



## Interim Report

Cement | Modern Building Materials | Property Development | Property Investment and Management



# 2009

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# Corporate Information

## Corporate Information

<b>Company chinese name</b>	北京金隅股份有限公司
<b>Company english name</b>	BBMG Corporation
<b>Headquarters</b>	No. A129, Xuanwumen West Main Street Xicheng District, Beijing 100031, the PRC
<b>Registered office and principal place of business in the PRC</b>	No. 36, North Third Ring East Road Dongcheng District, Beijing 100013, the PRC
<b>Principal place of business in Hong Kong</b>	Room 904, Wah Ying Cheong Central Building 158 – 164 Queen’s Road, Central, Hong Kong
<b>Company’s website</b>	<a href="http://www.bbm.com.cn">www.bbm.com.cn</a>
<b>Legal representative</b>	Jiang Weiping
<b>Board of directors</b>	
<i>Executive Directors</i>	Jiang Weiping ( <i>Chairman</i> ) Li Changli ( <i>Vice Chairman</i> ) Jiang Deyi ( <i>President</i> ) Shi Xijun Zhang Handong Wang Hongjun
<i>Non-executive Director</i>	Zhou Yuxian
<i>Independent non-executive directors</i>	Hu Zhaoguang Xu Yongmo Zhang Chengfu Yip Wai Ming

**Supervisors**

Wang Xiaoqun  
Chen Changying  
Hu Jingshan  
Zhang Jie  
Hong Ye  
Fan Xiaolan  
Wang Youbin

**Committees***Audit Committee*

Zhang Chengfu (*Chairman*)  
Hu Zhaoguang  
Xu Yongmo  
Zhou Yuxian  
Yip Wai Ming

*Remuneration and Nomination Committee*

Jiang Weiping (*Chairman*)  
Shi Xijun (*Vice Chairman*)  
Hu Zhaoguang  
Zhang Chengfu  
Xu Yongmo

*Strategic Committee*

Jiang Weiping (*Chairman*)  
Li Changli (*Vice Chairman*)  
Jiang Deyi (*Vice Chairman*)  
Hu Zhaoguang  
Zhang Chengfu  
Wang Hongjun  
Xu Yongmo  
Deng Guangjun

**Authorised representatives**

Wang Hongjun  
Wu Xiangyong

**Joint company secretaries**

Wu Xiangyong  
Lau Fai Lawrence

**Qualified accountant**

Lau Fai Lawrence

**H share registrar**

Computershare Hong Kong Investor  
Services Limited  
Shops 1712 – 1716, 17 th Floor, Hopewell Centre  
183 Queen's Road East, Wanchai, Hong Kong

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## Corporate Information

<b>Place of listing</b>	The Stock Exchange of Hong Kong Limited
<b>Stock code</b>	2009
<b>Principal bankers</b>	Industrial and Commercial Bank of China Limited Bank of Communications Co., Ltd. Bank of Beijing
<b>Independent auditor</b>	Ernst & Young <i>Certified Public Accountants</i>
<b>Compliance adviser</b>	Cinda International Capital Limited
<b>Legal adviser</b>	Paul, Hastings, Janofsky & Walker <i>As to Hong Kong and U.S. law</i>  Haiwen & Partners <i>As to PRC law</i>
<b>Property valuer</b>	Savills Valuation and Professional Services Limited

# Chairman's Statement

## Chairman's Statement

Dear Shareholders,

On behalf of the Board of the Company, I am pleased to present to you the interim results report of the Company for the six months ended 30 June 2009, and the satisfactory results during the said period for your review.

During the first half of 2009, as the PRC government was handling the adverse effects of the global financial crisis had on China by introducing a stimulus package to strengthen economic development in the PRC, we began to see various positive trends in the macroeconomic environment and the national economy including a GDP year-on-year growth at 7.1% during the first half of 2009, representing an increase of approximately 33.5% year-on-year in fixed asset investments nationwide and a decrease of approximately 1.1% year-on-year in consumer prices. In the midst of a challenging global economic environment as well as a complex and volatile economy in the PRC and overseas at the time, the Board of the Company was able to effectively adopt our business plans in response to these changes and was able to capitalize on development opportunities. The Company did this by leveraging on our strengths in strategic planning, industrial chain, management integration and branding; aggressively expanding our target markets; strengthening our regional resources integration and enhancing our management standards and efficiency of operation to maintain steady, fast and sound development in our business performance. Meanwhile, our Group capitalized on a favourable capital market opportunity by successfully launching and completing an initial public offering and listing of our H Shares. On behalf of the Board, I would like to express my sincere thank you to all of our investors and to all the shareholders for sharing our believe in the Company and the value of BBMG shares.

During the reporting period, under the Hong Kong Financial Reporting Standards, the Group's audited sales revenue amounted to approximately RMB5,100.2 million, an increase of approximately 6.9% year-on-year; profit after tax for the period was approximately RMB771.6 million, an increase of approximately 54.0% year-on-year; profit attributable to the owners of the Company was approximately RMB732.0 million, an increase of approximately 63.8% year-on-year; and earnings per share attributable to the owners of the Company were approximately RMB0.26.

## Chairman's Statement

### Cement

During the first half of 2009, the Group fully capitalized on the market opportunities arising from the PRC government's RMB4 trillion economic stimulus package and expansion program for infrastructure construction by persistently adopting "grand cross-shape" strategy (大十字戰略佈局) for Beijing, Tianjin and Hebei Province, accelerating integration of regional resources and market expansion, substantially maximizing its benefits from the mega-regional competition and continuing to consolidate and strengthen its leading position in the cement sector in Beijing, Tianjin and Hebei Province. Phase 2 of the cement project in Hebei of Luquan Dongfang Dingxin Cement Co., Ltd. with a capacity of 5,000t/d was completed and commenced production, generating an additional capacity of approximately 2 million tonnes of cement. Preparations for the domestic mud disposal production line of Beijing Xinbeishui Cement Co., Ltd. proceeded smoothly, and the completion of this project will further diversify and enhance the profit model of the Group's cement segment. The Group succeeded in winning tenders for various key projects of the PRC government such as the Beijing-Shijiazhuang railway project, Shijiazhuang-Wuhan railway project and Beijing-Shanghai railway project, bringing a substantial growth in cement sales volume and selling prices year-on-year. During the reporting period, sales volume of cement was approximately 5.98 million tonnes, an increase of approximately 550,000 tonnes year-on-year; sales volume of commercial concrete was approximately 1.42 million cubic meters; sales revenue was approximately RMB433.3 million, represent an increase of approximately 6.6% year-on-year.

### Modern Building Materials

We effectively overcame the effect of a scant overseas demand due to the financial crisis and achieved a steady development of our modern building materials segment. The Group further stepped up the investment in and the construction of projects with promising market outlook and high return. Preparations for the new production line of Beijing Tongda Refractory Technology Corporation proceeded smoothly. In addition, the equipment for the project of STAR-USG Building Materials Co., Ltd. has been installed and debugged, after the project commences production, it will become the largest single production line for mineral wool acoustic boards in Asia. Integration process for similar industrial resources was accelerated by having completed the integration of the aerated concrete operations and the paint operations. At the BBMG Industrial Park in Dachang Hui Autonomous County in Hebei Province, after centralized and increased the production, operation and management scale of the modern building materials with promising profits and market outlook, the said industrial park has become a new development base of the Group's modern building materials manufacturing industry, effectively leveraging on the strengths in many aspects of the "industrial park-based" development approach (園區化發展模式) such as fast construction speed, low general costs, integration of auxiliary facilities, management specialization and effective and centralized bargain for government's preferential support policies.



## Property Development

Firstly, during the recession of the property market in the first quarter, the Group adjusted the business strategy for the property development segment in a scientific manner, speed up the development progress and accelerated the cash recovery rate. The launch of projects for sales, such as Jinyu Guanlan Times in Hangzhou, Jinyu Kele+ in Beijing and Jinyu Vanke City in Beijing were well received by the market. There was also a significant rise in the sales of projects such as Jinyu Shanshu in Beijing, BBMG7090 in Beijing and Phase 1 of Jinyu Times City in Inner Mongolia. Secondly, while further stepping up the development of high-end commodity housing, the Company endeavoured to revise the portfolio for the development of policy-based housing by increasing its development ratio of "housing with restrictions on house and land prices" (兩限房) and optimizing the earning structure of property development segment. Jinyu Meiheyuan was the first of this kind of housing project delivered in Beijing. Construction of other subsequent projects such as Jinyu Lijingyuan in Beijing are being speed up. Thirdly, the Company firmly capitalized on the opportunities arising from the low tide of land transactions by accelerating the transactions of self-owned land, expanding its land reserve and optimizing the portfolio of land reserve as well, thus laying a sound foundation for sustainable property development and construction.

## Property Investment and Management

The property investment and management operations adopted a new business policy with an ongoing innovative mechanism and features and strengths with respect to premium asset quality, large asset size, good service quality and high occupancy rate. By means of effective publicity and marketing strategies, the Group consolidated and expanded its customer resources, further enhanced the good brand and market image of its property management operations amid intense market competition so that there was a steady growth in its rents and earnings which have become a steady source of its cash flow. Phase 3 of the Global Trade Centre has been completed and delivered for use, bringing an additional floor area of approximately 71,670.9 sq.m. Construction of Phase 4 (hotel and furnished apartments) of the Global Trade Centre is proceeding orderly. As at the first half of the year, the total gross floor area of the Group's investment properties was near 600,000 sq.m.

## Prospects

The Group's business development will come across both challenges and opportunities in the second half of 2009. On one hand, the impact of the global financial turmoil on the economy will not disappear, there will be uncertainties and instabilities in the course of the recovery of the national economy, and the recovery and growth of overseas demand will remain uncertain to some extent. On the other hand, given the fundamental policy on the long-term sustainable development of the PRC economy remains unchanged, the PRC government will continue to maintain steady and fast economic development by applying ongoing proactive fiscal policies and moderately loose monetary policies as well as fully implementing and improving the economic stimulus package that will bring about abundant market opportunities for the Group's relevant businesses and products. The Group will take effective strategies to cope with these challenges and opportunities positively, leverage on its overall strength in the industrial chain, seize development opportunities firmly, concentrate on devising development plans, expand both the domestic and overseas markets aggressively and secure bigger development space to reward our shareholders with more satisfactory business performance.

## Chairman's Statement

We will step up the implementation of the "grand cross-shape" strategy (大十字戰略佈局) for the cement business segment; strengthen the control of strategic resources and the strategic planning in the west of the Beijing-Bohai Gulf Region; continue to enhance its competitiveness in the mega-regional market; acquire, construct or consolidate on a selective basis new cement plants and commercial concrete mixing stations; accelerate the pace of the expansion of the cement sector; market the business model for the disposal of urban waste and lower operation costs and raise operation quality through various initiatives such as centralized procurement and production as well as unified sale and information sharing in order to further enhance profitability; and strive to achieve a capacity of over 20 million tonnes of cement as well as production capacity of over 5 million cubic meters of commercial concrete by the end of 2009.

While maximizing its benefits, we will persistently adopt the "industrial park-based" development approach (園區化發展模式) and overall planning and construction for industrial parks in the modern building materials segment in order to utilize the collective effect of the industry; further broaden the aspects of resources integration, deepen the level of such integration and magnify the effect of such integration; foster and accelerate the development of the environmental protection industry; and consolidate the foundation for the development of the Company's metropolitan-based industry.

In respect of property development segment, we will take full advantage of the opportunities arising from the ongoing improvement in the property market by expanding land reserve by means of reasonable and sound market practices; maintain the development of a product mix in a scientific and reasonable manner; further enhance profitability and cash flow; while having positioned itself accurately and accelerated construction works, further speed up house sales in order to quickly recover capital; strengthen management of tender submission and invitation; and persistently enhance core competitiveness and branding presence to build up competitive projects for achieving sustainable, fast and sound development in property development.

For the property investment and management segment, we will fully leverage on the strength in resources integration; take advantage of the opportunity arising from the "boost domestic demand" policy promoted by the PRC government by effectively coping with the economic development of Beijing and the PRC government's macro control policy; step up the innovation of business model, profit model and service items; step up marketing efforts; optimize the business environment; and raise service level to further improve profitability.

On behalf of the Board of the Company, I would like to thank you to all the shareholders, investors and customers for their support, and to the management and all the staff of the Company for their hard work and endeavours they delivered to the Group during the year. I believe with the confidence and support of our shareholders, the Company is sure to achieve all the development objectives for 2009 and create a greater value for our shareholders.

### **Jiang Weiping**

Chairman

Beijing, the PRC, 28 August 2009

# Management Discussion and Analysis

During the first half of 2009, the Group successfully overcame the adverse impact of the global economic crisis by fully capitalizing on some favourable factors such as the PRC government's RMB4 trillion economic stimulus package, and achieved a comparatively substantial increase in profit year-on-year, laying a strong foundation for improved performance throughout the year.

## I. Analysis of Operations

	Comparison of major income statement items			Increase/(decrease) during the period against corresponding period last year (%)
	Jan – Jun 2009 RMB million	Jan – Jun 2008 RMB million		
Revenue	<b>5,100.2</b>	4,772.1	6.9%	
Cost of sales	<b>3,676.2</b>	3,544.4	3.7%	
Gross profit	<b>1,424.0</b>	1,227.8	16.0%	
Profit before tax	<b>1,120.3</b>	741.8	51.0%	
Profit after tax for the period	<b>771.6</b>	501.2	54.0%	
Profit attributable to owners of the Company	<b>732.0</b>	447.0	63.8%	

During the period, the Group's sales revenue was approximately RMB5,100.2 million, an increase of approximately 6.9% year-on-year; gross profit amounted to approximately RMB1,424.0 million, an increase of 16.0% year-on-year; gross profit margin was approximately 27.9%, a rise of approximately 2.2 percentage points year-on-year; net profit after tax was RMB771.6 million, an increase of approximately 54.0% year-on-year; net profit attributable to the owners of the Company was approximately RMB732.0 million, an increase of approximately 63.8% year-on-year; earnings per share were RMB0.26.

## Management Discussion &amp; Analysis

**(1) Analysis of the Operation of Each Segment**

Business Segment	Comparison of revenue from each business segment		Increase/(decrease) during the period against corresponding period last year (%)
	Jan – Jun 2009 RMB million	Jan – Jun 2008 RMB million	
Cement segment	2,025.5	1,774.6	14.1%
Modern building materials segment	1,269.6	1,403.8	(9.6%)
Property development segment	1,486.2	1,284.5	15.7%
Property investment & management segment	334.2	320.7	4.2%
Eliminations	(15.3)	(11.5)	–
Total	5,100.2	4,772.1	6.9%

Business Segment	Comparison of gross profit of each business segment		Increase/(decrease) during the period against corresponding period last year (%)
	Jan – Jun 2009 RMB million	Jan – Jun 2008 RMB million	
Cement segment	453.8	267.7	69.5%
Modern building materials segment	275.1	293.1	(6.1%)
Property development segment	478.8	453.1	5.7%
Property investment & management segment	222.0	216.0	2.8%
Eliminations	(5.7)	(2.1)	–
Total	1,424.0	1,227.8	16.0%

## Management Discussion &amp; Analysis

**i. Cement Operations**

Having fully capitalized on the favourable opportunities arising from the PRC government's plan to expand infrastructure construction during the reporting period, the Group succeeded in winning the tenders for various key projects of the PRC government such as the Beijing-Shijiazhuang railway project, Shijiazhuang-Wuhan railway project and Beijing-Shanghai railway project, bringing a substantial growth in cement sales volume and a steady rise in selling prices year-on-year. The cement business has become a major business of the Group that drove its business growth in the results performance during the first half of the year. During the reporting period, this segment achieved sales revenue of approximately RMB2,025.5 million, an increase of approximately 14.1% year-on-year; gross profit totalled approximately RMB453.8 million, a substantial increase of approximately 69.5% year-on-year; and gross profit margin was approximately 22.4%, an increase of approximately 7.3 percentage points year-on-year.

During the reporting period, cement sales volume was approximately 5.98 million tonnes, an increase of approximately 550,000 tonnes year-on-year, of which cement produced and marketed for the Group's own account was approximately 4.96 million tonnes, an increase of 1.08 million tonnes year-on-year. As a result of the demand pull from the PRC government's key projects, cement prices were steadily rising, representing a rise of approximately 13.7% year-on-year which was also higher than the average prices throughout the year of 2008.

Due to the rise in the prices of raw materials such as limestone and sandstone, the unit production cost of cement of the Group during the reporting period increased from the corresponding period but decreased from the average level throughout 2008. The decrease was primarily attributable to the fall in the Group's procurement prices of run coal during the reporting period, which dropped almost 10% compared to that throughout the year of 2008.

Due to the rise in selling prices and the substantial rise in the percentage of cement produced for the Group's own account in total cement sales volume, gross profit margin of our cement operations increased substantially year-on-year. Of this, the gross profit margin of cement produced and marketed for the Group's own account was approximately 28.2%, an increase of 6.4 percentage points year-on-year. After Luquan Dongfang Dingxin Cement Co., Ltd., successfully acquired by the Group in 2007, delivered more satisfactory performance in 2008, it achieved sales revenue of approximately RMB700.7 million during the period and net profit of approximately RMB140 million, an increase of approximately 72.5% and 418.5% respectively year-on-year, fully demonstrating the Group's remarkable integration and operating capacity.

## Management Discussion & Analysis

During the reporting period, the Group sold commercial concrete amounting to approximately 1.42 million cubic meters, and sales revenue was approximately RMB433.3 million, an increase of 6.6% year-on-year. The increase in revenue was primarily due to the rise in selling prices. Also as a result of this rise, gross profit margin of the Group's concrete operations was approximately 7.3%, a rise of approximately 3.1 percentage points year-on-year.

### ii. Modern Building Materials Operations

During the reporting period, our modern building materials segment and, in particular the decorative materials operations as well as energy-saving and insulation materials for wall body operations, were heavily hit by the macroeconomic situation, such that the segment recorded a fall of approximately 9.6% in sales revenue year-on-year, and a decrease of approximately 6.1% in total gross profit year-on-year.

In view of unfavourable factors, the Group endeavoured to restructure the enterprises, product mix and marketing strategy of the modern building materials segment. Firstly, the enterprises within this segment that produce similar products were merged and restructured. The restructuring and integration of enterprises that produce aerated concrete and paint have been completed to achieve unified management and unified sales. Secondly, efforts were stepped up for the development of products with a high gross profit margin; product mix was being revised constantly; and the percentage of high-end products was increasing in the refractory materials operations. During the reporting period, sales revenue increased by approximately 10.1% year-on-year, and gross profit margin of products increased by approximately 6.2 percentage points year-on-year. Thirdly, given scant overseas demand and fallen export, efforts were stepped up to expand the domestic market aggressively. While the export from the furniture operations fell by approximately 49.8% year-on-year, domestic sales revenue increased significantly and total sales revenue rose year-on-year.

Following an aggressive adjustment, our modern building materials operations saw a rise in sales revenue month by month since February during the reporting period. Up to June, the sales revenue had reached the level same as that in the corresponding period of 2008. During the reporting period, overall gross profit margin of this segment was approximately 21.7%, an increase of approximately 0.8 percentage points year-on-year, demonstrating a positive momentum for enhancing operational quality.

### iii. Property Development Operations

During the reporting period, our property development operations grew year-on-year, delivering more satisfactory performance in a reverse market. The Jinyu

## Management Discussion &amp; Analysis

Guanlan Times in Hangzhou residential property project was launched in April when the wait-and-see sentiment still dominated the market, and was well-received. 331 units were already sold in that month and 535 units have been sold up to the present, representing 95% of the total launch. Approximately RMB347 million have been recovered from the sales. 31,667 sq.m of Jinyu Meiheyuan in Beijing have been sold, making the project the first housing project with restrictions on house and land prices delivered in Beijing. Sales of other residential property projects in Beijing such as Jinyu Vanke City, Jinyu Kele+, Jinyu Times City and BBMG 7090 were improving month by month as well. During the reporting period, our property operations achieved sales revenue of approximately RMB1,486.2 million, an increase of approximately 15.7%; year-on-year, profit margin totalled approximately RMB478.8 million, an increase of approximately 5.7% year-on-year.

During the reporting period, floor space delivered by the Group amounted to 151,837 sq.m., an increase of 3,425 sq.m. year-on-year. Of this floor space, the delivered area of affordable housing was 82,823 sq.m., an increase of 46,693 sq.m. year-on-year; the delivered area of commodity housing was 69,014 sq.m., a decrease of 43,268 sq.m. year-on-year. During the reporting period, the affordable housing sold in this reporting period principally comprised housing with restrictions on house and land prices, while affordable housing was all economically affordable housing during the period.

During the reporting period, gross profit margin of this segment was approximately 32.2%, a fall of approximately 3.1 percentage points year-on-year, primarily as a result of the sales pattern. During the reporting period, sales area and sales revenue of affordable housing accounted for approximately 55% and 40% of the total respectively, higher than the approximately 24% and 10% levels in the corresponding period, so that the overall gross profit margin of property development was lower than that in the corresponding period.

**iv. Property Investment and Management Operations**

During the reporting period, our investment properties continued to maintain a high occupancy rate. This segment achieved sales revenue of approximately RMB334.2 million, an increase of approximately 4.2% year-on-year, gross profit totalled approximately RMB222.0 million, an increase of approximately 2.8% year-on-year. Phase 2 of the Global Trade Centre in Beijing has been offered for leasing since the end of last year, and generated revenue of approximately RMB12 million during the reporting period. As at 30 June 2009, the occupancy rate of this property was approximately 60%. Phase 3 of the Global Trade Centre had been offered for lease during the reporting period and is anticipated to generate revenue in the second half of the year.

## Management Discussion & Analysis

### (2) Analysis of Other Items in the Income Statement

#### i. Other Income and Gains

During the reporting period, other income and gains of the Group amounted to approximately RMB290.9 million, an increase of approximately RMB90.6 million year-on-year. Of this, government grants primarily comprising value-added tax refund on the cement and modern building materials operations increased by approximately RMB59.8 million year-on-year, while others were increased revenue from disposal of assets.

#### ii. Fair Value Gains on Investment Properties, net

During the reporting period, upon completion of Phase 3 of the Global Trade Centre, the fair value of this property increased by approximately RMB184.3 million over its costs. Together with the net increase in the fair value of other properties, there was a net increase of approximately RMB197.1 million in the fair value of investment properties of the Group during the reporting period, a rise of approximately RMB92.5 million year-on-year.

#### iii. Selling and Marketing Expenses, Administrative Expenses and Finance Costs

During the reporting period, selling and marketing expenses incurred by the Group were approximately RMB206.4 million, an increase of approximately RMB10.2 million year-on-year, up 5.2%. The major increases were the salaries of sales staff. However, the percentage of selling expenses to sales revenue declined year-on-year.

During the reporting period, administrative expenses incurred by the Group were approximately RMB451.8 million, an increase of approximately RMB23.2 million year-on-year, up approximately 5.4%. The major increases were the salaries of management staff and relevant expenses, and the major segment with these increases was the cement segment. The administrative expenses increased along with the expansion of the scale of this segment and the addition of associated plants (Zanhuang BBMG Cement Co., Ltd., Hebei Taihang Huaxin Building Materials Co., Ltd. and Beijing Xinbeishui Cement Co., Ltd. were added year-on-year, which have started operating for three months during the same period).

During the reporting period, finance costs were RMB104.3 million, a decrease of RMB32.1 million year-on-year, primarily due to the interest rate cuts in bank borrowings.



## Management Discussion &amp; Analysis

## II. Financial Status

### (1) Assets and Liabilities

	Comparison of major assets and liabilities items		Increase/ (decrease) during the period (%)
	As at 30 June 2009 RMB million	As at 31 December 2008 RMB million	
Current assets	<b>11,879.9</b>	11,025.9	7.7%
Current liabilities	<b>11,157.7</b>	13,285.9	(16.0%)
Net current assets/(liabilities)	<b>722.2</b>	(2,260.1)	N/A
Non-current assets	<b>15,209.9</b>	14,366.8	5.9%
Non-current liabilities	<b>7,245.2</b>	3,932.5	84.2%
Total assets	<b>27,089.9</b>	25,392.6	6.7%
Equity attributable to owners of the Company	<b>7,916.0</b>	7,334.2	7.9%
Minority interests	<b>770.9</b>	840.0	(8.2%)
Net assets	<b>8,686.9</b>	8,174.2	6.3%

As at 30 June 2009, the Group's consolidated assets totalled approximately RMB27,089.9 million, an increase of approximately 6.7% at the end of last year; net assets were approximately RMB8,686.9 million, an increase of approximately 6.3% at the end of last year; and asset-liability ratio (total liabilities/total assets) was approximately 67.9%, a fall of 0.1 percentage points at the beginning of the reporting period.

As at 30 June 2009, the Group's net current assets were approximately RMB722.2 million (as at 31 December 2008: net current liabilities of approximately RMB2,260.1 million).

As at 30 June 2009, the Group's cash and bank balances totalled approximately RMB2,176.1 million, while those at the end of last year were RMB2,017.7 million.

As at 30 June 2009, the Group's interest-bearing bank borrowings totalled approximately RMB6,409.7 million. Of these borrowings, approximately RMB3,188.9 million interest-bearing bank borrowings are due for repayment within one year, a decrease of approximately RMB1,963.3 million at the beginning of the year. Approximately RMB3,220.8 million interest-bearing bank borrowings are due for repayment after one year, a decrease of approximately RMB1,348.1 million at the beginning of the

## Management Discussion &amp; Analysis

year. As at 30 June 2009, the Group had issued corporate bonds of RMB1,900 million corporate bonds with a tenure of seven years. These corporate bonds carry an interest at a fixed rate of 4.32% per annum, payable per year. The Group's bank borrowings are generally raised by the Company. The interest rates of these borrowings are generally the benchmark interest rates prescribed by the PRC government. Approximately 28% of the bank borrowings are reduced by a range of 5 to 10% on top of the State's benchmark interest rates.

**(2) Cash Flows**

	Comparison of net cash flow			Increase/ (decrease) during the period against corresponding period last year RMB million
	Jan – Jun 2009 RMB million	Jan – Jun 2008 RMB million		
Net cash flow from operating activities	<b>(455.9)</b>	320.8	(776.7)	
Net cash flow from investing activities	<b>(465.4)</b>	(1,833.3)	1,367.9	
Net cash flow from financing activities	<b>1,086.7</b>	1,482.5	(395.8)	
Increase/(decrease) in cash and cash equivalents	<b>165.4</b>	(30.0)	195.4	
Balance of cash and cash equivalents at beginning of period	<b>1,881.9</b>	1,666.6	215.3	
Balance of cash and cash equivalents at end of period	<b>2,047.3</b>	1,636.6	410.7	

During the reporting period, net cash flow from the Group's operating activities decreased year-on-year primarily because the Group repaid the money due to the Parent of approximately RMB740.6 million during the reporting period so that other payables decreased substantially from those at the beginning of the period.

During the reporting period, the Group's cash outflow related to investing activities decreased substantially year-on-year primarily because the Group made more commitments to investment properties during the corresponding period last year, while these commitments decreased substantially during the reporting period.

## Employees

As at 30 June 2009, the Group had 18,745 employees in total. The Group provides its employees in the PRC with retirement insurance, medical insurance, unemployment insurance, maternity insurance and industrial injury insurance as well as a housing provident fund pursuant to the PRC laws and regulations. The Group pays salaries to the employees based on a combination of factors such as their positions, lengths of service and work performance, and reviews these salaries and benefits on a regular basis.

## Foreign Exchange Risk Management

During the reporting period, sales proceeds and procurement expenses of the Group were mainly denominated in RMB. The fluctuation of the exchange rate between RMB and HKD may affect the operating results of the Group. However, the Group did not experience any material difficulties or effects on its operations or liquidity as a result of exchange rate fluctuation during the period.

# Other Information

## Other Information

### Interest in the Shares of Substantial Shareholders and Other Persons

As at 30 June 2009, the total issued share capital of the Company was 2,800,000,000 shares, of which 2,461,520,000 were Domestic Shares and 338,480,000 were unlisted Foreign Shares. The shareholdings of the substantial shareholders who hold 5% or above of the issued share capital of the Company are as follows:

#### Long positions:

Type of shareholding	Name of shareholder	Capacity and nature of interest	Number of shares held	Percentage of such type of shares in the same type of the issued share capital (%)	Percentage of total issued share capital (%)
Domestic Shares	BBMG Group Company Limited	Directly and Beneficially Owned	1,840,320,000	74.76	65.73
Domestic Shares	China National Materials Co., Ltd.	Directly and Beneficially Owned	239,580,000	9.73	8.56
Unlisted Foreign Shares	Hopeson Holdings Limited	Directly and Beneficially Owned	205,380,000	60.68	7.34

The share capital of the Company (after the completion of the initial public offering and over-allotment by the Company) as at 16 September 2009 was as follows:

Type of shares	Number of shares
Domestic Shares	2,365,470,065
Unlisted Foreign Shares	338,480,000
H Shares	1,169,382,435
Total	3,873,332,500

## Other Information

As at 16 September 2009, to the best knowledge of the Directors, the records of interest (being 5% or more of the Company's issued share capital) as registered in the register kept by the Company under section 336 of the Securities and Futures Ordinance were as follows:

**Long positions:**

Type of shareholding	Name of shareholder	Capacity and nature of interest	Number of shares held	Percentage of such type of shares in the same type of issued share capital (%)	Percentage of total issued share capital (%)
Domestic Shares	BBMG Group Company Limited	Directly and Beneficially Owned	1,753,647,866	74.14	45.27
Domestic Shares	China National Materials Co., Ltd.	Directly and Beneficially Owned	239,580,000	10.13	6.19
Unlisted Foreign Shares	Hopeson Holdings Limited	Directly and Beneficially Owned	205,380,000	60.68	5.30
H Shares	China Life Insurance (Group) Company	Directly and Beneficially Owned	89,936,500	7.69	2.32
H Shares	Central SAFE Investments Limited	Through a Controlled Corporation	60,736,500	5.19	1.57

Save as disclosed above, as at 16 September 2009, there were no other parties who had interests or short positions in the shares or underlying shares of the Company which would fall to be recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance.

**Interests in Securities Owned by Directors, Supervisors and Chief Executives**

As at 30 June 2009, the public offering of the Company was yet to be completed. Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance and section 352 of the Securities and Futures Ordinance were not applicable to the Company, the directors, supervisors and chief executives of the Company.

## Other Information

### **Model Code for Securities Transactions by Directors and Supervisors**

The Company has adopted the model code for securities transactions by Directors and relevant employees on terms no less exacting than the required trading standard set out in the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (“Listing Rules”) (the “Required Standard”). Relevant employees who are likely to be in possession of unpublished price sensitive information of the Company in relation to the purchase and sale of the securities of the Company are also required to comply with the Required Standard.

As at 30 June 2009, though the Company's shares had yet to be listed on the Hong Kong Stock Exchange, the Directors were not aware of any issues of Directors and relevant employees not in compliance with the Required Standard during the period of six months ended 30 June 2009.

### **Purchase, Sales or Redemption of the Company's Listed Securities**

As the Company's shares had yet to be listed on the Hong Kong Stock Exchange as at 30 June 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

### **Code on Corporate Governance Practice**

The Company has adopted a set of conduct code rules, such as terms of reference of the audit committee, terms of reference of the remuneration and nomination committee and terms of reference of the strategic committee, prepared in accordance with “Code on Corporate Governance Practices” (the “CG Code”). The Board has reviewed such conduct code rules of the Company, and is of opinion that such conduct code rules have incorporated most of the principles and code provisions in the CG Code as set out in Appendix 14 to the Listing Rules.

As at 30 June 2009, though the shares of the Company had not been listed on the Hong Kong Stock Exchange, the Board was of the view that the Company had fully complied with the code provisions of the CG Code during the period of six months ended 30 June 2009.

The Company gives a high regard to the management of investor relations. An investor relations office has been set up within the Board office to be specifically responsible for investor relations. The “Measures Governing Investor Relations” (投資者關係管理制度) have been formulated to improve investor service program. An investor relations telephone hotline and an e-mail box have been set up, and staff have been specifically assigned to entertain letters and complaints from investors.

## Investor Relations Management

The Group strongly believes that investor relations are an integral part of maintaining good corporate governance of a listed company. After its listing in 29 July 2009, the Group has been regularly maintaining contact with investors and keeping them abreast of the latest industry updates, corporate communications and business development in a timely manner, so as to establish a platform for fair, open and transparent information disclosure. The Group's secretary to the board of director and joint company secretary, Mr Wu Xiangyong is responsible for the investor relations of the Group with the full support from the Board and the senior management. In addition, the Group actively participated in various investor relations activities and provided on-time information to investors through its company website.

### 1. Global Offering and Global Roadshow

The Group's shares have been successfully listed on the Main Board of the Hong Kong Stock Exchange since 29 July 2009. During the time of listing, the Group's first global roadshow was held, involving major international financial markets including Hong Kong, Singapore, London, Boston and New York where one-on-one and group meetings and luncheons were arranged with various fund managers and analysts to explain the strengths and growth strategies of the Group. After its listing, the Group planned to actively participate in roadshows and presentations organized by sizable investment banks to provide up-to-date information about the Group and future prospects to the investors so as to increase the investors' understanding of the Group.

### 2. Ongoing Communications with Shareholders, Investors and Analysts

The Group has adopted an active and progressive approach to provide the Shareholders and investors of the Group with the opportunity to communicate with the senior management of the Group through one-on-one and group meetings and luncheons and teleconferences/video conferences, as well as the Company's site visit arranged for investors and analysts, to share with them the financial performance, business positions and future prospects of the Company, so as to strengthen investors' understanding and knowledge of the Company.

### 3. Maintaining Interactive Communications with Media

The Group is endeavored to maintain a close relationship with the overseas and local media, and disseminate the Group's updates to the public through various channels, such as organizing press conferences for listing and performance roadshow, and disseminating regular press releases through the Company's website to establish and maintain a good relationship with the media for increasing the Group's publicity and further strengthening its corporate image and position.

## Other Information

### 4. Timely Dissemination of Latest Corporate Updates

Company website is considered to be one of the quickest means to communicate with investors. During the period under review, the Group launched its company website [www.bbm.com.cn](http://www.bbm.com.cn) as the platform to communicate with the public. The Group regularly updated the website contents, disseminated the latest corporate updates, developments and disclosed financial information of the Group so as to enable the public to obtain such information in a timely manner.

### 5. Prospects

The foundation of investor relations is based on the seamless integration of advanced public communication strategies and the dedicated involvement by the senior management of the Group. In 2009, the Group will continue to maintain highly transparent and effective corporate governance practices and is endeavored to maintain timely and accurate information dissemination in order to strengthen the relationship with investors and to provide quality services to the shareholders and investors of the Company.

## Investor Information

### 1. Share Particulars

Listing date	29 July 2009
Stock Exchange	Hong Kong Stock Exchange
Board lot	500 Shares
Number of issued H Shares	1,169,382,435 H Shares (as at 16 September 2009)
Stock code	2009

### 2. Financial Calendar

2009 interim results announcement	28 August 2009
Financial year end	31 December

## Audit Committee

The Company has established an audit committee (the "Audit Committee") pursuant to the provisions of the CG Code as set out in Appendix 14 to the Listing Rules, aimed at reviewing and supervising the Group's financial reporting procedures. The Audit Committee is composed of one non-executive director and four independent non-executive directors. At the meeting convened on 28 August 2009, the Audit Committee had reviewed the audited consolidated financial statements for the six months ended 30 June 2009 and recommended their adoption by the Board.

Members of the Audit Committee are Zhang Chengfu (Chairman), Hu Zhaoguang, Xu Yongmo, Zhou Yuxian and Yip Wai Ming.

## Auditors

The Board of the Company has engaged Ernst & Young, Certified Public Accountants, as the auditors for the Company's interim results of 2009. These interim results have been audited by the auditors.



# Significant Events

## Significant Events

### Successful Listing in Hong Kong and Plan for Use of Proceeds

On 29 July 2009, the Company issued 933,333,000 H Shares at HK\$6.38 per H Share and raised aggregate proceeds of approximately RMB 5.27 billion (HK\$ 5.95 billion). The H Shares were successfully listed on the main board of the Hong Kong Stock Exchange.

On 29 July 2009, upon the exercise of the over-allotment option in full, the Company further issued 139,999,500 million H Shares at HK\$6.38 per H Share and raised aggregate proceeds of approximately RMB0.79 billion (HK\$0.89 billion). The Company had issued a total of 1,169,382,435 H Shares upon the exercise of the over-allotment option in full.

The Group intends to use the net proceeds for the following purposes:

1. approximately 75% will be used to finance the expansion of our business lines, either through expansions of current facilities, construction of new facilities or acquisition, including, among other things:

#### Cement Segment

- approximately 34% to acquire small-scale cement plants in Beijing;
- approximately 3% to construct residual heat power generators at Dingxin Cement and Liulihe Cement and to develop other similar projects, thereby lowering our production cost (construction of the generators at Dingxin Cement and Liulihe Cement started in early 2009, and the Group expects them to be completed by the end of 2009);

#### Modern Building Materials Segment

- approximately 7% to build modern building materials production lines including the mineral wool acoustic board production line with an annual capacity of 25 million sq.m. in Dachang Industrial Park (construction of this line started in 2007, and the Group expects it to be completed in 2009); and

#### Property Development Segment

- approximately 31% to develop economically affordable housing projects such as Jinyu Lijingyuan located in Changying, Chaoyang District, Beijing (construction of this project began in 2008 and the Group expects it to be completed in 2010).

## Significant Events

2. up to 15% for repaying loans with Bank of Communications totaling RMB500 million with expiry date in August 2009, and another RMB100 million loan with Hua Xia Bank, which will expire in September 2009.
3. up to 10% will be used as working capital and other general corporate purposes.

To the extent that the net proceeds are not immediately applied for the above purposes and to the extent permitted by the relevant laws and regulations, the Group intends to deposit the net proceeds into short-term deposits with licensed banks or financial institutions in Hong Kong or the PRC.

# Independent Auditors' Report



## To the board of directors of BBMG Corporation

*(Incorporated in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of BBMG Corporation set out on pages 27 to 100, which comprise the consolidated statement of financial position as at 30 June 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independent Auditors' Report *(continued)*

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2009 and of the Group's profit and cash flows for the six months ended 30 June 2009 in accordance with Hong Kong Financial Reporting Standards.

### **Ernst & Young**

*Certified Public Accountants*

18th Floor

Two International Finance Centre

8 Finance Street, Central

Hong Kong

28 August 2009

# Consolidated Income Statement

Six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 RMB'000	2008 RMB'000 (unaudited)
REVENUE	6	<b>5,100,194</b>	4,772,116
Cost of sales		<b>(3,676,169)</b>	(3,544,364)
Gross profit		<b>1,424,025</b>	1,227,752
Other income and gains	6	<b>290,905</b>	200,301
Fair value gains on investment properties, net		<b>197,117</b>	104,590
Selling and marketing expenses		<b>(206,448)</b>	(196,229)
Administrative expenses		<b>(451,762)</b>	(428,562)
Other operating expenses, net		<b>(11,585)</b>	(20,248)
Finance costs	8	<b>(104,301)</b>	(136,434)
Share of profits and losses of:			
Jointly-controlled entities		<b>(11,342)</b>	(5,663)
Associates		<b>(6,308)</b>	(3,745)
PROFIT BEFORE TAX	7	<b>1,120,301</b>	741,762
Tax	9	<b>(348,697)</b>	(240,559)
PROFIT FOR THE PERIOD		<b>771,604</b>	501,203
Attributable to:			
Owners of the Company		<b>731,999</b>	446,984
Minority interests		<b>39,605</b>	54,219
		<b>771,604</b>	501,203
DIVIDEND	10	–	–
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	11		
Basic		<b>RMB0.26</b>	RMB0.25
Diluted		<b>N/A</b>	N/A

“Profit for the period” represents the “total comprehensive income” for the six months ended 30 June 2009 and 30 June 2008 presented, accordingly, no consolidated statement of comprehensive income is presented.

# Consolidated Statement of Financial Position

As at 30 June 2009

	Notes	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	4,740,676	4,233,644
Investment properties	13	7,711,690	7,409,487
Land use rights	14	1,284,089	1,328,558
Goodwill	15	99,171	99,171
Other intangible assets	16	22,264	22,265
Mining rights	17	90,160	89,828
Interests in jointly-controlled entities	18	282,602	254,406
Interests in associates	19	786,650	795,237
Available-for-sale investments	20	14,985	14,985
Deferred tax assets	30	177,648	119,199
Total non-current assets		15,209,935	14,366,780
<b>CURRENT ASSETS</b>			
Inventories	21	6,195,495	6,347,923
Trade and bills receivables	22	1,399,839	1,139,744
Prepayments, deposits and other receivables	23	2,080,276	1,499,591
Taxes recoverable	28	28,215	20,953
Restricted cash	24	128,826	135,753
Cash and cash equivalents	24	2,047,273	1,881,897
Total current assets		11,879,924	11,025,861
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	25	2,171,489	1,961,612
Other payables and accruals	26	5,167,822	5,786,030
Dividend payable	10	38,387	19,057
Interest-bearing bank loans	27	3,188,900	5,152,200
Taxes payable	28	547,942	321,259
Provision for supplementary pension subsidies and early retirement benefits	31	43,202	45,761
Total current liabilities		11,157,742	13,285,919
NET CURRENT ASSETS/(LIABILITIES)		722,182	(2,260,058)
TOTAL ASSETS LESS CURRENT LIABILITIES		15,932,117	12,106,722

## Consolidated Statement of Financial Position *(continued)*

As at 30 June 2009

	Notes	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans	27	<b>3,220,796</b>	1,872,700
Corporate bonds	29	<b>1,889,533</b>	–
Deferred tax liabilities	30	<b>1,044,158</b>	955,856
Provision for supplementary pension subsidies and early retirement benefits	31	<b>565,406</b>	558,328
Deferred income	32	<b>298,201</b>	304,778
Other non-current liabilities	33	<b>227,142</b>	240,831
Total non-current liabilities		<b>7,245,236</b>	3,932,493
Net assets		<b>8,686,881</b>	8,174,229
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	34	<b>2,800,000</b>	2,800,000
Reserves	35	<b>5,115,955</b>	4,422,226
Proposed final dividend	10	–	112,000
		<b>7,915,955</b>	7,334,226
<b>Minority interests</b>		<b>770,926</b>	840,003
Total equity		<b>8,686,881</b>	8,174,229

# Consolidated Statement of Changes in Equity

Six months ended 30 June 2009

	Attributable to owners of the Company									
	Share capital RMB'000 note 34	Share premium RMB'000	Statutory reserve RMB'000 note 35	Merger reserve RMB'000	Capital reserve RMB'000	Retained profits RMB'000	Proposed		Minority interests RMB'000	Total equity RMB'000
							final	Total		
							dividend RMB'000	RMB'000		
At 1 January 2009	2,800,000	2,430,342	1,115	-	(912,038)	2,902,807	112,000	7,334,226	840,003	8,174,229
Contributions from minority interests	-	-	-	-	-	-	-	-	9,800	9,800
Acquisitions of minority interests	-	-	-	-	(38,270)	-	-	(38,270)	(117,985)	(156,255)
Dividends paid to minority interests	-	-	-	-	-	-	-	-	(497)	(497)
Total comprehensive income for the period	-	-	-	-	-	731,999	-	731,999	39,605	771,604
Final 2008 dividend declared	-	-	-	-	-	-	(112,000)	(112,000)	-	(112,000)
<b>At 30 June 2009</b>	<b>2,800,000</b>	<b>2,430,342*</b>	<b>1,115*</b>	<b>-*</b>	<b>(950,308)*</b>	<b>3,634,806*</b>	<b>-</b>	<b>7,915,955</b>	<b>770,926</b>	<b>8,686,881</b>

	Attributable to owners of the Company									
	Share capital RMB'000 (unaudited)	Share premium RMB'000 (unaudited)	Statutory reserve RMB'000 (unaudited)	Merger reserve RMB'000 (unaudited)	Capital reserve RMB'000 (unaudited)	Retained profits RMB'000 (unaudited)	Proposed		Minority interests RMB'000 (unaudited)	Total equity RMB'000 (unaudited)
							final	Total		
							dividend RMB'000 (unaudited)	RMB'000 (unaudited)		
At 1 January 2008	1,800,000	830,342	-	22,167	(888,781)	1,695,106	112,689	3,571,523	610,678	4,182,201
Contributions from minority interests	-	-	-	-	-	-	-	-	83,179	83,179
Acquisitions of minority interests	-	-	-	-	-	-	-	-	(5,807)	(5,807)
Dividends paid to minority interests	-	-	-	-	-	-	-	-	(5,948)	(5,948)
Deemed distributions to the Parent	-	-	-	(22,167)	(3,836)	-	-	(26,003)	-	(26,003)
Total comprehensive income for the period	-	-	-	-	-	446,984	-	446,984	54,219	501,203
<b>At 30 June 2008</b>	<b>1,800,000</b>	<b>830,342</b>	<b>-</b>	<b>-</b>	<b>(892,617)</b>	<b>2,142,090</b>	<b>112,689</b>	<b>3,992,504</b>	<b>736,321</b>	<b>4,728,825</b>

\* These reserve accounts comprise the consolidated reserves of RMB5,115,955,000.



# Consolidated Statement of Cash Flows

Six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 RMB'000	2008 RMB'000 (unaudited)
<b>Cash flows from operating activities</b>			
Profit before tax		<b>1,120,301</b>	741,762
Adjustments for:			
Finance costs	8	<b>104,301</b>	136,434
Share of profits and losses of jointly-controlled entities		<b>11,342</b>	5,663
Share of profits and losses of associates		<b>6,308</b>	3,745
Interest income	6	<b>(6,671)</b>	(14,753)
Depreciation	7	<b>148,200</b>	145,342
Impairment of trade receivables, net	7	<b>2,415</b>	1,304
Amortisation of land use rights	7	<b>14,354</b>	7,472
Amortisation of mining rights	7	<b>1,866</b>	1,296
Amortisation of other intangible assets	7	<b>510</b>	442
Gain on disposal of items of property, plant and equipment, net	6	<b>(13,040)</b>	(3,665)
Gain on disposal of investment properties	6	<b>(29,569)</b>	–
Gain on disposal of land use rights	6	<b>(26,677)</b>	–
Recognition of deferred income	6	<b>(25,900)</b>	(5,058)
Changes in fair values of investment properties		<b>(197,117)</b>	(104,590)
		<b>1,110,623</b>	915,394
Decrease/(increase) in inventories		<b>201,743</b>	(220,444)
Increase in trade and bills receivables		<b>(262,510)</b>	(105,948)
Increase in prepayments, deposits and other receivables		<b>(763,522)</b>	(30,864)
Decrease/(increase) in restricted cash		<b>6,927</b>	(53,406)
Increase in trade and bills payables		<b>161,943</b>	128,106
Decrease in other payables and accruals		<b>(727,886)</b>	(115,609)
Increase/(decrease) in other non-current liabilities		<b>(13,689)</b>	2,738
Increase in provision for supplementary pension subsidies and early retirement benefits		<b>4,519</b>	158
		<b>(282,852)</b>	520,125
Cash generated from/(used in) operations		<b>(282,852)</b>	520,125
Interest received		<b>6,671</b>	14,753
Interest paid		<b>(100,965)</b>	(58,926)
Government grants received		<b>19,705</b>	15,000
Corporate income tax paid		<b>(93,151)</b>	(165,050)
Land appreciation tax paid		<b>(6,272)</b>	(5,052)
		<b>(455,864)</b>	320,850
Net cash inflow/(outflow) from operating activities		<b>(455,864)</b>	320,850

## Consolidated Statement of Cash Flows *(continued)*

Six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 RMB'000	2008 RMB'000 (unaudited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		<b>(698,009)</b>	(839,902)
Additions of investment properties		<b>(91,469)</b>	(641,695)
Additions of land use rights		<b>(2,935)</b>	(362,101)
Additions of mining rights	17	<b>(2,198)</b>	–
Additions of other intangible assets	16	<b>(509)</b>	(133)
Purchases of unlisted shares		–	(2,782)
Acquisitions of subsidiaries, net of cash acquired	36	–	9,298
Purchases of shareholding in associates		–	(48,400)
Proceeds from disposal of items of property, plant and equipment		<b>80,143</b>	117,210
Proceeds from disposal of land use rights		<b>197,943</b>	–
Proceeds from disposal of investment properties		<b>70,003</b>	–
Acquisitions of minority interests		<b>(1,427)</b>	(5,807)
Investments in jointly-controlled entities		<b>(40,944)</b>	(30,043)
Dividends received from associates		<b>2,280</b>	–
Repayment received from a jointly-controlled entity		<b>44,621</b>	–
Dividends received from jointly-controlled entities		<b>1,406</b>	133
Interest paid		<b>(24,326)</b>	(29,072)
Net cash outflow from investing activities		<b>(465,421)</b>	(1,833,294)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		–	672,100
Proceeds from issue of corporate bonds		<b>1,874,917</b>	–
Repayment of loans from the Parent		–	(778,000)
New bank loans		<b>3,138,396</b>	5,564,300
Repayment of bank loans		<b>(3,753,600)</b>	(3,849,830)
Interest paid		<b>(89,685)</b>	(136,434)
Deemed distributions to the Parent		–	(26,003)
Dividends paid to owners of the Company		<b>(92,670)</b>	(40,900)
Dividends paid to minority shareholders		<b>(497)</b>	(5,948)
Capital contributions from minority shareholders in subsidiaries		<b>9,800</b>	83,179
Net cash inflow from financing activities		<b>1,086,661</b>	1,482,464

## Consolidated Statement of Cash Flows *(continued)*

Six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 RMB'000	2008 RMB'000 (unaudited)
<hr/>			
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<b>165,376</b>	(29,980)
Cash and cash equivalents at beginning of period		<b>1,881,897</b>	1,666,587
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<b>2,047,273</b>	1,636,607
		<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	<b>2,023,806</b>	1,612,498
Non-pledged time deposits with original maturity of less than three months when acquired	24	<b>23,467</b>	24,109
		<hr/>	<hr/>
		<b>2,047,273</b>	1,636,607
		<hr/>	<hr/>

# Notes to Consolidated Financial Statements

## 1. CORPORATE INFORMATION

BBMG Corporation (the "Company") was established in the People's Republic of China (the "PRC") on 22 December 2005 as a joint stock company with limited liability. The registered office of the Company is located at No. 36, North Third Ring East Road, Dong Cheng District, Beijing, the PRC.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") is principally engaged in the manufacture and sale of cement and modern building materials, property development, property investment, and provision of property management services.

In the opinion of the directors of the Company, the ultimate holding company of the Company is BBMG Group Company Limited (the "Parent"), a state-owned enterprise administrated by the State-owned Assets Supervision and Administration Commission of the Beijing Municipal Government (the "Beijing SASAC").

## 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong. These consolidated financial statements have been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### **Basis of consolidation**

These consolidated financial statements incorporate the financial statements of the Group for the six months ended 30 June 2009. The acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The purchase method of accounting is used to account for the acquisitions of subsidiaries not under common control.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or business are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The consolidated income statement include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

# Notes to Consolidated Financial Statements

## 2. BASIS OF PREPARATION *(continued)*

### **Basis of consolidation** *(continued)*

The purchase method of accounting involves allocating the cost of a business combination to the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of acquisition is measured at the aggregate fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Under the purchase method of accounting, the results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

## 3.1 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	<i>First-time Adoption of HKFRSs<sup>1</sup></i>
HKFRS 3 (Revised)	<i>Business Combinations<sup>1</sup></i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements<sup>1</sup></i>
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners<sup>1</sup></i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers<sup>2</sup></i>
HKAS 39	<i>Amendment Eligible Hedged Items<sup>1</sup></i>
HKFRS 1 Amendments	<i>The Additional Exemptions for First-time Adopters<sup>3</sup></i>
HKFRS 2 Amendments	<i>Group Cash-settled Share-based Payment Transactions<sup>3</sup></i>

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs* in May 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Improvements to HKFRSs issued in May 2009 contains amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, Appendix to HKAS 18, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16. Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 which are effective for annual periods beginning on or after 1 July 2009 and no transitional provisions for amendment to Appendix to HKAS 18 has been specified, other amendments are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard.

# Notes to Consolidated Financial Statements

## 3.1 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2009  
<sup>2</sup> Effective for transfers of assets from customers received on or after 1 July 2009  
<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, the other new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Jointly-controlled entities**

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

### **Associates**

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

### **Goodwill**

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Goodwill** *(continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### **Excess over the cost of investments**

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of associates, after reassessment, is recognised immediately in the income statement.

### **Impairment of non-financial assets other than goodwill**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.



# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Related parties**

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

### **Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Property, plant and equipment and depreciation** *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% to 12%
Plant and machinery	5% to 33%
Furniture, fixtures and office equipment	10% to 50%
Motor vehicles	8% to 33%
Leasehold improvements	Over the shorter of the lease terms and 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at the reporting date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and other assets under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### **Investment properties**

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date.

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Investment properties** *(continued)*

Property under construction or development for future use as an investment property is classified as investment property under construction. If the fair value cannot be reliably determined, the investment property under construction will be measured at cost until such time as fair value can be determined or construction is completed. The Group has concluded that the fair value of its investment properties under construction cannot be measured reasonably, therefore, the Group's investment properties under construction continue to be measured at cost until construction is completed.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the period of the retirement or disposal.

For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the income statement.

### **Intangible assets (other than goodwill)**

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

Intangible assets with indefinite useful lives, including trademarks, are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

### **Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the straight-line basis over their estimated useful lives of 2 to 10 years.

### **Research and development costs**

All research costs are charged to the income statement as incurred.

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Intangible assets (other than goodwill)** *(continued)*

#### **Research and development costs** *(continued)*

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

#### **Others**

Others included purchased patents and licences which are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 15 years.

#### **Mining rights**

Mining rights are stated at cost less accumulated amortisation and any impairment losses. The mining rights are amortised over the shorter of the unexpired periods of the rights on the straight-line basis or the estimated useful lives of the mines in accordance with the production plans of the entities concerned and the estimated reserves of the mines on the units of production method.

#### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

#### **Investments and other financial assets**

The Group's financial assets in the scope of HKAS 39 are classified as loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host when the analysis shows that the economic characteristics and risks of the embedded derivative is not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Investments and other financial assets** *(continued)*

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the reporting date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in the other category. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

### **Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Impairment of financial assets** *(continued)*

#### **Assets carried at amortised cost**

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

#### **Assets carried at cost**

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### **Available-for-sale financial assets**

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for an available-for-sale equity investment when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### **Financial liabilities at amortised cost (including interest-bearing loans and borrowings)**

Financial liabilities including trade and other payables, an amount due to the Parent, corporate bonds, and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the reporting date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Properties under development

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

### Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.



# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

### Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Income tax** *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

### **Government grants**

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

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities;
- (c) from the rendering of services, when such services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity;
- (d) rental income, on a time proportion basis over the lease terms;
- (e) property management income, when the related management services have been provided;
- (f) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (g) dividend income, when the shareholders' right to receive payment has been established.

### Employee benefits

#### ***Pension obligations***

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

The Group implemented a pension annuity plan pursuant to which the Group pays contributions to the plan regularly and the Group has no further obligation thereto once the required contribution has been made. The contributions are recognised as employee benefit expense when incurred.

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Employee benefits** *(continued)*

#### **Pension obligations** *(continued)*

The Group also provided supplementary pension subsidies to retired employees in the PRC during the period. Such supplementary pension subsidies are considered to be defined benefit plans as they oblige the Group to provide post-employment benefits of set amounts to employees. The benefits are unfunded. The liability recognised in the consolidated statement of financial position in respect of these defined benefit plans is the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities which have maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% at the defined benefit obligation are charged or credited to the income statement over the employees' expected average remaining working lives. As detailed in note 31 below, the Group terminated the supplementary pension subsidies attributed to employees who retire after 31 December 2007.

#### **Termination and early retirement benefits**

Termination and early retirement benefits are payable whenever an employee's employment is terminated involuntarily before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for the benefits. The Group recognises termination and early retirement benefits when it is demonstrably committed to either (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. The specific terms vary among the terminated and early retired employees depending on various factors including position, length of service and district of the employee concerned. Benefits falling due more than twelve months after the reporting date are discounted to present value.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. When funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 5.4% and 6.7% has been applied to the expenditure on the individual assets.

# Notes to Consolidated Financial Statements

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### **Foreign currencies**

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the reporting date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### **Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### ***Operating lease commitments – Group as lessor***

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangement, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

#### ***Classification between investment properties and owner-occupied properties***

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

# Notes to Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### **Judgements** *(continued)*

#### ***Classification between investment properties and owner-occupied properties*** *(continued)*

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

#### ***Classification between investment properties and properties held for sale***

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by the management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as investment properties under construction included in non-current assets if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale and are stated at the lower of cost and net realisable value, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties and are subject to revaluation at each reporting date.

### **Estimation uncertainty**

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

#### ***PRC land appreciation tax***

The Group is subject to land appreciation taxes in the PRC. The provision of land appreciation tax is based on management's best estimates according to their understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual land appreciation tax liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its land appreciation tax calculations and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will have impact on the land appreciation tax expense and the related provision in the period in which the differences are realised.

# Notes to Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### **Estimation uncertainty** *(continued)*

#### **PRC corporate income tax**

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realised.

#### **Deferred tax assets**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

#### **Fair value of investment properties**

Investment properties are revalued at the reporting date on a market value, existing use basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information from current market rentals for similar properties is considered and assumptions that are mainly based on market conditions existing at the reporting date are used.

#### **Impairment of non-financial assets**

The Group assesses whether there are any indications of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there are indications that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### **Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill at 31 December 2008 and 30 June 2009 were RMB99,171,000 and RMB99,171,000, respectively. More details are given in note 15.

# Notes to Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### *Estimation uncertainty (continued)*

#### ***Recognition and allocation of construction costs on properties under development***

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to the income statement upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate. When developing properties, the Group typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to different phases are allocated to individual phases based on saleable area. Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

#### ***Impairment provision of trade and other receivables***

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

#### ***Provision for obsolete inventories***

Management reviews the ageing analysis of inventories of the Group at each reporting date, and makes provision for obsolete and slow moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for these inventories based primarily on the latest invoice prices and current market conditions.

#### ***Retirement benefits***

The Group establishes liabilities in connection with benefits paid to certain retired and early retired employees. The amounts of employee benefit expenses and liabilities are determined using actuarial valuations, which are calculated by independent valuation professionals who will conduct annual assessment of the actuarial position of the Group's retirement plans. These actuarial valuations involve making assumptions on discount rates, pension benefit inflation rates, and other factors. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.



# Notes to Consolidated Financial Statements

## 5. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the cement segment engages in the manufacture and sale of cement and concrete;
- (b) the modern building materials segment engages in the manufacture and sale of building materials and furniture;
- (c) the property development segment engages in real estate development; and
- (d) the property investment and management segment invests in properties for their rental income potential and/or for capital appreciation, and provides management and security services to residential and commercial properties.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs and interest income) and income taxes are managed on a group basis and are not allocated to operating segments.

Intersegment revenues are eliminated on consolidation. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The Group's revenue from external customers is derived solely from its operations in the PRC, and no non-current assets of the Group are located outside the PRC.

During the period, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

## Notes to Consolidated Financial Statements

### 5. SEGMENT INFORMATION *(continued)*

For the six months ended 30 June 2009

	Cement RMB'000	Modern buildings materials RMB'000	Property development RMB'000	Property investment and management RMB'000	Eliminations RMB'000	Total RMB'000
<b>Revenue:</b>						
External customers	2,022,105	1,266,643	1,486,204	325,242	–	5,100,194
Intersegment	<u>3,348</u>	<u>2,972</u>	<u>–</u>	<u>8,926</u>	<u>(15,246)</u>	<u>–</u>
Total revenue	<u>2,025,453</u>	<u>1,269,615</u>	<u>1,486,204</u>	<u>334,168</u>	<u>(15,246)</u>	<u>5,100,194</u>
<b>Segment profit</b>	<b>386,484</b>	<b>106,142</b>	<b>394,752</b>	<b>323,725</b>	<b>32,378</b>	<b>1,243,481</b>
Interest income						6,671
Corporate and unallocated expenses, net						(25,550)
Finance costs						<u>(104,301)</u>
Profit before tax						<u>1,120,301</u>

# Notes to Consolidated Financial Statements

## 5. SEGMENT INFORMATION (continued)

	Cement	Modern	Property	Property	Eliminations	Total
	RMB'000	buildings	development	investment	RMB'000	RMB'000
		materials		and		
		RMB'000	RMB'000	management		
				RMB'000		
<b>Total assets:</b>						
Segment assets	5,241,437	4,462,802	8,349,889	9,358,617	(4,589,717)	22,823,028
Unallocated assets:						
Available-for-sale						
investments						14,985
Deferred tax assets						177,648
Taxes recoverable						28,215
Restricted cash						128,826
Cash and cash equivalents						2,047,273
Other corporate assets						1,869,884
Total assets						<u>27,089,859</u>
Share of profits and losses of						
jointly-controlled entities	-	(2,041)	(9,301)	-	-	(11,342)
Share of profits and losses of						
associates	13,264	(19,601)	29	-	-	(6,308)
Fair value gains/(losses) on						
investment properties, net	-	(300)	(20,280)	217,697	-	197,117
Impairment losses recognised						
in the consolidated						
income statement, net	1,656	759	-	-	-	2,415
Depreciation and amortisation	88,289	44,635	3,086	28,920	-	164,930
Interests in						
jointly-controlled entities	-	155,753	126,849	-	-	282,602
Interests in associates	468,543	316,859	-	1,248	-	786,650
Capital expenditure (note)	<u>380,582</u>	<u>204,982</u>	<u>2,723</u>	<u>195,527</u>	<u>-</u>	<u>783,814</u>

Note: Capital expenditure consists of additions to property, plant and equipment, land use rights, mining rights, other intangible assets and investment properties.

## Notes to Consolidated Financial Statements

### 5. SEGMENT INFORMATION *(continued)*

For the six months ended 30 June 2008

	Cement RMB'000 (unaudited)	Modern buildings materials RMB'000 (unaudited)	Property development RMB'000 (unaudited)	Property investment and management RMB'000 (unaudited)	Eliminations RMB'000 (unaudited)	Total RMB'000 (unaudited)
<b>Revenue:</b>						
External customers	1,771,336	1,396,852	1,284,515	319,413	–	4,772,116
Intersegment	3,228	6,937	–	1,288	(11,453)	–
<b>Total revenue</b>	<b>1,774,564</b>	<b>1,403,789</b>	<b>1,284,515</b>	<b>320,701</b>	<b>(11,453)</b>	<b>4,772,116</b>
<b>Segment profit</b>	234,086	112,673	389,153	220,917	2,176	959,005
Interest income						14,753
Corporate and unallocated expenses, net						(95,562)
Finance costs						(136,434)
<b>Profit before tax</b>						<b>741,762</b>
Share of profits and losses of jointly-controlled entities	–	52	(5,715)	–	–	(5,663)
Share of profits and losses of associates	(342)	(3,082)	–	(321)	–	(3,745)
Fair value gains on investment properties, net	–	929	3,495	100,166	–	104,590
Impairment losses recognised/ (reversed) in the consolidated income statement, net	(2,942)	4,246	–	–	–	1,304
Depreciation and amortisation	80,457	46,230	3,316	24,549	–	154,552
Capital expenditure (note)	253,927	357,448	2,124	1,008,573	–	1,622,072

Note: Capital expenditure consists of additions to property, plant and equipment, land use rights, mining rights, other intangible assets and investment properties.

## Notes to Consolidated Financial Statements

### 6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the gross proceeds, net of business tax, from the sale of properties; the value of services rendered; gross rental income received and receivable from investment properties (net of business tax); and property management income (net of business tax) during the period.

An analysis of the Group's revenue, other income and gains is as follows:

	Note	Six months ended 30 June	
		2009 RMB'000	2008 RMB'000 (unaudited)
<b>Revenue</b>			
Sale of goods		3,137,003	3,001,221
Sale of properties		1,466,609	1,211,525
Gross rental income from investment properties		170,980	163,480
Property management fees		93,102	92,497
Rendering of services		47,090	52,456
Income from processing industrial waste		56,268	74,505
Hotel operations		62,013	54,122
Others		67,129	122,310
		<b>5,100,194</b>	<b>4,772,116</b>
<b>Other income and gains</b>			
Gross rental income from lease of plant and machinery		21,729	37,174
Gain on disposal of items of property, plant and equipment		13,040	3,665
Gain on disposal of land use rights		26,677	–
Gain on disposal of investment properties		29,569	–
Bank interest income		6,671	14,753
Interest income received from jointly-controlled entities		6,502	16,997
Relocation compensation		28,629	22,820
Government grants (note)			
– Recognition of deferred income	32	25,900	5,058
– Value-added tax refund		90,581	51,598
Service fee income		13,213	14,088
Others		28,394	34,148
		<b>290,905</b>	<b>200,301</b>

Note: There are no unfulfilled conditions or contingencies relating to these grants.

## Notes to Consolidated Financial Statements

### 7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	Six months ended 30 June	
		2009 RMB'000	2008 RMB'000 (unaudited)
Cost of inventories sold		<b>3,373,666</b>	3,252,134
Cost of services provided		<b>302,503</b>	292,230
Depreciation	12	<b>148,200</b>	145,342
Amortisation of land use rights	14	<b>14,354</b>	7,472
Amortisation of other intangible assets*	16	<b>510</b>	442
Amortisation of mining rights	17	<b>1,866</b>	1,296
Research and development costs		<b>46,606</b>	29,578
Impairment of trade receivables, net**	22	<b>2,415</b>	1,304
Minimum lease payments under operating leases:			
Plant and machinery		<b>24,374</b>	26,595
Land and buildings		<b>32,024</b>	26,498
		<b>56,398</b>	53,093
Employee benefit expense (including directors' and supervisors' remuneration):			
Wages and salaries		<b>260,978</b>	233,891
Pension schemes contributions (defined contribution schemes)***		<b>67,933</b>	57,063
Supplementary pension subsidies and early retirement benefits	31	<b>19,061</b>	14,534
Welfare and other expenses		<b>37,099</b>	30,068
		<b>385,071</b>	335,556
Foreign exchange differences, net		<b>323</b>	153
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		<b>17,086</b>	13,275

\* The amortisation of other intangible assets for the period is included in "Administrative expenses" on the face of the consolidated income statement.

\*\* The impairment of trade receivables is included in "Other operating expenses, net" on the face of the consolidated income statement.

\*\*\* There were no forfeited contributions during the period. As at 30 June 2009, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (31 December 2008: Nil).

## Notes to Consolidated Financial Statements

### 8. FINANCE COSTS

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (unaudited)
Interest on bank loans	214,976	224,432
Interest on corporate bonds	14,616	–
Less: Interest capitalised	(125,291)	(87,998)
	<b>104,301</b>	<b>136,434</b>

### 9. TAX

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (unaudited)
Current		
PRC corporate income tax ("CIT")	220,625	149,671
PRC land appreciation tax ("LAT")	98,219	64,855
	<b>318,844</b>	<b>214,526</b>
Deferred (note 30)	29,853	26,033
Total tax charge for the period	<b>348,697</b>	<b>240,559</b>

## Notes to Consolidated Financial Statements

### 9. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rate to the tax expense at the effective tax rate for the period is as follows:

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (unaudited)
Profit before tax	<u>1,120,301</u>	<u>741,763</u>
Tax at the statutory income tax rate of 25%	280,075	185,441
Income not subject to tax	(6,997)	(5,068)
Expenses not deductible for tax	7,208	4,936
Effect of tax concession for certain subsidiaries	(11,848)	(11,589)
Profits and losses attributable to jointly-controlled entities and associates	4,413	2,352
Tax losses not recognised	2,182	15,846
Land appreciation tax	98,219	64,855
Effect of land appreciation tax	(24,555)	(16,214)
Tax charge at the Group's effective rate	<u>348,697</u>	<u>240,559</u>

#### Hong Kong profits tax

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits in Hong Kong during the period (six months ended 30 June 2008: Nil (unaudited)).

#### PRC corporate income tax

The PRC corporate income tax in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the period, based on the existing legislation, interpretations and practices in respect thereof.

The share of tax attributable to jointly-controlled entities amounting to RMB88,000 (six months ended 30 June 2008: RMB95,000 (unaudited)) for the six months ended 30 June 2009 is included in "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement.

The share of tax attributable to associates amounting to RMB3,087,000 (six months ended 30 June 2008: RMB445,000 (unaudited)) for the six months ended 30 June 2009 is included in "Share of profits and losses of associates" on the face of the consolidated income statement.



## Notes to Consolidated Financial Statements

### 9. TAX (continued)

#### PRC land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 50% on the appreciation of the land value, being the proceeds of sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

### 10. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil (unaudited)).

Dividend payable as at 30 June 2009 was fully settled on 23 July 2009.

### 11. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the profit attributable to owners of the Company for the period and the weighted average number of ordinary shares of the Company in issue during the period.

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>RMB'000</b>	RMB'000
		(unaudited)
<hr/>		
<b>Earnings</b>		
Profit attributable to owners of the Company used in the basic earnings per share calculation	<u>731,999</u>	<u>446,984</u>
 <b>Shares</b>		
Weighted average number of ordinary shares of the Company in issue used in the basic earnings per share calculation	<u>2.8 billion</u>	<u>1.8 billion</u>

No diluted earnings per share has been presented as the Company did not have any dilutive potential ordinary shares during both periods presented.

## Notes to Consolidated Financial Statements

### 12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2009, net of accumulated depreciation and impairment	1,913,470	1,358,206	127,427	158,052	24,491	651,998	4,233,644
Additions	12,162	55,119	3,937	32,791	–	618,326	722,335
Transfers	129,018	262,324	–	(191)	–	(391,151)	–
Disposals	(47,549)	(14,080)	(15)	(4,396)	–	(1,063)	(67,103)
Depreciation	(45,340)	(80,428)	(10,221)	(11,894)	(317)	–	(148,200)
At 30 June 2009, net of accumulated depreciation and impairment	<u>1,961,761</u>	<u>1,581,141</u>	<u>121,128</u>	<u>174,362</u>	<u>24,174</u>	<u>878,110</u>	<u>4,740,676</u>
At 1 January 2008, net of accumulated depreciation and impairment	1,662,447	1,377,037	94,019	136,052	25,041	396,674	3,691,270
Additions	52,284	23,553	7,546	8,912	–	525,848	618,143
Transfers	44,496	7,574	2,283	258	–	(54,611)	–
Disposals	(21,537)	(116,091)	(1,076)	(4,884)	–	(191)	(143,779)
Depreciation	(52,536)	(72,352)	(8,829)	(11,350)	(275)	–	(145,342)
Acquisition of subsidiaries (note 36)	<u>1,953</u>	<u>18,178</u>	<u>1,002</u>	<u>694</u>	<u>–</u>	<u>–</u>	<u>21,827</u>
At 30 June 2008, net of accumulated depreciation and impairment (unaudited)	<u>1,687,107</u>	<u>1,237,899</u>	<u>94,945</u>	<u>129,682</u>	<u>24,766</u>	<u>867,720</u>	<u>4,042,119</u>
At 30 June 2009 Cost	2,508,382	2,727,486	219,845	293,605	26,692	878,110	6,654,120
Accumulated depreciation and impairment	(546,621)	(1,146,345)	(98,717)	(119,243)	(2,518)	–	(1,913,444)
Net carrying amount	<u>1,961,761</u>	<u>1,581,141</u>	<u>121,128</u>	<u>174,362</u>	<u>24,174</u>	<u>878,110</u>	<u>4,740,676</u>
At 31 December 2008 Cost	2,405,078	2,446,051	223,161	273,652	26,692	651,998	6,026,632
Accumulated depreciation and impairment	(491,608)	(1,087,845)	(95,734)	(115,600)	(2,201)	–	(1,792,988)
Net carrying amount	<u>1,913,470</u>	<u>1,358,206</u>	<u>127,427</u>	<u>158,052</u>	<u>24,491</u>	<u>651,998</u>	<u>4,233,644</u>

## Notes to Consolidated Financial Statements

### 12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group's certain property, plant and equipment were pledged to secure the loans granted to the Group, the Company and the Parent (note 38).

As at the approval date of these financial statements, the Group is in the process of applying for or changing registration of the title certificates for certain of their buildings.

### 13. INVESTMENT PROPERTIES

	<b>Completed</b>	<b>Under construction</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
At 1 January 2009	6,995,850	413,637	7,409,487
Additions	2,635	136,768	139,403
Transfer from inventories	49,250	–	49,250
Transfers	550,405	(550,405)	–
Disposals	(83,567)	–	(83,567)
Net gain from a fair value adjustment	197,117	–	197,117
At 30 June 2009	<u>7,711,690</u>	<u>–</u>	<u>7,711,690</u>
At 1 January 2008	4,674,001	845,131	5,519,132
Additions	–	641,695	641,695
Transfer from inventories	5,733	–	5,733
Transfers	121,455	(121,455)	–
Net gain from a fair value adjustment	104,590	–	104,590
At 30 June 2008 (unaudited)	<u>4,905,779</u>	<u>1,365,371</u>	<u>6,271,150</u>

## Notes to Consolidated Financial Statements

### 13. INVESTMENT PROPERTIES *(continued)*

	<b>As at 30 June 2009 RMB'000</b>	As at 31 December 2008 RMB'000
Located in the PRC (excluding Hong Kong) and held under the following lease terms:		
Over 50 years	–	1,123,220
Between 10 and 50 years	<b>7,711,690</b>	<u>6,286,267</u>
	<b>7,711,690</b>	<u>7,409,487</u>

The Group's completed investment properties were revalued on 30 June 2009 by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, at approximately RMB7,711,690,000 (31 December 2008: RMB6,995,850,000) on an open market, existing use basis.

The Group's certain investment properties were pledged to banks to secure the loans granted to the Group, the Company and the Parent (note 38).

Certain of the investment properties are leased to third parties under operating leases, further summary details of which are included in note 39(a). The gross rental income received and receivable by the Group and direct expenses in respect of these investment properties are summarised as follows:

	<b>Six months ended 30 June</b>	
	<b>2009 RMB'000</b>	2008 RMB'000 (unaudited)
Gross rental income	<b>170,980</b>	163,480
Direct expenses	<b>(17,086)</b>	<u>(13,275)</u>
Net rental income	<b>153,894</b>	<u>150,205</u>

# Notes to Consolidated Financial Statements

## 14. LAND USE RIGHTS

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (unaudited)
At beginning of period	1,351,914	734,506
Additions	2,935	362,101
Amortisation recognised as expenses	(14,354)	(7,472)
Disposals	(32,465)	–
At end of period	<u>1,308,030</u>	<u>1,089,135</u>
	<b>As at 30 June 2009 RMB'000</b>	<b>As at 31 December 2008 RMB'000</b>
Located in the PRC (excluding Hong Kong) and held under the following lease terms:		
Over 50 years	10,158	11,600
Between 10 and 50 years	<u>1,297,872</u>	<u>1,340,314</u>
At end of period	<b>1,308,030</b>	1,351,914
Current portion included in prepayments, deposits and other receivables	<u>(23,941)</u>	<u>(23,356)</u>
Non-current portion	<u><b>1,284,089</b></u>	<u>1,328,558</u>

The Group's certain land use rights were pledged to banks for securing the bank loans granted to the Group, the Company and the Parent (note 38).

As at the approval date of these consolidated financial statements, the Group is in the process of applying for or changing registration of the title certificates for certain of their land use rights in the PRC.

## Notes to Consolidated Financial Statements

### 15. GOODWILL

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (unaudited)
Cost at beginning and at end of period	<u>99,171</u>	<u>99,171</u>

#### Impairment testing of goodwill

Goodwill acquired through business combination in the amount of approximately RMB95,204,000 has been allocated to the Luquan Dongfang Dingxin Cement Co., Ltd. ("Dingxin Cement") cash-generating unit, which is under the Cement segment, for impairment testing.

The recoverable amount of the Dingxin Cement cash-generating unit has been determined based on a value in use calculation using a cash flow projection based on a financial budget covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 5.94% (2008: 7.56%).

Key assumptions were used in the value in use calculation of the Dingxin Cement cash-generating unit for 30 June 2009. The following describes each key assumption on which management has based its cash flow projection to undertake impairment testing of goodwill:

*Budgeted gross margins* – The basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvements.

*Discount rates* – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to key assumptions reflect past experience of the management.

## Notes to Consolidated Financial Statements

### 16. OTHER INTANGIBLE ASSETS

	<b>Computer</b>			<b>Total</b>
	<b>software</b>	<b>Trademarks</b>	<b>Others</b>	
	RMB'000	RMB'000	RMB'000	RMB'000
Cost at 1 January 2009, net of accumulated amortisation	5,247	16,670	348	22,265
Additions	509	–	–	509
Amortisation provided during the period	(419)	–	(91)	(510)
At 30 June 2009	<u>5,337</u>	<u>16,670</u>	<u>257</u>	<u>22,264</u>
Cost at 1 January 2008, net of accumulated amortisation	4,577	–	935	5,512
Additions	133	–	–	133
Amortisation provided during the period	(148)	–	(294)	(442)
At 30 June 2008 (unaudited)	<u>4,562</u>	<u>–</u>	<u>641</u>	<u>5,203</u>
At 30 June 2009:				
Cost	7,975	16,670	2,269	26,914
Accumulated amortisation	(2,638)	–	(2,012)	(4,650)
Net carrying amount	<u>5,337</u>	<u>16,670</u>	<u>257</u>	<u>22,264</u>
At 31 December 2008:				
Cost	7,466	16,670	2,269	26,405
Accumulated amortisation	(2,219)	–	(1,921)	(4,140)
Net carrying amount	<u>5,247</u>	<u>16,670</u>	<u>348</u>	<u>22,265</u>

## Notes to Consolidated Financial Statements

### 17. MINING RIGHTS

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (unaudited)
Cost at beginning of period, net of accumulated amortisation	89,828	84,819
Additions	2,198	–
Amortisation provided during the period	(1,866)	(1,296)
At end of period	<u>90,160</u>	<u>83,523</u>
	<b>As at 30 June 2009 RMB'000</b>	<b>As at 31 December 2008 RMB'000</b>
Cost	95,738	93,540
Accumulated amortisation	(5,578)	(3,712)
Net carrying amount	<u>90,160</u>	<u>89,828</u>

### 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	As at	
	30 June 2009 RMB'000	31 December 2008 RMB'000
Share of net assets	371,092	342,896
Unrealised profit of sales to a jointly-controlled entity	(88,490)	(88,490)
	<u>282,602</u>	<u>254,406</u>



## Notes to Consolidated Financial Statements

### 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

Particulars of the principal jointly-controlled entities are as follows:

Company name	Place and date of establishment	Paid-up capital	Percentage of ownership interest attributable to the Group as at 30 June 2009	Principal activities
Jinjian (Tianjin) Landmark Property Development and Investment Co., Ltd.* (金建(天津)置業投資有限公司)	PRC 1 November 2005	RMB340,000,000	50%	Property development
BBMG Vanke Property Development Co., Ltd.* (北京金隅萬科房地產開發有限公司)	PRC 27 July 2007	RMB100,000,000	51%	Property development
STAR-USG Building Materials Co., Ltd. (星牌優時吉建築材料有限公司)	PRC 12 November 2007	USD46,520,000	50%	Manufacture of building materials

\* The names of these companies referred to in these consolidated financial statements represent management's best effort at translating the Chinese names of those companies, as no English names have been registered.

The above table lists the jointly-controlled entities of the Group which, in the opinion of the directors of the Company, principally affected the results for the period or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors of the Company, result in particulars of excessive length.

The Group's balances with the jointly-controlled entities are disclosed in note 41(b).

## Notes to Consolidated Financial Statements

### 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	<b>As at 30 June 2009 RMB'000</b>	As at 31 December 2008 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	<b>73,125</b>	8,136
Current assets	<b>1,073,523</b>	1,069,225
Current liabilities	<b>(864,046)</b>	(618,955)
Non-current liabilities	–	(204,000)
Net assets	<b><u>282,602</u></b>	<u>254,406</u>
	<b>Six months ended 30 June</b>	
	<b>2009 RMB'000</b>	2008 RMB'000 (unaudited)
Share of the jointly-controlled entities' results:		
Revenue	<b>24,992</b>	29,030
Other revenue	<b>179</b>	658
Total revenue	<b>25,171</b>	29,688
Total expenses	<b>(36,425)</b>	(35,256)
Tax	<b>(88)</b>	(95)
Loss after tax	<b><u>(11,342)</u></b>	<u>(5,663)</u>

# Notes to Consolidated Financial Statements

## 19. INTERESTS IN ASSOCIATES

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Share of net assets		
– listed in the PRC	446,668	436,831
– unlisted shares	339,982	358,406
	<u>786,650</u>	<u>795,237</u>
Market value of investments in associates		
– listed in the PRC	<u>1,143,420</u>	<u>585,960</u>

Particulars of the principal associates are as follows:

Company name	Place and date of establishment	Paid-up capital	Percentage of ownership interest attributable to the Group as at 30 June 2009	Principal activities
Krono (Beijing) Flooring Co., Ltd. (柯諾(北京)地板有限公司)	PRC 17 November 2007	USD23,500,000	30%	Manufacture of flooring materials
Krono (Beijing) Woods Co., Ltd. (柯諾(北京)木業有限公司)	PRC 14 December 1995	USD57,380,000	30%	Manufacture and sale of wooden building materials
Zehnder (China) Indoor Climate Co., Ltd. (formerly known as Beijing Zehnder Radiators Co. Ltd.) (森德(中國)暖通設備有限公司)	PRC 27 December 1995	USD27,500,000	27%	Manufacture of anti-heat materials
OCV Reinforcements (Beijing) Co., Ltd (formerly known as Beijing Saint-Gobain Glass Wool Co., Ltd.) (歐文斯科寧複合材料(北京)有限公司)	PRC 19 March 1996	RMB276,003,336	20%	Manufacture of fiber-glass materials
Beijing Gaoqiang Concrete Co., Ltd.* (北京市高強混凝土有限責任公司)	PRC 6 July 1987	RMB36,363,000	25%	Manufacture of concrete
Hebei Taihang Cement Co., Ltd.* (河北太行水泥股份有限公司)	PRC 25 March 1993	RMB380,000,000	30%	Manufacture and sale of cement

\* The names of these companies referred to in these consolidated financial statements represent management's best effort at translating the Chinese names of those companies, as no English names have been registered.

## Notes to Consolidated Financial Statements

### 19. INTERESTS IN ASSOCIATES *(continued)*

The above table lists the associates of the Group which, in the opinion of the directors of the Company, principally affected the results for the period or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>RMB'000</b>	RMB'000
		(unaudited)
Assets	<b>4,431,668</b>	2,260,352
Liabilities	<b>2,239,859</b>	787,366
Revenue	<b>1,315,942</b>	878,448
Loss	<b>(12,001)</b>	(13,294)

### 20. AVAILABLE-FOR-SALE INVESTMENTS

	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2009</b>	2008
	<b>RMB'000</b>	RMB'000
Unlisted equity investments, at cost	<b>14,985</b>	14,985

The unlisted equity investments are equity securities issued by private entities established in the PRC. They are measured at cost less impairment at each reporting date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

# Notes to Consolidated Financial Statements

## 21. INVENTORIES

	Notes	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Raw materials		246,697	251,382
Work-in-progress		76,448	155,437
Finished goods		238,820	246,999
Trading stock		181,224	163,606
		<b>743,189</b>	<b>817,424</b>
Properties under development	(a)	4,125,887	4,645,412
Completed properties held for sale	(b)	1,326,419	885,087
		<b>5,452,306</b>	<b>5,530,499</b>
		<b>6,195,495</b>	<b>6,347,923</b>

### (a) Properties under development

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Properties under development expected to be recovered:		
Within one year	3,752,608	3,866,699
After more than one year	373,279	778,713
	<b>4,125,887</b>	<b>4,645,412</b>

The Group's properties under development were located in the PRC and certain properties under development were pledged to banks for securing the loans granted to the Group (note 38).

### (b) Completed properties held for sale

The Group's completed properties held for sale are located in the PRC. All completed properties held for sale are stated at cost.

As at the approval date of these consolidated financial statements, the Group is in process of applying for or changing registration of the title certificates of the properties under development and completed properties held for sale.

## Notes to Consolidated Financial Statements

### 22. TRADE AND BILLS RECEIVABLES

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Trade receivables	1,494,794	1,139,681
Bills receivable	87,883	182,348
Less: Impairment provision	(182,838)	(182,285)
	<b>1,399,839</b>	<b>1,139,744</b>

The Group grants different credit periods to customers in different segments. In the cement and modern building materials segments, the credit periods are generally three months, extending up to nine months for major customers. In the property development segment, consideration in respect of properties sold are payable by the purchasers in accordance with the terms of the related sale and purchase agreements. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

Trade receivables are unsecured and non-interest-bearing. Trade receivables from related parties are repayable in accordance with the relevant contracts entered into between the Group and the respective related parties. The carrying amounts of trade receivables and bills receivable approximate to their fair values.

An aged analysis of the trade receivables of the Group as at the reporting date, net of provisions, is as follows:

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Within 6 months	834,210	493,585
7 to 12 months	356,691	346,801
1 to 2 years	93,506	85,497
2 to 3 years	21,056	24,575
Over 3 years	6,493	6,938
	<b>1,311,956</b>	<b>957,396</b>

## Notes to Consolidated Financial Statements

### 22. TRADE AND BILLS RECEIVABLES *(continued)*

Movements in the provision for impairment of trade receivables of the Group are as follows:

	Note	Six months ended 30 June	
		2009 RMB'000	2008 RMB'000 (unaudited)
At beginning of period		<b>182,285</b>	164,707
Impairment losses recognised	7	<b>2,717</b>	4,246
Amount written off as uncollectible		<b>(1,862)</b>	(5,073)
Impairment losses reversed	7	<b>(302)</b>	(2,942)
At end of period		<b>182,838</b>	160,938

Included in the provision for impairment of trade receivables of the Group are individually impaired trade receivables of RMB18,142,000 as at 30 June 2009 (31 December 2008: RMB19,127,000). The individually impaired trade receivables related to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of trade receivables of the Group that are neither individually nor collectively considered to be impaired are as follows:

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Neither past due nor impaired	<b>788,954</b>	594,042
Past due but not impaired:		
Less than 3 months past due	<b>214,238</b>	54,556
3 to 6 months past due	<b>178,346</b>	100,353
Over 6 months past due	<b>103,843</b>	96,353
	<b>1,285,381</b>	845,304

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

## Notes to Consolidated Financial Statements

### 22. TRADE AND BILLS RECEIVABLES *(continued)*

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

### 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>As at 30 June 2009 RMB'000</b>	As at 31 December 2008 RMB'000
Prepayments	<b>531,193</b>	397,377
Deposits	<b>449,598</b>	216,234
Due from the Parent and its subsidiaries excluding the Group ("Parent Group")	<b>114,105</b>	–
Other receivables	<b>985,380</b>	885,980
	<b><u>2,080,276</u></b>	<u>1,499,591</u>

Except for the amounts due from jointly-controlled entities included in the Group's other receivables of RM287,456,000 (31 December 2008: RMB331,569,000), which bear interest at market rates, the above balances are unsecured, interest-free and have no fixed terms of repayment.



# Notes to Consolidated Financial Statements

## 24. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Notes	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Cash and bank balances		<b>2,152,632</b>	1,980,722
Time deposits		<b>23,467</b>	36,928
		<b>2,176,099</b>	2,017,650
Less: Restricted cash	(a)	<b>(128,826)</b>	(135,753)
		<b>2,047,273</b>	1,881,897
Denominated in RMB	(b)	<b>2,173,329</b>	2,013,668
Denominated in other currencies		<b>2,770</b>	3,982
		<b>2,176,099</b>	2,017,650

Notes:

- (a) Restricted cash includes the following amounts:
- (i) As at 30 June 2009, the Group's bank balances of RMB45,732,000 (31 December 2008: RMB51,583,000) were deposited at banks as guarantee deposits for certain mortgage loans to customers.
  - (ii) As at 30 June 2009, the Group's bank balances held in dedicated bank accounts under the name of the Group of RMB83,094,000 (31 December 2008: RMB84,170,000), were deposited as guarantee deposits for the issuance of bank acceptance notes to suppliers.
- (b) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

## Notes to Consolidated Financial Statements

### 25. TRADE AND BILLS PAYABLES

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Trade payables	1,984,825	1,827,232
Bills payable	186,664	134,380
	<b>2,171,489</b>	<b>1,961,612</b>

The trade payables are non-interest-bearing. The average credit period for trade purchases is 60 days to 90 days. The credit terms granted by the related parties are similar to those granted by unrelated parties.

An aged analysis of the trade payables of the Group as at the reporting date is as follows:

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Within 3 months	981,939	857,058
4 to 6 months	557,464	88,475
7 to 12 months	227,420	584,898
1 to 2 years	151,352	227,083
2 to 3 years	39,361	47,297
Over 3 years	27,289	22,421
	<b>1,984,825</b>	<b>1,827,232</b>

### 26. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Receipt in advance and deposits received	2,811,995	2,692,184
Accruals	1,187,265	1,264,399
Due to the Parent Group	–	740,553
Other payables	1,168,562	1,088,894
	<b>5,167,822</b>	<b>5,786,030</b>

The above balances are non-interest-bearing and have no fixed terms of repayment.

## Notes to Consolidated Financial Statements

### 27. INTEREST-BEARING BANK LOANS

	Contractual interest rate (%)	Maturity	30 June 2009 RMB'000	Contractual interest rate (%)	Maturity	31 December 2008 RMB'000
<b>Current</b>						
Bank loans – secured (note 38(a))	4.80-9.71	2009-2010	959,900	5.02-9.71	2009	1,958,200
Bank loans – unsecured	4.80-7.47	2009-2010	840,000	6.93-7.47	2009	2,000,000
Current portion of long term bank loans – secured (note 38(a))	5.10-8.32	2009-2010	1,389,000	5.10-8.32	2009	1,194,000
			<u>3,188,900</u>			<u>5,152,200</u>
<b>Non-current</b>						
Bank loans – secured (note 38(a))	3.59-8.32	2010-2015	3,220,796	5.40-9.59	2010-2013	1,872,700
			<u>6,409,696</u>			<u>7,024,900</u>
				<b>As at 30 June 2009 RMB'000</b>		<b>As at 31 December 2008 RMB'000</b>
Analysed into:						
Bank loans repayable:						
Within one year or on demand			3,188,900			5,152,200
In the second year			1,038,500			1,322,000
In the third to fifth years, inclusive			2,182,296			550,700
Beyond five years			–			–
			<u>6,409,696</u>			<u>7,024,900</u>

All bank loans are denominated in RMB.

Certain bank loans are secured by the Group's assets, details of which are disclosed in note 38.

## Notes to Consolidated Financial Statements

### 27. INTEREST-BEARING BANK LOANS *(continued)*

As at 31 December 2008, the Group's bank loan of RMB1,000,000 was guaranteed by a third party.

The directors of the Company estimate the fair value of the bank loans by discounting their future cash flows at the market rate. The directors of the Company consider that the carrying amounts of the Group's current borrowings and non-current borrowings approximate to their fair values at the reporting date.

### 28. TAXES RECOVERABLE/TAXES PAYABLE

#### (a) Taxes recoverable

	<b>As at 30 June 2009 RMB'000</b>	As at 31 December 2008 RMB'000
Prepaid LAT	<u>28,215</u>	<u>20,953</u>

#### (b) Taxes payable

	<b>As at 30 June 2009 RMB'000</b>	As at 31 December 2008 RMB'000
CIT payable	<u>284,361</u>	156,887
LAT payable	<u>263,581</u>	<u>164,372</u>
	<u><b>547,942</b></u>	<u>321,259</u>

### 29. CORPORATE BONDS

The Company issued seven-year corporate bonds of RMB1.9 billion in aggregate (the "Bonds") to corporate investors in the PRC in April 2009. The Bonds bear a fixed interest rate of 4.32% per annum and interest is paid annually. The Bonds are guaranteed by the Beijing State-owned Capital Operation Management Centre, an entity administered by the Beijing SASAC. The holders of the Bonds are entitled to a redemption right exercisable at the expiry of the fifth anniversary of the issuance date. The Bonds are stated at amortised cost as at the reporting date.

## Notes to Consolidated Financial Statements

### 30. DEFERRED TAX

The following are the major deferred tax assets/(liabilities) recognised and their movements during the period:

	Depreciation allowance in excess of related depreciation	Provision for impairment of assets	Revaluation of properties	Fair value adjustments arising from acquisitions of subsidiaries	Provision of LAT	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	(143,821)	41,134	(752,174)	(95,497)	38,036	75,665	(836,657)
Credited/(charged) to the consolidated income statement for the period (note 9)	(18,582)	–	(49,279)	50	10,211	27,747	(29,853)
At 30 June 2009	(162,403)	41,134	(801,453)	(95,447)	48,247	103,412	(866,510)
At 1 January 2008	(113,514)	23,808	(524,273)	(42,307)	13,354	52,694	(590,238)
Credited/(charged) to the consolidated income statement for the period (note 9)	(12,946)	8,426	(26,147)	320	14,263	(9,949)	(26,033)
At 30 June 2008 (unaudited)	(126,460)	32,234	(550,420)	(41,987)	27,617	42,745	(616,271)

## Notes to Consolidated Financial Statements

### 30. DEFERRED TAX *(continued)*

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	<b>177,648</b>	119,199
Net deferred tax liabilities recognised in the consolidated statement of financial position	<b>(1,044,158)</b>	(955,856)
	<b>(866,510)</b>	(836,657)

The Group had unutilised tax losses of approximately RMB57,374,000 (31 December 2008: RMB112,849,000) at 30 June 2009 that can be carried forward for five years from the year in which the losses arose for offsetting against future taxable profits of the tax entity in which the losses arose. The amount of deferred tax assets recognised in respect of such losses was approximately RMB9,207,000 at 30 June 2009 (31 December 2008: RMB24,805,000). No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams.

## Notes to Consolidated Financial Statements

### 31. PROVISION FOR SUPPLEMENTARY PENSION SUBSIDIES AND EARLY RETIREMENT BENEFITS

The Group pays supplementary pension subsidies to its employees in the PRC who retired prior to 31 December 2007. Subsequent to 31 December 2007, the Group terminated the supplementary pension subsidies plan for its employees who retire after 31 December 2007. In addition, the Group is committed to making periodic benefit 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 2007.

The amount of provision for supplementary pension subsidies and early retirement benefits recognised in the consolidated statement of financial position are as follows:

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Present value of unfunded defined benefit obligations	613,891	689,058
Unrecognised net actuarial losses	(5,283)	(84,969)
Net liabilities arising from defined benefit obligations	608,608	604,089
Portion classified as current liabilities	(43,202)	(45,761)
Non-current portion	565,406	558,328

The movements in the present value of the defined benefit obligations during the period are as follows:

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (unaudited)
At beginning of period	604,089	632,296
Net expenses recognised in the consolidated income statement (note 7)	19,061	14,534
Benefits paid during the period	(14,542)	(14,376)
At end of period	608,608	632,454

## Notes to Consolidated Financial Statements

### 31. PROVISION FOR SUPPLEMENTARY PENSION SUBSIDIES AND EARLY RETIREMENT BENEFITS *(continued)*

The net expenses recognised in the consolidated income statement are analysed as follows:

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (unaudited)
Interest cost	11,031	14,420
Actuarial loss	8,030	114
Net expenses	<u>19,061</u>	<u>14,534</u>
Recognised in administrative expenses	<u>19,061</u>	<u>14,534</u>

The above obligations were determined based on actuarial valuations performed by an independent qualified actuarial firm, Watson Wyatt Consultancy (Shanghai) Ltd., using the projected unit credit method. The material actuarial assumptions used in valuing these obligations are as follows:

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (unaudited)
Discount rate	3.50% – 3.75%	4.50%
Early retirees' salary increase rate	9.00%	9.00%
Supplemental benefits increase rate	<u>2.25%</u>	<u>2.25%</u>



## Notes to Consolidated Financial Statements

### 32. DEFERRED INCOME

Deferred income is related to government grants received for the purpose of providing financial subsidies for the improvement of manufacturing facilities and the construction of new factory premises, which would be recognised as income over the weighted average of the expected useful life of the relevant property, machinery and equipment.

The movements of deferred income as stated under current and non-current liabilities during the period are as follows:

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (unaudited)
Carrying amount at beginning of period	314,176	72,314
Additions during the period	19,705	15,000
Released to the consolidated income statement during the period (note 6)	(25,900)	(5,058)
Carrying amount at end of the period	307,981	82,256
Current portion included in other payables and accruals	(9,780)	(15,636)
Non-current portion	298,201	66,620

### 33. OTHER NON-CURRENT LIABILITIES

As at 30 June 2009 and 31 December 2008, included in the Group's "Other non-current liabilities" was a balance of approximately RMB227,000,000 relating to government grants received by the Group for the relocation of its manufacturing plants. The government grants will be used for payment for relocation expenses and purchases of assets. The balance will be set off with the expenses incurred or credited to deferred income in accordance with the Group's accounting policy upon the fulfillment of the attaching conditions of the government grants.

## Notes to Consolidated Financial Statements

### 34. SHARE CAPITAL

	<b>Registered capital</b> RMB'000	<b>Number of shares</b> '000	<b>Issued capital</b> RMB'000
At 1 January 2008 and 30 June 2008 (unaudited)	1,800,000	1,800,000	1,800,000
Issue of shares	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
At 31 December 2008 and 30 June 2009	<u>2,800,000</u>	<u>2,800,000</u>	<u>2,800,000</u>

On 25 July 2008, the registered share capital of the Company increased from RMB1,800 million to RMB2,800 million. During the year ended 31 December 2008, proceeds of approximately RMB2,600 million were received for the issuance of 1,000 million shares of the Company, with RMB1,000 million and RMB1,600 million credited to the share capital and share premium account, respectively. After the aforesaid issuance of shares, the percentage of shareholding of the Company held by the Parent was increased from 60.84% to 65.73%.

### 35. RESERVES

The changes in the reserves of the Group during the period have been disclosed in the consolidated statement of changes in equity.

#### **Statutory reserve**

In accordance with the PRC Company Law, the Company is required to allocate 10% of its profit after tax, as determined in accordance with the Accounting Standards for Business Enterprises, the Accounting system for Business Enterprises and other related regulations issued by the Ministry of Finance of the People's Republic of China applicable to the Company, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the Company. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase paid-up capital/issued capital of the Company, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

## Notes to Consolidated Financial Statements

### 36. ACQUISITION OF SUBSIDIARIES

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the six months ended 30 June 2008 as at the date of acquisition approximate to the corresponding carrying amounts immediately before the relevant acquisitions, details were as follows:

	Six months ended 30 June 2008 RMB'000 (unaudited)
Property, plant and equipment	21,827
Inventories	6,559
Trade and bills receivables	6,396
Prepayments, deposits and other receivables	3,172
Cash and bank balances	10,802
Trade and bills payables	(1,718)
Other payables and accruals	(18,555)
Taxes payable	<u>(170)</u>
	28,313
Interests in jointly-controlled entities	<u>(1,500)</u>
Total consideration	<u>26,813</u>
Satisfied by:	
Cash	1,504
Amount due from an associate	<u>25,309</u>
	<u>26,813</u>

## Notes to Consolidated Financial Statements

### 36. ACQUISITION OF SUBSIDIARIES *(continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries during the six months ended 30 June 2008 is as follows:

	Six months ended 30 June 2008 RMB'000 (unaudited)
Cash consideration	1,504
Cash and bank balances acquired	<u>(10,802)</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(9,298)</u>

The acquirees' contributions to the Group's revenue and the Group's profit before tax for the period between the date of acquisition and the reporting date are as follows:

	Six months ended 30 June 2008 RMB'000 (unaudited)
Group's revenue	<u>31,822</u>
Group's profit before tax	<u>216</u>

Had the acquisitions taken place at the beginning of the period, the revenue of the Group and the profit before tax of the Group would have been as follows:

	Six months ended 30 June 2008 RMB'000 (unaudited)
Group's revenue	<u>4,786,407</u>
Group's profit before tax	<u>738,520</u>

# Notes to Consolidated Financial Statements

## 37. CONTINGENT LIABILITIES

- (a) The Group had the following contingent liabilities not provided for as at the reporting date:

	Notes	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Guarantees given to banks in respect of mortgage facilities for certain purchasers of the Group's properties	(i)	983,888	748,037
Guarantees given to banks in connection with loans granted to the Parent Group	(ii)	—	15,600
		<b>983,888</b>	<b>763,637</b>

Notes:

- (i) As at 30 June 2009, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principal together with the accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the date of grant of the relevant mortgage loans and ends upon issuance of real estate ownership certificates which will generally be available within a certain period after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the directors of the Company consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalty and therefore no provision has been made in these financial statements for the guarantees.

- (ii) The fair value of the guarantees is not significant and the directors of the Company consider the risk of default in payment is remote, and therefore no provision for the guarantees has been made in these financial statements.

- (b) As at 30 June 2009 and 31 December 2008, the Group had contingent liabilities in relation to the transfer of certain other payables balances to the Parent in an aggregate amount of approximately RMB176.3 million. The Group may remain liable if the Parent fails to fulfill its obligations in respect of these transferred liabilities. Pursuant to an indemnification undertaking, the Parent has agreed to indemnify the Group in respect of any loss or damage relating to the transferred liabilities as mentioned above.

- (c) As at 30 June 2009 and 31 December 2008, the Group had contingent liabilities in relation to not having proper legal title to certain of its properties. The Group may be subject to penalties, lawsuits or other actions taken against the Group. No provision has been made for such potential legal proceedings and claims as the outcome of the legal proceedings and claims cannot be reasonably estimated and management believes that the probability of loss is remote. The Parent has agreed to indemnify the Group in respect of any loss or damage relating to the defective title certificate.

## Notes to Consolidated Financial Statements

### 38. PLEDGE OF ASSETS

- (a) At the reporting date, the following assets of the Group were pledged to certain banks for securing the loans granted to the Group:

	<b>As at 30 June 2009 RMB'000</b>	As at 31 December 2008 RMB'000
Investment properties	<b>1,911,470</b>	2,023,507
Property, plant and equipment	<b>174,314</b>	192,570
Land use rights	<b>133,321</b>	76,835
Properties under development	<b>2,440,021</b>	2,437,173
	<b><u>4,659,126</u></b>	<u>4,730,085</u>

- (b) At the reporting date, the following assets of the Group were pledged to certain banks for securing the loans granted to the Parent:

	<b>As at 30 June 2009 RMB'000</b>	As at 31 December 2008 RMB'000
Investment properties	<b>932,540</b>	941,870
Property, plant and equipment	<b>3,523</b>	3,684
Land use rights	<b>1,110</b>	1,125
	<b><u>937,173</u></b>	<u>946,679</u>

The pledges of the assets as at 30 June 2009 in note 38(b) above have been released on 3 July 2009.

# Notes to Consolidated Financial Statements

## 39. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 13) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 15 years.

At the reporting date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>As at 30 June 2009 RMB'000</b>	As at 31 December 2008 RMB'000
Within one year	<b>320,061</b>	278,009
In the second to fifth years, inclusive	<b>591,691</b>	470,493
After five years	<b>348,824</b>	337,466
	<b><u>1,260,576</u></b>	<u>1,085,968</u>

### (b) As lessee

The Group leased certain of its office premises, factories and machinery under operating lease arrangements. Leases for the properties are negotiated for terms ranging from 1 to 26 years.

At the reporting date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>As at 30 June 2009 RMB'000</b>	As at 31 December 2008 RMB'000
Within one year	<b>24,782</b>	22,473
In the second to fifth years, inclusive	<b>85,166</b>	55,952
After five years	<b>54,054</b>	71,635
	<b><u>164,002</u></b>	<u>150,060</u>

## Notes to Consolidated Financial Statements

### 40. COMMITMENTS

In addition to the operating lease commitment detailed in note 39(b) above, the Group had the following commitments for capital and property development expenditure at the reporting date:

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	643,802	306,396
Properties being developed by the Group for sale	1,328,996	1,695,067
Capital contribution to a jointly-controlled entity	9,835	50,801
	<u>1,982,633</u>	<u>2,052,264</u>

### 41. RELATED PARTY TRANSACTIONS

#### (a) Significant related party transactions

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the period:

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (unaudited)
Sale of goods to the Parent Group	15,626	24,317
Sale of properties to the Parent Group	111,627	–
Sale of goods to jointly-controlled entities	6,647	11,451
Sale of goods to associates	73,765	–
Purchase of goods from the Parent Group	119,641	158,050
Purchase of goods from jointly-controlled entities	9,404	14,529
Purchase of goods from associates	150,935	–
Rental income from jointly-controlled entities	2,328	1,940
Rental income from associates	4,937	–
Interest income from a jointly-controlled entity	6,502	16,997
Sale of property, plant and equipment to the Parent Group	–	<u>120,934</u>

In the opinion of the directors of the Company, the transactions between the Group and the aforementioned related parties were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties.



# Notes to Consolidated Financial Statements

## 41. RELATED PARTY TRANSACTIONS *(continued)*

### (b) Outstanding balances with related parties

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Trade receivables due from		
– Associates	11,030	8,503
Other receivables due from		
– The Parent Group	114,105	–
– Jointly-controlled entities	338,056	336,569
– Associates	11,309	17,265
Trade payables due to		
– Jointly-controlled entity	5,293	–
– Associates	838	3,814
Other payables due to		
– The Parent Group	–	740,553
– Associates	759	2,066

Except for the amounts due from jointly-controlled entities of approximately RM287,456,000 in aggregate (31 December 2008: RMB331,569,000), which are interest-bearing, the above balances are non-interest-bearing.

### (c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (unaudited)
Short-term employee benefits	1,484	1,202
Pension scheme contribution	69	67
Total compensation paid to key management personnel	1,553	1,269

# Notes to Consolidated Financial Statements

## 41. RELATED PARTY TRANSACTIONS *(continued)*

### (d) Transactions with other State-controlled entities in the PRC

The Group operates in an economic regime currently predominated by State-controlled entities. Apart from the transactions with the Parent Group, the Group also conducts a majority of its businesses with State-controlled entities. The directors of the Company consider that these transactions are conducted in the ordinary course of the Group's businesses on terms similar to those that would be entered into with non-State-controlled entities. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-controlled entities. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosures.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, corporate bonds, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The carrying amounts of the Group's financial instruments approximated to their fair values as at the reporting date. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of the directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

### **Interest rate risk**

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arise from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rates, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

# Notes to Consolidated Financial Statements

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### **Interest rate risk** *(continued)*

As at 30 June 2009, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's profit for the period and retained earnings (without considering the effect of capitalisation of borrowing costs) by approximately RMB64 million (year ended 31 December 2008: RMB70 million). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the reporting date and the change was applied to the Group's debts outstanding at that date with exposure to cash flow interest rate risk.

### **Foreign currency risk**

The Group's businesses are located in the PRC and most of the transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB except for the United States dollar short term bank deposits. Fluctuations of the exchange rates of RMB against foreign currencies do not have significant effects on the Group's results. The Group has not hedged its foreign exchange rate risk.

A reasonably possible change of 5% in the exchange rate between United States dollar and RMB would have no material impact on the Group's profit or loss during the period and there would be no impact on the Group's equity.

### **Credit risk**

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, prepayments, deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligation of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 37.

## Notes to Consolidated Financial Statements

### 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents and have available funding through an adequate amount of committed credit facilities to meet its commitments.

The maturity profile of the Group's financial liabilities as at the reporting date, based on the contractual undiscounted payments, is as follows:

	As at 30 June 2009				
	Within 1 year RMB'000	1 to 2 years RMB'000	3 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	3,429,086	1,187,556	2,332,797	–	6,949,439
Corporate bonds	82,080	82,080	246,240	2,039,077	2,449,477
Trade and bills payables	2,171,489	–	–	–	2,171,489
Other payables	1,168,562	–	227,229	–	1,395,791
	<u>6,851,217</u>	<u>1,269,636</u>	<u>2,806,266</u>	<u>2,039,077</u>	<u>12,966,196</u>

	As at 31 December 2008				
	Within 1 year RMB'000	1 to 2 years RMB'000	3 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	5,464,545	1,396,994	594,012	–	7,455,551
Trade and bills payables	1,961,612	–	–	–	1,961,612
Other payables	1,088,894	5,210	235,621	–	1,329,725
	<u>8,515,051</u>	<u>1,402,204</u>	<u>829,633</u>	<u>–</u>	<u>10,746,888</u>

# Notes to Consolidated Financial Statements

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the period.

The Group monitors capital using a net borrowings to equity, which is net borrowings divided by total capital. Net borrowings include interest-bearing bank loans and corporate bonds less cash and cash equivalents and restricted cash. Capital represents the total equity.

At the end of the period, the Group's strategy was to maintain the net borrowings to equity ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The net borrowings to equity ratios at the end of the period were as follows:

	<b>As at 30 June 2009</b>	As at 31 December 2008
Interest-bearing bank loans	<b>6,409,696</b>	7,024,900
Corporate bonds	<b>1,889,533</b>	–
Less: Cash and cash equivalents	<b>(2,047,273)</b>	(1,881,897)
Restricted cash	<b>(128,826)</b>	(135,753)
Net borrowings	<b>6,123,130</b>	5,007,250
Total equity	<b>8,686,881</b>	8,174,229
Net borrowings to equity	<b>70%</b>	61%

# Notes to Consolidated Financial Statements

## 43. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

- (a) In July 2009, the Company issued 933,333,000 H shares at HK\$6.38 per H share of the Company, which raised total gross proceeds of approximately HK\$5.95 billion. The H shares of the Company are listed on the Main Board of the Hong Kong Stock Exchange on 29 July 2009. On 29 July 2009, the Parent, Tianjin Building Materials (Holdings) Co., Ltd. and China Cinda Asset Management Corporation converted 75,367,105, 5,042,166 and 3,112,447 domestic shares of the Company into H shares and transferred the shares to the National Council for Social Security Fund ("NSSF") respectively.
- (b) On 6 August 2009, the over-allotment option of H shares of the Company was exercised and an additional 139,999,500 H shares were issued at HK\$6.38 per H share of the Company, which were listed on the Hong Kong Stock Exchange on the same day. The gross proceeds from the issuance of these H shares amounted to approximately HK\$0.89 billion. On 6 August 2009, the Parent, Tianjin Building Materials (Holdings) Co., Ltd. and China Cinda Asset Management Corporation converted 11,305,029, 756,322 and 466,866 domestic shares of the Company into H shares and transferred the shares to the NSSF respectively.

## 44. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 August 2009.