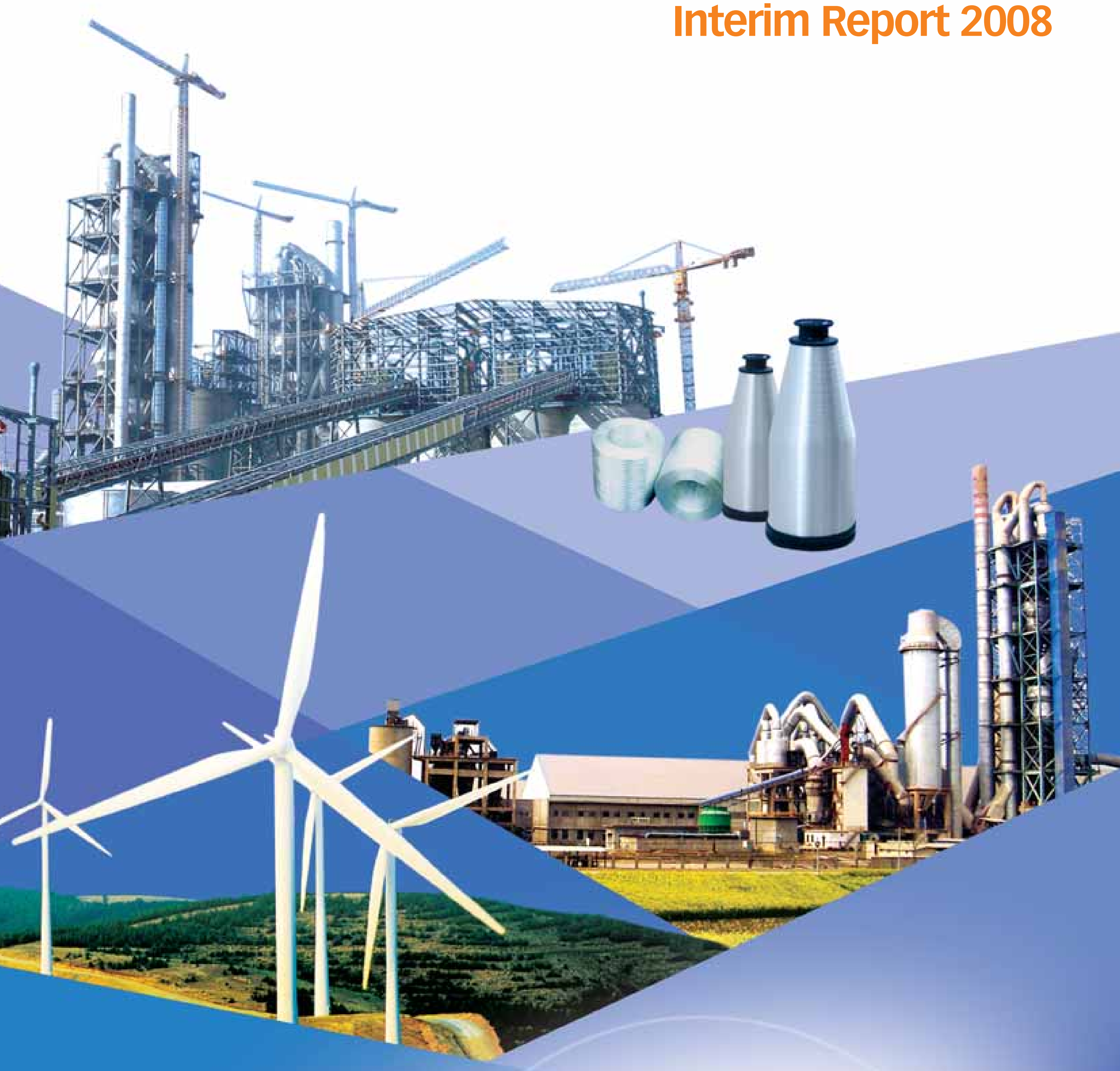
# Interim Report 2008



SINOMA

**China National Materials Company Limited**

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1893)

# Content

# Corporate Information

## Directors

### Executive Directors

TAN Zhongming *(Chairman)*
YU Shiliang *(President)*

### Non-executive Directors

LIU Zhijiang
ZHOU Yuxian
CHEN Xiaozhou

### Independent Non-executive Directors

YANG Yuzhong
ZHANG Lailiang
ZHANG Qiusheng
LEUNG Chong Shun

## Supervisors

XU Weibing *(Chairman)*
WANG Baoguo
WANG Jijun
WANG Jianguo
ZHANG Lirong
WANG Wei
YU Xingmin

## Strategy Committee

TAN Zhongming *(Chairman)*
YU Shiliang
LIU Zhijiang
ZHOU Yuxian
YANG Yuzhong
CHEN Xiaozhou

## Audit Committee

ZHANG Qiusheng *(Chairman)*
ZHANG Lailiang
LIU Zhijiang

## Remuneration Committee

ZHANG Lailiang *(Chairman)*
ZHANG Qiusheng
LEUNG Chong Shun

## Nomination Committee

TAN Zhongming *(Chairman)*
YU Shiliang
LIU Zhijiang
ZHOU Yuxian

## Board Secretary

SU Kui

## Joint Company Secretaries

SU Kui
CHAN Wing Hang *(FCCA, CPA)*

## Authorised Representatives

ZHOU Yuxian
CHAN Wing Hang *(FCCA, CPA)*

## Qualified Accountant

CHAN Wing Hang *(FCCA, CPA)*

## Registered Office and Place of Business
11 Beishuncheng Street
Xizhimennei
Xicheng District
Beijing 100035
PRC

## Place of Business in Hong Kong
Room C, 26th Floor
211 Johnston Road
Wanchai
Hong Kong

## Legal Advisor
Herbert Smith (as to Hong Kong law)
Jia Yuan Law Firm (as to PRC law)

## Auditor
PricewaterhouseCoopers

## Principal Bankers
China Construction Bank Corporation
Bank of Communications Co., Ltd

## Hong Kong H Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## Compliance Adviser
BOCOM International (Asia) Limited

## Stock Code
1893

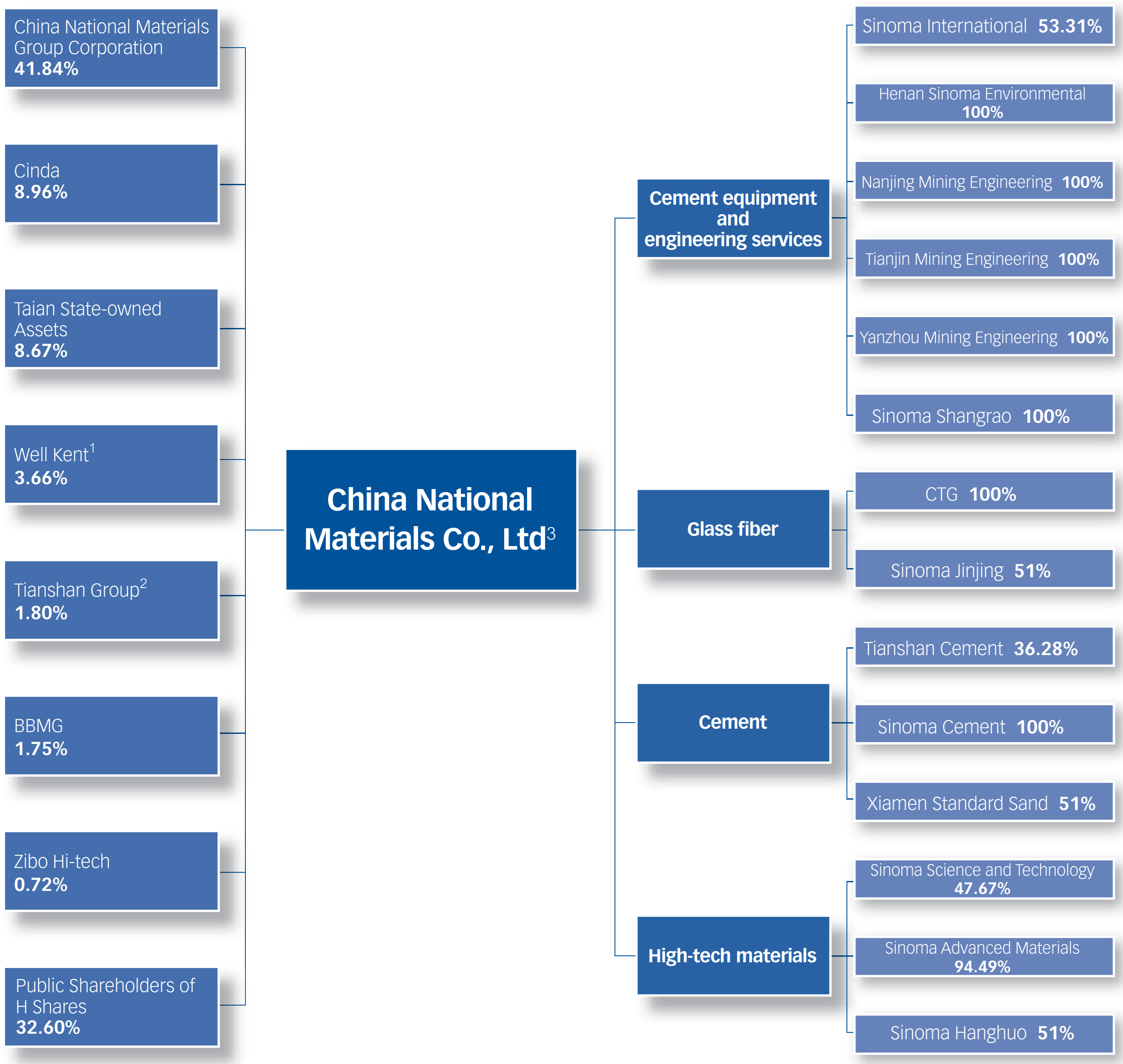
## Company Website
http://www.sinoma-ltd.cn

## Total Share Capital of the Company
3,571,464,000 (As at 30 June 2008)

## Issued H Share of the Company
1,164,148,115 (As at 30 June 2008)

# Corporate Structure

As at 30 June 2008




Note:

1. Well Kent is a wholly-owned subsidiary of Cinda.

2. China National Materials Group Corporation holds 50.95% of the equity interest of Tianshan Group.

3. The abbreviated names of the companies used in this report have the same definitions as in 2007 Annual Report of the Company.

# Financial and Business Summary

## Financial Summary

| | For the six months ended 30 June 2008 RMB million (Unaudited) | 2007 RMB million (Reclassified) | Change (%) |
|---|---|---|---|
| Turnover | **10,898.33** | 8,597.71 | 26.76 |
| Profit for the period | **588.38** | 319.37 | 84.23 |
| Profit attributable to equity holders of the Company | **295.24** | 168.21 | 75.52 |
| Earnings per share (RMB) | **0.08** | 0.07 | 14.29 |

Note:
Earnings per share for the six months ended 30 June 2007 is calculated based on the weighted average number of shares of 2,303,810,173 during the period.
Earnings per share for the six months ended 30 June 2008 is calculated based on the weighted average number of shares of 3,563,699,778 during the period.

| | 30 June 2008 RMB million (Unaudited) | 31 December 2007 RMB million (Audited) | Change (%) |
|---|---|---|---|
| Total assets | **33,455.80** | 29,423.90 | 13.70 |
| Total liabilities | **23,542.39** | 20,396.64 | 15.42 |
| Equity attributable to equity holders of the Company | **6,855.92** | 5,987.98 | 14.49 |
| Equity per share (RMB) | **1.92** | 1.74 | 10.34 |

# Financial and Business Summary

## Business Summary

| Cement equipment and engineering services | For the six months ended 30 June | | |
|---|---|---|---|
| | **2008** | 2007 | Change (%) |
| Amount of new contract (RMB million) | **29,355** | 12,300 | 138.66 |
| Amount of backlog (RMB million) | **51,344** | 27,658 | 85.64 |

| Glass fiber | Sales volume for the six months ended 30 June | | |
|---|---|---|---|
| | **2008** | 2007 | Change (%) |
| Roving (tons) | **117,146** | 71,619 | 63.57 |
| Mat (tons) | **19,909** | 14,203 | 40.17 |
| Electronic yarn (tons) | **6,315** | 10,227 | (38.25) |
| Chopped strands (tons) | **6,897** | 6,712 | 2.76 |
| Woven roving (tons) | **2,972** | 2,737 | 8.59 |
| Wet-process tissue (million sqm.) | **57.26** | 32.73 | 74.95 |

| Cement | Sales volume for the six months ended 30 June | | |
|---|---|---|---|
| | **2008** | 2007 | Change (%) |
| Cement ('000 tons) | **6,011** | 5,528 | 8.74 |
| Clinker ('000 tons) | **1,033** | 932 | 10.84 |
| Standard sand (tons) | **12,142** | 11,500 | 5.58 |

| Hi-Tech Materials | Sales volume for the six months ended 30 June | | |
|---|---|---|---|
| | **2008** | 2007 | Change (%) |
| Glass microfiber paper (tons) | **3,579** | 2,607 | 37.28 |
| High strength glass fiber (tons) | **310** | 208 | 49.04 |
| High temperature membrane filtration materials ('000 sqm.) | **140** | 74 | 89.19 |
| CNG Cylinder (units) | **13,924** | 2,873 | 384.65 |
| Blades for wind power generators (sets) | **36** | – | – |
| Microcrystalline alumina ceramics (tons) | **10,573** | 9,890 | 6.91 |
| Fine fused quartz ceramics (units) | **6,604** | 5,420 | 21.85 |
| Solar-energy fused silica crucibles (units) | **1,678** | – | – |

# Chairman's Statement

**Dear Shareholders,**

On behalf of the Board of Directors of the Company, I am pleased to report to the shareholders the interim report for the six months ended 30 June 2008.

During the first half of 2008, leveraging on the edges of our leading technologies, our dominated market position in the industry, the brand recognition in the international arena and the robustness brought by the listing, the Company, grasping the opportunities arising from China's sustainable rapid economic growth and enhancement of industrial structure adjustment, as well as the strong demand from overseas emerging markets has strengthened its management and performance and accelerated its merger and acquisition activities along with organic growth to support its future development. Besides the Company has lessened the adverse effects such as the skyrocketing of raw material prices, the appreciation of Renminbi, the rise in labour costs and the global economic downturn. As a result, the Company has maintained a rapid growth of operation and achieved a substantial improvement in operating results.

For the six months ended 30 June 2008, the turnover of the Company amounted to RMB10,898.33 million, representing an increase of 26.76% compared with the corresponding period of 2007. The profit of the current period was RMB588.38 million, representing an increase of 84.23% compared with the corresponding period of 2007. Profit attributable to the equity holders of the Company for the current period was RMB295.24 million, representing an increase of 75.52% compared with the corresponding period of 2007. Earnings per share for profit attributable to equity holders of the Company for the current period was RMB0.08.

## Cement equipment and engineering services

In the first half of 2008, the cement equipment and engineering services segment came to a new era of global development since it has entered into the international market on a large scale in late 2004 and early 2005 with the successful completion of a series of large-scale international EPC projects in recent years, together with advanced equipment manufacturing capability, strong project management abroad, excellent services and outstanding project quality, our brand value has been enhanced and the Company has gained recognition and compliments in the global cement industry. During the first half of the year, the Company has recorded a continuous growth at fast pace in its overseas EPC contracts with fixed exchange rates and through the stringent risk control over the rising material costs and increment in the price of the contracts. The overseas order intake amounted to RMB23,176 million, representing an increase of 37.05% compared with that of the total overseas order intake last year, and an increase of 221.93% compared with that of the corresponding period of last year. The aggregate amount of new overseas and domestic contracts during the first half of 2008 was RMB29,355 million, representing an increase of 138.66% compared with the corresponding period of 2007, and the amount of backlog was approximately RMB51,344 million. Gross margin of the segment has increased from 9.59% in the corresponding period of last year to 11.97% during the first half of this year. Meanwhile, the Company has also achieved a lot in the research and development of equipment manufacturing technology.

# Chairman's Statement

## Glass fiber

During the six months ended 30 June 2008, the segment attained prominent results in production and operation, construction of new production lines, acquisitions and business expansion. During the first half of the year, a direct-melt glass fiber production line with an annual production capacity of 60,000 tons has commenced operation, while the acquisition of Shandong Taishan Composite Materials Co., Ltd., was completed and these have increased the production capacity of the Company to 415,000 tons. Both of the production and sales of the Company have scaled a new height in the first half of the year, of which the sales volume of glass fiber and its products amounted to 154,200 tons, representing an increase of 46.1% compared with the corresponding period of last year. And there has been an increase of 135.35% in segment results. In April, the Company commenced the construction of a production line with an annual production capacity of 60,000 tons in Zoucheng. Meanwhile pre-construction work of another two production lines in Taian with each of the annual production capacity of 80,000 tons, is progressing smoothly. The completion and operation of the above production lines would make an additional contribution to the Company.

## Cement

During the six months ended 30 June 2008, the operating results of the segment continued to grow substantially, and the segment results increased by 115.75% as compared with the corresponding period of last year. The segment stepped up its expansion of production capacities. A clinker production line with production capacity of 2,000 tons per day in Midong, Xinjiang has been into production in March. In Zhuzhou, Hunan Province, a cement production line with production capacity of 5,000 tons per day has been in the final stage of construction, while other projects under construction were also quickening all works. The acquisition of Yixing Henglai Building Materials Co., Ltd. was completed by the end of July. The acquisition of NingXia Building Materials Group Company Limited has achieved substantive progress. Besides, the project of shareholding control in Jidong Cement Group Company Limited is proceeding actively. Furthermore, the implementation of energy-saving and pollution reduction measures has achieved significant results. Low temperature waste heat power generation facilities are equipped to certain production lines and have been put into operation one after another.

## High-tech materials

During the first half of the year, the segment has further speeded up the commercialisation of its technological achievement. A series of high-tech materials projects, which supply to the clean energy and environmental protection industry, was undergoing trial production. And the contribution it brings along will be seen in the second half of the year. In 2008, the segment is focusing on expanding its capacity, to increase its CNG cylinder production to 150,000 units per year, to increase solar-energy fused silica crucibles to 100,000 units per year and increase fan blades for wind power generator to 500 sets. So far, all the projects are progressing well as scheduled. With the enlarged production scale, further economies of scale were achieved, and hence steady growth in the turnover and the segment results was recorded.

## Prospects

In the second half of the year, the Company will watch closely on the changes of the macroeconomy in order to seize the opportunities of development and control the risks. In the meantime, the Company will endeavour to strengthen the production and operation management, and enhance the operating results by adopting effective measures continuously. We will also speed up the construction of the projects-in-progress and boost the production capacity of completed projects to enhance our operation efficiency. Moreover, the Company will manage to drive forward its merger and acquisitions in order to expand its business as soon as practicable. Leveraging on its leading position in the non-metal materials industry, the Company believes that it can achieve even more excellent results in the second half of the year, and maximises the return to shareholders for your support all the way along.

In view of significant increase in the amount of new contracts, the cement equipment and engineering services segment will make an effort to optimise its technology, organisation and management system so that it can continue to strengthen its management and execution capability, enhance the profitability of each project and strive for the growth of its annual gross margin as compared to last year. The segment will accelerate the research and development, production and application of equipment with advanced technologies. Besides, it will improve its capacity of equipment manufacturing and raise the proportion of its self-made equipment in EPC projects so as to increase the profitability.

The glass fiber segment will look for business opportunities arising from the broader application of glass fiber products, the shifting of industry production facilities to emerging markets and the industrial structural adjustment, to speed up its construction of facilities and expand the scale in order to increase the Company's production capacity to 500,000 tons by the end of this year. The segment will also widely use its new energy-saving technology by optimising the component design and promoting comprehensive application of "pure oxygen burning" technology to further lower the energy consumption and unit production cost. Furthermore, it will make efficient use of its production base, extend the industry chain and increase the flexibility of manufacturing end-products so as to maintain a strong profitability.

Aiming at becoming the largest cement enterprise in Northern China, in the second half of the year the Company will leverage on the government's control over the macroeconomy and the adjustment of the industrial structure, accelerate the finalisation of merger and acquisition projects, accomplish the acquisition of Ningxia Building Materials Group Company Limited and push forward the acquisition of Jidong Cement Group Company Limited of Hebei Province. The segment of cement manufacturing will also speed up the construction of the production lines to ensure the 5,000 TPD production line in Zhuzhou, Hunan Province, the 2,500 TPD production line in Changde, Hunan Province and the 2,000 TPD production line in Kashi, Xinjiang can commence operation within the year as planned. The Company's production capacity will be enhanced through acquisitions and the construction of production lines and thus increase its market share and bargaining power in regional markets. In the meantime, the segment will quicken its implementation of energy-saving and pollution reduction by installing the low temperature waste heat power generation facilities in all existing clinker production lines so as to lower cost and increase efficiency. The Company will continue to make technological innovation to existing production lines and to enhance its adaptability to a rising fuel and raw material prices.

The high-tech materials segment will further develop its technological commercialisation projects, complete the expansion project of CNG Cylinders with an annual production capacity of 150,000 units, speed up the construction of 500 sets of fan blades for wind power generators and the expansion work of solar-energy fused silica crucibles with an annual production capacity for 100,000 units in the second half of the year.

In view of the encouraging results of the Company for the first half of the year, we look forward to the coming of the second half of the year. On behalf of the Board of Directors of the Company, I would like to express my heartfelt gratitude to the support of the shareholders and thank the operation and management teams and all the staff of the company for their dedication and hard work.

**China National Materials Company Limited**
**TAN Zhongming**
*Chairman of the Board*

Beijing, PRC
2 September 2008

# Management Discussion and Analysis

## Business Overview

The Company is the largest cement equipment and engineering services provider in the world as well as a leading producer of non-metal materials in the PRC. It is principally engaging in four business segments comprising cement equipment and engineering services, glass fiber, cement and high-tech materials, and is currently the only enterprise in the PRC non-metal materials industry with an integrated business model covering research and development, industrial design, equipment manufacturing, engineering and construction services, and production.

During the first half of the year, the world economy slowed down under the impact of the US sub-prime crisis and the surge of oil price. However, China's economy continued to grow at a stable and relatively fast pace while the investment of fixed-assets has also achieved steadily and comparatively rapid growth. Other changes in the operating environment included the rise of prices of major raw materials, the tightening of macro-economic control measures and the speeding up of the adjustment to the industrial structure. Facing such complicated domestic and world-wide economic environment, the Company has efficiently grasped the market opportunities that have arisen, capitalised on opportunities and minimised risks and formulated effective measures, enhanced our operation management and actively developed domestic and international markets in accordance with our annual targets in terms of production, operation and corporate development. While the Company had a smooth business operation, progress has been achieved for project construction as well as merger and acquisition. Such effort helped minimise the adverse impacts from the rising cost of raw materials, fuels, energy and labour. The Company has recorded a steady growth of sales of major products and significant improvement in performance.

## Business Review

### Cement equipment and engineering services

*Industry Review*

During the first half of the year, the growth in the world economy slowed down, but driven by the strong demand for cement in emerging markets and countries where resources and wealth are rapidly accumulated, the global cement construction market still achieved rapid growth. In view of bright outlook for cement development in the above areas, large-scale international cement producers generally increased their investment. Under the expectation of net growth in demand on cement, the stronger measures for eliminating the old technology and capacity as well as the stimulation of natural disaster towards cement consumption, the investment of cement construction market in China kept on flourishing. The persistent rise in prices of materials such as oil and steel, and the escalation of the fuel price and labour cost further boosted the construction costs of cement production lines.

*Business Review*

A dramatic increase in newly signed overseas orders

As the Company has achieved strong performance and has been able to demonstrate strong competitiveness in a series of international large-scale EPC projects over the past few years, it has been well recognised and complimented in the international cement industry. The market development underwent an unprecedented favourable momentum. The newly signed contracts amounted to RMB29,355 million, with an increase of 138.66% compared to the corresponding period of last year. Among the contracts, overseas ones amounted to RMB23,176 million, representing 78.95% of the total. There was an increase of 221.93% compared to the corresponding period of last year, and exceeded the total amount of newly signed contracts last year.

Enhancing project management and improving gross margin

During the first half of the year, the Company further enhanced the comprehensive project management through various measures including optimising project design, strengthening purchasing cost control, strengthening the consolidated co-ordination of resources for projects and reasonably arranging the project schedule. The Company also paid effort in reducing the pressure brought by price rise in fuel and raw materials and the appreciation of RMB, adding to the fact that the current contracts are carried out after considering the above pressure to a certain extent, as a result, the falling gross margin was turned into positive during the first half of the year. With the wide recognition of SINOMA brand, the Company's bargaining power over the contracts has extended remarkably. During the first half of the year, most of the new overseas contracts were signed with fixed exchange rate which reduced the exchange rate risk. The price of newly signed contracts has been increasing gradually, which effectively transferred the pressure of rising cost; improving the profitability and establishing a fine base for the Company to subsequently sustain economic benefit.

Persistent improvement in equipment manufacturing technology and continuous growth in capacity

During the first half of the year, the research and development of the Company's cement equipment and engineering technology attained new achievement with successful invention and commencement of bulk production of the first fourth-generation cooler for new dry process cement plant in China, which is comparable to the international advanced level. This symbolises the beginning of a new stage for the localisation of China's major new dry process cement equipment. The Company accelerated the development of a research and development centre by investing in new construction and technological innovation in equipment manufacturing to increase the Company's manufacturing capacity. During the first half of the year, cement equipment manufacturing capacity had increased by 14.81% compared to that of the end of last year.

## Glass Fiber

*Industry Review*

During the first half of the year, driven by the rapid growth in the domestic market demand and export, the production of China's glass fiber maintained the growth momentum with a steady increase in the product price. As large-scale glass fiber manufacturers increased their investment in production scale, the domestic glass fiber industry has become more concentrated. The overall technology of the industry progressively approached the world's advanced standard and the import dependency of high-end glass fiber products kept on decreasing. During the first half of the year, the total amount of China's glass fiber production was 1,084,000 tons, with an increase of 44.5% compared to the corresponding period of last year. Among which, the amount produced by direct-melt production was 755,000 tons, with an increase of 46.2% compared to the corresponding period of the year.

*Business Review*

*Sharp increase in production and sales and remarkable improvement in segment results*

During the six months ended 30 June 2008, the production and sales of the Company's glass fiber business was booming. Based on the commencement of new production line in the second half of last year and the acquisition of Shandong Taishan Composite Materials Co., Ltd. in March this year, 159,800 tons of glass fiber and glass fiber products were produced, with an increase of 52.9% compared to the corresponding period of last year and 154,200 tons of glass fiber and glass fiber products were sold, with an increase of 46.1% compared to the corresponding period of last year. By applying new technology and the operation of large-scale direct-melt production lines the segment results increased by 135.35% when compared to the corresponding period of last year.

# Management Discussion and Analysis

Leveraging market opportunities and enhancing production capacity

In April 2008, the alkali-free direct-melt glass fibre production line of CTG in Zoucheng with an annual production capacity of 60,000 tons commenced operation , and hence increased the Company's glass fiber capacity to 415,000 tons. The construction of another production line with annual capacity of 60,000 tons in Zoucheng has been commenced and is expected to commence production within the year. In the second half the year, two production lines in Taian with annual production capacity of 80,000 tons each are expected to commence construction and put into production in 2009, and further increase the Company's production capacity.

Energy-saving and cost-reduction by means of technology innovation

The Company, adhering to the principle of technology innovation, actively promoted energy-saving and environmental-friendly equipment, new technology and technique and optimised component design. Through adopting new technique and large-scale direct-melt production lines with high melting rate and low energy consumption, the energy consumption of unit glass liquid was largely reduced. As a result, the Company managed to mitigate the adverse effects of the rising price of energy and raw materials and obtained lower unit production cost than that in the corresponding period of last year.

## Cement

*Industry Overview*

During the first half of the year, China's GDP totaled RMB13,061.9 billion, with an increase of 10.4%, as compared to the corresponding period of last year. Fixed asset investment of the whole country amounted to RMB6,840.2 billion, an increase of 26.3% compared to the corresponding period of last year. China's economy kept growing at a stable and relatively fast pace, which drives the continuous growth of cement production. From January to June, the total production volume of cement was 648,047,400 tons, an increase of 8.7% compared to the corresponding period of last year. With a sharp increase in the cost of coal and electricity, the average selling price of the cement has been increasing accordingly and hence the pressure on the production cost has been released to a certain extent. Earthquakes and snowstorms damaged the infrastructure in the suffered areas; and the post-hazard redevelopment will further stimulate the demand for cement.

*Business Review*

Regional strategy led to pronounced edges and substantial improvement in results

The Company's strategy to be the regional leader has shown remarkable results. There was a strong current demand in the region to which cement products are mainly sold. The Company was managed to deliver outstanding performance with the rising price of products, notwithstanding the pressure from the rising energy costs. In particular, in Xinjiang Autonomous Region, a substantial improvement in the results has been recorded as the Company commenced its sales end marketing earlier this year, all together with a strong growth in demand and a relatively small growth in energy prices. In the first half of the year, the segment has realised an improvement in the gross profit margin and a year-on-year increase of 115.75% in segment results.

Active expansion of production capacities and further enhancement of regional power

During the reporting period, the projects under construction proceeded smoothly. The 2,000 TPD production line in Midong, Xinjiang was put into production. And the 5,000 TPD production line in Zhuzhou and the 2,500 TPD production lines in Changde, Hunan province and the 2,000 TPD line in Kashi, Xinjiang, are expected to commence operation in the second half of the year. Furthermore, the Company has also commenced the construction of a 5,000 TPD production line in Xiangtan, Hunan; a 5,000 TPD production line in Lishui, Jiangsu; a 2,500 TPD production line in Tashidian, Xinjiang in the first half of the year, and the construction of a cement production line of 2,500 TPD in Hanzhong, Shaanxi province has been prepared actively. Merger and acquisition are in solid and rapid progress, the acquisition of Henglai Building Materials Co., Ltd in Yixing was completed in July; reorganisation of NingXia Building Materials Group Company Limited has achieved substantive progress, and the preliminary work of shareholding control of Jidong Cement Group Company Limited of Hebei Province are proceeding smoothly.

Continuous promotion of energy-saving and pollution-reduction technology

The installation of the low temperature waste heat power generation facilities for the production line of 2,000 TPD in Urumqi, Xinjiang and of 5,000 TPD in Liyang, Jiangsu Province has completed in the first half of the year. The installation of a 9MW low temperature waste heat power generation facilities in Yunfu, Guangdong Province will be completed in the second half of the year. The construction of such facilities for the cement production lines of 2,500 TPD in Changde, Hunan Province and of 5,000 TPD in Xiangtan, Hunan Province has started in the first half of the year. A clinker production line of 2,000 TPD using slag to replace limestone as raw materials has started operation in the first half of the year and will be able to use up industrial wastes, including carbide slag, to approximately 600,000 tons per year.

## High-tech Materials

*Industry Review*

Due to its high performance, high-tech materials are widely applied in aviation and aerospace, energy, transportation, resources and environment industries. Since the beginning of 2008, there has been a significant increase in international oil prices. Demand for energy conservation and emission reduction is building up. Also there is a continuous growth of demand for high-tech materials in businesses relating to clean energy and environmental protection. In China, the promulgation and the implementation of The Renewable Energy Law and the advert of policies like The Renewable Energy 11th Five-Year Plan has accelerated the development of business relating to wind power and solar energy. In the area of wind-power, according to the statistics of Global Wind Energy Council (GWEC), the PRC's added installed capacity of wind energy of 3,449MW in 2007 and its total installed capacity of 6,050MW made it rank the third and the fifth in the world, respectively. In the area of photovoltaics, according to the latest research report of NDRC, the volume of solar cells produced in China had reached 1,088MWp in 2007, hence China has become the largest solar cell producer in the world with the highest growth rate. In the first half of the year, businesses relating to wind power and solar energy have sustained the rapid development in 2007 and have served to support the rapid development of relevant high-tech materials business.

*Business Review*

Stable growth of segment results supported by the accelerated commercialisation with respect to clean energy and environmental protection

The turnover and segment results have had a stable growth in the first half of the year. The momentum for the commercialisation of the technical achievements relating to new energy and environmental protection continues to grow rapidly. The projects of high-temperature membrane filtration materials, the second production line of glass microfiber paper, microcrystalline alumina ceramics and fine fused quartz ceramics have undergone the stage of equipment testing and trial production. The expansion project with an annual production capacity of 150,000 CNG cylinders, the expansion project of 100,000 solar-energy fused silica crucibles and the project of 500 sets of fan blades for wind power generators were all proceeded as scheduled. The fine fused silicon project with an annual production capacity of 10,000 tons has commenced construction.

Refinement to products portfolio to pursue higher profitability

Proactive refinement was made to the product portfolio so as to focus on developing technologically advanced products with large market scope and good prospect for profitability while phasing out products with low gross margin. In the first half of the year, the Company made structural improvement to the high-temperature filtration materials, and shifted to develop high-temperature membrane filtration materials, which is high in gross margin. Such strategy boosted both the production and sales volume of the product compared to that of last year, as a consequence, the profitability of this segment has been enhanced.

# Management Discussion and Analysis

## Financial Review

| | For the six months ended 30 June 2008 RMB million (Unaudited) | 2007 RMB million (Reclassified) | Change (%) |
|---|---|---|---|
| Turnover | **10,898.33** | 8,597.71 | 26.76 |
| Cost of sales | **(8,962.01)** | (7,422.20) | 20.75 |
| Gross profit | **1,936.32** | 1,175.51 | 64.72 |
| Other gains | **105.55** | 93.88 | 12.43 |
| Selling and marketing expenses | **(287.42)** | (212.18) | 35.46 |
| Administrative expenses | **(657.59)** | (436.35) | 50.70 |
| Other expenses | **(135.05)** | (20.48) | 559.42 |
| Operating profit | **961.81** | 600.38 | 60.20 |
| Interest income | **61.85** | 27.92 | 121.53 |
| Finance costs | **(251.59)** | (186.37) | 34.99 |
| Share of profit post-tax of associates | **49.67** | 6.33 | 684.68 |
| Profit before income tax | **821.74** | 448.26 | 83.32 |
| Income tax expense | **(233.36)** | (128.89) | 81.05 |
| Profit for the period | **588.38** | 319.37 | 84.23 |
| Profit attributable to the equity holders of the Company | **295.24** | 168.21 | 75.52 |
| Profit attributable to minority interests | **293.14** | 151.16 | 93.93 |

### I. Operating Results

For the six months ended 30 June 2008, profit before income tax of the Group amounted to RMB821.74 million, up 83.32% as compared with the corresponding period of last year. Profit attributable to the equity holders of the Company was RMB295.24 million, representing an increase of 75.52% as compared with the corresponding period of last year. Earnings per share for profit attributable to the equity holders of the Company was RMB0.08.

For the six months ended 30 June 2008, performance of the four business segments of the Group have scaled a new height and in particular, the glass fiber segment and cement segment have achieved significant growth in terms of segment results.

## II. Consolidated operating results

The financial information for the segments presented below is before elimination of inter-segment transactions and before unallocated expenses.

1. *Turnover*

   Turnover for the six months ended 30 June 2008 amounted to RMB10,898.33 million, representing an increase of RMB2,300.62 million or growth of 26.76% as compared with the corresponding period of last year. The increase was mainly attributable to the increase in volume of project completed for cement equipment and engineering services segment, the rising price of major products, the increase in sales volume due to new production lines put into production. In particular, turnover of the cement equipment and engineering services segment and cement segment increased substantially by RMB1,244.79 million and RMB630.05 million respectively, while the increase in turnover of the glass fiber segment and high-tech materials segment amounted to RMB412.14 million and RMB85.90 million respectively.

2. *Cost of sales*

   Cost of sales for the six months ended 30 June 2008 amounted to RMB8,962.01 million, representing an increase of RMB1,539.81 million or growth of 20.75% as compared with the corresponding period of last year. The increase was mainly due to the significant growth in turnover. Meanwhile, the surging price of raw materials and energy has increased the cost of sales to a certain extent. The cost of sales of the cement equipment and engineering services segment, cement segment, glass fiber segment and high-tech materials segment has increased by RMB956.46 million, RMB349.87 million, RMB240.47 million and RMB57.52 million respectively.

3. *Gross profit and gross margin*

   Gross profit for the six months ended 30 June 2008 was RMB1,936.32 million, representing an increase of RMB760.81 million or growth of 64.72% as compared with the corresponding period of last year. Gross margin of the Group for the period increased from 13.67% in the corresponding period of last year to 17.77%. The gross margin of all four segments has increased.

4. *Other gains*

   Other gains for the six months ended 30 June 2008 amounted to RMB105.55 million, representing an increase of RMB11.67 million or growth of 12.43% as compared with the corresponding period of last year. The growth was mainly attributable to the increase in government grants arising from value-added tax refunded by the government on certain cement products.

5. *Selling and marketing expenses*

   Selling and marketing expenses for the six months ended 30 June 2008 was RMB287.42 million, representing an increase of RMB75.23 million or growth of 35.46% as compared with the corresponding period of last year. The increase was mainly due to the increase in market development expenses as well as transportation costs and logistic expenses.

# Management Discussion and Analysis

6. *Administrative expenses*

   Administrative expenses for the six months ended 30 June 2008 amounted to RMB657.59 million, representing an increase of RMB221.24 million or growth of 50.70% as compared with the corresponding period of last year. The increase was mainly due to the Company's enlarged scale of operation, the rising of labour cost and the increase of expenditures on research and development.

7. *Other expenses*

   Other expenses for the six months ended 30 June 2008 amounted to RMB135.05 million, representing an increase of RMB114.57 million or growth of 559.42% as compared with the corresponding period of last year. The increase of other expenses mainly comes from the increase of foreign exchanges losses. RMB continued to appreciate during the six months ended 30 June 2008. Such appreciation resulted in a foreign exchange losses of RMB72.89 million on the Hong Kong dollar proceeds raised through the initial public offering and the over-allotment. Meanwhile, such appreciation, together with the increase of monetary assets denominated in foreign currencies due to the expansion of overseas business, resulted in more foreign exchange losses of RMB30.27 million as compared with the corresponding period of last year.

8. *Operating profit and operating profit margin*

   Operating profit for the six months ended 30 June 2008 was RMB961.81 million, representing an increase of RMB361.43 million or growth of 60.20% as compared with the corresponding period of last year. The increase in operating profit was mainly due to the significant increase in turnover, as well as our effective cost control for the period. As a consequence, the four business segments of the Company have achieved significant results. The operating profit margin for the six months ended 30 June 2008 was 8.83%, representing an increase of 1.85 percentage points as compared with the corresponding period of last year.

9. *Finance costs*

   Finance costs for the six months ended 30 June 2008 was RMB251.59 million, representing an increase of RMB65.22 million or growth of 34.99% as compared with the corresponding period of last year. The increase was mainly due to the increase in discount charges on bank acceptance notes and borrowing interest expenses. Such increase was partly offset by the increase of exchange gains on borrowings denominated in foreign currencies.

10. *Share of profit of associates*

    Share of profit of associates for the six months ended 30 June 2008 amounted to RMB49.67 million, representing an increase of RMB43.34 million and an increase of 684.68% as compared with the corresponding period of last year. The increase mainly came from BBMG Co., Ltd., an associated company, which increased profit in the period.

11. *Income tax expense*

    Income tax expense for the six months ended 30 June 2008 was RMB233.36 million, representing an increase of RMB104.47 million and growth of 81.05% as compared with the corresponding period of last year. The increase was mainly due to the increase in profit before tax.

12. *Profit attributable to the equity holders of the Company*

    Profit attributable to the equity holders of the Company for the six months ended 30 June 2008 was RMB295.24 million, representing an increase of RMB127.03 million or growth of 75.52% as compared with the corresponding period of last year.

13. *Profit attributable to minority interests*

    Profit attributable to minority interests for the six months ended 30 June 2008 amounted to RMB293.14 million, representing an increase of growth of RMB141.98 million or growth of 93.93% as compared with the corresponding period of last year. The increase was mainly attributable to the significant increase in profit for the period, and the larger increase of net profit attributable to shareholders of subsidiaries which the Company held relatively lower percentage of shares.

## III. Segment operating results

***Cement equipment and engineering services segment***

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2008** | 2007 | Change (%) |
| | **RMB million** | RMB million | |
| | **(Unaudited)** | (Reclassified) | |
| Turnover | **7,088.71** | 5,843.92 | 21.30 |
| Cost of sales | **6,239.93** | 5,283.47 | 18.10 |
| Gross profit | **848.78** | 560.45 | 51.45 |
| Selling and marketing expenses | **104.39** | 74.28 | 40.54 |
| Administrative expenses | **352.29** | 224.92 | 56.63 |
| Segment results | **370.09** | 271.19 | 36.47 |

1. Turnover
   Turnover of the cement equipment and engineering services segment of the Company for the six months ended 30 June 2008 amounted to RMB7,088.71 million, representing an increase of RMB1,244.79 million or growth of 21.30% as compared with the corresponding period of last year. The increase was mainly attributable to the increase in volume of projects completed during the period.

2. Cost of sales
   Cost of sales of the cement equipment and engineering services segment of the Company for the six months ended 30 June 2008 was RMB6,239.93 million, representing an increase of RMB956.46 million or growth of 18.10% compared with the corresponding period of last year. The increase was mainly due to the increase in volume of projects completed during the period. Meanwhile, the Company makes efforts in improvement of project cost management, which partly offset the increase of cost of sales.

3. Gross profit and gross margin
   Gross profit of the cement equipment and engineering services segment for the six months ended 30 June 2008 amounted to RMB848.78 million, representing an increase of RMB288.33 million or growth of 51.45% as compared with the corresponding period of last year. Gross profit margin of the cement equipment and engineering services segment for the six months ended 30 June 2008 increased from 9.59% in the corresponding period of last year to 11.97%. The increase was mainly due to (i) a higher price of contracts currently recognised as turnover during the period as compared to the corresponding period of last year; (ii) the lowering of construction costs achieved through strengthening of management, optimising resource allocation and project engineering.

# Management Discussion and Analysis

4. Selling and marketing expenses
Selling and marketing expenses of the cement equipment and engineering services segment for the six months ended 30 June 2008 amounted to RMB104.39 million, representing an increase of RMB30.11 million or growth of 40.54% as compared with the corresponding period of last year. The increase was mainly due to the increase of turnover and newly-signed contracts.

5. Administrative expenses
Administrative expenses of the cement equipment and engineering services segment for the six months ended 30 June 2008 was RMB352.29 million, representing an increase of RMB127.37 million or growth of 56.63% as compared with the corresponding period of last year. The increase was mainly due to the expansion of business scale, the rise of labour cost and the increase in provisions for impairment of trade and other receivables.

6. Segment results
On the basis of the abovementioned, the segment results of the Company's cement equipment and engineering services segment for the six months ended 30 June 2008 amounted to RMB370.09 million, representing an increase of RMB98.90 million or growth of 36.47% as compared to the corresponding period of last year.

***Glass fiber segment***

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2008** | 2007 | Change (%) |
| | **RMB million** | RMB million | |
| | **(Unaudited)** | (Reclassified) | |
| Turnover | **1,178.26** | 766.12 | 53.80 |
| Cost of sales | **788.80** | 548.33 | 43.85 |
| Gross profit | **389.46** | 217.79 | 78.82 |
| Selling and marketing expenses | **34.75** | 33.98 | 2.27 |
| Administrative expenses | **96.32** | 65.17 | 47.80 |
| Segment results | **261.64** | 111.17 | 135.35 |

1. Turnover
Turnover of the glass fiber segment for the six months ended 30 June 2008 amounted to RMB1,178.26 million, representing an increase of RMB412.14 million or growth of 53.80% as compared with the corresponding period of last year. The increase was mainly attributable to the significant increase in production and sales volume arising from the commencement of operation of new product lines and the acquisition of Shandong Taishan Composite Materials Co., Ltd. In addition, the high market demand has also led to an increase in price.

2. Cost of sales
Cost of sales of the glass fiber segment for the six months ended 30 June 2008 was RMB788.80 million, representing an increase of RMB240.47 million or growth of 43.85% as compared with the corresponding period of last year. The increase was mainly due to the increase in the volume of sales during the period.

3. Gross profit and gross margin

Gross profit of the glass fiber segment for the six months ended 30 June 2008 amounted to RMB389.46 million, representing an increase of RMB171.67 million or growth of 78.82% as compared with the corresponding period of last year. Gross profit margin of the Company's glass fiber segment for the six months ended 30 June 2008 increased from 28.43% in the corresponding period of last year to 33.05%. The increase was mainly due to (i) the reduction of energy-consumption resulting from the application of new technology and adjustment of energy structure; (ii) the commencement of operation of production lines with low consumption level and large production volume, which created economies of scale effect and as such lowered unit production cost; (iii) timely adjustment of product portfolio based on market demand to produce higher value-added products.

4. Selling and marketing expenses

Selling and marketing expenses of the glass fiber segment for the six months ended 30 June 2008 amounted to RMB34.75 million, representing an increase of RMB0.77 million or growth of 2.27% as compared with the corresponding period of last year. With the significant growth in turnover, the selling and marketing expenses remained stable as compared with those of the corresponding period of last year. The increase was mainly due to the growth of transportation costs brought by the increase of sales volume. Such increase was partly offset by the reduction in business development expenses due to the strong demand in glass fiber market.

5. Administrative expenses

Administrative expenses of the glass fiber segment for the six months ended 30 June 2008 was RMB96.32 million, representing an increase of RMB31.15 million or growth of 47.80% as compared with the corresponding period of last year. The increase was mainly due to the expansion of scale and the increase in expenditures on research and development.

6. Segment results

On the basis of the abovementioned, the segment results of the glass fiber segment for the six months ended 30 June 2008 amounted to RMB261.64 million, representing an increase of RMB150.47 million or growth of 135.35% as compared with the corresponding period of last year.

***Cement segment***

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2008 RMB million (Unaudited)** | 2007 RMB million (Reclassified) | Change (%) |
| Turnover | **2,120.73** | 1,490.68 | 42.27 |
| Cost of sales | **1,567.03** | 1,217.16 | 28.74 |
| Gross profit | **553.70** | 273.52 | 102.43 |
| Selling and marketing expenses | **125.24** | 85.35 | 46.74 |
| Administrative expenses | **131.84** | 91.13 | 44.67 |
| Segment results | **333.51** | 154.58 | 115.75 |

# Management Discussion and Analysis

1. Turnover
Turnover of the cement segment for the six months ended 30 June 2008 amounted to RMB2,120.73 million, representing an increase of RMB630.05 million or growth of 42.27% as compared with the corresponding period of last year. The increase was mainly attributable to the high demand in the major cement markets of the Company, which led to the increase of sales volume and selling prices.

2. Cost of sales
Cost of sales of the cement segment for the six months ended 30 June 2008 was RMB1,567.03 million, representing an increase of RMB349.87 million or growth of 28.74% as compared with the corresponding period of last year. The increase was mainly due to the drastic increase of coal price in certain regions and the increase in sales volume.

3. Gross profit and gross margin
Gross profit of the cement segment for the six months ended 30 June 2008 amounted to RMB553.70 million, representing an increase of RMB280.18 million or growth of 102.43% as compared with the corresponding period of last year. Gross margin of the cement segment for the six months ended 30 June 2008 increased from 18.35% in the corresponding period of last year to 26.11%. The increase was mainly due to the increase of cement selling price which resulted from the strong market demand in our major markets, and the increase of the operation efficiency of new production lines, which were constructed in the corresponding period of last year and began the stage of stable running during the current period. At the same time, the Company has limited the increase in cost by improving our management and adopting the measures of shifting-peak time production, reducing the consumption of energy and lowering the cost of electricity.

4. Selling and marketing expenses
Selling and marketing expenses of the cement segment for the six months ended 30 June 2008 amounted to RMB125.24 million, representing an increase of RMB39.89 million or growth of 46.74% as compared with the corresponding period of last year. This was mainly due to the increase in sales volume and the increase of packaging costs was resulting from improvement of packaging materials as well as the higher proportion of packed cement in Xinjiang. In addition, the increase in transportation cost and handling cost also resulted in the increase of selling and marketing expenses.

5. Administrative expenses
Administrative expenses of the cement segment for the six months ended 30 June 2008 was RMB131.84 million, representing an increase of RMB40.71 million or growth of 44.67% as compared with the corresponding period of last year. The increase was mainly due to the increase in the provisions for impairment of receivables and the rise in labour costs.

6. Segment results
On the basis of the abovementioned, the segment results of the cement segment for the six months ended 30 June 2008 amounted to RMB333.51 million, representing an increase of RMB178.93 million or growth of 115.75% as compared with the corresponding period of last year.

***High-tech materials segment***

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2008** | 2007 | Change (%) |
| | **RMB million** | RMB million | |
| | **(Unaudited)** | (Reclassified) | |
| Turnover | **596.98** | 511.08 | 16.81 |
| Cost of sales | **446.25** | 388.73 | 14.80 |
| Gross profit | **150.73** | 122.35 | 23.20 |
| Selling and marketing expenses | **23.03** | 18.58 | 23.95 |
| Administrative expenses | **64.46** | 50.83 | 26.81 |
| Segment results | **64.88** | 55.66 | 16.56 |

1. Turnover
   Turnover of the high-tech materials segment for the six months ended 30 June 2008 amounted to RMB596.98 million, representing an increase of RMB85.90 million or growth of 16.81% as compared with the corresponding period of last year. The increase was mainly attributable to the increase in sales volume of products such as CNG cylinders, microcrystalline alumina ceramics and fine fused silica ceramics.

2. Cost of sales
   Cost of sales of the high-tech materials segment for the six months ended 30 June 2008 was RMB446.25 million, representing an increase of RMB57.52 million or growth of 14.80% as compared with the corresponding period of last year. The increase was mainly due to the increase in sales volume and raw material prices.

3. Gross profit and gross margin
   Gross profit of the high-tech materials segment for the six months ended 30 June 2008 amounted to RMB150.73 million, representing an increase of RMB28.38 million or growth of 23.20% as compared with the corresponding period of last year. Gross profit margin of the high-tech materials segment for the six months ended 30 June 2008 increased from 23.94% in the corresponding period of last year to 25.25%. The increase was mainly due to (i) the adjustment of products portfolio under which we concentrated in the production and sales of products with higher gross margin; (ii) the enhancement of cost control and the adoption of centralised procurement, which to a certain extent offset the adverse effects brought about by the rise in raw material prices.

4. Selling and marketing expenses
   Selling and marketing expenses of the high-tech materials segment for the six months ended 30 June 2008 amounted to RMB23.03 million, representing an increase of RMB4.45 million or growth of 23.95% as compared with the corresponding period of last year. This was mainly due to (i) the increase in sales volume of products and (ii) more expenditure in the market development of new products.

# Management Discussion and Analysis

5. Administrative expenses
Administrative expenses of the high-tech materials segment for the six months ended 30 June 2008 was RMB64.46 million, representing an increase of RMB13.63 million or growth of 26.81% as compared with the corresponding period of last year. The increase was mainly due to the increase in labour costs and expenditures on research and development.

6. Segment results
On the basis of the abovementioned, the segment results of the high-tech materials segment for the six months ended 30 June 2008 amounted to RMB64.88 million, representing an increase of RMB9.22 million or growth of 16.56% as compared with the corresponding period of last year.

## IV. Liquidity and capital resources

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2008** | 2007 | Change (%) |
| | **RMB million** | RMB million | |
| | **(Unaudited)** | (Audited) | |
| Net cash generated from operating activities | **894.31** | 461.71 | 93.70 |
| Net cash used in investing activities | **(2,658.87)** | (917.68) | 189.74 |
| Net cash generated from financing activities | **901.77** | 434.62 | 107.48 |
| Cash and cash equivalents at the end of the period | **7,560.83** | 3,665.59 | 106.27 |

1 Net cash generated from operating activities
Net cash generated from the operating activities of the Group for the six months ended 30 June 2008 was RMB894.31 million, representing an increase of RMB432.60 million or growth of 93.70% as compared with the corresponding period of last year. The increase was mainly due to the growth of cash flow from operations of RMB552.20 million as compared with the corresponding period of last year and such growth was partly offset by the increase of interest paid of RMB30.84 million and the increase of tax paid of RMB88.76 million.

2 Net cash used in investing activities
Net cash used in investing activities of the Group for the six months ended 30 June 2008 was RMB2,658.87 million, representing an increase of RMB1,741.19 million or growth of 189.74% as compared with the corresponding period of last year. The increase was mainly due to the increase in capital expenditure of the Group as well as the prepayments made in respect of acquisition of subsidiaries.

3 Net cash generated from financing activities
Net cash generated from financing activities of the Group for the six months ended 30 June 2008 was RMB901.77 million, representing an increase of RMB467.15 million or growth of 107.48% as compared with the corresponding period of last year. The increase was mainly attributable to the proceeds raised by the Company's over-allotment and the net proceeds from borrowings, the cash flow generated from these financial activities were partially offset by the payment of Special Distribution.

## V. Working Capital

As at 30 June 2008, the Group's cash and cash equivalents amounted to RMB7,560.83 million (31 December 2007: RMB8,443.18 million). The current ratio (calculated by dividing the total current assets by the total current liabilities) of the Group as at 30 June 2008 decreased to 104.03% (31 December 2007: 111.53%).

The Group monitors its capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as the total borrowings (including current and non-current borrowings as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as equity plus net debt. As at 30 June 2008, the gearing ratio of the Group was 9.65%. As at 31 December 2007, the Group's cash and cash equivalents balance exceeded the total borrowings balance and had net cash amounted to RMB990.57 million.

## VI. Material investments

For the six months ended 30 June 2008, the Group did not have any new material investments.

## VII. Material acquisitions and disposals of assets

Except for the capital expenditure detailed in Section XI, the Group did not have any material acquisitions of assets for the six months ended 30 June 2008.

For the six months ended 30 June 2008, the Group did not have any material disposals of assets.

## VIII. Foreign Exchange Risks

The Company conducts its domestic business primarily in RMB, which is also its functional currency while overseas engineering services and import/export of products are denominated in foreign currencies, therefore, the Company has a certain level of exposure to foreign exchange fluctuations. During the first half year of 2008, the Company was exposed to foreign exchange risks in respect of the appreciation of RMB against US dollars and has actively mitigated such risk by various measures such as including fixed exchange rate provision in contracts for new projects, adjusting terms in response to the floating exchange rate, increasing purchases of foreign raw materials and equipments and increasing the amount of US dollar borrowings. The Company will continue to strengthen the above measures in the future to effectively address the risks arisen from the fluctuation in exchange rate.

## IX. Interest rate risks

The Company is exposed to risks resulting from fluctuations in interest rates on our borrowings. The Company raises borrowings to support general corporate purposes, including capital expenditures and working capital requirements. The majority of the Group's interest rate of borrowings is subject to adjustment by our lenders in accordance with changes in the People's Bank of China regulations. Under the stringent national currency policy in 2008, there is still the possibility of the rising in interest rates. In order to mitigate the risks arising from the increase in RMB interest rate, the Company, to the extent possible, enters into borrowing contracts with fixed interest rates, longer terms and longer interest rate adjustment period. Meanwhile, taking advantage of the Group's overall competitiveness, the Group cooperates with the banks to secure prime loans and optimises the internal fund allocation to maintain reasonable capital structure and minimise the amount of bank borrowings. In addition, the Company would, where appropriate, increase the amount of foreign currency borrowings with lower interest rate (mainly US dollars) and reduce RMB borrowings, and consider the future increase of interest rate in the quotation of long-term contracts.

# Management Discussion and Analysis

## X. Raw materials and energy price risks

The price of raw materials and energy, which are mainly steel, coal and oil, rose continuously since 2008, exerting pressure on the cost control of the Company. The Company will utilise optimised design to reduce the consumption of raw materials and incorporate compensation terms for rising price of major raw materials to the contracts. It will also increase its effort in technological improvement to reduce energy consumption, adjust its energy structure to reduce the cost of energy, strengthen controls in procurement to mitigate the risks arisen from the rising prices of raw materials and energy.

## XI. Contingent liabilities

The Group's contingent liabilities as at 30 June 2008 are as follows:

| | **30 June 2008 RMB millon (Unaudited)** | 31 December 2007 RMB million (Audited) |
|---|---|---|
| Pending lawsuits/arbitrations | **7.63** | 80.82 |
| Outstanding guarantees | **622.06** | 637.42 |
| | **629.69** | 718.24 |

As at 30 June 2008, the Group was not involved in any material litigation or arbitration.

## XII. Capital expenditure

For the six months ended 30 June 2008, capital expenditure of the Company amounted to RMB2,638.04 million, representing an increase of RMB1,736.33 million or growth of 192.56% as compared with the corresponding period of last year. Among the capital expenditure, that of the glass fiber segment, cement segment, cement equipment and engineering services segment and high-tech materials segment amounted to RMB1,377.22 million, RMB1,002.26 million, RMB137.39 million and RMB120.31 million respectively. The capital expenditure includes additions resulting from the acquisition of Shandong Taishan Composite Materials Co., Ltd., amounting to RMB737.38 million. Other capital expenditures were mainly used for the construction of two glass fiber production lines in Zoucheng with each of the annual production capacity of 60,000 tons, a cement production line in Zhuzhou with production capacity of 5,000 tons per day, a cement production line in Changde with production capacity of 2,500 tons per day, a cement production line in Xiangtan with production capacity of 5,000 tons per day, expansion project of CNG cylinders and the project of fine fused quartz ceramics, etc.

# Corporate Governance

Since listing, the Company has been gradually improving or building up a steady, efficient and reasonable internal control system.

## (1) In compliance with "Corporate Governance Codes"

The Company strengthens quality Corporate Governance in compliance with Code on Corporate Governance Practices ("Code") as set out in appendix 14 of the Listing Rules. The Company has complied with the rules set out in the listing rules from the listing date to 30 June 2008, without significant deviation from the codes.

## (2) In compliance with "Model Code for Securities Transactions by Directors"

The Company has adopted a set of conduct code rules prepared in accordance with "Model Code for Securities Transactions by Directors" ("Model Code") by the listing issuer. The terms of the code currently adopted by the Company are no less exacting than the rules of the Model Code. The Company, having made detailed enquiries of all the Directors of the Company, confirms that the directors of the Company have strictly complied with the required standards set out in the Model Code for the period from listing to 30 June 2008.

## (3) Audit Committee

The Company has appointed independent non-executive directors in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and established an audit committee responsible for proposing to the Board of Directors regarding the appointment, reappointment and removal of independent auditor, as well as monitoring its work. The Audit Committee of the Board consists of two Independent non-executive directors and one non-executive director, namely, Mr. Zhang Qiusheng, (the chairman of the audit committee of the board, with professional qualification and experience in finance), Mr. Zhang Lailiang and Mr. Liu Zhijiang respectively. As at 28 August 2008, Audit Committee has reviewed the interim report of the Company for the six months ended 30 June 2008 and has been in favour of the resoluition to submit the Board's discussion.

## (4) Connected Transactions Management

In order to standardise and strengthen the management of connected transactions, the Company has established the "China National Materials Company Limited Connected Transactions System". The Secretariate Department of the Board of the Company is responsible for the management of connected transactions. The Company has made sub-division as to the connected transaction caps that have already been disclosed, sub-dividing each connected transaction to each subsidiary, and each subsidiary is responsible for the control for its sub-divided share of connected transactions, in order to ensure that the company's connected transactions are carried out based on rules and system, that is, the total amounts of transactions do not exceed the annual caps approved in the general meeting. Pursuant to the rules of the relevant system of the Company, the Company is required to comply with the declaration, disclosure and independent shareholders' approval requirements under the Listing Rules (if applicable) before making any proposed new connected transaction. On 23 May 2008, the Company carried out training in respect of connected transactions for staff engaging in the financial, legal and securities investment field, etc, of each subsidiary, so as to further standardise the management of connected transactions of the Company.

# Other Information

## Review of Unaudited Condensed Consolidated Interim Financial Information

The audit committee of the board of directors has reviewed the Company's interim report. The Company's external auditor has reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2008.

## Dividend

The Company has resolved not to declare or distribute any interim dividend for the first half of 2008.

## Share Capital Structure

The share capital structure of the Company as at 30 June 2008 was as follows:

| Types of Shares | Number of Shares | Percentage to the total issued share capital |
|---|---|---|
| Domestic Shares | 2,276,522,667 | 63.74% |
| Foreign Shares | | |
| Non-listed Foreign Shares | 130,793,218 | 3.66% |
| H Shares | 1,164,148,115 | 32.60% |
| Total | 3,571,464,000 | 100% |

## Disclosure of Interests

As at 30 June 2008, to the best knowledge of the Directors, Presidents and Supervisors, pursuant to the requirements of the interest and/or short position register under Section 336 of Part XV of the Securities and Futures Ordinance ('SFO'), the persons listed in the following table had shares or the interest and/or short position in the Shares of the Company:

| Name | Type of Shares | Nature of interests | Number of Shares interested | Percentage to the respective class of issued shares | Percentage to the total share capital |
|---|---|---|---|---|---|
| China National Materials Group Corporation | Domestic shares | Long positions | 1,494,416,985 | 65.64% | 41.84% |
| China Cinda Asset Management Corporation | Domestic shares | Long positions | 319,788,108 | 14.05% | 8.96% |
| Taian State-owned Assets Management Co., Ltd. | Domestic shares | Long positions | 309,786,095 | 13.61% | 8.67% |
| Well Kent International Holdings Company Limited | Non-listed foreign shares | Long positions | 130,793,218 | 100% | 3.66% |
| The National Council for Social Security Fund of the PRC | H shares | Long positions | 80,594,897 | 7.96% | 2.26% |
| Citigroup | H shares | Long positions | 70,090,000 | 6.02% | 1.96% |
| | | Short positions | 2,246,000 | 0.19% | 0.06% |
| | | Lending pool | 31,826,000 | 2.73% | 0.89% |

Save as disclosed above, to the best knowledge of the Directors, Presidents and Supervisors, as at 30 June 2008, there was no other person with interests and/or short positions in the shares or underlying shares of the Company (as the case may be) which were recorded in the register of the Company required to be kept under section 336 of Part XV of the SFO, or being a substantial shareholder of the Company (within the meaning in the Listing Rule).

As at 30 June 2008, the interests and/or short positions of the Directors, Presidents or Supervisors of the Company in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any Directors, Presidents or Supervisors are taken or deemed to have under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange

## Purchase, sale or redemption of securities of the Company

For the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

## Litigation or Arbitration of Material Importance

The Company is not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Company to be pending or threatened against the Company for the six months ended 30 June 2008.

# Unaudited Condensed Consolidated Interim Balance Sheet

At 30 June 2008

| | Note | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | **11,045,644** | 8,992,861 |
| Land use rights | 5 | **1,455,578** | 1,271,266 |
| Investment properties | 5 | **79,645** | 98,093 |
| Intangible assets | 5 | **111,638** | 97,693 |
| Mining rights | 5 | **48,737** | 44,531 |
| Investments in associates | | **642,737** | 632,369 |
| Available-for-sale financial assets | | **71,655** | 39,153 |
| Deferred income tax assets | | **126,738** | 131,664 |
| Trade and other receivables | 6 | **725,490** | 202,832 |
| Other non-current assets | | **71,926** | 108,615 |
| | | **14,379,788** | 11,619,077 |
| **Current assets** | | | |
| Inventories | | **2,619,628** | 2,432,879 |
| Trade and other receivables | 6 | **6,250,985** | 4,928,132 |
| Amounts due from customers for contract work | | **697,514** | 357,930 |
| Restricted cash | | **1,838,384** | 1,476,117 |
| Cash and cash equivalents | | **7,560,831** | 8,443,176 |
| Other current assets | | **108,669** | 166,586 |
| | | **19,076,011** | 17,804,820 |
| **Total assets** | | **33,455,799** | 29,423,897 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 7 | **3,571,464** | 3,431,708 |
| Reserves | | **3,284,452** | 2,556,268 |
| | | **6,855,916** | 5,987,976 |
| Minority interests | | **3,057,493** | 3,039,283 |
| **Total equity** | | **9,913,409** | 9,027,259 |

| | Note | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 8 | **4,616,329** | 3,840,527 |
| Deferred income | | **294,962** | 312,775 |
| Early retirement and supplemental benefit obligations | 9 | **120,777** | 130,101 |
| Trade and other payables | 10 | **11,714** | 13,469 |
| Deferred income tax liabilities | | **161,991** | 135,252 |
| | | **5,205,773** | 4,432,124 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **13,352,841** | 11,309,180 |
| Dividends payable | | **333,464** | 553,834 |
| Amounts due to customers for contract work | | **344,599** | 204,387 |
| Current income tax liabilities | | **264,173** | 246,172 |
| Borrowings | 8 | **4,003,410** | 3,612,081 |
| Early retirement and supplemental benefit obligations | 9 | **13,130** | 13,629 |
| Provisions | 11 | **25,000** | 25,231 |
| | | **18,336,617** | 15,964,514 |
| **Total liabilities** | | **23,542,390** | 20,396,638 |
| **Total equity and liabilities** | | **33,455,799** | 29,423,897 |
| **Net current assets** | | **739,394** | 1,840,306 |
| **Total assets less current liabilities** | | **15,119,182** | 13,459,383 |

The accompanying notes are an integral part of this unaudited condensed consolidated interim financial information.

# Unaudited Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2008

| | Note | Six months ended 30 June 2008 RMB'000 (Unaudited) | 2007 RMB'000 (Reclassified) |
|---|---|---|---|
| Turnover | | **10,898,325** | 8,597,714 |
| Cost of sales | | **(8,962,005)** | (7,422,205) |
| **Gross profit** | | **1,936,320** | 1,175,509 |
| Other gains | | **105,552** | 93,883 |
| Selling and marketing expenses | | **(287,418)** | (212,184) |
| Administrative expenses | | **(657,587)** | (436,354) |
| Other expenses | | **(135,061)** | (20,479) |
| **Operating profit** | 12 | **961,806** | 600,375 |
| Interest income | 13 | **61,850** | 27,927 |
| Finance costs | 13 | **(251,593)** | (186,371) |
| Share of post-tax profits of associates | | **49,672** | 6,331 |
| **Profit before income tax** | | **821,735** | 448,262 |
| Income tax expense | 14 | **(233,359)** | (128,890) |
| **Profit for the period** | | **588,376** | 319,372 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **295,234** | 168,212 |
| Minority interests | | **293,142** | 151,160 |
| | | **588,376** | 319,372 |
| Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share) | 15 | **0.08** | 0.07 |
| Dividends | 16(a) | **–** | 106,138 |

The accompanying notes are an integral part of this unaudited condensed consolidated interim financial information.

# Unaudited Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2008

| | For the six months ended 30 June 2008 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Attributable to equity holders of the Company | | | | |
| | Share capital RMB'000 Unaudited | Reserves RMB'000 Unaudited | Subtotal RMB'000 Unaudited | Minority Interests RMB'000 Unaudited | Total RMB'000 Unaudited |
| **At 1 January 2008** | **3,431,708** | **2,556,268** | **5,987,976** | **3,039,283** | **9,027,259** |
| Profit for the period | **–** | **295,234** | **295,234** | **293,142** | **588,376** |
| Dividends declared to minority interests in subsidiaries | **–** | **–** | **–** | **(303,280)** | **(303,280)** |
| Cash contributions received from minority interests in subsidiaries | **–** | **–** | **–** | **77,523** | **77,523** |
| Attributable to acquisition of subsidiaries (Note 19(a)) | **–** | **–** | **–** | **14,997** | **14,997** |
| Acquisition of additional equity interests in subsidiaries from minority interests (Note 19(b)) | **–** | **(2,762)** | **(2,762)** | **(67,621)** | **(70,383)** |
| Issuance of new shares (Note 7(a)) | **139,756** | **425,467** | **565,223** | **–** | **565,223** |
| Changes in fair value of available-for-sale financial assets, net of deferred tax | **–** | **3,278** | **3,278** | **936** | **4,214** |
| Acquisition of equity interest in a subsidiary previously held by minority interests as available-for-sale financial assets | **–** | **–** | **–** | **(4,151)** | **(4,151)** |
| Exchange differences arising on translation of the financial statements of subsidiaries and jointly controlled entities | **–** | **6,967** | **6,967** | **6,664** | **13,631** |
| **At 30 June 2008** | **3,571,464** | **3,284,452** | **6,855,916** | **3,057,493** | **9,913,409** |

| | For the six months ended 30 June 2007 (Audited) | | | | |
|---|---|---|---|---|---|
| | Attributable to equity holders of the Company | | | | |
| | Share capital RMB'000 | Reserves RMB'000 | Subtotal RMB'000 | Minority Interests RMB'000 | Total RMB'000 |
| **At 1 January 2007** | 2,303,810 | (359,828) | 1,943,982 | 2,600,591 | 4,544,573 |
| Profit for the period | – | 168,212 | 168,212 | 151,160 | 319,372 |
| Dividends declared to minority interests in subsidiaries | – | – | – | (106,138) | (106,138) |
| Cash contributions received from minority interests in subsidiaries | – | – | – | 81,120 | 81,120 |
| Transaction with minority interests arising from further capital contributions to subsidiaries by the Group and/or minority interests | – | 5,020 | 5,020 | (5,020) | – |
| Acquisition of additional equity interests in subsidiaries from minority interests | – | (3,792) | (3,792) | (38,908) | (42,700) |
| Acquisition of an associate achieved in stages | – | 21,692 | 21,692 | – | 21,692 |
| Exchange differences arising on translation of the financial statements of subsidiaries and jointly controlled entities | – | 1,309 | 1,309 | 1,630 | 2,939 |
| **At 30 June 2007** | 2,303,810 | (167,387) | 2,136,423 | 2,684,435 | 4,820,858 |

The accompanying notes are an integral part of this unaudited condensed consolidated interim financial information.

# Unaudited Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2008

| | Note | Six months ended 30 June 2008 RMB'000 (Unaudited) | 2007 RMB'000 (Audited) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | | **1,325,521** | 773,323 |
| Interest paid | | **(209,982)** | (179,144) |
| Income tax paid | | **(221,226)** | (132,467) |
| Net cash generated from operating activities | | **894,313** | 461,712 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment, land use rights, investment properties, intangible assets and mining rights | | **(1,992,249)** | (1,113,533) |
| Proceeds from disposals of property, plant and equipment | | **29,083** | 20,285 |
| Proceeds from disposals of land use rights | | **1,961** | – |
| Net cash outflow on acquisition of subsidiaries | 19(a) | **(52,292)** | – |
| Net cash inflow on disposal of subsidiaries | | **–** | 14,220 |
| Cash outflow arising from loans to external parties | | **(91,730)** | – |
| Prepayments for acquisition of subsidiaries | 6(b) | **(572,000)** | – |
| Purchase of available-for-sale financial assets | | **(23,800)** | (3,590) |
| Increase in investment in associates | | **–** | (21,600) |
| Proceeds from disposals of available-for-sale financial assets | | **–** | 11,900 |
| Dividend received from a former subsidiary declared prior to the disposal of the subsidiary by the Group | | **19,033** | – |
| Dividends received on available-for-sale financial assets | | **120** | 3,338 |
| Dividends received from associates | | **8,715** | 2,897 |
| Interest received on available-for-sale financial assets | | **22,854** | – |
| Acquisition of additional equity interests in subsidiaries from minority interests | | **(70,383)** | (42,700) |
| Settlement of purchase consideration for acquisition of a subsidiary in previous year | | **(25,086)** | – |
| Proceeds from government grants relating to purchase of property, plant and equipment | | **25,050** | 2,056 |
| Interest received on bank deposits and loans to external parties | | **61,850** | 27,927 |
| Net cash outflow on establishment of jointly controlled entities | | **–** | (25,000) |
| Collection of deposits for acquisition of additional equity interests in a subsidiary | | **–** | 206,123 |
| Net cash used in investing activities | | **(2,658,874)** | (917,677) |

| | Note | Six months ended 30 June 2008 RMB'000 (Unaudited) | 2007 RMB'000 (Audited) |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **3,883,826** | 3,094,535 |
| Repayments of borrowings | | **(2,949,666)** | (2,726,827) |
| Contributions received from minority interests in subsidiaries | | **77,523** | 81,120 |
| Repayment of contributions prepaid by BBMG Group Co., Ltd. to a subsidiary | | **(250,000)** | – |
| Dividends paid to minority interests | | **(140,701)** | (106,168) |
| Special Distribution paid to SINOMA and the State-owned Promoters | 16(b)(i) | **(220,370)** | – |
| Capital contributions prepaid by one of the promoters | | **–** | 100,000 |
| Gross proceeds from issuance of new shares through the exercise of over-allocation option | | **585,759** | – |
| Disbursement of incremental costs directly attributable to issuance of shares upon listing and through the exercise of over-allocation option | | **(84,600)** | (8,040) |
| Net cash generated from financing activities | | **901,771** | 434,620 |
| **Net decrease in cash and cash equivalents** | | **(862,790)** | (21,345) |
| Cash and cash equivalents at beginning of the period | | **8,443,176** | 3,699,784 |
| Exchange losses on cash and cash equivalents | | **(19,555)** | (12,845) |
| **Cash and cash equivalents at end of the period** | | **7,560,831** | 3,665,594 |

The accompanying notes are an integral part of this unaudited condensed consolidated interim financial information.

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 1. General information and Reorganisation

### 1.1 General information

China National Materials Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 31 July 2007 as a joint stock company with limited liability under the Company Law of the PRC as a successor of China National Non-Metallic Materials Corporation ("CNNMC"), a wholly owned subsidiary of China National Materials Group Corporation ("SINOMA"). The Company has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") since 20 December 2007. The address of its registered office is 11 Beishuncheng Street, Xizhimennei, Beijing, the PRC.

The Company and its subsidiaries (collectively, the "Group") is principally engaged in cement equipment and engineering services and manufacturing of cement, glass fibre and other high-tech materials.

The unaudited condensed consolidated interim financial information was approved for issue by the Company's Board of Directors on 2 September 2008.

### 1.2 Reorganisation

(a) Pursuant to a reorganisation (the "Reorganisation") of SINOMA and its subsidiaries (collectively, the "SINOMA Group") in preparation for a listing of the Company's shares on the Hong Kong Stock Exchange, the Company issued 1,565,202,629 ordinary shares of RMB1.00 each to SINOMA and consequently became the holding company of certain companies/operations previously owned by the SINOMA Group, including CNNMC and other subsidiaries of SINOMA. SINOMA and its subsidiaries, including CNNMC, are state-owned enterprises under the control of the State Council. The principal reorganising transactions include:

(i) transfer of CNNMC and most of its subsidiaries/operations, equity interests in associates and jointly controlled entities (the "CNNMC Core Business") into the Group, after transferring certain subsidiaries/operations (the "Excluded Business") from CNNMC to the SINOMA Group which are not strategically complementary to the Group's operations or provide only auxiliary facilities to the Group, including real estate management and property leasing business, mine construction and other minor non-metallic materials business;

(ii) transfer of an additional 8.5% equity interest in Sinoma Cement Co., Ltd. ("Sinoma Cement"), an additional 3.54% equity interest in Sinoma International Engineering Co., Ltd. ("Sinoma International"), an additional 1% equity interest in Sinoma Zhuzhou Cement Co. Ltd., an additional 20% equity interest in Beijing Composite Materials Co., Ltd. and an additional 25% equity interest in Suzhou Sinoma Design & Research Institute of Non-metallic Minerals Industry Co., Ltd., which were subsidiaries of CNNMC, as well as a 51% equity interest in Xiamen ISO Standard Sand Co., Ltd. and a 0.85% equity interest in Taishan Fibreglass Inc. ("CTG") from the SINOMA Group to the Company; and

(iii) transfer of certain assets and liabilities of CNNMC and its subsidiaries to the SINOMA Group which were not retained by the Group but were related to the CNNMC Core Business.

# 1. General information and Reorganisation *(Continued)*

## 1.2 Reorganisation *(Continued)*

(b) In addition, as a result of the Reorganisation, four other state-owned enterprises (the "State-owned Promoters") contributed their equity interests in the following three companies to the Company as directed by the relevant governmental authorities in exchange for an aggregate of 738,607,544 shares of RMB1.00 each in the Company:

(i) a 99.15% equity interest in CTG.

(ii) a 14.72% equity interest in Xinjiang Tianshan Cement Co. Ltd. ("Tianshan Cement"), in which the Group had a 21.56% equity interest prior to the contribution;

(iii) a 17.24% equity interest in Sinoma Advanced Materials Co., Ltd. ("Sinoma Advanced Materials"), in which the Group had a 68.42% equity interest prior to the contribution.

On the same date, an aggregate of 196,189,827 shares of RMB1.00 each in the Company were issued to two other entities (the "Other Promoters") for a cash consideration of RMB300,000,000.

(c) Upon completion of the aforementioned Reorganisation and the share subscriptions on 31 July 2007, the Company had a total of 2,500,000,000 shares issued and a share capital of RMB2,500,000,000.

# 2. Basis of presentation

**2.1** As the Company, the SINOMA Group and the State-owned Promoters are all state-owned enterprises under the control of the State Council, the Reorganisation has been accounted for as a reorganisation of businesses under common control in a manner similar to a uniting of interests. These include interests in companies now comprising the Group transferred from the SINOMA Group as described in Note 1.2(a) above, as well as those contributed by the State-owned Promoters pursuant to various government directed transactions as described in Note 1.2(b)(i) to (iii) above.

The unaudited condensed consolidated interim income statement, statement of changes in equity and cash flow statement have been presented as if the current group structure had been in existence since the beginning of the earliest period presented (i.e. 1 January 2007).

**2.2** The assets and liabilities which were not retained by the Group but were related to the CNNMC Core Business, as described in Note 1.2(a)(iii) above, were included in the consolidated financial statements before the Reorganisation, because the operations of these assets and liabilities could not be clearly distinguished from the CNNMC Core Business and were not managed separately. The derecognition of these assets and liabilities, totalling as a net liability of RMB44,401,000 (30 June 2007: RMB43,342,000), was accounted for as an contribution from the SINOMA Group upon the Reorganisation.

**2.3** The unaudited condensed consolidated interim financial information has not included the assets, liabilities and results of operations of the Excluded Business as described in Note 1.2(a)(i) above, on the basis that these companies are engaged in dissimilar businesses from those of the Group, have separate management personnel and accounting records and have no more than incidental common facilities and costs shared with the Group.

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 2. Basis of presentation *(Continued)*

**2.4** The condensed consolidated interim income statement, statement of changes in equity and cash flow statement for the six months ended 30 June 2007 were audited and extracted from Appendix I – Accountants' Report included in the Company's prospectus dated 7 December 2007, except for certain reclassifications made for turnover, cost of sales, other gains, other expenses, administrative expenses, finance costs, segment liabilities and unallocated liabilities to conform with the current period's presentation.

## 3. Basis of preparation and principal accounting policies

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting". The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS").

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant to the Group.

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions"
- HK(IFRIC) – Int 12, "Service concession arrangements"
- HK(IFRIC) – Int 14, "HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction"

(b) The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, "Segment reporting", and requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail by the management, but it appears likely that the manner in which the segments are reported will not change materially since current disclosure of operating segments is consistent with the internal reporting provided to the chief operating decision-maker.

- HKAS 23 (revised), "Borrowing costs", effective for annual periods beginning on or after 1 January 2009. HKAS 23 (amendment) is not expected to have any material impact on the Group's financial statements since the Group has chosen to capitalise borrowing cost relating to qualifying assets.

## 3. Basis of preparation and principal accounting policies *(Continued)*

(b) *(Continued)*

- HKFRS 2 (amendment), "Share-based payment", effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group since none of the Group's companies adopts any share-based payment programmes.

- HKFRS 3 (revised), "Business combinations" and consequential amendments to HKAS 27, "Consolidated and separate financial statements", HKAS 28, "Investments in associates" and HKAS 31, "Interests in joint ventures", effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

- HKAS 1 (revised), "Presentation of financial statements", effective for annual periods beginning on or after 1 January 2009. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 32 (amendment), "Financial instruments: presentation", and consequential amendments to HKAS 1, "Presentation of financial statements", effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group since the Group does not have any puttable instruments.

- HK(IFRIC) – Int 13, "Customer loyalty programmes", effective for annual periods beginning on or after 1 July 2008. This interpretation is not relevant to the Group since none of the Group's companies adopts any loyalty programmes.

## 4. Segment information

The Group's business is organised into four main business segments: (i) cement equipment and engineering services; (ii) glass fibre; (iii) cement; and (iv) high-tech materials.

Inter-segment sales were conducted at prices no less than cost and with terms mutually agreed amongst those business segments.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated costs.

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 4. Segment information *(Continued)*

Segment assets consist primarily of property, plant and equipment, land use rights, investment properties, mining rights, intangible assets, investment in associates, other non-current assets, inventories, trade and other receivables, amounts due from customers for contract work, cash and cash equivalents, restricted cash and other current assets. Unallocated assets comprise deferred income tax, available-for-sale financial assets and corporate assets.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation and borrowings.

Capital expenditure comprises mainly additions to property, plant and equipment, land use rights, investment properties, intangible assets and mining rights (Note 5), including additions resulting from acquisitions through business combination (Note 19).

### (a) As at and for the six months ended 30 June 2008

The unaudited segment results and capital expenditure for the six months ended 30 June 2008 and other segment items included in the unaudited condensed consolidated interim income statement are as follows:

| | Cement equipment and engineering services RMB'000 | Glass fibre RMB'000 | Cement RMB'000 | High-tech materials RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Total gross segment turnover | 7,088,710 | 1,178,264 | 2,120,729 | 596,975 | (86,353) | 10,898,325 |
| Inter-segment turnover | (76,330) | (2,387) | – | (7,636) | 86,353 | – |
| Turnover | 7,012,380 | 1,175,877 | 2,120,729 | 589,339 | – | 10,898,325 |
| Segment results | 370,085 | 261,635 | 333,509 | 64,878 | (5,719) | 1,024,388 |
| Unallocated costs | | | | | | (62,582) |
| Operating profit | | | | | | 961,806 |
| Interest income | | | | | | 61,850 |
| Finance costs | | | | | | (251,593) |
| Share of post-tax profits of associates | – | – | 45,519 | 4,153 | – | 49,672 |
| **Profit before income tax** | | | | | | 821,735 |
| Income tax expense | | | | | | (233,359) |
| **Profit for the period** | | | | | | 588,376 |

## 4. Segment information *(Continued)*

### (a) As at and for the six months ended 30 June 2008 *(Continued)*

| | Cement equipment and engineering services RMB'000 | Glass fibre RMB'000 | Cement RMB'000 | High-tech materials RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Depreciation | 48,658 | 118,738 | 144,339 | 26,887 | 115 | 338,737 |
| Amortisation | 2,929 | 3,834 | 14,848 | 3,220 | 30 | 24,861 |
| Provision for/(reversal of) impairment of property, plant and equipment | – | 4,706 | – | (498) | – | 4,208 |
| (Reversal of)/provision for impairment of inventories | – | (232) | – | 679 | – | 447 |
| Provision for/(reversal of) impairment of trade and other receivables | 27,917 | (3,398) | 34,180 | 4,321 | (1,192) | 61,828 |
| Capital expenditure | 137,388 | 1,377,221 | 1,002,256 | 120,314 | 859 | 2,638,038 |

Capital expenditure for the six months ended 30 June 2008 includes additions resulting from acquisitions through business combinations, amounting to RMB737,383,000.

The unaudited segment assets and liabilities as at 30 June 2008 are as follows:

| | Cement equipment and engineering services RMB'000 | Glass fibre RMB'000 | Cement RMB'000 | High-tech materials RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Segment assets | 13,813,471 | 6,683,283 | 9,023,487 | 2,053,643 | (321,451) | 31,252,433 |
| Investments in associates | 40,200 | – | 543,658 | 58,879 | – | 642,737 |
| Unallocated assets | | | | | | 1,560,629 |
| **Total assets** | | | | | | 33,455,799 |
| Segment liabilities | 11,333,205 | 1,450,215 | 1,982,641 | 502,405 | (1,204,108) | 14,064,358 |
| Unallocated liabilities | | | | | | 9,478,032 |
| **Total liabilities** | | | | | | 23,542,390 |

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 4. Segment information *(Continued)*

### (b) As at 31 December 2007 and for the six months ended 30 June 2007

The reclassified segment results and capital expenditure for the six months ended 30 June 2007 and other segment items included in the reclassified condensed consolidated interim income statement are as follows:

| | Cement equipment and engineering services RMB'000 | Glass fibre RMB'000 | Cement RMB'000 | High-tech materials RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Total gross segment turnover | 5,843,919 | 766,120 | 1,490,679 | 511,076 | (14,080) | 8,597,714 |
| Inter-segment turnover | (2,411) | (2,093) | – | (9,576) | 14,080 | – |
| Turnover | 5,841,508 | 764,027 | 1,490,679 | 501,500 | – | 8,597,714 |
| Segment results | 271,188 | 111,173 | 154,575 | 55,656 | 3,436 | 596,028 |
| Unallocated income, net | | | | | | 4,347 |
| Operating profit | | | | | | 600,375 |
| Interest income | | | | | | 27,927 |
| Finance costs | | | | | | (186,371) |
| Share of (losses)/post-tax profits of associates | (1,140) | 260 | 5,864 | 1,347 | – | 6,331 |
| **Profit before income tax** | | | | | | 448,262 |
| Income tax expense | | | | | | (128,890) |
| **Profit for the period** | | | | | | 319,372 |

## 4. Segment information *(Continued)*

### (b) As at 31 December 2007 and for the six months ended 30 June 2007 *(Continued)*

| | Cement equipment and engineering services RMB'000 | Glass fibre RMB'000 | Cement RMB'000 | High-tech materials RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Depreciation | 50,445 | 68,531 | 134,365 | 14,272 | 160 | 267,773 |
| Amortisation | 2,569 | 4,108 | 13,339 | 2,761 | – | 22,777 |
| Reversal of impairment of inventories | – | – | (967) | (406) | – | (1,373) |
| Provision for/(reversal of) impairment on trade and other receivables | 3,070 | (510) | 23,285 | 4,613 | 979 | 31,437 |
| Capital expenditure | 165,471 | 506,568 | 145,994 | 83,656 | 18 | 901,707 |

The reclassified segment assets and liabilities as at 31 December 2007 are as follows:

| | Cement equipment and engineering services RMB'000 | Glass fibre RMB'000 | Cement RMB'000 | High-tech materials RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Segment assets | 10,940,649 | 5,008,093 | 7,546,126 | 1,883,736 | (603,038) | 24,775,566 |
| Investments in associates | 40,200 | – | 536,784 | 55,385 | – | 632,369 |
| Unallocated assets | | | | | | 4,015,962 |
| **Total assets** | | | | | | 29,423,897 |
| Segment liabilities | 9,194,026 | 1,177,454 | 1,756,810 | 422,489 | (686,824) | 11,863,955 |
| Unallocated liabilities | | | | | | 8,532,683 |
| **Total liabilities** | | | | | | 20,396,638 |

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 5. Capital expenditure

The movement of property, plant and equipment, land use rights, investment properties, intangible assets and mining rights are as follows:

| | Property, plant and equipment RMB'000 | Land use rights RMB'000 | Investment properties RMB'000 | Intangible assets RMB'000 | Mining rights RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Six months ended 30 June 2008 (Unaudited)** | | | | | | |
| **Opening net book amount at 1 January 2008** | **8,992,861** | **1,271,266** | **98,093** | **97,693** | **44,531** | **10,504,444** |
| Additions | **1,751,041** | **134,976** | **–** | **12,761** | **1,877** | **1,900,655** |
| Attributable to acquisition of subsidiaries (Note 19(a)) | **652,317** | **73,241** | **–** | **6,350** | **5,475** | **737,383** |
| Disposals | **(26,473)** | **(6,961)** | **–** | **–** | **–** | **(33,434)** |
| Reclassification/transfer | **16,886** | **(395)** | **(16,491)** | **–** | **–** | **–** |
| Depreciation and amortisation | **(336,780)** | **(16,549)** | **(1,957)** | **(5,166)** | **(3,146)** | **(363,598)** |
| Impairment charge | **(4,208)** | **–** | **–** | **–** | **–** | **(4,208)** |
| **Closing net book amount at 30 June 2008** | **11,045,644** | **1,455,578** | **79,645** | **111,638** | **48,737** | **12,741,242** |
| **Six months ended 30 June 2007 (Audited)** | | | | | | |
| **Opening net book amount at 1 January 2007** | 7,438,976 | 1,136,496 | 15,468 | 104,951 | 21,656 | 8,717,547 |
| Additions | 828,326 | 71,815 | – | 1,150 | 416 | 901,707 |
| Disposals | (15,823) | – | – | – | – | (15,823) |
| Reclassification/transfer | (12,823) | (6,123) | 18,946 | – | – | – |
| Attributable to disposal of subsidiaries | – | (2,113) | – | – | – | (2,113) |
| Depreciation and amortisation | (267,483) | (14,817) | (290) | (6,225) | (1,735) | (290,550) |
| **Closing net book amount at 30 June 2007** | 7,971,173 | 1,185,258 | 34,124 | 99,876 | 20,337 | 9,310,768 |

## 6. Trade and other receivables

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| **Trade receivables and retentions** | | |
| Trade receivables | **2,683,857** | 2,353,115 |
| Retentions | **380,526** | 232,286 |
| | **3,064,383** | 2,585,401 |
| Less: Provision for impairment | **(367,261)** | (319,735) |
| Trade receivables and retentions – net | **2,697,122** | 2,265,666 |
| **Loans, prepayments, deposits, staff advances and other receivables** | | |
| Prepayments to suppliers and subcontractors | **3,028,552** | 2,179,882 |
| Deposits | **56,452** | 28,767 |
| Loans (a) | **115,729** | 23,999 |
| Prepayments for acquisition of subsidiaries (b) | **572,000** | 100,000 |
| Other prepayments and receivables | **592,334** | 606,427 |
| | **4,365,067** | 2,939,075 |
| Less: Provision for impairment | **(85,714)** | (73,777) |
| Loans, prepayments, deposits, staff advances and other receivables – net | **4,279,353** | 2,865,298 |
| Total trade and other receivables | **6,976,475** | 5,130,964 |
| Less: Non-current portion | | |
| – Retentions | **115,490** | 102,832 |
| – Prepayments for acquisition of subsidiaries (b) | **572,000** | 100,000 |
| – Loans (a) | **38,000** | – |
| | **725,490** | 202,832 |
| Current portion | **6,250,985** | 4,928,132 |

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 6. Trade and other receivables *(Continued)*

(a) Loans are generally unsecured and interest-bearing, of which RMB38,000,000 (31 December 2007: Nil) are non-current and due within two to five years from the balance sheet date.

(b) Prepayments for acquisition of subsidiaries as at 30 June 2008 represent purchase consideration prepaid for acquisitions which were not yet completed up to 30 June 2008, which mainly comprise:

(i) RMB300,000,000 prepaid by Sinoma Cement to acquire the 100% equity interest in Anhui Yingpu Jinlong Cement Co., Ltd. ("Anhui Yingpu", a third-party company principally engaged in cement manufacturing). In February 2008, Sinoma Cement entered into a framework agreement to acquire the 100% equity interest in Anhui Yingpu and RMB300,000,000 has been prepaid as part of the purchase consideration, which is secured by the 100% equity interest in Anhui Yingpu.

(ii) RMB272,000,000 prepaid by Tianshan Cement to acquire the 100% equity interest in Yixing Henglai Construction Materials Co., Ltd. ("Yixing Henglai", a third-party company principally engaged in cement manufacturing). In January 2008, Tianshan Cement entered into an agreement to acquire the 100% equity interest in Yixing Henglai and RMB272,000,000 was prepaid as part of the purchase consideration. This acquisition was completed in July 2008 with a final purchase consideration of RMB338,986,000.

Prepayments for acquisition of subsidiaries as at 31 December 2007 represented amount prepaid to acquire the 100% equity interest in Shandong Taishan Composite Materials Co., Ltd. The acquisition was completed in March 2008 (Note 19(a)).

(c) Ageing analysis of the Group's trade receivables and retentions are as follows:

| | **30 June 2008 RMB'000 (Unaudited)** | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Less than 6 months | **1,893,642** | 1,596,338 |
| 6 months to 1 year | **479,776** | 373,148 |
| 1 year to 2 years | **271,578** | 222,716 |
| 2 years to 3 years | **151,605** | 154,067 |
| Over 3 years | **267,782** | 239,132 |
| | **3,064,383** | 2,585,401 |

Settlement of trade receivables and retentions generated through engineering and construction services is made in accordance with the terms specified in the contracts governing the relevant transactions, among which retentions are generally settled within one to two years after completion of corresponding services. For sales of goods, a credit period ranging from 30 to 180 days may be granted to large or long-established customers with good repayment history. Normally, receivables are expected to be settled within one year after delivery of goods.

(d) All non-current receivables are due within two years from the respective balance sheet dates.

(e) Refer to Note 20(b) for receivables due from related parties.

## 7. Share capital

| | 30 June 2008 Number of shares (Thousands) | Nominal value (RMB'000) |
|---|---|---|
| Registered, issued and fully paid | | |
| – Domestic shares of RMB1.00 each | 2,407,316 | 2,407,316 |
| – H shares of RMB1.00 each | 1,164,148 | 1,164,148 |
| | 3,571,464 | 3,571,464 |

| | Domestic shares RMB'000 | H shares RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 1 January 2008** | 2,419,405 | 1,012,303 | 3,431,708 |
| Issue of new shares through the exercise of over-allocation option (a) | – | 139,756 | 139,756 |
| Domestic shares converted into H shares (b) | (12,089) | 12,089 | – |
| **At 30 June 2008** | **2,407,316** | **1,164,148** | **3,571,464** |

(a) In January 2008, the Company issued and allotted 139,756,000 H shares at HK$4.50 (equivalent to RMB4.19) per share with the full exercise of over-allocation option by the joint global coordinators on behalf of the international underwriters for the Company's initial public offering in December 2007. Net proceeds of RMB565,223,000 were raised.

(b) Pursuant to the "Provisional Measures Concerning the Sale of State-owned Shares to Finance Social Welfare Funds" and "The Circular of Relevant Problems of Decreasing State-owned Shares held by Financial Assets Management Company and State-owned Bank", upon the completion of the exercise of over-allocation option, 12,089,218 domestic shares were converted into H shares and transferred to the National Social Security Fund of the PRC.

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 8. Borrowings

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| **Non-current** | | |
| Long-term bank borrowings | | |
| – Secured (a) | **4,597,455** | 3,810,422 |
| – Unsecured | **8,246** | 25,305 |
| | **4,605,701** | 3,835,727 |
| Other borrowings | | |
| – Secured (a) | **4,000** | – |
| – Unsecured | **6,628** | 4,800 |
| | **10,628** | 4,800 |
| Total non-current borrowings | **4,616,329** | 3,840,527 |
| **Current** | | |
| Current portion of long-term bank borrowings | | |
| – Secured (a) | **412,623** | 488,138 |
| – Unsecured | **10,000** | 1,970 |
| | **422,623** | 490,108 |
| Other borrowings | | |
| – Secured (a) | **6,700** | 8,200 |
| – Unsecured | **2,450** | – |
| | **9,150** | 8,200 |
| Short-term bank borrowings | | |
| – Secured (a) | **1,830,743** | 1,400,508 |
| – Unsecured | **1,740,894** | 1,713,265 |
| | **3,571,637** | 3,113,773 |
| Total current borrowings | **4,003,410** | 3,612,081 |
| **Total borrowings** | **8,619,739** | 7,452,608 |

## 8. Borrowings *(Continued)*

(a) Secured borrowings of the Group were secured by the Group's property, plant and equipment, land use rights and investment properties with carrying values of RMB2,329,064,000, RMB159,767,000 and RMB26,378,000 as at 30 June 2008 (31 December 2007: RMB1,933,492,000, RMB152,286,000 and RMB27,287,000) respectively and guarantees provided by certain related parties or third parties who also received guarantees from the Group.

(b) The Group's borrowings as at 30 June 2008 included borrowings of RMB2,058,425,000 (31 December 2007: RMB2,131,641,000) of Tianshan Cement and its subsidiaries which have been restructured pursuant to a debt restructuring agreement entered into among twelve banks, CNNMC and Tianshan Cement and its subsidiaries, effective on 1 December 2005.

Under the debt restructuring agreement, the above borrowings are repayable within 11 years from 1 December 2005. Certain restrictions were imposed on Tianshan Cement and its subsidiaries with regard to their use of operating cash flows for the purposes of loan principal and interest payments and repayments, capital expenditure and dividend payments. In addition, CNNMC has committed to remain as the largest shareholder of Tianshan Cement throughout the loan repayment period, injecting certain cement manufacturing plants to Tianshan Cement, providing working capital to Tianshan Cement of not less than RMB150,000,000 when necessary and providing technical support to Tianshan Cement to enhance its operational effectiveness and efficiency. Such commitments have been assumed by the Company upon completion of the Reorganisation.

(c) The Group's borrowings as at 30 June 2008 included borrowings of RMB167,228,000 (31 December 2007: RMB181,811,000) of Sinoma Hanjiang Cement Co., Ltd. ("Sinoma Hanjiang", a subsidiary of the Group) which have been restructured pursuant to debt restructuring agreements entered into among two banks, Sinoma Cement and Sinoma Hanjiang, effective on 27 November 2007 and 30 November 2007, respectively.

Pursuant to the debt restructuring agreements, the principal amounts of the underlying borrowings covered by the debt restructuring agreements are repayable within 5 years from 1 January 2008 to 31 December 2012. The overdue interest payable amounts on the underlying borrowings will be waived on the condition that the Group repays the principal and interest in accordance with the revised repayment schedules. The Directors believe that the Group has the ability to fulfil such condition and a debt restructuring gain of RMB56,524,000 was recorded as other gains in the Group's consolidated income statement for the year ended 31 December 2007.

(d) Movements in borrowings is analysed as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Audited) |
| **Opening balance at 1 January** | **7,452,608** | 6,901,912 |
| Attributable to acquisition of subsidiary | **260,504** | – |
| Amortisation of the difference between the initial amount and the maturity amount using the effective interest | **12,651** | 7,521 |
| Proceeds from borrowings | **3,883,826** | 3,094,535 |
| Repayments of borrowings | **(2,949,666)** | (2,726,827) |
| Net foreign exchange gains on borrowings | **(40,184)** | (10,299) |
| **Closing balance at 30 June** | **8,619,739** | 7,266,842 |

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 9. Early retirement and supplemental benefit obligations

The Group paid supplementary pension subsidies or pension contributions to its retired employees in the PRC who retired prior to 31 December 2006. In addition, the Group is committed to making periodic benefits payments to certain former employees who were terminated or early retired in accordance with various rationalisation programmes adopted by the Group prior to 31 December 2006. The Group ceased the practice to pay the supplemental pension subsidies and other post-employment medical benefits to its retired employees and early retired employees in China who leave the Group after 31 December 2006.

The amount of early retirement and supplemental benefit obligations recognised in the balance sheet are determined as follows:

| | **30 June 2008 RMB'000 (Unaudited)** | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Present value of defined benefits obligations | **133,907** | 143,730 |
| Liability in the condensed consolidated balance sheet | **133,907** | 143,730 |
| Less: Current portion | **(13,130)** | (13,629) |
| | **120,777** | 130,101 |

The movements of early retirement and supplemental benefit obligations are as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2008 RMB'000 (Unaudited)** | 2007 RMB'000 (Audited) |
| **Opening amount at 1 January** | **143,730** | 196,258 |
| For the period | | |
| – Interest cost | **3,255** | 3,163 |
| – Actuarial gains | **(6,204)** | (18,109) |
| – Payments | **(6,874)** | (8,867) |
| **Closing amount at 30 June** | **133,907** | 172,445 |

## 10. Trade and other payables

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| **Trade payables** | **4,800,680** | 4,428,978 |
| **Deposits, advances, accruals and other payables** | | |
| Prepayment from customers | **7,586,526** | 5,805,759 |
| Accrued payroll and welfare | **164,369** | 195,961 |
| Accrued social security costs | **82,898** | 74,918 |
| Other taxes | **157,808** | 132,578 |
| Accrued expenses | **132,240** | 64,652 |
| Deposits payable | **70,592** | 51,897 |
| Dividends payable to minority interests by subsidiaries | **179,833** | 17,254 |
| Other payables | **189,609** | 550,652 |
| | **8,563,875** | 6,893,671 |
| Total trade and other payables | **13,364,555** | 11,322,649 |
| Less: Non-current portion: | | |
| – Trade payables | **4,109** | 4,109 |
| – Accrued payroll and welfare (b) | **7,605** | 9,360 |
| | **11,714** | 13,469 |
| Current portion | **13,352,841** | 11,309,180 |

(a) Ageing analysis of trade payables are as follows:

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Less than 6 months | **3,355,623** | 2,632,022 |
| 6 months to 1 year | **821,396** | 1,259,454 |
| 1 year to 2 years | **453,983** | 354,333 |
| 2 years to 3 years | **89,242** | 116,238 |
| Over 3 years | **80,436** | 66,931 |
| | **4,800,680** | 4,428,978 |

## 10. Trade and other payables *(Continued)*

(b) Non-current portion of accrued payroll and welfare represents the portion of accrued employee housing allowances, payable to employees over their years of service to the Group, expected to be settled over one year from the balance sheet date.

(c) Refer to Note 20(b) for details of payables due to related parties.

## 11. Provisions

| | Guarantees RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Six months ended 30 June 2008 (Unaudited)** | | | |
| **As at 1 January 2008** | **25,000** | **231** | **25,231** |
| Utilised during the period | **–** | **(231)** | **(231)** |
| **As at 30 June 2008** | **25,000** | **–** | **25,000** |
| **Six months ended 30 June 2007 (Audited)** | | | |
| **As at 1 January 2007** | 123,700 | 980 | 124,680 |
| Utilised during the period | – | (749) | (749) |
| **As at 30 June 2007** | 123,700 | 231 | 123,931 |

Provisions for guarantees are made based on management's best estimates and judgments.

## 12. Operating profit

The following items have been credited/charged to the operating profit during the period:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Audited) |
| Crediting: | | |
| Gain on disposals of subsidiaries | **–** | 12,582 |
| Interest income on available-for-sale financial assets | **22,854** | – |
| Dividend income on available-for-sale financial assets | **120** | 3,338 |
| Gain on disposals of property, plant and equipment | **5,158** | 5,626 |
| Income from liabilities forgiven | **955** | 6,897 |
| Government grants | **57,088** | 40,464 |
| Charging: | | |
| Provision for impairment of property, plant and equipment | **4,208** | – |
| Loss on disposals of property, plant and equipment | **2,548** | 1,164 |
| Depreciation and amortisation: | | |
| – Property, plant and equipment | **336,780** | 267,483 |
| – Land use rights | **16,549** | 14,817 |
| – Investment properties | **1,957** | 290 |
| – Intangible assets | **5,166** | 6,225 |
| – Mining rights | **3,146** | 1,735 |
| Net foreign exchange losses (excluding those arising from borrowings) | **109,320** | 6,164 |
| Provision for impairment on trade and other receivables | **61,828** | 31,437 |
| Provision for/(reversal of) impairment of inventories | **447** | (1,373) |
| Donations | **8,257** | 392 |

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 13. Finance costs, net

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Reclassified) |
| Interest expense | **295,389** | 205,730 |
| Less: Amounts capitalised as construction-in-progress | **(29,868)** | (11,527) |
| | **265,521** | 194,203 |
| Net foreign exchange gains on borrowings | **(40,184)** | (10,299) |
| Discount charges on bank acceptance notes | **26,256** | 2,467 |
| Total finance costs | **251,593** | 186,371 |
| Interest income on bank deposits | **(58,502)** | (25,698) |
| Interest income on loans to related parties and third parties | **(3,348)** | (2,229) |
| Total interest income | **(61,850)** | (27,927) |
| Finance costs, net | **189,743** | 158,444 |

## 14. Income taxes

The Group has no operations in Hong Kong and is therefore not subject to Hong Kong profits tax.

Certain of the companies of the Group are subject to the PRC enterprise income tax, which has been provided for based on the statutory income tax rates of 25% (2007: 27% to 33%) on the assessable income of each of these companies during the period as determined in accordance with the relevant PRC income tax rules and regulations except for certain subsidiaries and jointly controlled entities which were exempted from tax or taxed at preferential rates ranging from 12.5% to 15% (2007: 15%).

Taxation on overseas profits has been calculated on the estimated assessable profit for the periods presented at the rates of taxation prevailing in the countries or jurisdictions in which these companies operate.

## 14. Income taxes *(Continued)*

The amount of income tax expense charged to the unaudited condensed consolidated interim income statement represents:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Audited) |
| Current income tax: | | |
| – PRC enterprise income tax | **235,289** | 120,011 |
| – Overseas taxation | **2,573** | 122 |
| | **237,862** | 120,133 |
| Deferred income tax | **(4,503)** | 8,757 |
| | **233,359** | 128,890 |

## 15. Earnings per share

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2008.

The comparative basic earnings per share for the six months ended 30 June 2007 is calculated based on the profit attributable to equity holders of the Company during the period and on the assumption that 1,565,202,629 shares and 738,607,544 shares issued to SINOMA and the state-owned Promoters respectively upon the incorporation of the Company in connection with the Reorganisation had been in issue since 1 January 2007 (Note 1.2(a) and (b)).

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Audited) |
| Profit attributable to equity holders of the Company (RMB'000) | **295,234** | 168,212 |
| Weighted average number of ordinary shares in issue | **3,563,699,778** | 2,303,810,173 |
| Basic earnings per share (RMB) | **0.08** | 0.07 |

### (b) Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during the six months ended 30 June 2008 (2007: Nil).

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 16. Dividends

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Audited) |
| Dividends declared (a) | **–** | 106,138 |

(a) No interim dividends for the six months ended 30 June 2008 have been declared by the Board of Directors.

Dividends for the six months ended 30 June 2007 represent dividends declared by the entities within the Group to their then equity holders prior to the completion of the Reorganisation. All of such dividends were declared to minority interests after elimination of intra-group dividends.

(b) Dividends paid during the six months ended 30 June 2008 include:

| | |
|---|---|
| | RMB'000 |
| | (Unaudited) |
| Special Distribution paid (i) | 220,370 |
| Special Dividend paid (ii) | – |
| | 220,370 |

(i) Pursuant to the Reorganisation and the applicable PRC financial regulations, the Company is required to make a distribution of RMB482,701,000 to SINOMA and the State-owned Promoters ("Special Distribution") in an amount equal to the difference between the Group's shareholders' equity as at 30 June 2006 and that as at 31 July 2007 (the date of the establishment of the Company), as determined based on the audited financial statements for that period prepared in accordance with the relevant accounting principles and financial legislations applicable to PRC enterprises (the "PRC GAAP"). During the sixed months ended 30 June 2008, the Company paid RMB220,370,000 of the Special Distribution. Considering RMB18,799,000 of the Special Distribution had been settled by offsetting receivables due from one of the State-owned Promoters, up to 30 June 2008, the Company had settled Special Distribution of totalling RMB239,169,000 and the remaining RMB243,532,000 was recorded as dividend payable in the unaudited condensed consolidated interim balance sheet.

(ii) Pursuant to the resolution of the shareholders' meeting held on 1 August 2007, it is resolved that SINOMA, the State-owned Promoters and the Other Promoters are entitled to a special dividend in an amount equal to the distributable profit of the Group generated from 1 August 2007 to 30 November 2007 (the last day of the month prior to the listing of the Company's shares) ("Special Dividend"), which is the lower of the respective amounts of net profit for that period determined under the PRC GAAP and HKFRS. Up to 30 June 2008, the Company had not yet paid any of the Special Dividend and Special Dividend of RMB89,932,000 was recorded as dividend payable in the unaudited condensed consolidated interim balance sheet.

## 17. Contingencies

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Pending lawsuits/arbitrations (a) | **7,633** | 80,821 |
| Outstanding guarantees (b) | **622,058** | 637,418 |
| | **629,691** | 718,239 |

(a) The Group has been named in a number of lawsuits and other legal proceedings arising in the ordinary course of business. Provisions have been made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits based on management's judgments and the legal advice it has obtained. No provision has been made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or management believes the outflow of resources is not probable.

As at 31 December 2007, Sinoma International had a pending arbitration proceeding in relation to a cement construction contract with a third-party customer. Sinoma International claimed against the customer for payment under the construction contract while the customer counter-claimed Sinoma International for default in the contract with a compensation amount of approximately RMB69 million. In January 2008, the committee of arbitration awarded Sinoma International the winning party of the arbitration and dismissed the counterclaim filed by the customer.

(b) The Group has acted as the guarantors for various external borrowings made by other state-owned enterprises and certain third parties.

## 18. Capital commitments

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Approved but not contracted for | | |
| – Property, plant and equipment | **468,538** | 374,480 |
| Contracted but not yet incurred | | |
| – Property, plant and equipment | **398,030** | 626,920 |
| – Land use rights | **–** | 7,020 |
| | **398,030** | 633,940 |
| | **866,568** | 1,008,420 |

## 18. Capital commitments *(Continued)*

In January 2008 and April 2008, Sinoma Cement entered into two co-operation framework agreements with Guangdong Luoding Municipal People's Government and Jiangxi Shangli County People's Government, respectively. Pursuant to these agreements, Sinoma Cement agreed to invest by stages in the construction of cement production lines with the total investments of approximately RMB1,500 million in Luoding, Guangdong Province, the PRC and RMB1,000 million in Shangli, Jiangxi Province, the PRC, respectively. As at 30 June 2008, no capital commitments had been incurred regarding these agreements.

## 19. Changes in composition of the Group

### (a) Business combination other than common control combinations

In March 2008, CTG acquired 100% equity interest in Shandong Taishan Composite Materials Co., Ltd. ("Taishan Composite"), a company principally engaged in the manufacture of glass fibre, for a cash consideration of RMB174,814,000.

The acquired subsidiary contributed turnover of RMB121,086,000 and profit of RMB6,691,000 to the Group for the period from the date of the acquisition to 30 June 2008. If the acquisition had occurred on 1 January 2008, the Group's turnover and profit for the six months ended 30 June 2008 would have been RMB10,977,492,000 and RMB601,862,000 respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied from 1 January 2008, together with the related tax effects.

Details of net assets acquired and goodwill are as follows:

| | RMB'000<br>Unaudited |
|---|---|
| Purchase consideration: | |
| – Cash paid in the six months ended 30 June 2008 | 74,814 |
| – Cash prepaid in the year ended 31 December 2007 | 100,000 |
| Total purchase consideration | 174,814 |
| Less: Fair value of net assets acquired – as shown below | (164,314) |
| Goodwill | 10,500 |

The goodwill is attributable to Taishan Composite's profitability in its market and the synergies expected to arise after its acquisitions by the Group. The goodwill is attributable to the segment of glass fibre.

## 19. Changes in composition of the Group *(Continued)*

### (a) Business combination other than common control combinations *(Continued)*

The assets and liabilities at the date of acquisition are as follows:

| | Fair value RMB'000 (Unaudited) | Acquiree's carrying amount RMB'000 (Unaudited) |
|---|---|---|
| Cash and cash equivalents | 22,522 | 22,522 |
| Restricted cash | 31,000 | 31,000 |
| Property, plant and equipment | 652,317 | 580,316 |
| Land use rights | 73,241 | 26,196 |
| Proprietary technologies and others (included in intangible assets) | 6,350 | – |
| Mining Rights | 5,475 | 3,563 |
| Available-for-sale financial assets | 7,234 | 7,234 |
| Other non-current assets | 578 | 578 |
| Inventories | 64,857 | 55,832 |
| Trade and other receivables | 100,329 | 100,329 |
| Trade and other payables | (462,979) | (462,979) |
| Current income tax liabilities | (5,664) | (5,664) |
| Dividends payable | (18,584) | (18,584) |
| Retirement benefit obligations | (650) | (650) |
| Borrowings | (260,504) | (260,504) |
| Deferred income | (1,448) | (1,448) |
| Deferred income tax liabilities | (34,763) | (679) |
| Net assets | 179,311 | 77,062 |
| Less: Minority interests | (14,997) | |
| Net assets acquired | 164,314 | |
| Purchase consideration settled in cash in the six months ended 30 June 2008 | | (74,814) |
| Less: Cash and cash equivalents of subsidiary acquired | | 22,522 |
| Net cash outflow on acquisition | | (52,292) |

### (b) Acquisition of additional equity interests in subsidiaries from minority interests

In March 2008, Tianshan Cement acquired a 37.71% equity interest in Akesu Tianshan Duolang Cement Co., Ltd. ("Tianshan Duolang") for a cash consideration of RMB70,383,000. Following this acquisition, Tianshan Cement's equity interest in Tianshan Duolang increased from 62.29% to 100%. The excess of the consideration over the acquired net assets in Tianshan Duolang, amounting to RMB2,762,000, was recorded as a reduction in shareholders' equity.

# Notes to the Unaudited Condensed Consolidated Interim Financial Information
For the six months ended 30 June 2008

## 20. Related party disclosures

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. SINOMA, the immediate parent of the Company, is owned and controlled by the State-owned Assets Supervision and Administration Commission of the State Council. The State Council is the Company's ultimate controlling party, which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the "state-owned enterprises"). Neither SINOMA nor the State Council published financial statements available for public use.

In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government are regarded as related parties of the Group ("other state-owned enterprises"). For the purpose of related party disclosures, to the extent practical, the Group has in place procedures to identify the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programmes. However, management believes that meaningful information relating to related party transactions has been adequately disclosed.

In addition to the related party information disclosed elsewhere in this unaudited condensed consolidated interim financial information, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the six months ended 30 June 2008 and balances arising from related party transactions as at 30 June 2008.

The transactions with related parties are carried out on pricing and settlement terms agreed with counter parties in the ordinary course of business.

## 20. Related party disclosures *(Continued)*

### (a) Significant related party transactions

The Group had the following significant transactions with related parties:

| | Six months ended 30 June 2008 RMB'000 (Unaudited) | 2007 RMB'000 (Audited) |
|---|---|---|
| **Transaction with SINOMA and fellow subsidiaries** | | |
| Revenue | | |
| – Sales of goods or provision of services | **60,787** | 143,850 |
| Expenses | | |
| – Purchases of goods or services | **31,012** | 14,895 |
| – Rental expenses | **12,309** | 7,572 |
| – Interest expenses | **–** | 682 |
| Others | | |
| – Outstanding guarantees provided by the Group | **–** | 150,337 |
| – Outstanding guarantees provided by SINOMA and fellow subsidiaries | **–** | 45,000 |
| **Transaction with jointly controlled entities (after elimination of the Group's proportionate interest in those jointly controlled entities)** | | |
| Revenue | | |
| – Sales of goods or provision of services | **14,818** | 16,528 |
| – Interest income | **187** | 928 |
| Expenses | | |
| – Purchases of goods or services | **38,096** | 885 |
| **Transaction with associates** | | |
| Revenue | | |
| – Sales of goods or provision of services | **31,306** | 11,740 |
| Expenses | | |
| – Purchases of goods or services | **9,370** | – |
| Others | | |
| – Outstanding guarantees provided by the Group | **36,800** | 3,200 |
| **Transaction with minority interests** | | |
| Revenue | | |
| – Sales of goods or provision of services | **–** | 5,070 |
| Expenses | | |
| – Purchases of goods or services | **600** | 1,557 |
| Others | | |
| – Outstanding guarantees provided by the Group | **–** | 3,000 |
| – Outstanding guarantees provided by minority interests | **–** | 118,000 |

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 20. Related party disclosures *(Continued)*

### (a) Significant related party transactions *(Continued)*

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Audited) |
| **Transaction with joint venture partners of jointly controlled entities** | | |
| Revenue | | |
| – Sales of goods or provision of services | **17,536** | 17,453 |
| Expenses | | |
| – Purchases of goods or services | **11,973** | – |
| **Transaction with other state-owned enterprises** | | |
| Revenue | | |
| – Sales of goods or provision of services | **264,166** | 228,784 |
| – Interest income from bank deposits and loans | **55,819** | 21,117 |
| Expenses | | |
| – Purchases of goods or services | **223,615** | 183,794 |
| – Interest expense of borrowings | **235,004** | 182,070 |
| Others | | |
| – Outstanding guarantees provided by the Group | **104,680** | 63,820 |
| – Outstanding guarantees provided by other state-owned enterprises | **193,133** | 265,165 |
| **Transaction with the State-owned Promoters** | | |
| Revenue | | |
| – Other gains | **–** | 10,331 |
| Others | | |
| – Outstanding guarantees provided by the State-owned Promoters | **30,000** | 463,280 |

## 20. Related party disclosures *(Continued)*

### (b) Balances with related parties

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| **Trade and other receivables** | | |
| Trade receivables due from | | |
| – SINOMA and fellow subsidiaries | 63,183 | 63,059 |
| – Jointly controlled entities | 37,839 | 13,161 |
| – Associates | 11,822 | – |
| – Minority interests | 1,777 | 10,405 |
| – Joint venture partners of jointly controlled entities | 6,060 | 3,295 |
| – Other state-owned enterprises | 116,735 | 140,452 |
| – Less: Provision for impairment | (5,728) | (3,018) |
| | 231,688 | 227,354 |
| Other receivables due from | | |
| – SINOMA and fellow subsidiaries | 67,831 | 121,726 |
| – Jointly controlled entities | 10,641 | 17,240 |
| – Minority interests | 3,662 | 36,368 |
| – State-owned Promoters | 30,000 | – |
| – Other state-owned enterprises | 15,081 | 13,162 |
| – Less: Provision for impairment | (1,874) | (1,302) |
| | 125,341 | 187,194 |
| | 357,029 | 414,548 |

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 20. Related party disclosures *(Continued)*

### (b) Balances with related parties *(Continued)*

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| **Trade and other payables** | | |
| Trade payables due to | | |
| – SINOMA and fellow subsidiaries | **81,557** | 131,587 |
| – Jointly controlled entities | **23,632** | 31,823 |
| – Associates | **9,530** | – |
| – Minority interests | **7,997** | 4,266 |
| – Joint venture partners of jointly controlled entities | **4,867** | 6,373 |
| – Other state-owned enterprises | **88,677** | 132,760 |
| | **216,260** | 306,809 |
| Other payables due to | | |
| – SINOMA and fellow subsidiaries | **17,273** | 10,420 |
| – Minority interests | **1,284** | 6,661 |
| – Joint venture partners of jointly controlled entities | **4,395** | 4,369 |
| – Other Promoters | **–** | 250,000 |
| – Other state-owned enterprises | **1,073** | 46,990 |
| | **24,025** | 318,440 |
| | **240,285** | 625,249 |

The credit periods of trade receivables due from related parties and trade payables due to related parties, if any, generally range from 30 to 180 days. Other receivables due from related parties and other payables due to related parties are generally unsecured, non-interest bearing and repayable on demand.

## 20. Related party disclosures *(Continued)*

### (b) Balances with related parties *(Continued)*

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| **Borrowings** | | |
| – Jointly controlled entities | 2,450 | – |
| – Other state-owned enterprises | 8,124,982 | 6,889,859 |
| | 8,127,432 | 6,889,859 |
| **Other balances with other state-owned enterprises** | | |
| – Restricted cash | 1,658,225 | 1,326,265 |
| – Cash and cash equivalents | 6,643,039 | 7,782,243 |
| | 8,301,264 | 9,108,508 |

Restricted cash, cash and cash equivalents and borrowings with related parties mainly represent balances with state-owned banks, which constitute of majority of restricted cash, cash and cash equivalents and borrowings.

### (c) Key management compensation

| | Six months ended 30 June | |
|---|---|---|
| | 2008 RMB'000 (Unaudited) | 2007 RMB'000 (Audited) |
| Basic salaries, housing allowances and other allowances | 1,926 | 1,119 |
| Contributions to pension plans | 104 | 62 |
| Discretionary bonuses | 1,046 | – |
| Fee for directors | 450 | – |
| | 3,526 | 1,181 |

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2008

## 20. Related party disclosures *(Continued)*

### (d) Loans to related parties

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| **Loans to associates:** | | |
| – Opening balance | – | 3,905 |
| – Closing balance | – | – |
| **Loans to jointly controlled entities** | | |
| – Opening balance | – | – |
| – Closing balance | 10,000 | – |
| **Loans to minority interests** | | |
| – Opening balance | – | 27,294 |
| – Closing balance | 4,369 | – |
| **Loans to the state-owned Promoters** | | |
| – Opening balance | – | – |
| – Closing balance | 30,000 | – |
| **Loans to other state-owned enterprises** | | |
| – Opening balance | 4,369 | 43,279 |
| – Closing balance | 10,000 | 4,369 |

Loans to related parties are included in trade and other receivables in the balance sheet. The weighted average effective interest rate of loans to related parties is 6.32% per annum as at 30 June 2008 (2007: 7.56%).

## 21. Events occurring after the balance sheet date

The following events took place subsequent to 30 June 2008 and up to the date of approval of this unaudited condensed consolidated interim financial information:

(a) In July 2008, Tianshan Cement acquired the 100% equity interest in Yixing Henglai for a cash consideration of RMB338,986,000 (Note 6(b)(ii)). Yixing Henglai was renamed as Yixing Tianshan Cement Co., Ltd. after the acquisition.

(b) Pursuant to the resolution of the extraordinary shareholders' meeting held on 5 August 2008, it is approved that the Company will issue corporate bonds in the PRC with a principal amount of not exceeding RMB3,000,000,000 so as to satisfy the operation needs and improve the debt structure of the Group. These bonds have not been issued as their issuance is still subject to the approval from the relevant PRC regulatory authorities.

SINOMA

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