Long term payables	(13,642)	–	–	–	–	(13,642)
TOTAL LIABILITIES	(386,502)	(70)	–	–	–	(386,572)
NET ASSETS	157,332	127,285	443	(284,617)	291,511	291,954

The pro forma financial information has been obtained from the audited non statutory accounts of the individual companies.

The accounts of the intermediate and ultimate holding companies West China Cement Company Limited (BVI) and West China Cement Limited are denominated in Hong Kong dollars and £'s

Sterling respectively. All amounts have been translated into RMB using the spot rate as at 30 June 2006 to bring them in line with the historic Yaobai group.

Adjustments

Consolidation adjustments

The historical financial information set out in Part III of this document has not been consolidated in the Part III, since the trading companies (Yaobai Cement and Lantian Cement) were only acquired by West China Cement Co. Ltd after the accounting period covered by the historic financial information. As a result, consolidation adjustments have been made to the pro forma statement above to reflect the position of the Group accounts as if they had been consolidated.

Placing adjustments

On Admission, the Company will complete a Placing of 20,952,381 fully paid ordinary shares (for which irrevocable undertakings have been received as at the date of this Admission Document) with institutional investors at 105p per share, increasing the share capital to 63,688,366 ordinary shares, raising £22,000,000 less costs of £1,900,000. This fund raising is conditional upon the Admission of the Company to AIM.

The Directors
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47 Esplanade
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and

The Directors
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London EC2A 1NT

29 November 2006

Dear Sirs

Proposed Flotation of West China Cement Limited on AIM ("the Proposed Transaction")

We report on the pro-forma financial information (the "Pro-Forma Financial Information") set out in Part IV of the Admission Document ("the Document") to be dated 29 November 2006. This Pro-Forma Financial Information has been prepared by the Directors of West China Cement Limited on the basis described in Part IV of the Document, for illustrative purposes only, to provide information about how the Proposed Transaction might have affected the financial information presented, on the basis of accounting policies adopted by West China Cement Limited in preparing the balance sheet as at 30 June 2006.

Responsibilities

It is the responsibility of the Directors of West China Cement Limited to prepare the Pro-Forma Financial Information, in accordance with paragraph 20.1 of Annex 1 of the Prospectus Rules (as referred to in the AIM Rules).

It is our responsibility to form an opinion, as required by paragraph 7 of Annex 2 of the Prospectus Rules, as to the proper compilation of the Pro-Forma Financial Information and to report that opinion to you.

In providing this opinion, we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro-Forma Financial Information, nor do we accept responsibility for such reports or opinions, beyond that owed to those parties to whom those reports or opinions were addressed by us at the date of their issue.

Basis of Opinion

We conducted our work in accordance with the Statement of Investment Circular Reporting Standards issued by the Auditing Practice Board in the United Kingdom. The work that we have performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro-Forma Financial Information with the Directors of West China Cement Limited

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We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro-Forma Financial Information has been properly compiled on the basis stated.

Opinion

In our opinion:

1. the Pro-Forma Financial Information has been compiled on the basis stated; and
2. such basis is consistent with the accounting policies of West China Cement Limited.

Declaration

For the purposes of Schedule 2 of the AIM Rules issued by the London Stock Exchange, we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule 2 of the AIM Rules.

Yours faithfully

PKF (UK) LLP

PART V

ADDITIONAL INFORMATION

1. Responsibility

1.1 The Directors whose names appear on page i, and the Company, accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

1.2 PKF (UK) LLP accepts responsibility for its report on pro forma net assets contained in Part IV of this document and for their reports in Part III of this document. To the best of the knowledge of PKF (UK) LLP (which has taken all reasonable care to ensure that such is the case), the information contained in such reports is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Group

2.1 The Company was incorporated and registered in Jersey on 16 October 2006 under the Jersey Act as a company limited by shares with the name West China Cement Limited and with registration number 94796.

2.2 The principal legislation under which the Company operates is the Jersey Act and the regulations made thereunder.

2.3 The Company's registered office is at 47 Esplande, St Helier, Jersey JE1 0BD. The telephone number at the registered office is 01534 888900.

2.4 The Company's head office and principal place of business is at Room 1903, Tower A, Gaoke Plaza, 1 Gaoxin Road, Xi'an Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, PRC. The telephone number of the head office is 0086 29 8836 1679.

2.5 The ISIN number of the Ordinary Shares is JE00B1G5G525.

2.6 The Company, which is a holding company, has one wholly owned subsidiary which is registered in BVI and two indirect wholly owned subsidiaries which are registered in PRC, details of each of which are as follows:

Company	*Activity*	*Ownership*	*Location*
West China (BVI)	Intermediate holding company	100%	BVI
Yaobai Cement	Cement producer	100%	PRC
Lantian Cement	Cement producer	100%	PRC

Please see the structure chart of the Group at paragraph 3 of Part I of this document.

2.7 The Company has applied for and has been granted 'exempt' status for the purposes of the Income Tax (Jersey) Law 1961. This status depends, subject to certain statutory and extra-statutory exemption and concessions, on no Jersey resident having a beneficial interest in the Company.

3. Share Capital

3.1 On incorporation, the authorised share capital of the Company was £10,000 divided into 10,000 ordinary shares of £1 each, 2 of which were issued credited as fully paid to the subscribers to the Company's Memorandum of Association.

3.2 On 27 October 2006, each ordinary share of £1 each was sub-divided into 10 Ordinary Shares of 10 pence each.

3.3 On 27 October 2006, the authorised share capital of the Company was increased from £10,000 to £20,000,000 by the creation of an additional 199,900,000 Ordinary Shares.

3.4 On 27 November 2006, a special resolution of the Company was passed to disapply the pre-emption provisions contained in the Articles to the allotment and issue of the Placing Shares (representing 32.9 per cent. of the Enlarged Issued Share Capital) and a further 10,000,000 Ordinary Shares (representing 15.7 per cent. of the Enlarged Issued Share Capital).

3.5 The Jersey Financial Services Commission has consented under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of all of the 200,000,000 Ordinary Shares representing the authorised share capital of the Company.

3.6 The Placing will result in the issue of 20,952,381 New Ordinary Shares. The Company's authorised and issued share capital, at the date of this document is and it is expected to be immediately following Admission:

	At the date of this document		*Following Admission*	
	Amount	*Number of Ordinary Shares*	*Amount*	*Number of Ordinary Shares*
Authorised	£20,000,000.00	200,000,000	£20,000,000.00	200,000,000
Issued and fully paid	£4,273,598.50	42,735,985	£6,368,836.60	63,688,366

3.7 Issued Share Capital

	At Incorporation	*At Admission*
Issued Ordinary Shares	2*	63,688,366

* *On incorporation these were Ordinary Shares of £1 each which were subsequently each sub-divided into 10 Ordinary Shares.*

3.8 Save in respect of the options described in paragraphs 5.2 and 5.3 and the Warrants, there are not, nor have there been since incorporation of the Company, any Ordinary Shares under option.

3.9 On Admission, Shareholders who do not participate in the Placing will suffer an immediate dilution of 32.9 per cent. of their interests in the Company.

3.10 The provisions of the Company's Articles (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme) will apply to the authorised but unissued share capital of the Company to the extent not disapplied as described in paragraph 3.4 above.

3.11 The Company does not have in issue any securities not representing share capital and there are no outstanding debentures or convertible securities issued or proposed to be issued by the Company.

3.12 The Company's share capital consists solely of Ordinary Shares with equal voting rights (subject to the Articles). No major Shareholder of the Company has any different voting rights from the other Shareholders.

3.13 Save as disclosed in this document, there are no arrangements known to the Company, the operation of which may at a subsequent date result in a change in control of the Company.

4. Memorandum and Articles of Association and Mandatory Bids

Memorandum of Association

4.1 Under the Jersey Act there is no requirement for the Company to state it objects but it has unlimited corporate capacity under the Jersey Act.

Articles of Association

4.2 The Articles which were adopted pursuant to a written resolution of the Company passed on 27 November 2006 contain provisions, *inter alia*, in respect of the Ordinary Shares, general meetings of the Company and the directors to the following effect:

4.2.1 *Voting Rights*

Subject to any rights or restrictions attached to the shares (including as a result of unpaid calls) and/or as mentioned below, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative and is entitled to have a vote shall have one vote and on a poll every member who is present in person or by proxy and entitled to vote shall have one vote for every share of which he is the holder. Where, in respect of any shares, any registered holder or any other person appearing to be interested in such shares fails to comply with any notice given by the Company, then not earlier than 14 days after service of such notice the shares in question may be disenfranchised.

4.2.2 *Major Shareholders*

Nothing in the Articles confers on major shareholders in the Company any voting rights which are different to those conferred on the holders of Ordinary Shares as described in paragraph 4.2.1 above.

Holders of three per cent. or more of the nominal value of the Company's share capital are under a duty to disclose their interests in shares at the time the interest in the Company's share capital becomes equal to or greater than three per cent. of the issued capital, such notification to be given in writing to the Company. To the extent that persons who already hold at least three per cent. or more of the nominal value of the Company's share capital increase or decrease their holding, notice is required to be given to the Company by the shareholder. At any time during the period when a person's interest in the issued share capital of the Company is equal to or greater than three per cent, when that person acquires or disposes of, in either one or more transactions such that the increase or decrease (as the case may be) in that person's interest is, taken on aggregate basis, one pre cent or more of the issued share capital, this must also be notified to the Company.

The Company may, by issuing a notice in such forms as the Directors may from time to time approve, require a registered member to disclose the nature of his interest in the relevant shareholding in the Company.

4.2.3 *General Meetings*

An annual general meeting shall be held once a year, within 18 months of the previous annual general meeting.

Subject to a member's right to requisition an extraordinary general meeting pursuant to the provisions of the Articles,, general meetings of the Company are convened at the discretion of the board, and with the exception of the annual general meeting, all such general meetings of the Company shall be extraordinary general meetings.

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution or (except as provided by statute) a resolution of which special notice has been given to the Company, shall be called by at least 21 clear days' notice in writing. Any other extraordinary general meeting shall be called by at least 14 clear days' notice to the Company. Notice may be via a website where the member agrees and is informed that the notice has been published on the web site, the address of which is known to him. Notice shall be given to all members and the directors and the auditors.

Every notice calling a general meeting shall specify the place, day and hour of the meeting. Every notice must include a reasonably prominent statement that a member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him and that a proxy need not be a member of the Company.

A general meeting may be called by shorter notice if it is agreed: (i) in the case of an annual general meeting, by all the members entitled to attend and vote; and (ii) in the case of an extraordinary general meeting, by a majority in the number of the members having a right to attend and vote, being a majority together holding at least 95 per cent. in nominal value of the shares giving that right.

4.2.4 *Changes in capital*

The Company may from time to time by special resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger amount, sub-divide all or any of its shares into shares of a smaller amount and cancel any shares not taken or agreed to be taken by any person.

The Company may by special resolution cancel any shares which have not been taken (or are subject to agreement to take) and diminish the amount of its share capital by the nominal amount of the shares so cancelled.

The Company may, subject to the Jersey Act, by special resolution reduce its share capital, any capital redemption reserve and any share premium account. Subject to and in accordance with the Jersey Act, the Company may purchase its own shares (including redeemable shares).

4.2.5 *Variation of Rights*

Subject to the Jersey Act and every other statute for the time being in force concerning companies and affecting the Company (the "Statutes"), if at any time the capital of the Company is divided into different classes of shares, all or any of the rights and privileges attached to any class of share may be varied or abrogated either (i) in such a manner (if any) as may be provided by the rights attaching to such class or (ii) in the absence of any such provision, with the consent in writing of the holders of at least two thirds of the nominal amount of the issued shares of the relevant class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the relevant class. At any such separate meeting the holders present in person or by proxy of one third of the issued shares of the class in question shall be a quorum. Unless otherwise provided by the rights attaching to any shares, these rights shall be deemed to be varied by the creation or issue of further shares ranking in any respect in priority thereto.

4.2.6 *Alteration of Capital*

The Company may from time to time by special resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger amount, sub-divide all or any of its shares into shares of a smaller amount and cancel any shares not taken or agreed to be taken by any person.

The Company may, subject to the Statutes, by special resolution reduce its share capital, any capital redemption reserve and any share premium account. Subject to and in accordance with the provisions of the Statutes, the Company may purchase its own shares (including redeemable shares).

4.2.7 *Redemption*

Subject to the provisions of the Jersey Act, the Company may create shares which are liable to be redeemed. As at the date of this document, there are no shares in issue which are capable of being redeemed by the Company.

4.2.8 *Conversion*

The Company may, by special resolution and subject to the Statutes, convert all or any of its fully-paid shares into stock of the same class and denomination and reconvert such stock into fully paid up shares of the same class and denomination.

4.2.9 *Distribution of assets on a winding up*

In the event of liquidation of the Company the holders of shares are entitled *pari passu* to any surplus dividends. A liquidator may, with the sanction of an special resolution and subject to applicable law, divide the assets among the members *in specie*.

4.2.10 *Transfer of Shares*

The Ordinary Shares are in registered form and may be in certificated or uncertificated form. Shares in uncertificated form may be transferred otherwise than by written instrument in accordance with the Statutes and relevant subordinate legislation. Transfers of shares in certificated form may be effected by instrument in writing in any usual or common form or in any other form acceptable to the directors. Any instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered in the Company's register of members.

The directors may refuse to register the transfer of a share which is in respect of a share which is not fully paid, or which is in favour of more than four transferees or which is in respect of more than one class of shares or which has not been presented for registration duly stamped accompanied by the share certificates for the shares to which the transfer relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer.

Where in respect of any shares any registered holder or any other person appearing to be interested in such shares fails to comply with any notice given by the Company in accordance with the Articles, then the Company may prohibit transfers of such shares otherwise than following a sale shown to the satisfaction of the directors to be of the full legal and beneficial ownership of such shares at arm's length. The registration of transfers may be suspended by the Directors for any period not exceeding 30 days in a year.

4.2.11 *Allotment of Shares*

Subject to the provision of the Articles, the Company shall not allot, which are to be paid wholly or partly in cash, any shares of any class unless an offer has been made to each person who is a holder and who holds shares of the relevant class on the same or more favourable terms of a proportion of those shares which is equal to the proportion in nominal value held by the holder of the relevant shares in issue.

The Directors may be given the power, by virtue of special resolution, to allot shares generally or in respect of a specific allotment as if the rights of pre-emption contained in the Articles did not apply.

4.2.12 *Dividends and other distributions*

Subject to the provisions of the Statutes, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but not exceeding the amount recommended by the directors. The directors may pay interim dividends if it appears to them that they are justified by the profits of the Company. Except as otherwise provided by the Articles or the rights attached to any shares issued by the Company, the holders of shares are entitled *pari passu* amongst themselves to share in the whole of the profits of the Company paid out as dividends and the whole of any surplus in the event of liquidation of the Company. A liquidator may, with the sanction of an extraordinary resolution, divide the assets among the members *in specie*. The directors may, with the sanction of an ordinary resolution, offer the shareholders or any class of them (other than those not entitled to the relevant dividend or dividends) the right to elect to receive Ordinary Shares, credited as fully paid, instead of cash in respect of the whole or part of any dividend or dividends which are the subject of the ordinary resolution.

All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. Any dividend which is unclaimed for a period of 12 years from the date on which the dividend became due for payment shall be forfeited and cease to remain owing by the Company.

4.2.13 *Borrowing Powers*

As provided in the Articles, the directors may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The directors shall restrict the borrowings of the Company and the borrowings of any other companies within the Group so as to secure that the aggregate amount for the time being outstanding (after adjustments provided for in the Articles) at any one time owing by the Group in respect of monies borrowed, determined in accordance with the Articles, shall not without the previous sanction of an ordinary resolution of the Company exceed an amount equal to the greater of two and a half times the aggregate of the nominal amount paid up on the Company's issued share capital and the total amount standing to the credit of the capital and revenue reserve of the Group as shown in the latest audited balance sheet of the Group but adjusted as may be necessary to take account of such deductions as are specified in the Articles.

4.2.14 *Constitution of board of directors*

The minimum number of directors shall not be less than two and unless and until otherwise determined by the Company in general meeting shall not be more than nine. No shareholder qualification is required of any director.

4.2.15 *Retirement of directors by rotation*

At every annual general meeting of the Company one third of the directors or the number nearest to but not exceeding one third shall retire by rotation and be eligible for re-election. The directors to retire will be those who have been longest in office or, in the case of those who were appointed or re-appointed on the same day, will (unless they otherwise agree) be determined by lot.

4.2.16 *Remuneration of directors*

The fees to be paid to the directors shall be determined by the Remuneration Committee of the Company from time to time.

Each director may also be paid all travelling, hotel and other expenses properly incurred by him in connection with his attendance at meetings of the directors of the Company or otherwise in the discharge of his duties as a director. Any director who holds any executive office or who serves on any committee or who devotes special attention to the business of the Company or who otherwise performs services which, in the opinion of the directors, are outside the scope of the ordinary duties of a director, may be paid such extra remuneration by way of salary, lump sum, participation in profits or otherwise as the directors determine.

4.2.17 *Permitted interests of directors*

Subject to the provisions of the Statutes, a director is not disqualified by his office from contracting with the Company in any manner, nor is any contract in which he is interested liable to be avoided, and any director who is so interested is not liable to account to the Company for any profit realised by the contract, by reason of the director holding that office or of the fiduciary relationship thereby established.

A director may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of director and may act in a professional capacity for the Company (other than as auditor) on such terms as to tenure of office, remuneration or otherwise as the directors may determine. A director may also hold office as a director or other officer or be otherwise interested in any other company of which the Company is a member or in which the Company is otherwise interested and shall not be liable to account to the Company for any remuneration or other benefits received by him from that company.

4.2.18 *Restrictions on voting by directors*

Save as provided below, a director shall not vote on or in respect of any contract or arrangement or any other proposal in which he has an interest which is to his knowledge a material interest otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company. A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

A director shall (in the absence of some other material interest than is indicated below) be entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters:

(a) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;

(b) the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(c) any proposal concerning a placing of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which placing he is or is to be interested as a holder of securities or as a participant in the undertaking or sub-underwriting thereof;

(d) any proposal concerning any other company in which he does not to his knowledge hold directly or indirectly an interest in shares representing one per cent. or more of any class of the equity share capital or voting rights;

(e) any arrangement for the benefit of employees of the Company and its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; and

(f) any contract for the purchase or maintenance of insurance against any liability of any directors.

4.3 *Acquiring Majority Interests*

Subject to the provisions of the Articles:

(a) where any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which (when taken together with shares in which persons acting in concert with such person are interested) carry 30 per cent. or more of the voting rights of the Company; or

(b) any person, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of the Company but does not hold shares carrying more than 50 per cent. of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested; or

(c) in the other circumstances thus set out in the Articles,

such person shall extend offers on the basis of the Articles to the holders of any class of shares whether voting or non-voting and also to the holders of any other class of transferable securities carrying voting rights or which give rise, whether contingent or otherwise, to a future right to exercise voting rights or acquire whether by way of issue, transfer, conversion or otherwise, shares carrying voting rights. Offers for different classes of equity share capital must be comparable as to value in order to comply with this Article.

An offer under the Articles, in connection with majority interests, will not be required where more than 50 per cent. of voting rights in the Company's share capital is acquired as a result of a voluntary offer to all shareholders made in the same terms in respect of each class of the Company's share capital and other transferable securities carrying voting rights and such offer was conditional as to acceptances upon no less than over 50 per cent. of the total voting rights in the equity capital of the Company and was open for a period of not less than 12 weeks.

In the case of parties acting in concert the person who has the obligation to extend an offer under the Articles is the person who acquires shares which breach the relevant thresholds set out in the Articles (the "Initial Party") shall be the person who has an obligation to extend such an offer unless any other party acting in concert with the Initial Party (the "Replacement Party") undertakes to the Company in writing to extend an offer in place of the Initial Party and such offer is extended by the Replacement Party in writing within two business days of such offer obligation arising in accordance with the provisions of the Articles as if the obligation of the Replacement Party to make an offer arose on the same day as that of the Initial Party.

Subject to the Articles offers made under the Articles, in connection with majority interests, must be conditional only upon the offeror having received acceptances in respect of shares which together with shares acquired or agreed to be acquired before or during the offer, will result in the offeror and any person acting in concert with it holding shares carrying more than 50 per cent. of the voting rights and no acquisition of any interest in shares which would give rise to a requirement for an offer to be made under the Articles in connection with majority interests may be made if the making or implementation of such offer would or might be dependent on the passing of a resolution at any meeting of shareholders of the offeror or upon any other conditions, consents or arrangements whatsoever.

References in the Articles, in connection with majority interests, to "shares" include only shares carrying non-conditional voting rights and does not apply to any other transferable securities carrying prospective, limited or conditional voting rights.

In the event that a shareholder and any person acting in concert with him acquires more than 50 per cent. of the voting rights in the Company otherwise than by virtue of: (i) a general offer for shares a condition of which was the acquisition of not less than over 50 per cent. of the shares carrying voting rights in the Company or (ii) an offer pursuant to the Articles such shareholders shall be deemed to have made an offer capable of acceptance to all shareholders under the terms of the Articles and shall (notwithstanding any subsequent amendments of the Articles) formally extend an offer to the shareholders of the Company on the terms of the Articles which shall be subject to no conditions except as set out under this Article.

The only conditions to an offer, in connection with majority interests, under the Articles are any required regulatory consent or compliance with applicable laws or regulations of the London Stock Exchange or any applicable regulatory body including for the avoidance of doubt any approval, clearance or authority granted by any competition authority or body.

Once the conditions of any offer made under the Articles, in connection with a majority interest, have been met the offeror shall declare such offer unconditional and such offer shall remain open for no less than 4 weeks after such declaration is made. An offeror under the Articles shall make such declaration directly to the shareholders in writing in the manner as to dispatch as prescribed by the Articles and such declaration shall specify the period for which the offer remains open and shall set out the terms of the offer and how such offer may be accepted together with any other relevant information necessary for any shareholders to accept the offer and meet its terms.

An offer made under the Articles, in connection with a majority interest, must be made in cash or be accompanied by an equal cash alternative at not less than the highest price paid by the offeror or any person acting in concert with it for any interest in shares of the relevant class during the 12 months prior to the announcement of any offer under the Articles.

If, after an announcement of an offer made in accordance with the Articles for a class of share capital and before the offer closes for acceptance, the offeror or any person acting in concert with it acquires any interest in shares of that class at above the offer price, it shall increase its offer for that class to no less than the highest price paid for the interest of shares so acquired.

When directors (and their close relatives and related trusts) sell shares to a person (or enter into options, derivatives or other transactions) as a result of which this person is required to make an offer under the Articles in connection with majority interests the directors must ensure that as a condition of the sale (or other relevant transaction) the person undertakes to fulfil his obligation under the Articles. In addition such directors should not resign from the Board until the closing date of the offer or the date the offer is declared unconditional whichever is later.

No nominee of an offeror or persons acting in concert with it may be appointed to the Board nor any one offeree or any persons acting in concert with it exercise or procure the exercise of the votes attracting to any shares in the Company until the Offer Document has been posted.

An obligation to make an offer under the Articles, in connection with a majority interest, shall arise immediately upon the acquisition of the relevant shares. Any person who has an obligation to make an offer under the provisions of the Articles shall notify at least two Directors immediately of such obligation and such notification shall include the information required to be disclosed as set out below. Upon the earlier of: (i) being notified by a person that an obligation to make an offer under the Articles has arisen and (ii) such obligation coming to the attention of the Company otherwise the Company shall make an announcement to the London Stock Exchange by the Regulatory News Services (the "R.N.S."). Such notification will state that an obligation to make an offer has arisen, the identity of the person who has such obligation together with any relevant person with whom they are acting in concert and that such obligation may be released in accordance with the Articles. An Offer Document must be posted by first class post to all holders of shares in the Company no later than thirty days after the announcement of the obligation under the Articles is made. The offer must remain open for acceptance for 12 weeks after posting subject to extension under the Articles.

An obligation to make an offer under the Articles, in connection with a majority interest, shall be released by: (i) the Company in general meeting by special resolution or (ii) if, on the next Business Day after the announcement of the obligation to make an offer under the Articles is made the person who is under such obligation sells shares to an independent third party such that his total share holding is reduced to the same level immediately prior to the time when the obligation under the Articles arose and he undertakes by separate undertaking to the Company in such form as the Directors may reasonably approve either by enforceable contract or by deed or any other legally binding method to not acquire any such shares in the Company for a period of 12 months from such date. A resolution of shareholders releasing a person from any obligations under the Articles must be passed before thirty days after the announcement date of the obligation to make an offer under the Articles and such meeting may be requisitioned in any manner permissible under these Articles or the Law. In the event that a shareholder is released from any obligation to make an offer for shares under these Articles the Company shall forthwith make the appropriate disclosure on R.N.S. and any meeting requisitioned or called in respect of the terms of this Article shall also be so disclosed in the same manner. The above provisions do not apply to any person who is interested in shares carrying voting rights in the capital of the Company, excluding any part with whom such person is acting in concert, at the date of the admission of the Company's shares to trading on AIM however for the avoidance of doubt any further acquisition of shares which fall within the provisions of the Articles and which trigger an obligation to make an offer under such Articles will fall within such provisions.

All offers shall be made by a formal offer, contained in an offer document (the "Offer Document"), which shall comply with the obligations of Rule 24 of the Code and any of the relevant provisions of the Code in respect of the contents of the offer documents.

References to a person acting concert with another person or similar working shall for the purposes of the Articles refer to persons who, pursuant to an agreement or understanding (whether formal or informal), cooperate to obtain or consolidate control of an interest or interests in shares carrying in aggregate 30 per cent. or more of the voting rights of a company, irrespective of whether such interest or interests give de facto control.

References in the Articles, in connection with a majority interest, to "interests" in shares or other transferable securities shall include any direct or indirect interest in shares held by a person whether held legally or beneficially or the interests in which may be otherwise directed, controlled or influenced whether by contract, agreement, understanding, trust instrument or otherwise.

4.4 *Squeeze-out*

Under the Jersey Act, if an offeror were to acquire 90 per cent. of the Ordinary Shares within four months of making its offer, it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding Shareholders telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding Shareholders. The consideration offered to the Shareholders whose shares are compulsorily acquired under Jersey Law must, in general, be the same as the consideration that was available under the takeover offer.

4.5 *Sell-out*

The Jersey Act would also give minority Shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Ordinary Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. of the Ordinary Shares, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares.

The offeror would be required to give any Shareholder, who has not accepted the offer, notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority Shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a Shareholder exercises his/her rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

5. Directors' Interests

5.1 The interests of the Directors (all of which are beneficial) in the issued share capital of the Company as at 28 November 2006 (being the latest practicable business day prior to the date of this document), the existence of which is known or which could, with reasonable diligence, be ascertained by a Director are:

	Current		*Following Admission*	
Director	*Number of Ordinary Shares*	*% of Existing Share Capital*	*Number of Ordinary Shares*	*% of Enlarged Share Capital*
Robert Robertson	nil	–	50,000	0.1
Jimin Zhang	37,607,667	88.0	37,607,667	59.0
Zhanjun Tian	nil	–	nil	–
Jianli Wang	nil	–	nil	–
Brett Miller	nil	–	nil	–

5.2 Robert Robertson has been granted options pursuant to the Share Option Scheme in respect of 382,130 Ordinary Shares. These options are exercisable at the Placing Price between the second and fifth anniversaries of Admission. In addition, Robert Robertson has been granted options in respect of a further 254,753 Ordinary Shares which become exercisable in the event that the price of an Ordinary Share increases by more than 50 per cent. in the period from Admission to the second anniversary of Admission, in which case, they shall be exercisable at the Placing Price and between the second and fifth anniversary of Admission.

5.3 Brett Miller has been granted options pursuant to the Share Option Scheme in respect of 159,221 Ordinary Shares. These options are exercisable at the Placing Price between the second and fifth anniversaries of Admission.

5.4 In respect of each Director, there are no conflicts of interest between any duties they have to the Company and the private interests and/or other duties they may also have.

5.5 There are no outstanding loans granted by any member of the Group to the Directors or any guarantees provided by any member of the Group for the benefit of the Directors.

5.6 No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of the Group and which was effected by the Company during the current or immediately preceding financial year, or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

6. Substantial Shareholders

6.1 Insofar as is known to the Company and in addition to the interests of the Directors disclosed in paragraph 5.1 above, the following persons are, at the date of this document, and are expected, following Admission, to be interested directly or indirectly in 3 per cent. or more of the Enlarged Issued Share Capital:

	Current		*Following Admission*	
Director	*Number of Ordinary Shares*	*% of Existing Share Capital*	*Number of Ordinary Shares*	*% of Enlarged Share Capital*
Professor Zhaoyang Ma	4,273,599	10	4,273,599	6.7

6.2 Save as disclosed in paragraph 5.1 above and in this paragraph 6, and insofar as the Company has the information, the Directors are not aware of any person or persons who either alone or, if connected jointly following the implementation of the Proposals, is or will be interested directly or indirectly in 3 per cent. or more of the issued Ordinary Share capital of the Company.

6.3 Save as disclosed in paragraph 5 above and in this paragraph 6, and insofar as the Company has the information, the Directors are not aware of any person or persons who either alone or, if connected jointly following the implementation of the Proposals, will (directly or indirectly) exercise or could exercise control over the Company.

7. Additional Information on the Directors

7.1 Other than directorships of Group companies, the Directors have held the following directorships or been partners in the following partnerships within the five years prior to the date of this document:

Director	*Current*	*Past*
Robert Robertson	Cleveland Potash Investments Limited S and J D Robertson Group Limited Buxton Lime Industries Limited Tilcon Holdings Limited Tilcon Services Limited Anglo Industrial Minerals Holdings Limited Anglo Industrial Minerals Limited Tarmac Group Limited Tarmac Holdings Limited Tarmac Limited Tilcon Scotland Limited Project Trust The Concrete Centre Limited Anglo American Group Foundation Tarmac Finance (Jersey) Limited	Anglo American CM Investments Limited Midland Quarry Products Limited Tarmac Central Limited Tarmac Concrete Products Limited Tarmac Northern Limited Tarmac Southern Limited Tarmac Western Limited Cleveland Potash Limited Quarry Products Association Limited S & J D Robertson Oils Limited
Jimin Zhang	none	none
Zhanjun Tian	none	none
Jianli Wang	none	none
Brett Miller	Ruegg & Co Limited Gledhow Investments plc Pactolus Hungarian Property plc	17 Gledhow Gardens Management Company Limited

7.2 Save as disclosed in this document, none of the Directors has:

7.2.1 any unspent convictions in relation to indictable offences;

7.2.2 had any bankruptcy order made against him or entered into any voluntary arrangements;

7.2.3 been a director of a company which has been placed in receivership, compulsory liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, whilst he was a director of that company or within the 12 months after he had ceased to be a director of that company;

7.2.4 been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement, whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

7.2.5 been the owner of any asset which has been placed in receivership or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

7.2.6 been officially publicly criticised incriminated or sanctioned by any statutory or regulatory authorities (including designated professional bodies); or

7.2.7 been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of the affairs of a company in the five years preceding the date of this document.

7.3 No Director nor any member of his immediate family nor any person connected with him has a related financial product (as defined in the AIM Rules) referenced to Ordinary Shares.

7.4 Save as disclosed in this document, no Director has or has had any interest in any transaction which is or was significant in relation to the business of the Group and which was effected during the current or immediately preceding financial period or which was effected during an earlier financial period and remains outstanding or unperformed.

8. Directors' Remuneration

8.1 Details of the Directors' service contracts/non-executive letters of appointment, all of which take effect from Admission, are as follows:

Directors	*Date of Commencement*	*Notice period from the Company (months)*	*Notice period to the Company (months)*	*Salary (£)*	*as at Admission Benefits (£)*	*Bonus (£)*	*Pensions (£)*
Robert Robertson	Admission	3	3	50,000	nil	nil	nil
Jimin Zhang	Admission	6	6	40,000	nil	nil	nil
Zhanjun Tian	Admission	6	6	20,000	nil	nil	nil
Jianli Wang	Admission	6	6	20,000	nil	nil	nil
Brett Miller	Admission	3	3	35,000	nil	nil	nil

The Directors receive no Ordinary Shares or options over Ordinary Shares in lieu of remuneration or as any form of compensation.

8.2 Details of the commencement of service of each of the Directors is set out below, and each can be terminated by the length of notice referred to in paragraph 8.1 above:

Name	*Commencement date in office*
Robert Robertson	1 November 2006
Jimin Zhang	2 August 2006
Zhanjun Tian	2 August 2006
Jianli Wang	2 August 2006
Brett Miller	1 November 2006

8.3 Other than as disclosed in this paragraph 8, no member of the Group is party to any service contract with any of the Group's senior management which provides for benefits on the termination of any such arrangement.

8.4 No Director has any accrued pension benefits.

8.5 There is no arrangement under which any Director has waived or agreed to waive future emoluments.

8.6 Save as disclosed in this paragraph 8, there are no existing or proposed service or consultancy agreements between any Director and any member of the Group.

8.7 In the year ended 31 December 2005 the total aggregate remuneration paid, and benefits-in-kind granted, to the Directors was approximately £40,000. The amounts payable to the Directors by the Group under the arrangements in force at the date of this document in respect of the year ending 31 December 2006 are estimated to be £65,000 (excluding any discretionary payments which may be made under these arrangements).

9. Information regarding the Directors

Brief biographies of the Directors are set out in paragraph 9 of Part I of this document.

10. Share Option Scheme

On 27 October 2006, the Company adopted the Share Option Scheme. A summary of the rules of the Share Option Scheme is as follows:

10.1 *Grant of Options*

10.1.1 Options can be granted at the discretion of the Company to any employee of the Group.

10.1.2 No options can be granted after the tenth anniversary of the date of adoption of the Share Option Scheme.

10.1.3 An individual cannot receive an option within six months of his retirement.

10.2 *Conditions*

The exercise of options may be made subject to conditions.

10.2.1 *Exercise of Options*

(a) Options cannot be exercised prior to the third anniversary of the date of grant unless such anniversary is preceded by the sale of 75 per cent. of the issued share capital of the Company or a substantial change of ownership in which case the option becomes exercisable prior to such event even if it precedes the third anniversary of the date of grant.

(b) The option holder must indemnify the Company, any member of the Group and the grantor of the option for any tax on employment income and social security contributions arising from the grant or exercise of the option.

10.2.2 *Lapse of Options*

Options lapse if the option holder ceases to be an employee, on the tenth anniversary of the date of grant and on completion of a sale of 75 per cent. of the issued share capital of the Company or a substantial change in ownership of the Company.

10.2.3 *Adjustment of Options*

In the event of any variation in the share capital of the Company by way of capitalisation, rights issue, consolidation, sub-division, reduction or otherwise, the Company can adjust the number of shares which are subject to options, and the exercise price for such options.

10.2.4 *Scheme Amendment*

The Board has the power to amend the rules of the Share Option Scheme. However, in respect of options which have already been granted, such amendments have to be approved by the option holder.

11. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group within the two years immediately preceding the date of this document and are, or may be, material or are, or may, contain provisions under which any member of the Group has an obligation or entitlement which is material to the Group:

11.1 the Placing Agreement, further details of which are contained in paragraph 18 of this Part V;

11.2 an agreement dated 27 October 2006 between (1) the Company and (2) the shareholders of West China (BVI) (the "Sellers") whereby the Company agreed to acquire 100 per cent. of the issued share capital of West China (BVI) in consideration of the allotment to the Sellers of, in aggregate, 42,735,965 Ordinary Shares paid up at 20p per Ordinary Share and the paying up at 20p each of the 20 Ordinary Shares in issue at the date of the agreement;

11.3 an agreement dated 12 July 2006 between (1) the Company and (2) Insinger de Beaufort whereby Insinger de Beaufort agreed to act as nominated adviser and broker to the Company for fees of £45,000 per annum;

11.4 an agreement dated 18 April 2006 between (1) the Company and (2) Goldenway International Capital Limited ("Goldenway") whereby Goldenway agreed to act as PRC financial advisor to the Company for the following fees:

(a) RMB300,000 at various stages of the transaction, all of which has already been paid;

(b) RMB1,200,000 on Admission; and

(c) ordinary shares in the capital of China Cement (BVI) equating to 2 per cent. of the issued share capital of China Cement (BVI) which, pursuant to the Acquisition Agreement, were exchanged for 854,719 Ordinary Shares. Such Ordinary Shares are held by Mr Zhinfeng Liu, a director of Goldenway, on behalf of Goldenway;

11.5 an agreement dated 15 July 2006 made between (1) Yaobai Cement, (2) Jianli Wang and (3) Lili Zhang whereby Yaobai Cement acquired 4 per cent. and 6 per cent. of the issued share capital of Lantian Cement held by Jiangli Wang and Lili Zhang respectively for an aggregate consideration of RMB1 million;

11.6 an agreement dated 18 July 2006 made between (1) West China (BVI) and (2) Shaanxi Yaobai Investment Co., Ltd. whereby West China (BVI) acquired the entire issued share capital of Yaobai Cement from Shaanxi Yaobai Investment Co., Ltd. for a consideration of RMB127,011,346.21. This transaction has been approved by the Ministry of Commerce of PRC;

11.7 a contract dated 24 December 2005 made between (1) Lantian Cement and (2) Suzhou Zhongcai Construction Co., Ltd. (the "Builder") whereby the Builder has agreed to construct two production lines in Lantian for the consideration of RMB174.85 million. Pursuant to the contract, the Builder is obliged to complete the construction within 360 calendar days from the date of the contract and shall deliver the production lines to Lantian cement within 180 calendar days from the date of completion of the construction;

11.8 a warrant instrument of the Company dated 29 November 2006 pursuant to which the Company created the Warrants. On Admission, all of the Warrants are to be issued to Insinger de Beaufort. Each Warrant, when issued, will give Insinger de Beaufort the right to subscribe for one Ordinary Share at the Placing Price at any time from Admission to the third anniversary of Admission;

11.9 an agreement dated 29 November 2006 made by (1) the Company and (2) Zhang Jimin whereby Zhang Jimin has agreed, conditionally on Admission, not to exercise his controlling interest in the share capital of the Company in respect of certain matters. This is to ensure that the Company is capable at all times of carrying on its business independently of Zhang Jimin;

11.10 a conditional agreement dated 18 October 2006 made between (1) Xunyang County Government and (2) Yaobai Cement whereby Yaobai Cement has agreed to invest a sum in the region of RMB210 million in the construction of a preheated suspension process cement production line with an annual output of one million tonnes of cement in Xunyang. Xunyang County Government will be responsible for providing a construction site in Xunyang with an approximate area of 200 acres and to assist Yaobai Cement in acquiring appropriate land use rights. In addition, Xunyang County Government has also assured Yaobai Cement that it will obtain two mining licences in respect of two nearby limestone quarries with estimated resources of 60 million tonnes of limestone. This agreement is conditional on Yaobai Cement obtaining various government approvals and financing facilities; and

11.11 an agreement dated 15 January 2006 made between (1) Lantian Cement and (2) Shaanxi Hangtian Construction Company Limited ("Hangtian") whereby Hangtian has agreed to undertake the building of premises at the Lantian site for an aggregate consideration of approximately RMB70 million (to be finally determined upon completion of the construction) payable in instalments based on construction milestones.

12. Corporate Governance

12.1 The Board fully supports the underlying principles of corporate governance contained in the Combined Code, notwithstanding that, as its securities are not listed on the Official List, it is not required to comply with such recommendations. It has sought to comply with the provisions of the Combined Code, insofar as is practicable and appropriate for a public company of its size and nature, and recognises its overall responsibility for the Company's systems of internal control and for monitoring their effectiveness.

12.2 *Audit Committee*

The following is a summary of the terms of reference under which the Company's Audit Committee operates.

The Audit Committee shall have at least two members and each member shall be an independent non-executive director (or deemed by the Board to be a sufficiently independent non-executive director) provided that if at any time there is only one non executive director the quorum shall be one. The Audit Committee shall meet at least two times in every year and any other time as required by either the chairman of the Audit Committee, the finance director of the Company or the external auditors of the Company. In addition, the Audit Committee shall meet with the external auditors of the Company (without any of the executives attending) at least once a year.

The Audit Committee shall, *inter alia*:

(a) monitor the financial reporting and internal control principles of the Company;

(b) maintain appropriate relationships with external auditors including considering the appointment and remuneration of external auditors;

(c) review all financial results of the Company, including all announcements in respect thereof before submission of the relevant documents to the Board;

(d) review and discuss (where necessary) any issues and recommendations of the external auditors including reviewing the external auditors' management letter and management's response;

(e) consider all major findings of internal operational audit reviews and management's response to ensure co-ordination between internal and external auditors;

(f) review the Board's statement on internal reporting systems and keep the effectiveness of such systems under review; and

(g) consider all other relevant findings and audit programmes of the Company.

The chairman of the Audit Committee shall report annually to the Board on behalf of the Company's shareholders on all matters within its duties and responsibilities. The Audit Committee shall compile a report to Shareholders on its activities to be included in the Company's annual report.

The Audit Committee is authorised to:

(a) investigate any activity within its terms of reference;

(b) seek any information it requires from any employee of the Company; and

(c) obtain, at the Company's expense, outside legal or other independent professional advice and to secure the attendance of such persons to meetings as it considers necessary and appropriate.

12.3 *Remuneration Committee*

The following is a summary of the terms of reference under which the Company's Remuneration Committee operates.

The Remuneration Committee shall have at least two members and each member shall be an independent non-executive director (or deemed by the Board to be a sufficiently independent non-executive director) provided that if at any time there is only one non-executive director the quorum for the committee shall be one non-executive director. The managing director of the Company will normally be invited to meetings of the Remuneration Committee to discuss the performance of other executive directors but shall not be involved in any of the decisions. The Remuneration Committee shall meet at least two times in every year and any other time as required by either the chairman of the Remuneration Committee, the finance director of the Company or the external auditors of the Company.

The Remuneration Committee shall, *inter alia*:

(a) ensure that the executive directors are fairly rewarded for their individual contributions to the overall performance of the Company;

(b) consider the remuneration packages of the executive directors and any recommendations made by the managing director for changes to their remuneration packages including in respect of bonuses (including associated performance criteria), other benefits, pension arrangements and other terms of their service contracts and any other matters relating to the remuneration of or terms of employment applicable to the executive directors that may be referred to the Remuneration Committee by the Board;

(c) oversee and review all aspects of any share option schemes adopted by the Company including the selection of eligible directors and other employees and the terms of any options granted;

(d) demonstrate to the Company's shareholders that the remuneration of the executive directors is set by an independent committee of the Board; and

(e) consider and make recommendations to the Board about the public disclosure of information about the executive directors' remuneration packages and structures in addition to those required by law or by the London Stock Exchange.

The chairman of the Remuneration Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Remuneration Committee shall produce an annual report which will form part of the Company's annual report and consider each year whether such report should be put to the Company's Shareholders for approval at the annual general meeting.

The Remuneration Committee is authorised to:

(a) investigate any activity within its terms of reference;

(b) seek any information it requires from any employee of the Company;

(c) assess the remuneration paid by other UK listed companies of a similar size in any comparable industry sector and to assess whether changes to the executive directors remuneration is appropriate for the purpose of making their remuneration competitive; and

(d) obtain, at the Company's expense, outside legal or other independent professional advice and to secure the attendance of such persons to meetings as it considers necessary and appropriate.

13. United Kingdom Taxation

13.1 *Taxation of dividends*

No Jersey tax will be withheld by the Company when it pays a dividend.

The Company has applied for and been granted "exempt" company status within the meaning of Article 123A of the Income Tax (Jersey) Law 1961, as amended, for the calendar year ending 31 December 2006 and intends to apply at the appropriate times for such status for subsequent calendar years. The effect of such status is that the Company is treated as not resident in Jersey for Jersey tax purposes. As an "exempt company", the Company is exempt from Jersey income tax on income arising outside of Jersey and by concession, bank interest arising in Jersey, but is otherwise liable to Jersey income tax on income arising in Jersey and is liable to Jersey income tax on the profits of any trade carried on through an established place of business in Jersey. For so long as the Company is an "exempt company", it is not required to deduct Jersey income tax from dividends paid on Ordinary Shares and no withholding in respect of taxation will be required on any such payments.

A UK resident individual shareholder who receives a dividend from the Company will be taxed on the amount received on savings income.

An individual shareholder who is not liable to income tax at a rate greater than the basic rate (currently 22 per cent.) will be taxed on the income at 20 per cent..

The higher rate of income tax on savings income is 40 per cent. This means that a shareholder who is a higher rate taxpayer (currently 40 per cent.) will have further income tax to pay at a rate of 20 per cent. of the cash dividend paid.

A UK resident corporate shareholder will be liable to corporation tax on any dividend received from the Company as it will be foreign income.

Whether a shareholder who is not resident in the UK for tax purposes will be liable to tax will depend, in general, on the provisions of any double taxation convention which exists between the shareholder's country of residence and the UK. A non-UK resident shareholder may also be subject to foreign taxation on dividend income.

Persons who are not resident in the UK should consult their own tax advisers on the possible application of such provisions or what relief or credit may be claimed in the jurisdiction in which they are resident.

13.2 *Taxation of chargeable gains*

For the purpose of UK tax on chargeable gains, the issue of Ordinary Shares pursuant to the Placing will be regarded as an acquisition of a new holding in the share capital of the Company.

The Ordinary Shares so allotted will, for the purpose of tax on chargeable gains, be treated as acquired on the date of allotment. The amount paid for the Ordinary Shares will usually constitute the base cost of a shareholder's holding. If a Shareholder disposes of all or some of his Ordinary Shares a liability to tax on chargeable gains may, depending on their circumstances arise. Individuals and trustees may be entitled to a deduction for so called taper relief in computing the taxable gains. The amount of taper relief depends on various factors, in particular the length of the period of ownership of the shares.

Companies are not entitled to taper relief but are due indexation allowance which may also reduce the chargeable gain.

13.3 *Stamp duty and stamp duty reserve tax*

No stamp duty or stamp duty reserve tax (SDRT) will generally be payable on the issue of the New Ordinary Shares.

If you are in any doubt as to your tax position, or are subject to tax in a jurisdiction other than in the UK, you should consult your professional adviser immediately.

14. Working Capital

The Directors are of the opinion, having made due and careful enquiry, that, taking into account the net proceeds of the Placing and the existing facilities available to the Group, the Group has sufficient working capital for its present requirements, that is at least 12 months from the date of this document.

15. Environmental issues

The Group is not aware of any environmental issues or risks affecting the utilisation of the property, plant or machinery of the Group.

16. Litigation and Criminal Proceedings

Litigation

16.1 There are no governmental, legal or arbitration proceedings (including any such procedings which are pending or threatened of which the Group is aware) in which any Group company is involved by or against any Group company which may have or have had in the twelve months preceding the date of this document a significant effect on the Group's financial position or profitability.

There are no governmental, legal or arbitration proceedings (including any such procedings which are pending or threatened of which any Director or senior manager is aware) in which any Director or senior manager is involved by or against any Director or senior manager which may have or have had in the twelve months preceding the date of this document a significant effect on the Group's financial position or profitability.

Dispute with the local community

16.2 Yaobai Cement carried out the exploitation of a limestone mine located in Yao Mountain, Pucheng, Shaanxi Province ("Yao Mountain"). This involved a number of explosions at the mine. People from a nearby village (the "Villagers") claimed that the noise and vibrations resulting from these explosions caused damage to their property and that they should be compensated in respect of such losses. Following unsuccessful negotiations, including a failed settlement negotiation which was mediated by the Government of Shangwang Town of Pucheng County, on 12 July 2004 the Villagers set up a road block on the road to Yao Mountain.

On 13 July 2004, following further failed negotiations between Wenyu Li (a senior manager of Yaobai Cement) and a representative of the Villagers, a group of 30 workers and security staff of Yaobai Cement and three other individuals who were not employees of Yaobai Cement (the "Third Parties") approached the Villagers with a view to clearing the road. Following attempts to ask the Villagers to clear the road by the use of loudspeaker requests, a bulldozer was used to start to clear the road blocks. At this point, the Villagers attacked the bulldozer throwing stones and bricks. The Third Parties, together with some of the security staff of Yaobai Cement dispersed the Villagers using steel bars. As a result, 15 Villagers received injuries and 1 died.

As a result, the following criminal proceedings occurred:

(a) the Third Parties were convicted of criminal offences and given prison sentences. This had no consequence for Yaobai Cement, its directors or any of its employees;

(b) Wenyu Li and three other employees of Yaobai Cement who were involved in the incident were convicted as being accessories and given suspended sentences; and

(c) neither Yaobai Cement nor any of its directors were charged with any criminal offence.

Despite there being no evidence that the explosions at Yao Mountain caused any of the alleged damage, Yaobai Cement settled all claims of the Villagers, as full and final settlement, pursuant to which they paid total compensation in the amount of RMB220,251.77 (approximately £15,000).

Under PRC law, a company cannot be convicted of criminal offences and, in any event, Yaobai Cement has not been adjudged to have been involved in the incident. Having settled the claims of the Villagers, the Company has discharged any alleged liability it may have to the Villagers as a result of this incident.

As has been confirmed by the Pucheng Police Bureau, save as mentioned above in respect of Wenyu Li, no director or senior manager of Yaobai Cement has been alleged to have been involved in this incident.

17. Significant Changes

There has been no significant change in the financial or trading position of the Group since 30 June 2006, being the date on which Yaobai Cement's latest audited interim accounts were prepared.

18. Arrangements relating to the Placing

Pursuant to the Placing Agreement, Insinger de Beaufort has agreed, as agent for the Company, to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. Under the Placing Agreement:

18.1 the Company has agreed to pay commission equal to five per cent. of the proceeds of the Placing (plus any applicable VAT) together with a corporate advisory fee of £160,000;

18.2 the Company has agreed to pay all other costs and expenses of the Placing and related arrangements together with VAT on all such costs and expenses;

18.3 the Company and the Directors have given certain customary warranties and indemnities as to the accuracy of the information in this document and as to other matters in relation to the Group and their respective businesses;

18.4 pending Admission the proceeds of the Placing will be held by Insinger de Beaufort on trust for the applicants under the Placing. In the event that Admission does not take place any monies held by Insinger de Beaufort will be retained for the applicants; and

18.5 the executive Directors and the Locked-In Persons have each agreed, conditionally on Admission, with Insinger de Beaufort and the Company not to dispose of any interest in Ordinary Shares for a period of 12 months from the date of Admission, except in limited circumstances or with the prior written consent of Insinger de Beaufort and the Company. The agreement also contains orderly market provisions which apply for a further period of 12 months after the expiry of the lock-in period.

19. Related Party Transactions

Details of related party transactions of the Group are described in note 20 to the financial information on the Group in Part III (A) and note 12 of Part III (B) of this document.

Your attention is drawn in particular to the following contracts entered into since 1 January 2003 which constitute related party transactions:

19.1 an agreement dated 15 July 2006 made between (1) Yaobai Cement, (2) Jianli Wang and (3) Lili Zhang in respect of the acquisition by Yaobai Cement of 6 per cent. and 4 per cent. of the entire issued share equity of Lantian Cement held by Jiangli Wang and Lili Zhang respectively. At the time of this transaction, Jianli Wang was the director of Yaobai Cement and Lili Zhang is the daughter of Jimin Zhang, the director of Yaobai Cement. Further details of this agreement are set out in paragraph 11.5 of Part V of this document;

19.2 an agreement dated 18 July 2006 made between (1) West China (BVI) and (2) Shaanxi Yaobai Investment Co., Ltd. in respect of the acquisition by West China (BVI) of the entire issued Share Capital of Yaobai Cement held by Shaanxi Yaobai Investment Co., Ltd. At the time of this transaction, Jimin Zhang was a shareholder in and director of West China (BVI) as well as being a shareholder in and director of Shaanxi Yaobai Investment Co., Ltd. Zhaoyang Ma was a shareholder in West China (BVI) as well as being a shareholder in Shaanxi Yaobai Investment Co., Ltd. Further details of this agreement are set out in paragraph 11.6 of Part V of this document; and

19.3 an agreement dated 27 October 2006 between (1) the Company and (2) the shareholders of West China (BVI) whereby the Company acquired the entire issued share capital of West China (BVI) in consideration of the allotment of Ordinary Shares. At the time of the transaction Jimin Zhang was a director of and shareholder in both the Company and West China (BVI) and Professor Zhaoyang Ma was a shareholder in both the Company and West China (BVI) and a director of the Company. Further details of this agreement are set out in paragraph 11.2 of Part V of this document.

20. Employees

Details of the number of the Group's employees for each of the three financial years ended 31 December 2005 are as follows:

Financial year ended	*Average number of employees*
December 31 2003	688
December 31 2004	788
December 31 2005	858

As at 23 November 2006, the employees of the Group numbered 1,085 and were employed as follows:

Head office	22
Sales office	51
Lantian site	216
Pucheng site	796

21. General

21.1 It is estimated that the total expenses payable by the Company in connection with the Placing and Admission will amount to approximately £1,900,000 (including VAT).

21.2 Insinger de Beaufort has given and not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.

21.3 PKF (UK) LLP has given and not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.

21.4 The Company's accounting reference date is 31 December.

21.5 Save as set out in this document, there are no patents or intellectual property rights, licences or particular contracts which are of fundamental importance to the Group's business.

21.6 There have been no interruptions in the business of the Group nor, save as disclosed in this document, are there any significant recent trends in production, sales and inventory, costs and selling prices, which may have or have had in the 12 months preceding publication of this document a significant effect on the financial position of the Group.

21.7 The Placing Price represents a premium of 95p over the nominal value of 10p per Ordinary Share. The premium arising on the Placing amounts to approximately £19,904,762 in aggregate.

21.8 The Ordinary Shares are in registered form. No temporary documents of title will be issued.

21.9 Save as disclosed in this document there have been no payments by the Group to promoters in the two years prior to the date of this document and no fees have been paid in the 12 months preceding the date of this document (other than to trade suppliers) in the sum of £10,000 or more in cash or in kind.

21.10 Save as disclosed in this document no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:

21.10.1 received, directly or indirectly from the Group within the 12 months preceding the date of this document; or

21.10.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Group, on or after Admission, any of the following:

- fees totalling £10,000 or more;
- securities of the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or
- any other benefit with the value of £10,000 or more at the date of this document.

21.11 Save as disclosed in this document, the Directors are unaware of any exceptional factors which have influenced the Group's activities.

21.12 Save as disclosed in this document, there are no investments in progress which are significant to the Group.

21.13 The financial information contained in Parts III and IV of this document does not constitute statutory accounts within the meaning of section 240 of the Act. The Company does not have any historical or financial information except as set out in this document.

21.14 The information in Part I of this document which has been sourced from the National Bureau of Statistics of China has been accurately reproduced and so far as the Company is aware and has been able to ascertain from information published, no facts have been omitted which might render the reproduced information inaccurate or misleading.

21.15 Copies of this document are available at the offices of Insinger de Beaufort during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of Admssion until one month following the date of Admission.

Dated 29 November 2006

Perivan Financial Print 208021

Clockwise from top: Pucheng limestone quarry; Pucheng facilities monitoring station; Lantian development site; main Pucheng production plant and further view of main Pucheng production plant.