2010 Annual Report

Materials
bring a prosperous life

SINOMA

China National Materials Company Limited

A joint stock company incorporated in the People's Republic of China with limited liability

(Stock Code: 01893)

Contents

Corporate Information

As at 31 December 2010

DIRECTORS

Executive Directors[1]

TAN Zhongming *(Chairman)*
LI Xinhua *(Vice chairman)*

Non-executive Directors

YU Shiliang
LIU Zhijiang
CHEN Xiaozhou

Independent Non-executive Directors[2]

LEUNG Chong Shun
SHI Chungui
LU Zhengfei
WANG Shimin
ZHOU Zude

SUPERVISORS[3]

XU Weibing *(Chairman)*
ZHANG Renjie
WANG Jianguo
YU Xingmin
QU Xiaoli

STRATEGY COMMITTEE[4]

TAN Zhongming *(Chairman)*
YU Shiliang
LIU Zhijiang
CHEN Xiaozhou
LI Xinhua
ZHOU Zude

AUDIT COMMITTEE

LU Zhengfei *(Chairman)*
WANG Shimin
LIU Zhijiang

REMUNERATION COMMITTEE

SHI Chungui *(Chairman)*
LEUNG Chong Shun
LU Zhengfei

NOMINATION COMMITTEE[5]

YU Shiliang *(Chairman)*
TAN Zhongming
LIU Zhijiang
LI Xinhua

1 Mr. ZHOU Yuxian resigned as the executive Director, president, authorised representative of the Company and also resigned as the member of the Strategy Committee and the member of the Nomination Committee on 22 December 2010. Please refer to the announcement of the Company dated 22 December 2010 for details. Mr. LI Xinhua was appointed as the president of the Company on 4 January 2011. Please refer to the announcement of the Company dated 4 January 2011 for details.

2 Mr. TONG Anyan resigned as the independent non-executive Director on 6 May 2010. Please refer to the announcement of the Company dated 6 May 2010 for details. Upon the approval by the Shareholders on the extraordinary general meeting held on 26 July 2010, Mr. ZHOU Zude was appointed as the independent non-executive Director. Please refer to the announcements of the Company dated 9 June 2010 and 26 July 2010 for details.

3 Mr. WANG Wei resigned as the Supervisor on 3 March 2010. Please refer to the announcement of the Company dated 3 March 2010 for details. Ms. ZHANG Lirong ceased to be the Supervisor from 26 July 2010 and Mr. QU Xiaoli's appointment as the Supervisor took effect on the same date. Please refer to the announcements of the Company dated 9 June 2010 and 26 July 2010 for details.

4 Mr. ZHOU Zude was appointed as a member of the Strategy Committee on 26 July 2010. Please refer to the announcement of the Company dated 26 July 2010 for details.

5 Mr. LI Xinhua was appointed as a member of the Nomination Committee on 4 January 2011. Please refer to the announcement of the Company dated 4 January 2011 for details.

Corporate Information

As at 31 December 2010

SECRETARY OF THE BOARD[6]

GU Chao

JOINT COMPANY SECRETARIES[7]

GU Chao
YU Leung Fai *(HKICPA, AICPA)*

AUTHORISED REPRESENTATIVES[8]

TAN Zhongming
YU Leung Fai *(HKICPA, AICPA)*

REGISTERED OFFICE AND PLACE OF BUSINESS

11 Beishuncheng Street
Xizhimennei
Xicheng District
Beijing 100035, the PRC

PLACE OF BUSINESS IN HONG KONG

7th Floor, Hong Kong Trade Centre
161-167 Des Voeux Road Central
Hong Kong

LEGAL ADVISORS

DLA Piper Hong Kong *(as to Hong Kong law)*
Jia Yuan Law Firm *(as to PRC law)*

AUDITORS

Hong Kong auditor
SHINEWING (HK) CPA Limited

PRC auditor
ShineWing Certified Public Accountants Co., Ltd.

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

01893

COMPANY WEBSITE

http://www.sinoma-ltd.cn

INVESTOR CONTACT

Tel/Fax: (8610)8222 9925
E-mail: ir@sinoma-ltd.cn

6 Mr. GU Chao was appointed as the secretary of the Board on 26 July 2010. Please refer to the announcement of the Company dated 26 July 2010 for details.

7 Mr. GU Chao was appointed as the joint company secretary of the Company on 20 December 2010.

8 Mr. TAN Zhongming was appointed as the authorised representative of the Company on 22 December 2010 to replace Mr. ZHOU Yuxian upon his resignation.

Corporate Profile

China National Materials Company Limited is a joint stock company approved by the State-owned Assets Supervision and Administration Commission of the State Council and established jointly by China National Materials Group Corporation Ltd. and other promoters. The Company was incorporated on 31 July 2007 and was listed on the Main Board of the Hong Kong Stock Exchange on 20 December 2007.

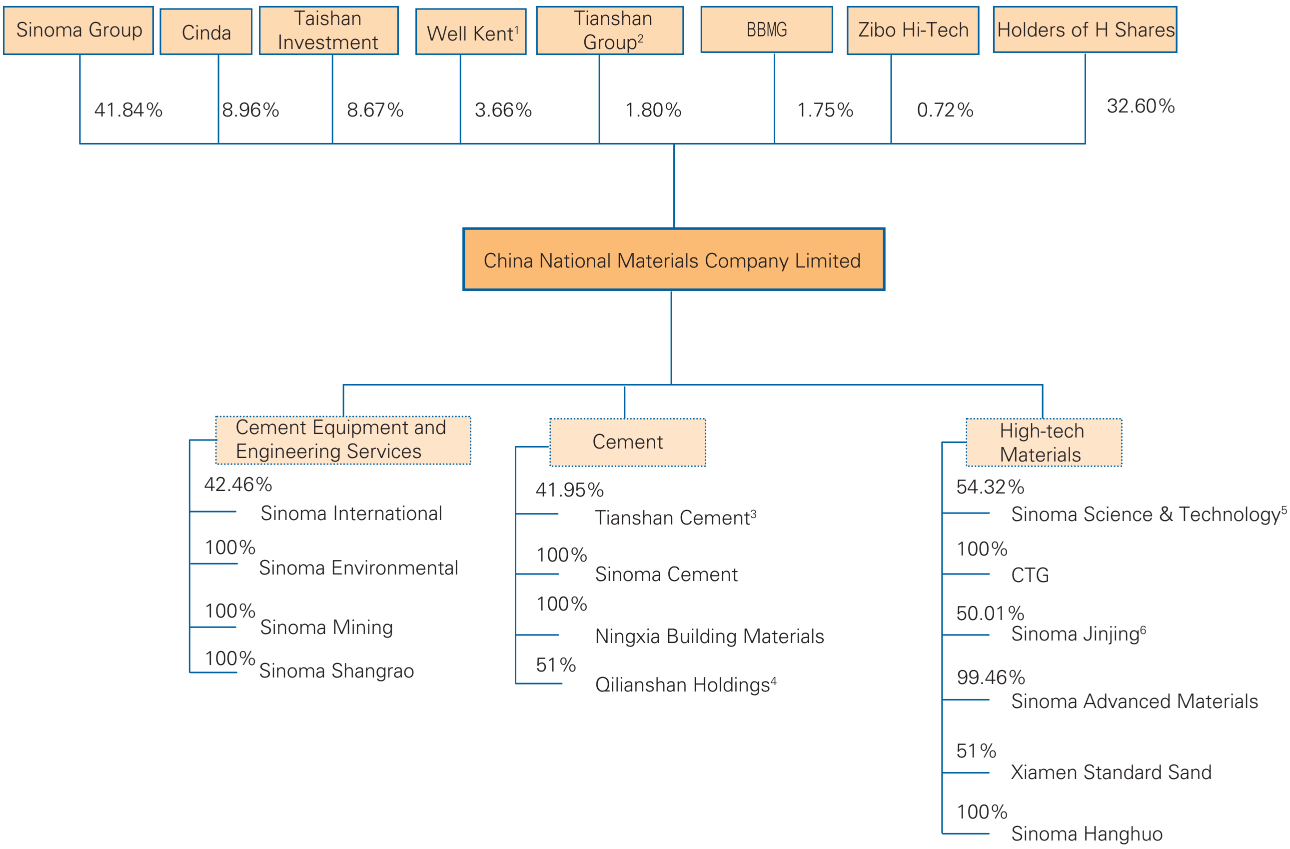
The Company is mainly engaged in cement equipment and engineering services, cement and high-tech materials businesses. The Company possesses series of core technologies such as glass fiber, composite materials, synthetic crystals, advanced ceramics and new dry process cement technology, with pioneering research and development capabilities, strong implementation capability for commercialisation of innovative technologies, successful mergers and acquisitions experiences and unique business model.

The Company is the largest provider of cement equipment and engineering services globally and is a leading producer of non-metal materials in the PRC. The Company is the only enterprise in the non-metal materials industry in the PRC with a business model that integrates research and development, industrial design, equipment manufacturing, engineering and construction services and production.

The Company is committed to maintaining sustainable development for the long term and continuously creates value for all our stakeholders including Shareholders, customers, employees and the society. The Company upholds our positioning as an innovative, international and value-added enterprise. We strive to become the leading provider of technology, core equipment, engineering and system integration services in the global cement engineering industry and to become a prominent developer and provider of non-metal materials and related products globally.

Corporate Structure

As at 31 December 2010



Notes:

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

2. Sinoma Group holds 50.95% of the equity interest in Tianshan Group.

3. The private placement of Tianshan Cement was completed on 26 April 2010 and the equity interest held by the Company increased from 36.28% to 41.95%.

4. Qilianshan Holdings completed the change in registration with relevant administration authorities for industry and commerce on 13 May 2010 and became a subsidiary of the Company.

5. The private placement of Sinoma Science & Technology was completed on 23 December 2010 and the equity interest held by the Company increased from 47.67% to 54.32%.

6. Sinoma Jinjing completed the change in registration with relevant administration authorities for industry and commerce on 23 November 2010 and the equity interest held by the Company changed from 51% to 50.01%.

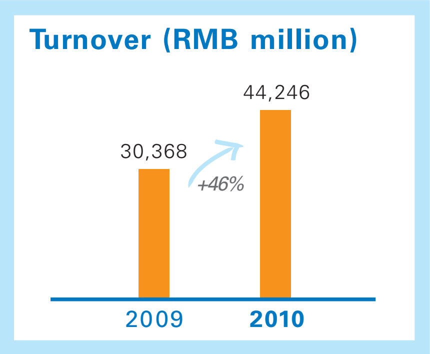
The above chart covers first-tier subsidiaries only. Subsidiaries on second-tier and below are not listed.

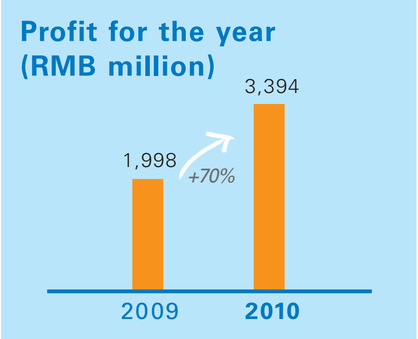
Financial Summary

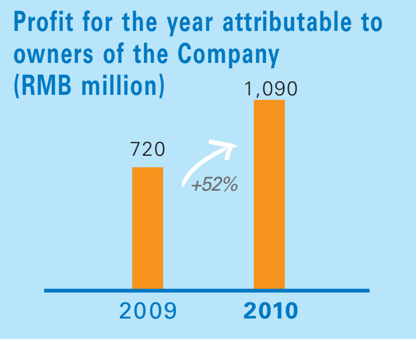
	For the year ended 31 December				
	2010 RMB million	**2009** RMB million	**2008** RMB million	**2007** RMB million *(Restated)*	**2006** RMB million
Turnover	44,246.48	30,367.97	25,244.82	20,733.93	13,012.87
Profit for the year	3,393.70	1,997.52	1,520.34	1,165.15	527.55
Profit for the year attributable to owners of the Company	1,090.48	719.50	564.55	486.64	281.91
Earnings per Share – Basic (RMB)	0.31	0.20	0.16	0.20	0.13

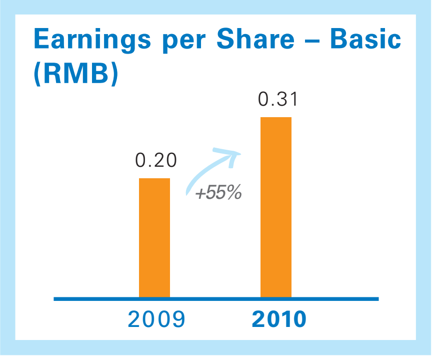
	As at 31 December				
	2010 RMB million	**2009** RMB million	**2008** RMB million	**2007** RMB million *(Restated)*	**2006** RMB million
Total assets	66,914.06	49,760.24	44,645.08	31,671.60	21,487.98
Total liabilities	46,370.10	35,795.19	32,429.35	21,590.36	16,943.41
Equity attributable to owners of the Company	9,685.19	8,264.06	6,793.63	6,106.76	1,943.98
Equity per Share (RMB)	2.71	2.31	1.90	1.78	0.84

Note: The reason for restating the figures for 2007 is that the acquisitions of Ningxia Building Materials and Xi'an Engineering, the enterprises under common control, were completed within the year of 2008.









Business Summary

Cement Equipment and Engineering Services

	2010	2009	Change (%)
Amount of new order intakes (RMB million)	26,082	22,286	17.03
Amount of backlog (RMB million)	49,211	50,494	(2.54)

Cement

	2010	2009	Change (%)
Sales volume of cement ('000 tonnes)	36,071	22,083	63.34
Sales volume of clinker ('000 tonnes)	10,003	4,439	125.34

High-tech Materials

	2010	2009	Change (%)
Sales volume of glass fiber and glass fiber products ('000 tonnes)	408	327	24.77
Sales volume of fan blades for wind power generators (sets)	1,504	681	120.85

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to present to you the annual report and results of the Company for 2010, and to report to you on the development focus of the Company for 2011.

During 2010, given the impact of the global financial crisis, global economic recovery decelerated. With the unfolding of the European debt crisis and the continued shrinkage in demand from the international market, major economic entities such as Europe and the United States were generally impeded by a weak internal growth as well as high indebtedness and unemployment rate, which intensified the competition among different countries in terms of market, resources, talents, technologies and standards. With the rise in domestic labour costs and the overly rapid increase in prices of housing in certain cities, obvious fluctuation in price of primary products, there was a gradual expansion of inflation pressure. Facing the complex and changeful international and domestic economic circumstances, the Company seized market opportunities by proactively adjusting its marketing strategies and product mix, accelerating the industrial layout and business expansion, making efforts in exploring international and domestic markets, further strengthening the consolidation of internal resources, constantly enhancing the management levels and innovation capability, to keep a continuous and fast growth in the Company's business during the year and to further reinforce overall competitive strength of the Company.

During the reporting period, turnover of the Group was RMB44,246.48 million, representing a year-on-year increase of 45.70%. Profit for the year was RMB3,393.70 million, representing a year-on-year increase of 69.90%. Profit for the year attributable to owners of the Company was RMB1,090.48 million, representing a year-on-year increase of 51.56%. Earnings per share of the Company was RMB0.31, representing a year-on-year increase of 55%.

Chairman's Statement

CEMENT EQUIPMENT AND ENGINEERING SERVICES

The segment of cement equipment and engineering services continued to exert brand advantage with sharpening competitiveness. Along with the further consolidation of the traditional markets and the remarkable result of exploring emerging markets, the amount of new order intakes exceeded RMB26 billion, representing a year-on-year increase of 17% and ranking No. 1 around the world for three consecutive years.

The Company expanded the use of local resources of overseas projects and further upgraded project performance capability and profitability through strengthening planning and allocation of resources and the optimization of organizational structure of project design and construction, as a result of which customer satisfaction continued to increase and the turnover and segment results grew by 32.51% and 79.11% on a year-on-year basis, respectively. The Company actively explored the development of new business areas. A photovoltaic technology engineering company and an environmental engineering company have been established during the reporting period which laid a foundation for the extension of industrial chain and the cultivation of new growth point. The Company increased its input of resources in science and technology and expanded efforts in R&D. The "Research into the Technologies and Equipment for the Disposal of Industrial and Urban Garbage in Cement Kilns" under the technological plans supported by the State proceeded smoothly. The industrialised model machine was pilot manufactured successfully and used in the relevant projects. The Company focused on improving its capacity to produce core equipments and increased its equipment self-sufficiency rate for EPC projects by 6 percentage points on a year-on-year basis during the reporting period. Meanwhile, as a result of the acceleration in the development of the spare parts business, a regional distribution network spreading over the nation has been established and breakthroughs were achieved in the exploration of the international markets, thereby increasing the Company's profitability.

CEMENT

For the cement segment, we adhered to the Western China strategy and the regional leader strategy and accelerated its development in Northwest China. Through mergers and acquisitions as well as new constructions, the total cement production capacity under the control of the Company has achieved its pre-set objectives of exceeding 70 million tonnes, among which 46.50 million tonnes was attributable to Northwest China. As such, our control in the region has further increased, thereby solidifying our leading position as the largest cement manufacturer in Northwest China. The Company actively facilitated the proposed absorption merger of Ningxia Building Materials by Saima Industry, streamlined the management structure and increased the utilisation rate of assets. The private placement of Tianshan Cement was completed, which in turn further increased our shareholding in Tianshan Cement and sped up the development of Tianshan Cement. The Company actively extended the industry chain of its products and vigorously developed the commercial concrete industry, with the production capacity of commercial concrete under the control of the Company reaching 9 million cubic meters.

During the reporting period, the Company's cement business grew substantially. The turnover and segment results increased by 84.88% and 88.33% on a year-on-year basis, respectively. In the course of the expansion of production capacity, various measures were implemented to lower the unit energy consumption of products, strengthen the operational management and improve operational efficiency, as a result of which the average operating rate of cement kilns increased by 2.8 percentage points on a year-on-year basis. The effects of intensified energy saving and emission reduction were significant which resulted in an additional installed capacity of waste heat generators of 115 MW.

Chairman's Statement

HIGH-TECH MATERIALS

During the reporting period, our high-tech materials segment capitalised on the global trend of new energy with low-carbon. By taking advantage of favourable opportunities of the State's strategic plan on emerging industries, we actively adjusted our marketing strategies and fine-tuned our product mix, thereby increasing product sales. The turnover and segment results increased by 52.29% and 32.03% on a year-on-year basis respectively.

The Company kept expanding its production capacity of wind power blades, and the actual production capacity reached 2,500 sets, which further consolidated and strengthened the Company's position as the leading manufacturer of the MW-class wind power blades in China. Upon completion of the private placement of Sinoma Science & Technology, the Company's shareholdings in Sinoma Science & Technology increased further, which enhanced the industrial competitiveness of Sinoma Science & Technology.

The Company's glass fiber business successfully coped with the international trade protectionism. The Company actively explored domestic and emerging markets, and accelerated the application of new technologies and products which result in the significant increases in the sales volume and prices of glass fiber on a year-on-year basis. In the meanwhile, the market exploration and commercialisation of other advanced composite materials and advanced ceramic products also achieved outstanding results, with sales volume of solar-energy fused silica crucibles increasing by 725% on a year-on-year basis.

PROSPECTS

In 2011, global economy will continue to grow at a tardy pace and no fundamental changes in this trend is expected. The Chinese government will insist on adopting a proactive, firm, prudent and flexible macro-economic policy. As the domestic economy continues to grow steadily, strategic adjustments to the economic structure will be accelerated so as to continuously focus on saving energy and reducing emission, eliminating backward production capacities, steering the industrial transition and improving the industrial structure. By vigorously capitalising on the favourable opportunities brought by the recovery of the global economy and the adjustments of the domestic economic structure, the Company will continue to open up emerging markets, accelerate the adjustment of industrial structure and allocation of resources, boost up the contribution rate for technological innovation and focus on competitive industries. We will also continue to cultivate emerging industries, seize the opportunities for mergers and acquisitions, further improve the entire management system and enhance the operating efficiency. All of which will contribute to the establishment of the Company into an integrated group with better competitiveness in the global market.

In 2011, the cement equipment and engineering services segment will take initiative to seize the opportunities brought by the steady growth in the global market, the continuous investments in infrastructure construction in China and the elimination of backward production capacity of cement. On the basis that the consolidation of the traditional market becomes materialised, we will endeavour to tap into both domestic and overseas emerging markets, fully exert the advantages in technologies and services and innovate the organizational model of EPC projects in overseas with an aim to raise internationalized standards and market competitiveness and to increase new order intakes. We will further strengthen the R&D in the new technologies and new products for energy saving and environmental protection and the technologies for other new industries so as to provide technological support for the new industries. Efforts will be stepped up to establish a unified platform for the research and development, design, manufacture, preparation and marketing of the equipment segment. Efforts will also be made to explore the market and enhance the equipment self-sufficient rate. To proactively build up new momentum for growth, the construction of the demonstration production line for waste disposal such as urban garbage and sludge will be completed and the solar photovoltaic engineering business will come to the stage of practical operation. We will also conduct a more thorough exploration and effective trials of the wind power equipment and EPC for wind farms as well as the water supply business.

Chairman's Statement

In 2011, the regional leader strategy will continue to be adhered to for the cement segment with the active implementation of the strategy to expand business to Western China, the environment-friendly strategy and the value strategy. By endeavouring to promote the restructuring and mergers and acquisitions and accelerating the expansion of the production capacity, the total cement production capacity controlled by the Company is targeted to reach 100 million tonnes by the end of 2011. The annual sales volume of cement and clinkers is estimated to exceed 60 million tonnes in aggregate as driven by further enlarging the market share in Northwest China, strengthening the operational management, boosting the key operational indicators as a whole and enhancing the operational efficiency. The development of commercial concrete and the related industries will be accelerated while brand and market advantages will be created by intensified exploration of the commercial concrete market. The production capacity of commercial concrete is expected to exceed 20 million cubic meters by the end of 2011.

In 2011, the high-tech materials segment will take advantage of the favourable opportunities arising from the arrangement for strategic emerging industries such as high-tech materials, new energy, energy saving and emission reduction and new-energy vehicles as promulgated by the State, and make use of its leading technological advantage to continue to expand the production capacities for the wind power blades and glass fiber and to accelerate the research and development and the construction of production lines for 3MW wind power blades and the electronic cloth Phase I so as to achieve bulk production. The glass fiber business will continue to capitalise on the opportunities from the substantial increase in the domestic demand for products and increasing prices at present by bringing forth innovation for development, timely adjusting the product mix and the market position so as to achieve a transition to the high-end development. The overall arrangement of production bases of solar-energy fused silica crucibles will be accelerated in a bid to complete the construction of projects with a production capacity of 500,000 units. At the same time, the Company will keep on expanding the production capacities of other advanced composite materials and advanced ceramic materials and products and fostering new supporting business.

I, on behalf of the Board, would like to take this opportunity to express my heartfelt gratitude to all the shareholders, investors and customers for your long-term attention and support to the Company and also thank the management and all staff of the Company for their dedication and hard work for the Company's rapid development.

TAN Zhongming
Chairman of the Board

29 March 2011

Management Discussion and Analysis

BUSINESS REVIEW

Overview

The Company, being the largest cement equipment and engineering services provider in the world, as well as a leading producer of non-metal materials in China, is principally engaged in three business segments, namely, cement equipment and engineering services, cement and high-tech materials.

In 2010, in light of the fact that the impact of the global financial crisis continued to linger and the European sovereign debt crises kept unfolding, the global economy recovered slowly. To ensure the domestic employment, all countries adopted the trade protection policies, which further intensified the competition in the international market. From the perspective of the domestic economic circumstances, the economic growth from investment growth was significant, which enabled its overall economy to maintain positive with the annual GDP reaching an increase of 10.3%. However, labour costs surged and inflation pressure gradually increased. The Company flexibly coped with the complex and versatile domestic and international economic circumstances by seizing favourable opportunities arising from the pick-up of the domestic macro-economy, further consolidating and maximising the results of weathering the global financial crisis, proactively opening up the emerging business and markets and expanding the scale of production persistently. The Company also endeavoured to enhance the operation efficiency and continuously reinforce its overall competitive advantages by further deepening the adjustment of industrial structure and product mix and accelerating the consolidation of resources. While speeding up the industrial development, the Company also stepped up its input of resources into technology, constantly reinforced its self-innovation capability, strived for the commercialisation of the scientific and technological achievements, improved its production process, promoted the energy-saving technologies, and endeavoured to reduce costs and enhance efficiency. The Company improved its various management systems continuously, which strengthened the risk resistance capability persistently and further enhanced the management standard.

CEMENT EQUIPMENT AND ENGINEERING SERVICES

Industry Review

In 2010, although the overseas cement construction market appeared to pick up, the pace of kicking-off of projects decelerated given the impact of the market and the shortage of funding on investors. Being affected by the State's regulatory policy towards investments in the cement industry, the number of newly-approved and newly-constructed cement projects decreased, which fuelled competition in the market. According to the statistics of the China Cement Association, the investment amount in fixed assets of the cement industry reached RMB175.4 billion for 2010, representing a year-on-year growth of 3.19% with the growth rate decreasing by 59 percentage points as compared with that of 2009; a total of 203 new dry process cement production lines were newly established and put into production and the newly designed annual production capacity of cement was 243 million tonnes, representing an increase of 25% as compared with that of 2009 with the growth rate decreasing by 11 percentage points as compared with that of 2009.

Business Review

Developing Core Businesses Rapidly to Further Consolidate the International Position

During the reporting period, the Company's businesses developed rapidly and resulted in a sharp rise in key business indicators. Of which, the turnover and segment results increased by 32.51% and 79.11% on a year-on-year basis, respectively.

Management Discussion and Analysis

The Company intensified its developments in the emerging economies and actively adjusted business models so as to adapt to market needs. During the reporting period, the amount of new overseas order intakes exceeded RMB15 billion, which further consolidated its market position. Based on new order intakes, the Company's cement equipment and engineering services business account for over 37% of the global market share and the top position in the world was maintained.

Enhancing the Project Performance Level Constantly to Further Increase Satisfaction of Owners

The Company was keen to reinforce the project management, plan and deploy resources and optimize the organizational structure of project design and construction, which expanded the use of local resources of overseas projects and further strengthened the project performance level and earnings capability, as a result of which the satisfaction of owners increased significantly. During the reporting period, final or temporary certificates of acceptance were granted for seven EPC projects in overseas. Both the ABC Cement Project in Syria and the TITAN Project in Albania were completed 40 days and 30 days ahead of schedule, respectively, which were praised by owners. The Xining Project and the Songtao Project in Vietnam received the awards of "Golden Cup for the Quality of Construction Projects in Vietnam". The Xining Project in Vietnam and the TRACIM Project in Turkey won the silver and copper prize of "The Outstanding EPC Project Awards", respectively. The 5000t/d cement production line for Dalian Cement Plant was honoured with the "Luban Award for the First Batch of China Construction Projects for 2010-2011 (National Quality Project Awards)".

Outstanding Achievements in the Scientific Research and Development and Continuous Increase in the Technological Competitiveness

During the reporting period, the Company conducted over 110 cement projects and related scientific research and development projects. The "Research into the Technologies and Equipment for Energy Saving and Emission Reduction in New Dry-Process Cement Production Line" under the technological plans supported by the State proceeded smoothly, which continued to achieve technological progress in terms of low carbon, energy saving and emission reduction. Relevant project research and the development of equipments for the "Research into the Technologies and Equipment for the Treatment of Industrial and Urban Garbage in Cement Furnaces", the "Research into the Technologies and Equipment for the Treatment of Urban Household Garbage in Cement Furnaces" and the "Research into the Technologies and Equipment for the Application of Carbide Slag Cement on an Extensive Scale" were completed according to the plan and were being put into practice at relevant projects. The new TCNB pulverised coal burner developed by the Company was recognised as the State's key new product. The LJP bag filter was included in the key product scheme of the State. The Company also received the first ever "Energy Saving Contribution Award in China" with its new-generation new dry cement production technologies awarded the highest honour in the energy saving category in China – the "Top 10 New Technologies Application Award in Energy Saving in China for 2010".

Active Exploration into New Business Segments and Business Realignment Making a Significant Step

The Company accelerated the development of related diverse businesses so that the industry chain was continuously extended. The Company actively explored the development into new business segments by the industrialisation of the cement environmental protection technologies and the application of the successful EPC business model, which has made initial achievements. During the reporting period, the Company established Sinoma Tianhua International Photovoltaic Engineering Technology (Beijing) Company Limited and Sinoma International Environmental Engineering Company Limited, laying a foundation for the Company's development of the integrated business of environmental technology and new energy projects.

Management Discussion and Analysis

Improving the Organizational Structure Further to Strengthen the Overall Competitiveness

During the reporting period, the Company, with integrating business units as the basic principle, made vigorous efforts to improve the organizational structure so as to lay a solid foundation for increasing the operational efficiency of subsequent resource allocation. The Company commenced the business integration of TCDRI and CBMI Construction. Upon completion of the integration, all of the resources relating to cement projects in the two companies have been incorporated into the Tianjin branch of Sinoma International; and an international marketing company have been established to take charge of a unified development and management of the international markets. Through the integration of internal resources, the Company's structure is further optimized and the efficiency of resources allocation has further increased, thereby the profitability has further enhanced.

CEMENT

Industry Review

In 2010, as driven by the economic growth and continuous investments, the cement industry maintained a rapid growth. The annual production volume of cement amounted to 1.87 billion tonnes, representing a year-on-year growth of 15.5%. Under the impact of the NDRC Document No. 2009-38 "Circular on Certain Opinions Concerning the Inhibition of Overcapacity and Redundant Construction of Some Industries for the Healthy Development of Industry" and the policy on energy saving and emission reduction, the reorganisation and mergers and acquisitions as well as the elimination of the backward capacities further accelerated, which enhances the industrial concentration. With the improved demand and supply relationship in the cement market, the product sales volume and selling price stayed in a sustainable growth.

Under the pressure of inflation, the prices of raw materials and energy in the upstream of the industry climbed even higher coupled with a rising labour cost. To cope with this, cement enterprises continued to improve their internal management standard and intensified their efforts for mergers and reorganisation. Along with the phase-out of the backward capacities, the market positions of large enterprises were further solidified. With the carrying out of the "Twelfth Five-Year Plan", the demand for cement will be boosted. It is envisaged that the profitability will be enhanced at a steady pace.

Business Review

Capitalising on Market Opportunities with Surge in Operating Results

During the reporting period, the demands for cement in the major markets of the Company remained solid. The cement price in Northwest China was significantly higher than the national average price and continued to hover at a high level. Owing to the power cut policy implemented in Southeast China, the cement price also increased. By seizing the favourable opportunities and fully utilising its production capacity, the Company achieved outstanding operating results with a higher profitability. The results for 2010 of the Company's cement segment posted a substantial increase with the aggregate sales volume of cement and clinkers reaching 46.07 million tonnes. The turnover and segment results amounted to RMB14,266.56 million and RMB2,583.72 million, representing a year-on-year growth of 84.88% and 88.33%, respectively.

Management Discussion and Analysis

Rapid Growth in Production Capacity by Accelerating the Consolidation and Strategic Expansion of Regional Markets

During the reporting period, the Company quickened its pace to strategically expand its business in Northwest China with the controlled production capacity in the Northwest region reaching 46.50 million tonnes. The Company actively pursued the integration with Qilianshan Holdings in the aspects of internal management and corporate culture and successfully injected capital into Jiugang Hongda through Qilianshan Holdings. The Company also acquired part of the cement assets from Xishui Strong Year Co., Ltd. Inner Mongolia and Tianshan Cement, a subsidiary of the Company, completed its private placement, which gathered momentum for our development and linked up the cement markets of the Company in Northwest China. As a result, the unshakeable controlling position of the Company in cement market in Northwest China has been established. During the reporting period, the Company's controlled production capacity of cement reached 70.50 million tonnes, among which 9 new production lines with an additional production capacity of 10.20 million tonnes have been put into operation, and additional production capacity of 8.30 million tonnes by way of merger and acquisition. Currently, the Company has 13 production lines under construction. Upon completion of construction, there will be an additional production capacity of 19.50 million tonnes.

Developing the Eco-efficient Economy and Promoting Energy Saving and Emission Reduction

The Company proactively promoted the energy saving and emission reduction to facilitate the environmental improvement and enhance the economic efficiency. During the reporting period, the construction works of the pure low-temperature and waste heat generation project, which is ancillary to 17 cement production lines were completed and put into operation with an additional installed capacity of waste heat generators of 115MW. Ten waste heat generation projects were under construction with a designed capacity of 51MW. As at the end of 2010, the accumulated installed capacity of the waste heat generation of cement production lines of the Company was 175.5MW with an annual accumulated power generation of 460.1425 million KWh, thereby reducing the emission of 413,000 tonnes of carbon dioxide. The two clinker production lines with a capacity of 2,000 tpd by utilising carbide slag to replace limestone in Midong, Xinjiang, were put into operation successfully. A new clinker production line with a capacity of 2,500 tpd by utilising carbide slag to replace limestone was set up in Fukang. After the four carbide slag production lines put into operation, it is estimated the annual consumption of the industrial wastes such as limestone waste will be 2.35 million tonnes. When compared to cement production by utilisation of limestone, the annual carbon dioxide emission would be reduced by 1.70 million tonnes.

Enhancing Internal Management and Improving Operation Efficiency

During the reporting period, the Company adopted a number of measures to enhance its internal management and the operation efficiency. By improving the production management and the technological transformation, and reinforcing internal benchmark comparison management, the major operational indicators of this segment saw improvement with the decline in consumption indicators as compared to the corresponding period of last year. The average operation rate increased by 2.8 percentage points on a year-on-year basis. The Company's competitiveness was further enhanced, which facilitated a further increase in profitability.

Management Discussion and Analysis

HIGH-TECH MATERIALS

Industry Review

In 2010, the global economic transition continued. China also accelerated its arrangement for strategic emerging industries, which drove the sustainable and rapid development of the global high-tech materials industry.

In 2010, according to the latest statistics of the GWEC, the global wind power generation increased by 35.802 million KW, and the global wind power generation reached 194.39 million KW. As at the end of 2010, the annual newly installed capacity of the wind power generation in China reached 16.5 million KW with the accumulated installed capacity achieving 42.287 million KW, surpassing the United States and ranking the Top 1 in the world for the first time, which drove the wind power blade industry progressed positively with a substantial increase in the production capacity.

In 2010, the glass fiber industry saw a rapid development with the price rising steadily. The production volume of glass fiber in China for 2010 was 2.56 million tonnes, representing a year-on-year growth of 24.9%, and 1.21 million tonnes of glass fiber and products were exported, representing a year-on-year growth of 23.9%.

Business Review

Steadily Growth in Production Capacity and Improving Operating Results

During the reporting period, the wind power blades business of the Company continued to grow at a swift pace. Seizing the favourable opportunities, the Company swiftly expanded its production capacity. As of the end of 2010, the actual production capacity of wind power blades of the Company was 2,500 sets, representing a year-on-year growth of 92%. During the reporting period, both sales and production of wind power blades were boosted and the production volume of wind power blades of the Company was 1,643 sets, representing a year-on-year growth of 96% and the sales volume of wind power blades was 1,504 sets, representing a year-on-year growth of 120%, which further consolidated the Company's position as a leader in the industry.

During the reporting period, the Company's production capacity of the glass fiber business grew steadily. At the same time, a series of proactive measures were taken to tackle the impact of the international trade protectionism such as an actively exploration of the domestic market and international emerging markets. Both production and sales volumes recorded a substantial growth as compared with those of last year. The sales volume of glass fiber and glass fiber products was 408,000 tonnes, representing a year-on-year growth of 25%.

During the reporting period, the exploration of the markets for other advanced composite materials and advanced ceramic material products and their commercialisation had outstanding achievements. The sales volume of solar-energy fused silica crucibles reached 42,000 units, representing a year-on-year growth of 725%.

Positioning as an Innovative Enterprise and Increasing Technological Input

During the reporting period, with the assistance of the institute of technology research, the Company gave full play to its technological advantages by increasing the input of resources into science and technology and strengthening efforts in research and development as well as promoting the technological innovation in the industry, as a result of which both of the industrial and technological capabilities and the core competitiveness were enhanced. During the reporting period, the expense on technological R&D accounted for more than 6% of the revenue in high-tech materials segment of the Company. In the meanwhile, the Company continuously improved the examination system for technological innovation and motivated technicians so as to create an atmosphere favourable to the technological innovation and creation.

Management Discussion and Analysis

Strengthening Operation and Management and Effective Control of Costs and Expenses

During the reporting period, the Company implemented thoroughly a comprehensive budget management, as a result there was considerable improvement in both the operating and internal control indicators and, through centralized procurement, the purchase price of raw materials and the costs of products were reduced. By constantly optimising the production process, both of the production efficiency and production capacity were further enhanced. During the reporting period, the Company's annual growth rate of cost arising from the high-tech materials segment was 10 percentage points lower than the growth rate of revenue.

FINANCIAL REVIEW

	Year ended 31 December 2010	Year ended 31 December 2009	Change	
	RMB million	*RMB million*	*RMB million*	%
Turnover	**44,246.48**	30,367.97	13,878.51	45.70
Cost of sales	**(35,395.26)**	(24,969.40)	(10,425.86)	41.75
Gross profit	**8,851.22**	5,398.57	3,452.65	63.95
Other gains	**922.21**	774.78	147.43	19.03
Selling and marketing expenses	**(1,132.86)**	(824.93)	(307.93)	37.33
Administrative expenses	**(3,589.59)**	(2,451.19)	(1,138.40)	46.44
Exchange loss	**(104.13)**	(11.55)	(92.58)	801.56
Other expenses	**(78.20)**	(115.63)	(37.43)	32.37
Operating profit	**4,868.65**	2,770.05	2,098.60	75.76
Interest income	**154.06**	253.77	(99.71)	(39.29)
Finance costs	**(921.29)**	(626.23)	(295.06)	47.12
Share of results of associates	**70.12**	46.12	24.00	52.04
Profit before tax	**4,171.55**	2,443.71	1,727.84	70.71
Income tax expense	**(777.85)**	(446.19)	(331.66)	74.33
Profit for the year	**3,393.70**	1,997.52	1,396.18	69.90
Profit for the year attributable to:				
Owners of the Company	**1,090.48**	719.50	370.98	51.56
Non-controlling interests	**2,303.22**	1,278.02	1,025.20	80.22
Dividends	**142.86**	89.29		

Management Discussion and Analysis

Results Performance

During the reporting period, profit before tax of the Group was RMB4,171.55 million, representing a year-on-year increase of 70.71%. Profit for the year attributable to owners of the Company was RMB1,090.48 million, representing a year-on-year increase of 51.56%. Earnings per share of the Company was RMB0.31.

Consolidated Operating Results

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

Turnover

Turnover of the Group in 2010 was RMB44,246.48 million, representing an increase of 45.70% as compared with RMB30,367.97 million in 2009. The increase was mainly due to the significant increase in volume of projects completed during the reporting period for cement equipment and engineering services business, the increases in sales and production of cement in the major production areas of the Company, continuous increase in sales of wind power blades and the gradual recovery of the glass fiber products market. In particular, turnover of the cement equipment and engineering services segment, cement segment and high-tech materials segment increased by RMB6,352.92 million, RMB6,550.10 million and RMB1,974.84 million, respectively.

Cost of Sales

Cost of sales of the Group in 2010 was RMB35,395.26 million, representing an increase of 41.75% as compared to RMB24,969.40 million in 2009. The increase was mainly due to the increase of cement equipment and engineering services business as well as the increase in the sales volume of products of cement and high-tech materials. In particular, cost of sales of the cement equipment and engineering services segment, cement segment and high-tech materials segment increased by RMB5,362.35 million, RMB4,694.85 million and RMB1,265.36 million, respectively.

Gross Profit and Gross Margin

Gross profit of the Group in 2010 was RMB8,851.22 million, representing an increase of 63.95% as compared to RMB5,398.57 million in 2009, in which gross profit of the cement equipment and engineering services segment, cement segment and high-tech materials segment increased by RMB990.57 million, RMB1,855.26 million and RMB709.48 million.

Gross margin of the Group in 2010 was 20%, representing an increase of 2.22 percentage points as compared to 17.78% in 2009. Gross margin of high-tech materials and cement equipment and engineering services segment recorded increase; whereas gross margin of cement segment recorded a slight drop.

Other Gains

Other gains of the Group in 2010 was RMB922.21 million, representing an increase of 19.03% as compared to RMB774.78 million in 2009. The increase was mainly due to the increase in tax refund, as well as the negative goodwill arising from the acquisition of subsidiary.

Selling and Marketing Expenses

Selling and marketing expenses of the Group in 2010 was RMB1,132.86 million, representing an increase of 37.33% as compared to RMB824.93 million in 2009. The increase was mainly due to the market expansion and the increase in sales. While by strengthening the management and by controlling the cost by the Company, the increase in selling and marketing expenses was offset to a certain extent, in which selling and marketing expenses of cement segment, the high-tech materials segment and cement equipment and engineering services segment increased by RMB201.88 million, RMB87.27 million and RMB18.78 million, respectively.

Management Discussion and Analysis

Administrative Expenses

Administrative expenses of the Group in 2010 was RMB3,589.59 million, representing an increase of 46.44% as compared to RMB2,451.19 million in 2009. The increase was mainly due to greater increase in expenses in research and development as a result of the increase in strength in research and development by the Company, coupled with the increase in labour cost on the expansion of management scale, and in the meantime the increase of maintenance cost of fixed assets as the new cement production lines commenced production, and the increase in asset impairment. In particular, administrative expenses of cement equipment and engineering services segment, cement segment and high-tech materials segment increased by RMB186.55 million, RMB600.05 million and RMB343.91 million, respectively.

Exchange Loss

Exchange loss of the Group in 2010 was RMB104.13 million, representing an increase of 801.56% as compared to RMB11.55 million in 2009. The increase was mainly due to the substantial growth in revenue from the Company's overseas construction projects during the reporting period, which resulted in the increase in project settlements in foreign currencies, alongside the appreciation in RMB value.

Other Expenses

Other expenses of the Group in 2010 were RMB78.20 million, representing a decrease of 32.37% as compared to RMB115.63 million in 2009. The decrease was mainly due to the strengthening of the management and risks control by the Company, which has effectively avoided the abnormal losses.

Operating Profit and Operating Profit Margin

Operating profit of the Group in 2010 was RMB4,868.65 million, representing an increase of 75.76% as compared to RMB2,770.05 million in 2009. In particular, operating profit of the cement equipment and engineering services segment, cement segment and high-tech materials segment increased by RMB843.10 million, RMB1,211.81 million and RMB139.77 million, respectively.

Operating profit margin in 2010 was 11.00%, representing an increase of 1.88 percentage points as compared to 9.12% in 2009.

Interest Income

Interest income of the Group in 2010 was RMB154.06 million, representing a decrease of 39.29% as compared to RMB253.77 million in 2009. The decrease was mainly due to the reduction of the average outstanding amount of the Company's fixed deposits.

Finance Costs

Finance costs of the Group in 2010 was RMB921.29 million, representing an increase of 47.12% as compared to RMB626.23 million in 2009. The increase was mainly due to the increase in the expansion of the scale of borrowings. However, the Company improved its financing channels by way of issuing medium-term notes and obtained preferential interest rates to offset the increase in finance costs.

Share of Results of Associates

Share of results of associates of the Group in 2010 was RMB70.12 million, representing an increase of 52.04% as compared to RMB46.12 million in 2009. The increase was mainly due to the contribution made by newly-acquired associates.

Management Discussion and Analysis

Income Tax Expense

Income tax expense of the Group in 2010 was RMB777.85 million, representing an increase of 74.33% as compared to RMB446.19 million in 2009. The increase was mainly due to the greater increase in enterprise income tax for major profitmaking enterprises as the profit before tax increased.

Profit for the Year Attributable to Non-controlling Interests

Profit for the year attributable to non-controlling interests of the Group in 2010 was RMB2,303.22 million, representing an increase of 80.22% as compared to RMB1,278.02 million in 2009. The increase was mainly due to the higher growth in results of the subsidiaries of which the Company has relatively lower shareholdings, and the new merger with Qilianshan Holdings.

Profit for the Year Attributable to Owners of the Company

Based on the above, profit for the year attributable to owners of the Company in 2010 was RMB1,090.48 million, representing an increase of 51.56% as compared to RMB719.50 million in 2009.

Segment Results

The financial information for each segment presented below is before elimination of inter-segment transaction and before unallocated expenses.

Cement Equipment and Engineering Services

	2010	2009	Change
	RMB million	*RMB million*	%
Turnover	**25,894.47**	19,541.55	32.51
Cost of sales	**22,484.95**	17,122.60	31.32
Gross profit	**3,409.52**	2,418.95	40.95
Selling and marketing expenses	**151.63**	132.85	14.14
Administrative expenses	**1,391.02**	1,204.47	15.49
Segment results	**1,908.78**	1,065.68	79.11

Turnover

Turnover of the cement equipment and engineering services segment in 2010 was RMB25,894.47 million, representing an increase of 32.51% as compared to RMB19,541.55 million in 2009. The increase was mainly due to the continued strengthening in contracts fulfillment capability, and the increase in completion of current period constructions projects.

Cost of Sales

Cost of sales of the cement equipment and engineering services segment in 2010 was RMB22,484.95 million, representing an increase of 31.32% as compared to RMB17,122.60 million in 2009. The increase was mainly due to the increase in completion of current period construction projects. Meanwhile, the Company strengthened the project management to offset the increase in cost of sales in certain extent.

Management Discussion and Analysis

Gross Profit and Gross Margin

Gross profit of the cement equipment and engineering services segment in 2010 was RMB3,409.52 million, representing an increase of 40.95% as compared to RMB2,418.95 million in 2009. Gross margin of the cement equipment and engineering services segment increased by 0.79 percentage point from 12.38% in 2009 to 13.17% in 2010.

Selling and Marketing Expenses

Selling and marketing expenses of the cement equipment and engineering services segment in 2010 was RMB151.63 million, representing an increase of 14.14% as compared to RMB132.85 million in 2009. The increase was mainly due to the increase in completion of current period construction projects and the rise in transportation expenses.

Administrative Expenses

Administrative expenses of the cement equipment and engineering services segment was RMB1,391.02 million in 2010, representing an increase of 15.49% as compared to RMB1,204.47 million in 2009. The increase was mainly due to the increase in labour cost.

Segment Results

Based on the above, results of the cement equipment and engineering services segment in 2010 was RMB1,908.78 million, representing an increase of 79.11% as compared to RMB1,065.68 million in 2009.

Cement

	2010	2009	Change
	RMB million	*RMB million*	*%*
		(Restated)	
Turnover	**14,266.56**	7,716.46	84.88
Cost of sales	**10,208.05**	5,513.20	85.16
Gross profit	**4,058.52**	2,203.26	84.21
Selling and marketing expenses	**705.93**	504.05	40.05
Administrative expenses	**1,304.29**	704.24	85.21
Segment results	**2,583.72**	1,371.91	88.33

Turnover

Turnover of the cement segment in 2010 was RMB14,266.56 million, representing an increase of 84.88% as compared to RMB7,716.46 million in 2009. The increase was mainly due to the strong demand for cement from the major markets of the Company, the commencement of production of certain new production lines and the acquisition of two new companies.

Cost of Sales

Cost of sales of the cement segment in 2010 was RMB10,208.05 million, representing an increase of 85.16% as compared to RMB5,513.20 million in 2009. The increase was mainly due to increased sales volume.

Gross Profit and Gross Margin

Gross profit of the cement segment in 2010 was RMB4,058.52 million, representing an increase of 84.21% as compared to RMB2,203.26 million in 2009. Gross margin of the cement segment dropped by 0.1 percentage point from 28.55% in 2009 to 28.45% in 2010.

Management Discussion and Analysis

Selling and Marketing Expenses

Selling and marketing expenses of the cement segment in 2010 was RMB705.93 million, representing an increase of 40.05% as compared to RMB504.05 million in 2009. The increase was mainly due to the increase in packaging expenses and labour cost resulting from the increase in sales volume.

Administrative Expenses

Administrative expenses of the cement segment was RMB1,304.29 million in 2010, representing an increase of 85.21% as compared to RMB704.24 million in 2009. The increase was mainly due to the increase in maintenance cost of fixed assets and labour cost.

Segment Results

Based on the above, results of the cement segment in 2010 was RMB2,583.72 million, representing an increase of 88.33% as compared to RMB1,371.91 million in 2009.

High-tech Materials

	2010	2009	Change
	RMB million	*RMB million*	*%*
		(Restated)	
Turnover	**5,751.86**	3,777.02	52.29
Cost of sales	**4,219.94**	2,954.58	42.83
Gross profit	**1,531.92**	822.44	86.27
Selling and marketing expenses	**275.30**	188.03	46.41
Administrative expenses	**826.12**	482.21	71.32
Segment results	**576.14**	436.37	32.03

Turnover

Turnover of the high-tech materials segment in 2010 was RMB5,751.86 million, representing an increase of 52.29% as compared to RMB3,777.02 million in 2009. The increase was mainly due to the continued increase in the sales volume of wind power blades and the gradual recovery of the glass fiber products market.

Cost of Sales

Cost of sales of the high-tech materials segment in 2010 was RMB4,219.94 million, representing an increase of 42.83% as compared to RMB2,954.58 million in 2009. The increase was mainly due to the increase in the substantial increase in the sales volume of wind power blades and glass fiber products.

Gross Profit and Gross Margin

Gross profit of the high-tech materials segment in 2010 was RMB1,531.92 million, representing an increase of 86.27% as compared to RMB822.44 million in 2009. Gross margin of the high-tech materials segment increased by 4.86 percentage points from 21.77% in 2009 to 26.63% in 2010.

Selling and Marketing Expenses

Selling and marketing expenses of the high-tech materials segment in 2010 was RMB275.30 million, representing an increase of 46.41% as compared to RMB188.03 million in 2009. The increase was mainly due to the increase in sales volume for major products, transportation expenses and after-sales service expenses etc..

Management Discussion and Analysis

Administrative Expenses

Administrative expenses of the high-tech materials segment in 2010 was RMB826.12 million, representing an increase of 71.32% as compared to RMB482.21 million in 2009. The increase was mainly due to the increase in expenses in research and development and labour cost, as well as the increase in provision for asset impairment.

Segment Results

Based on the above, results of the high-tech materials segment in 2010 was RMB576.14 million, representing an increase of 32.03% as compared to RMB436.37 million in 2009.

Liquidity and Capital Resources

Cash flows:

	2010	2009
	RMB million	*RMB million*
Net cash generated from operating activities	**4,356.97**	2,488.24
Net cash used in investing activities	**(7,273.21)**	(3,999.42)
Net cash generated from financing activities	**6,054.00**	1,327.54
Cash and cash equivalents at the end of the period	**13,213.99**	10,077.92

Net cash generated from operating activities

Net cash generated from operating activities increased from RMB2,488.24 million in 2009 to RMB4,356.97 million in 2010. The increase was mainly due to the sharp increase in the revenue and the further enhanced profitability.

Net cash used in investing activities

Net cash used in investing activities increased from RMB3,999.42 million in 2009 to RMB7,273.21 million in 2010, which was mainly used for the new construction of cement production lines, the wind power blades production lines and the acquisition of subsidiaries etc..

Net cash generated from financing activities

Net cash generated from financing activities increased from RMB1,327.54 million in 2009 to RMB6,054.00 million in 2010. The increase was mainly due to the increase in net cash used in investing activities and the expansion of financing scale of the Company.

Working capital

As at 31 December 2010, the Group's cash and cash equivalents amounted to RMB13,213.99 million (2009: RMB10,077.92 million). Unutilised bank credit facilities amounted to RMB16,898.52 million (2009: RMB16,807.26 million). The current ratio (calculated by dividing the total current assets by the total current liabilities) of the Group as at 31 December 2010 increased to 100.54% (2009: 97.26%).

The Group monitors its capital status on the basis of the net debt ratio which is calculated as net debt divided by total capital. Net debt is calculated as the total amount of interest-bearing debts (including current and non-current borrowings and the bonds payable as shown in the consolidated statement of financial position) less bank balances and cash. As at 31 December 2010, the net debt ratio of the Group was 48.98%.

Management Discussion and Analysis

With stable cash inflow from daily operating activities as well as existing unutilised bank credit facilities, the Group has sufficient financing resources for its future expansion.

Net Current Assets

As at 31 December 2010, the net current assets of the Group was approximately RMB164.90 million, representing an increase of RMB861.24 million as compared to the net current liabilities of RMB696.34 million as at 31 December 2009. The increase was mainly due to the substantial growth in the Company's results and the corresponding increase in currency funds and trade and other receivables, meanwhile, the debt structure was improved through the issuing of medium-term notes.

Inventory Analysis

As at 31 December 2010, the inventory of the Group was approximately RMB5,357.22 million, representing an increase of RMB817.40 million as compared to RMB4,539.82 million as at 31 December 2009. The increase was mainly due to the expansion of operation scale of the Company. The inventory turnover days decreased from 62.52 days in 2009 to 51.03 days in 2010. The decrease was mainly due to the growth in turnover, while by strengthening management by the Company which restrained the growth of inventory balance.

Trade Receivables

As at 31 December 2010, the Group's trade receivables was approximately RMB5,570.48 million, representing an increase of RMB2,036.37 million as compared to the trade receivables of RMB3,534.11 million as at 31 December 2009. The increase was mainly due to the increase in turnover. In 2010, the average turnover days for trade receivables of the Company increased by 0.67 day from 36.88 days in 2009 to 37.55 days in 2010.

Contract Work-in-Progress

As at 31 December 2010, the Group's contract work-in-progress was RMB-257.26 million (as at 31 December 2009: RMB-236.82 million). Such change was mainly due to faster settlement of certain contract work-in-progress.

Contingent Liabilities

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Pending lawsuits/arbitrations	**–**	68,168
Outstanding guarantees	**395,500**	751,500
Total	**395,500**	819,668

Material Investment

During the reporting period, the Company did not make any material investment.

Material Acquisitions and Disposals of Assets

During the reporting period, the Company did not have any material acquisition or disposal of assets.

Management Discussion and Analysis

Market Risks

The Company is exposed to various types of market risks in the normal course of its business, including contract risk, foreign exchange risk, interest risk and raw materials and energy price risk.

Contract Risks

In 2010, the Company, relying on its brand advantage and competitive strength, captured market opportunities and obtained satisfactory results in both domestic and overseas markets. However, in respect of the overseas contracts, under the impacts of uncontrollable factors such as the global environment and political and economic conditions of the place of contract performance, certain projects may have the risks of being deferred. Accordingly, the uncontrollable factors of the implementation of the projects increased.

Foreign Exchange Risks

The Group conducts its domestic business primarily in RMB, which is also its functional currency for its domestic business. However, overseas engineering projects and export of products are denominated in foreign currencies, primarily US dollars and Euro. Therefore, the Company bears the risks of fluctuations of exchange rate to a certain extent.

Interest Rate Risks

The Group raises borrowings to support general corporate purposes, including capital expenditures and working capital. The interest rate of the borrowings is subject to adjustment by its lenders in accordance with changes of the regulations of the People's Bank of China. Therefore, the Group assumes the risks arising from the fluctuations in the interest rate of the borrowings.

Raw Materials and Energy Price Risks

The Company mainly consumes raw materials and energy resources, such as steel, coal, electricity and natural gas, the price fluctuation of which has a significant impact on the cost of the Company. Currently, with the substantial increase in global liquidity and the larger fluctuations occurring in the prices of international major commodities, the Company will be facing on upward pressures on cost.

Biography of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

TAN Zhongming, aged 57, is the executive Director and the chairman of the Board. Mr. Tan has also served as the general manager of the Parent from October 2000 to May 2009, and served as the chairman of the board of the Parent since May 2009. From March 2002 to July 2007, he served as the general manager of our predecessor, China National Non-Metallic Materials Corporation. Mr. Tan possesses in-depth knowledge as well as extensive managerial and operational experience in this industry. Mr. Tan has served in various key management positions such as the chief deputy head of Shandong Weifang Cement Factory (山東濰坊水泥廠) and the chief deputy head of Lunan Cement Factory (魯南水泥廠). From 1995 to October 2000, Mr. Tan has served a number of key governmental positions in the State Bureau of Building Materials Industry (國家建築材料工業局) such as the head of the Production Control and Industrial Management Department. Mr. Tan has also been serving as directors of four A share-listed companies, namely, Sinoma International, Sinoma Science & Technology, Tianshan Cement and Saima Industry, since December 2001, December 2004, December 2006 and December 2008, respectively. Mr. Tan is entitled to a special government allowance provided by the State Council. He was awarded as Outstanding Entrepreneur in the National Building Materials Industry in 2004 and National Labour Model (全國勞動模範) in 2005. Mr. Tan also serves as the vice president of China Building Materials Federation (中國建築材料聯合會), the president of China Building Materials Construction Society (中國建材工程建設協會), the vice president of China Cement Association and the vice president of China Association of Construction Enterprise Management (中國施工企業管理協會). Mr. Tan is the representative of the 13th People's Congress of Beijing Municipality. Mr. Tan graduated from Xi'an Jiaotong University (西安交通大學) in June 1999 with a doctoral degree in management. He is currently a professorate senior engineer.

LI Xinhua, aged 46, is the executive Director, vice chairman of the Board and president of the Company. Mr. Li served as a vice president of the Company from July 2007 to October 2009. He has been serving as the executive Director and the vice chairman of the Board of the Company since 24 December 2009, and the president of the Company since 4 January 2011. Mr. Li has been the chairman of the board of Sinoma Science & Technology since May 2003. He served as the president of Sinoma Science & Technology from October 2009 to August 2010. Mr. Li has over 25 years of experience in the non-metal materials industry. Mr. Li joined Beijing FRP Research and Design Institute (北京玻璃鋼研究設計院), currently a subsidiary of the Parent, and served various key positions, such as vice president and president since August 1985. Mr. Li is a National Young and Middle Aged Expert with Important Contribution (國家有突出貢獻的中青年專家) and is entitled to a special government allowance provided by the State Council. Mr. Li currently serves as the vice president of China Building Materials Federation (中國建築材料聯合會), the vice president of Chinese Society for Composite Materials (中國複合材料學會), the president of China Industry Association for Composite Materials (中國複合材料工業協會) and the vice chairman of China Building Material Industry Science and Technology Education Committee (國家建築材料科技教育委員會). Mr. Li graduated with a bachelor degree in chemistry from Shandong Institute of Building Materials (山東建材學院) in July 1985. He is currently a professorate senior engineer.

Biography of Directors, Supervisors and Senior Management

NON-EXECUTIVE DIRECTORS

YU Shiliang, aged 56, is the non-executive Director of the Company. Mr. Yu served as an executive Director and the president of the Company from July 2007 to March 2009, and then was re-designated as a non-executive Director of the Company and ceased to be the president of the Company since 27 March, 2009. Mr. Yu served as the general manager of the Parent from April 1997 to October 2000 and served as the deputy general manager of the Parent from October 2002 to October 2007 and has been serving as the vice chairman of the board of the Parent since May 2009. Mr. Yu has worked over 30 years in the non-metal materials industry and therefore has gained extensive operational and managerial experience as well as in-depth knowledge of this field. Mr. Yu has served various positions in Xianyang Research & Design Institute of Ceramics (國家建材局咸陽陶瓷研究設計院) such as the deputy head and head of the institute since 1984 and served as the head of the Synthetic Crystals Research Institute (人工晶體研究所), currently a subsidiary of the Parent, from April 1995 to April 1997. Mr. Yu served as a director of Sinoma Science & Technology, an A share-listed company, from December 2001 to December 2004 and has been serving as a director of Sinoma Science & Technology since March 2008. Mr. Yu was entitled to a special government allowance provided by the State Council. In 2006, Mr. Yu was awarded the fifth National Outstanding Entrepreneur in Innovation. In 1999 and 2007, Mr. Yu was awarded as Top Ten News Figures in the PRC Building Materials Industry (全國建材行業十大新聞人物). Mr. Yu also serves as the vice chairman of Chinese Ceramic Society and deputy director of the Information Committee of the China Enterprise Confederation. Mr. Yu was the representatives of the 16th and 17th National People's Congress of Communist Party. Mr. Yu graduated from Nanjing University of Technology (南京工業大學) in August 1978 majored in ceramics. Mr. Yu is currently a professorate senior engineer.

LIU Zhijiang, aged 53, is the non-executive Director of the Company. Mr. Liu served as the deputy general manager of the Parent from May 2005 to May 2009, and has been serving as a director of the board and the general manager of the Parent since May 2009. He has over 25 years of experience in the PRC non-metal materials industry. Mr. Liu has served a number of key positions in TCDRI since August 1982 such as deputy head and head of the institute. Mr. Liu served as the chairman of the board of Sinoma International, an A share-listed company, from April 2006 to December 2009. Mr. Liu is entitled to a special government allowance provided by the State Council. Mr. Liu was awarded as Provincial Young and Middle aged Expert with Important Contribution (省部級有突出貢獻的中青年專家), China Engineering Design Master and was included in the first group of national candidates for the New Century Hundred-Thousand-Ten Thousand Talents Project (新世紀百千萬人才工程國家級人選). Mr. Liu also serves in various positions such as the vice president of China Building Materials Federation, the vice chairman of China Building Material Science and Technology Education Committee, the vice president of China Cement Association and the vice president of China Project Construction Association. Mr. Liu graduated from South China University of Technology (華南理工大學) in July 1982 majored in binding materials. Mr. Liu is currently a professorate senior engineer.

CHEN Xiaozhou, aged 49, is the non-executive Director of the Company. Mr. Chen also has been serving as the vice president of Cinda since January 2003. He joined Cinda in April 1999 where he has served as assistant to the president since September 2000. Prior to that, Mr. Chen worked at China Construction Bank and its predecessor as head of project finance department of the international banking sector and deputy general manager of business operation sector from August 1988 to August 1999. Mr. Chen has been serving as the chairman of the board of Well Kent and chairman of the board of Silver Grant International Industries Limited and Cinda International Holdings Limited since February 2006 and December 2008, respectively. Mr. Chen graduated from PBOC's Financial Research Institute (中國人民銀行總行金融研究所) in June 1988 with a master degree in monetary banking and obtained a master degree in international accounting from New South Wales University of Australia.

Biography of Directors, Supervisors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEUNG Chong Shun, aged 45, is the independent non-executive Director of the Company. Mr. Leung has been serving as an independent non-executive director of Lijun International Pharmaceutical (Holding) Co., Ltd, (利君國際醫藥(控股)有限公司) since October 2005, an independent non-executive director of China Metal Recycling (Holdings) Limited since May 2009 and an independent non-executive director of China Communications Construction Company Ltd. (中國交通建設股份有限公司) since 24 January 2011. Mr. Leung is a partner of Woo Kwan, Lee & Lo. (胡關李羅律師行), a reputable law firm based in Hong Kong. Mr. Leung has been qualified as a solicitor in Hong Kong since 1991 and graduated from the University of Hong Kong in November 1988 where he obtained awarded a bachelor degree of Laws with honours. Mr. Leung is qualified as a solicitor in both Hong Kong and England.

SHI Chungui, aged 70, is the independent non-executive Director of the Company. Mr. Shi has been serving as an non-executive director of Aluminum Corporation of China Limited (中國鋁業股份有限公司) since June 2005 and has been serving as an independent non-executive director of Intime Department Store (Group) Company Limited (銀泰百貨(集團)有限公司) since August 2008. Mr. Shi has extensive experience in accounting, government and business administration. Mr. Shi served as an official of the People's Government of Qinhuangdao of Hebei Province (河北省秦皇島市政府) from January 1972 to June 1988, during which, he was appointed various key positions, such as, the director of commerce bureau and the deputy major. Mr. Shi served as the president of China Construction Bank, Hebei Branch, the president of China Construction Bank, Beijing Branch and the vice president of China Construction Bank, headquarter, from June 1988 to April 1999. Mr. Shi served as a vice president of Cinda from April 1999 to June 2001 and served as the vice chairman of the board of Tianjin Pipe Co., Ltd. (天津鋼管有限公司) from June 2001 to September 2003. Mr. Shi graduated with a bachelor degree in public finance from Dongbei University of Finance and Economics (東北財經大學). Mr. Shi is currently a senior economist.

LU Zhengfei, aged 47, is the independent non-executive Director of the Company. Mr. Lu is currently an associate dean, a professor and a supervisor of doctoral students with Guanghua School of Management of the Peking University (北京大學光華管理學院). Mr. Lu is a consultant to the China Accounting Standards Committee of the Ministry of Finance of the PRC (財政部會計準則委員會), a committee member and a member of the Academic Committee of the China Accounting Association (中國會計學會), an executive member of the Standing Committee of the China Audit Association (中國審計學會), a member of the Chinese Taxation Institute (中國稅務學會), a member of the China Costing Association (中國成本研究會), a member of the Editorial Committee of Accounting Research (《會計研究》), and a member of the Editorial Committee of Audit Research (《審計研究》). Mr. Lu has over 20 years experience in the accounting industry, during which, he has gained extensive operational and managerial experience as well as in-depth knowledge of this field. Mr. Lu served as an independent non-executive director of PICC Property and Casualty Company Limited (中國人民財產保險股份有限公司) from February 2004 to January 2011 and has been serving as an independent Supervisor of such company since January 2011. Mr. Lu has been serving as an independent non-executive director of Sinotrans Limited (中國外運股份有限公司) since September 2004 and has been serving as an independent non-executive director of Sino Biopharmaceutical Limited (中國生物制藥有限公司) since November 2007. Mr. Lu was selected as one of the "Top 100 Talent Program ("百人工程")" in philosophy and social science in Beijing in 2001 and one of the "New Century Excellent Scholarship Program ("新世紀優秀人才支持計劃")" of the Ministry of Education of the PRC (中國教育部) in 2005. Mr. Lu graduated with a doctorate degree in economics from Nanjing University (南京大學) in June 1996 and completed the post-doctoral research in economics (accounting) at Renmin University of China (中國人民大學).

Biography of Directors, Supervisors and Senior Management

WANG Shimin, aged 62, is the independent non-executive Director of the Company. Mr. Wang served the Supreme People's Court of the PRC (最高人民法院) from 1980 to 2008, during which, he served various positions, such as, the deputy chief of National Judges College (國家法官學院), the deputy chief of Administration in General Office (辦公廳) of the Supreme People's Court and the chief of Bureau of Justice and Material Administration (司法行政裝備管理局). Mr. Wang graduated with a second bachelor degree in law from Beijing University of Science & Technology (北京科技大學). He is currently a professor at National Judges College.

ZHOU Zude, aged 64, the independent non-executive Director of the Company since July 2010. Mr. Zhou has served as the professor and supervisor of doctoral students of the Electric and Engineering Department of Wuhan University of Technology (武漢理工大學) and a director of the key laboratory of digital manufacturing in Hubei Province (湖北省數字製造重點實驗室). Mr. Zhou served various positions, such as the lecturer and researcher director of electric engineering faculty of Huazhong University of Science and Technology(華中理工大學), the deputy professor and professor of Mechanical Engineering Faculty Department of Huazhong University of Science and Technology, the visiting professor of University of Bolton, from July 1970 to May 2000. From May 2000 to June 2010, Mr. Zhou served as the president of Wuhan University of Technology. Mr. Zhou is the member of Chinese Mechanical Engineering Society and American Mechanical Engineering Society. Mr. Zhou is also the chief editor of magazine "Digital Manufacture Science (數字製造科學)", the director of the International Academy for Production Engineering (國際生產工程學會), deputy chief editor of magazine of "International Biological Mechanics and Electric and Mechanical Engineering Integration (國際生物機械與機電一體化)" and the member of the editors of the magazine "International Vibration and Noises (國際振動與噪聲)". Mr. Zhou is also the vice chairman of the fourth session board of the Chinese Mechanical Engineering Magazine Agency. Mr. Zhou graduated from Huazhong University of Science and Technology in July 1970 and majored in electric and mechanical engineering. Mr. Zhou also attended an advanced studies at the University of Birmingham.

Biography of Directors, Supervisors and Senior Management

SUPERVISORS

XU Weibing, aged 51, is the chairman of the Supervisory Committee of the Company. Ms. Xu has been serving as the chief accountant of the Parent since October 2000 and served as the deputy general manager of our predecessor, China National Non-Metallic Materials Corporation from 2005 to July 2007. Ms. Xu has over 25 years experience in financial accounting and capital operations experience. Ms. Xu joined the Parent since 1989 and has served various key accounting and financial positions. Ms. Xu is entitled to a special government allowance provided by the State Council. She also serves as the committee member of China Association of Chief Financial Officers, deputy head of Geology Division of China Association of Chief Financial Officers, deputy head of building materials sub-committee of the Accounting Society of China and deputy head of geological sub-committee of the Accounting Society of China. Ms. Xu graduated from Liaoning Finance & Economics Institute (遼寧財經學院) majored in finance in July 1983 and she is also a senior accountant.

ZHANG Renjie, aged 46, is the Supervisor of the Company. Mr. Zhang has been serving as the chief financial officer of Taian State-owned Assets Since August 2005. Mr. Zhang previously served as a manager of the finance and audit department and an assistant to the general manager of Taian State-owned Assets from January 2000 to August 2005. Mr. Zhang served as the deputy director of finance and audit division of Taian Machinery and Electronics Administrative Bureau from March 1991 to January 2000. Mr. Zhang served as a deputy director of the finance division of Taian Fruit Company (泰安市果品公司) from August 1984 to March 1991. Mr. Zhang graduated in 1997 from Shandong Executive Leadership Academy (山東幹部大學) with a bachelor degree in accounting. He is also a senior auditor.

WANG Jianguo, aged 54, is the Supervisor of the Company. Mr. Wang is currently the director and deputy general manager of BBMG and has been serving as the chairman of the labour union of BBMG and its predecessor, Beijing Building Material Group Corporation (北京建材集團總公司) since August 2000. Mr. Wang also worked in Beijing Building Material Group Corporation as the operational manager and the vice president of the labour union from September 1995 to August 2000. Prior to that, he served as the deputy head of Beijing Ceramics Factory (北京市陶瓷廠) from March 1992 to September 1995. Mr. Wang graduated from Capital University of Economics and Business (首都經貿大學) in July 1987 and majored in economics. Mr. Wang is currently a senior politic official.

YU Xingmin, aged 55, is the employee representative Supervisor of the Company. Mr. Yu served as the executive vice president of Sinoma International from August 2005 to December 2009, and has been serving as vice chairman of the board of Sinoma International since December 2009. Mr. Yu worked in TCDRI with various positions such as the deputy head and head of the institute, general manager and chairman from February 1982 to January 2010. At present, Mr. Yu also serves as the vice president of China Building Materials Federation. Mr. Yu graduated from Harbin Institute of Technology (哈爾濱工業大學) majored in cement. Mr. Yu is also a professorate senior engineer and a National Engineering Survey and Design Master.

QU Xiaoli, aged 40, is the employee representative Supervisor of the Company. Mr. Qu has been serving as the director of the finance department of the Company since August 2007. Mr. Qu served in the audit department of China Construction Materials and Geological Prospecting Center (中國建材地質勘查中心) from July 1995 to November 1999. He also served as the chief accountant of Xiamen ISO Standard Sand Co., Ltd from November 1999 to August 2006. Mr. Qu graduated from Shijiazhuang University of Economics (石家莊經濟學院) in July 1995 and majored in accounting, and he graduated from the School of Economics of Xiamen University in July 2004 and majored in economics. He is also a senior accountant.

Biography of Directors, Supervisors and Senior Management

SENIOR MANAGEMENT

LI Xinhua, is the president of the Company, whose details are set out in the section headed "Executive Directors".

YU Mingqing, aged 47, is the vice president of the Company. Mr. Yu worked in Wuhan Building Materials Industry Design and Research Institute (武漢建築材料設計研究院), currently a subsidiary of the Parent, from June 1988 to June 1989. Mr. Yu has worked at Shangdong Industrial Ceramics Research and Design Institute (山東工業陶瓷研究設計院), currently a subsidiary of the Parent, from July 1989 to April 2001, where he served various key positions such as vice president and president of the institute. Mr. Yu has also served as the head of Sinoma Synthetic Crystals Research Institute (中材人工晶體研究院) from May 2001 to November 2005. Mr. Yu served as the chairman of the board of Sinoma Advanced Materials from June 2004 to February 2009, and the vice president of China National Non-Metallic Materials Corporation, our predecessor, from October 2004. Mr. Yu has been involved in the production, operation and management of non-metal materials for over 20 years and has accumulated rich knowledge of the industry. Mr. Yu is a Young and Middle aged Expert with Outstanding Contribution to the National Building Materials Industry (國家建材行業有重要貢獻的中青年專家), an Outstanding Entrepreneur in the National Building Materials Industry (全國建材行業優秀企業家), and entitled to a special government allowance provided by the State Council. Mr. Yu also serves as the member of China Building Materials Federation, member of China Building Material Industry Science and Technology Education Committee, standing director of Chinese Ceramic Society, vice chairman of Special Ceramics Sub-Committee, the vice president of China Stone Material Industry Association and the vice chairman of Zhong Guancun Advanced Materials Industrial Association. He graduated from Wuhan University of Technology (武漢理工大學) in January 2003 majored in materials and holds a doctorate degree. Mr. Yu is currently a professorate senior engineer.

GU Chao, aged 50, is the vice president of the Company and has been serving as the secretary of the Board of the Company since July 2010. Mr. Gu has been serving as a deputy general manager of our predecessor, China National Non-Metallic Materials Corporation our predecessor, since September 2000. Mr. Gu first joined China Building Materials Industry Construction Corporation (中國建築材料工業建設總公司), our predecessor in 1989 where he has served various senior managerial positions in the production, business development and overseas engineering departments. Mr. Gu has over 25 years of work experience in the non-metal materials industry and has profound understanding of this industry in China. Mr. Gu graduated from Xi'an University of Architecture and Technology (西安冶金建築學院) in July 1982 majored in constructions. Mr. Gu is currently a professorate senior engineer.

SU Kui, aged 48, is the vice president of the Company. Mr. Su has been serving as the deputy general manager of our predecessor, China National Non-Metallic Materials Corporation since March 2002 and served as the secretary of the Board of the Company from July 2007 to July 2010. Mr. Su has extensive experience in enterprise investment, operation and management, and has more than 25 years of experience in the non-metals materials industry. Mr. Su joined the Parent in 1987 and has held various positions such as manager of the general planning department, the manager of finance department, manager of planning and technical department and assistant to general manager of the Parent. Mr. Su is also a member of the State Construction Material Industry Technology Education Committee, director of Special Committee on Non-metallic Minerals (非金屬礦專委會), executive director of Chinese Ceramic Society (中國硅酸鹽學會) and director-general of Non-metallic Minerals Branch (非金屬礦分會). Mr. Su graduated from Wuhan University of Technology (武漢理工大學) in July 1984 majored in non-metals mining. Mr. Su is currently a professorate senior engineer.

Biography of Directors, Supervisors and Senior Management

JIN Leyong, aged 56, is the vice president of the Company. Mr. Jin served as the vice president of our predecessor, China National Non-Metallic Materials Corporation since December 2005. Prior to this office, Mr. Jin served various positions such as assistant engineer, engineer, department head and assistant to the president of Tianjin Cement Institute from January 1982 to June 1992. Mr. Jin then joined China Nongfang North Corporation (中國農房華北公司) and served as the deputy general manager and general manager from June 1992 to October 1999. Mr. Jin was then appointed as the deputy chief of State Building Materials Bureau Retirement Department (國家建材局離退休幹部局) from October 1999 to October 2001. Mr. Jin first joined the Parent in October 2001 and has served in various subsidiaries of the Parent holding senior managerial positions such as deputy vice president of CBMC and president of Beijing FRP Research and Design Institute. Mr. Jin has over 25 years of experience in the building materials industry. Mr. Jin graduated from Wuhan University of Technology (武漢理工大學) in January 1982 with a bachelor degree in constructions. Mr. Jin is currently a professorate senior engineer.

SUI Yumin, aged 46, is the vice president of the Company and has been serving as the chairman of the board of Sinoma Cement since April 2010. Before joined the Group in August 2003, Mr. Sui held various positions in Lunan Cement Factory (魯南水泥廠) such as deputy chief engineer and deputy general manager from August 1986 to August 2003. Mr. Sui worked as the deputy general manager of Sinoma Cement and the chairman and general manager of Sinoma Hanjian from August 2003 to September 2004. Subsequently Mr. Sui served as the deputy general manager and executive deputy general manager of Tianshan Cement until July 2007. Mr. Sui has been serving as a director of Tianshan Cement since October 2005, and has been serving as a director of Saima Industry since December 2008. Mr. Sui has extensive work experience in the cement industry for over 20 years. Mr. Sui graduated from Shandong Institute of Building Materials (山東建材學院) in July 1986 majored in cement engineering. Mr. Sui is currently a professorate senior engineer.

ZHANG Zhifa, aged 57, is the vice president of the Company. Mr. Zhang has over 25 years in the non-metal materials industry. Mr. Zhang first joined the Group in July 2007 and prior to that he worked for Taian Dongping Cement Factory (泰安市東平水泥廠) as the deputy head and the head of the factory from January 1978 to June 1986. Since then Mr. Zhang worked in Taian Building Materials Bureau (泰安市建材工業局) until 1999 serving various positions such as deputy head. Mr. Zhang also served as the chairman of the board and general manager of Taian Taishan Composite Materials Co., Ltd. (泰安市泰山複合材料有限公司) from June 2000 to December 2001. Mr. Zhang served as the chairman of the board of CTG from January 2002 to July 2010. At present, Mr. Zhang also serves as the vice president of China Building Materials Federation. Mr. Zhang was a representative of the 11th National People's Congress, an expert of the State Science and Technology Panel (國家科學技術評審專家) who was entitled to a special government allowance provided by the State Council, and a specialist professor commissioned under the Scheme of Taishan Scholars of Shandong Province. Mr. Zhang graduated from Nanjing University of Technology (南京工業大學) in January 1978 majored in silicate materials. Mr. Zhang is currently a professorate senior engineer.

WANG Baoguo, aged 55, is the vice president of the Company. Mr. Wang served as the deputy general manager of our predecessor, China National Non-Metallic Materials Corporation from October 2004 to July 2007, and a Supervisor of the Company from July 2007 to October 2009, and has been serving as the vice president of the Company since October 2009. Mr. Wang has been serving as the chairman of the board and general manager of Sinoma Jinjing since October 2004. Mr. Wang worked for the Shandong Economic Planning Commission (山東省計委) from 1981 to 1992. Mr. Wang also served as the deputy mayor of Dongying City, Shandong Province (山東省東營市副市長) from December 1992 to October 2003. Mr. Wang graduated from the Party School of the Central Committee of the Communist Party of China (CPC) (中共中央黨校) majored in economics and management. Mr. Wang is currently a senior economist.

Biography of Directors, Supervisors and Senior Management

WANG Guanglin, aged 52, is the vice president of the Company. Mr. Wang has been serving as the chairman of the board of Ningxia Building Materials since November 2005 and served as the chairman of the board of Sinoma Cement from September 2007 to April 2010. Mr. Wang has over 25 years experience in cement industry. Mr. Wang had been an assistant to the head and the deputy head of Ningxia Cement Factory (寧夏水泥廠) from November 1984 to March 1997, and served as head, deputy general manager, chairman of the board and general manager successively in Qingtongxia Cement Factory, Ningxia Hui Autonomous Region Building Materials Industrial Corporation, Qingtongxia Cement Corporation and Ningxia Building Materials Group, from March 1997 to November 2005. Mr. Wang graduated from Chinese University of Hong Kong in December 2008 with the master degree of business administration. Mr. Wang is currently a professorate senior engineer.

WANG Wei, aged 54, is the vice president of the Company. Mr. Wang served as the director and president of Sinoma International from December 2001 to December 2009 and has been serving as the chairman of the board of Sinoma International since December 2009. Mr. Wang served as the Supervisor of the Company from July 2007 to March 2010 and has been serving as the vice president of the Company since March 2010. Mr. Wang joined the Parent in 1984 and had held various positions, such as deputy head of Nanjing Cement Industry Design and Research Institute Co., Ltd. Mr. Wang served as the deputy general manager and general manager of China Building Materials Industry Construction Corporation from June 2001 to March 2002. Mr. Wang graduated from Nanjing University of Technology (南京工業大學) in January 1982 majored in cement engineering. Mr. Wang is currently a professorate senior engineer.

LIU Yan, aged 45, has been serving as the vice president of the Company since March 2010. Mr. Liu has been serving as the chairman of the board of Sinoma Advanced Materials since January 2010. Mr. Liu joined the Parent in 1985 and had held various positions such as assistant to the head and deputy head of Nanjing Fiberglass R&D Institute (南京玻璃纖維研究設計院). Mr. Liu was the vice president of Sinoma Science & Technology, an A share-listed company from December 2001 to May 2003 and was the president of Sinoma Science & Technology from May 2003 to October 2009. Mr. Liu graduated from Nanjing University of Technology (南京工業大學) in July 1985 majored in silicate engineering. Mr. Liu is currently a senior engineer.

YU Kaijun, aged 47, has been serving as the Chief Financial Officer of the Company since July 2010. Mr. Yu worked at the Finance Bureau of Pingliang District in Gansu Province from July 1982 to November 1990. Mr. Yu served as the chief financial officer and deputy general manager of Shenzhen Languang Science & Technology Co., Ltd. (深圳蘭光科技股份有限公司) (and its predecessor, Shenzhen Languang Electronic Industrial Corporation (深圳蘭光電子工業總公司)) from November 1990 to October 2001. Mr. Yu served as the chief financial officer of Sinoma International from December 2001 to January 2011. Mr. Yu graduated from the Hong Kong Polytechnic University majored in business administration in November 2004. Mr. Yu is currently a senior tax consultant.

Directors, Supervisors and senior management have no other relationships with other Directors, Supervisors and senior management apart from working relationships.

Directors' Report

The Board is pleased to present the annual report, together with the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL BUSINESS

The Group is principally engaged in the cement equipment and engineering services, cement and high-tech materials businesses. Details of the businesses of the Company's principal subsidiaries are set out in note 55 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2010 and the financial information of the Group as at 31 December 2010 are set out in the audited financial statements of this report.

SHARE CAPITAL

As at 31 December 2010, the share capital structure of the Company is set out below:

Class of Shares	Number of Shares	Approximate Percentage to the Total Issued Share Capital
Domestic shares	2,276,522,667	63.74%
Foreign shares		
Unlisted foreign shares	130,793,218	3.66%
H Shares	1,164,148,115	32.60%
Total	3,571,464,000	100%

DIVIDEND

The Board recommends the distribution of final dividend of RMB0.04 per share (tax inclusive) in an aggregate amount of RMB142,858,560 for the year ended 31 December 2010.

PUBLIC FLOAT

As at the date of this report, based on the public information available to the Company and as far as the Directors are aware, the Company fulfilled the public float requirement under Rule 8.08 of the Listing Rules.

Directors' Report

DIRECTORS AND SUPERVISORS

Certain information concerning the Directors and the Supervisors as at 31 December 2010 is set out below:

Name	Position	Gender	Age	Term
TAN Zhongming	Chairman of the Board and executive Director	Male	57	26 July 2010 to 25 July 2013
LI Xinhua	Vice chairman of the Board and executive Director	Male	46	26 July 2010 to 25 July 2013
	President			4 January 2011 to 25 July 2013
YU Shiliang	Non-executive Director	Male	56	26 July 2010 to 25 July 2013
LIU Zhijiang	Non-executive Director	Male	53	26 July 2010 to 25 July 2013
CHEN Xiaozhou	Non-executive Director	Male	49	26 July 2010 to 25 July 2013
LEUNG Chong Shun	Independent non-executive Director	Male	45	26 July 2010 to 25 July 2013
SHI Chungui	Independent non-executive Director	Male	70	26 July 2010 to 25 July 2013
LU Zhengfei	Independent non-executive Director	Male	47	26 July 2010 to 25 July 2013
WANG Shimin	Independent non-executive Director	Male	62	26 July 2010 to 25 July 2013
ZHOU Zude	Independent non-executive Director	Male	64	26 July 2010 to 25 July 2013
XU Weibing	Chairman of the Supervisory Committee	Female	51	26 July 2010 to 25 July 2013
ZHANG Renjie	Supervisor	Male	46	26 July 2010 to 25 July 2013
WANG Jianguo	Supervisor	Male	54	26 July 2010 to 25 July 2013
YU Xingmin	Supervisor	Male	55	26 July 2010 to 25 July 2013
QU Xiaoli	Supervisor	Male	40	26 July 2010 to 25 July 2013

The term of office of all Directors is not more than 3 years, until and unless any party gives a notice of termination of not less than one month to the other party.

The biography details of the Directors and the Supervisors are set out in the section of "Biography of Directors, Supervisors and Senior Management".

Directors' Report

Mr. WANG Wei resigned as the Supervisor with effect from 3 March 2010. Please refer to the announcement of the Company dated 3 March 2010 for details.

Mr. TONG Anyan resigned as the independent non-executive Director with effect from 6 May 2010. Please refer to the announcement of the Company dated 6 May 2010 for details.

On 26 July 2010, the second session of the Board and Supervisory Committee were formed at the extraordinary general meeting of the Company. The Board comprised: Mr. TAN Zhongming (Chairman), Mr. ZHOU Yuxian and Mr. LI Xinhua as executive Directors; Mr. YU Shiliang, Mr. LIU Zhijiang and Mr. CHEN Xiaozhou as non-executive Directors; and Mr. LEUNG Chong Shun, Mr. SHI Chungui, Mr. LU Zhengfei, Mr. WANG Shimin and Mr. ZHOU Zude as independent non-executive Directors. The Supervisory Committee comprised: Ms. XU Weibing (Chairman), Mr. ZHANG Renjie, Mr. WANG Jianguo, Mr. YU Xingmin and Mr. QU Xiaoli. Please refer to the announcement of the Company dated 26 July 2010 for details.

Mr. ZHOU Yuxian resigned as the executive Director, president, authorised representative of the Company and also resigned as the member of the Strategy Committee and the member of the Nomination Committee on 22 December 2010. Please refer to the announcement of the Company dated 22 December 2010 for details. Mr. LI Xinhua was appointed as the president of the Company and a member of the Nomination Committee on 4 January 2011. Please refer to the announcement of the Company dated 4 January 2011 for details.

DISCLOSURE OF INTERESTS

Directors', Supervisors' and Chief Executive's Interests and Short Positions in the Company's Shares, Underlying Shares and Debentures

As at 31 December 2010, no Director, Supervisor or chief executive of the Company has any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered into the register kept under such provisions or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Hong Kong Stock Exchange.

Directors', Supervisors' and Chief Executive's Rights in the Subscription of Shares and Debentures

During the reporting period, no Director, Supervisor or chief executive of the Company or their spouses or children under the age of 18, had been granted any right by the Company to subscribe shares or debentures of the Company or any of its associated corporation, or had exercised any such right to subscribe for shares or debentures above.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2010, so far as the Directors, Supervisors and chief executive of the Company are aware, according to the register of interests and/or short positions in shares required to be kept pursuant to Section 336 of Part XV of the SFO, the persons in the following table had an interest and/or short position in the shares or underlying shares of the Company:

Name	Type of Shares	Nature of interests	Number of Shares interested	Percentage to the respective class of issued shares	Percentage to the total share capital
China National Materials Group Corporation Ltd.	Domestic shares	N/A	1,494,416,985	65.64%	41.84%
China Cinda Asset Management Co., Ltd.	Domestic shares	N/A	319,788,108	14.05%	8.96%
Taian Taishan Investment Co., Ltd.	Domestic shares	N/A	309,786,095	13.61%	8.67%
Well Kent International Holdings Company Limited	Unlisted foreign shares	N/A	130,793,218	100.00%	3.66%
The National Council for Social Security Fund	H Shares	Long position	94,253,115	8.10%	2.64%
Allianz SE	H Shares	Long position	93,739,000	8.05%	2.62%
Baring Asset Management Limited	H Shares	Long position	92,938,000	7.98%	2.60%
The Hamon Investment Group Pte Limited	H Shares	Long position	81,774,000	7.02%	2.29%
Northern Trust Fiduciary Services (Ireland) Limited	H Shares	Long position	71,277,000	6.12%	2.00%

Note: The information disclosed is based on the information provided on the website (www.hkex.com.hk) of the Hong Kong Stock Exchange.

Save as disclosed above, so far as the Directors, Supervisors and chief executive of the Company are aware, as at 31 December 2010, there was no other person with interests and/or short positions in the shares and underlying shares of the Company which would be recorded in the register of the Company required to be kept under section 336 of Part XV of the SFO.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

The consolidated turnover from the five largest customers of the Group accounted for less than 30% of the Group's total turnover in 2010.

The consolidated total purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases in 2010.

Save as disclosed above, none of the Directors, their associates or, so far as the Directors are aware, shareholders who are interested in more than 5% of the share capital of the Company have beneficial interests in the five largest customers or in the five largest suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

For the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2010, the additions of property, plant and equipment of the Group was RMB7,400.33 million. Details of these movements are set out in note 20 to the financial statements.

RESERVES

Details of the movement of the Group's reserves during the year are set out in the "Consolidated Statement of Changes in Equity" of this report.

EMPLOYEES

As at 31 December 2010, the number of employees of the Group was 46,419.

REMUNERATION POLICY

The Company has set up the Remuneration Committee under the Board, which is responsible for formulating the remuneration policy and remuneration proposal for the executive Directors and senior management of the Company in accordance with its written terms of reference. The remuneration of the executive Directors was determined and realized according to the service contracts of the Directors as approved at the general meetings and the operating results of the Company. The remuneration of the non-executive Directors, the independent non-executive Directors and the Supervisors was determined and realized according to the service contracts of the non-executive Directors, the independent non-executive Directors and the Supervisors as approved at the general meeting.

Position-based salary system was adopted for general management staff. Salary was determined according to the relative importance of the positions, the duties assumed in the positions and other factors. Various salary models such as piece rate and skill-based wage model were adopted for other employees based on the categories to which they belong and their job nature.

Directors' Report

The Company stringently controlled the overall salary management of its controlling companies and wholly-owned subsidiaries in accordance with the applicable policy of the Chinese government. It sought to maintain an appropriate balance between salary increase and the growth in economic benefits, in order to achieve a win-win situation among shareholders, management and employees and facilitate the harmonious development of the enterprise.

As required by the relevant state and local labour and social welfare laws and regulations, the Company contributed to certain housing fund and social insurance premiums for its employees on a monthly basis. Insurance premiums are paid for retirement insurance, medical insurance, unemployment insurance, maternity insurance and work injury insurance. In Beijing, as required by the prevailing and applicable local rules, the Company's contributions to retirement insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing fund shall account for 20%, 10%, 1%, 0.3%, 0.8% and 12% of the total basic monthly salary of the employees.

RETIREMENT PLAN OF EMPLOYEES

Details are set out in note 39 to the financial statements.

SHARE APPRECIATION RIGHT PLAN

To motivate and award the senior management team and other key members of the Company, the Company formulated the share appreciation rights scheme. Such scheme was considered and approved by the relevant administrative department of the Chinese government on 15 July 2010 and was also approved at the second extraordinary general meeting of the Company held on 22 October 2010. Pursuant to the resolution of the extraordinary general meeting, a total of 4.13 million share appreciation rights were granted to 16 Directors and senior management representing the first batch of share appreciation rights grantees at the fifth meeting of the second session of the Board.

DIRECTORS' AND SUPERVISORS' REMUNERATIONS

Details of the remunerations of the Directors and Supervisors of the Company are set out in note 17 to the financial statements.

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

The Company has entered into service contracts of a term of at most 3 years with all the Directors and Supervisors. No Director or Supervisor has entered into or intends to enter into a service contract with the members of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Report

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACT

No Director or Supervisor of the Company had a material interest, either directly or indirectly, in any contract relating to the business of the Group, to which the Company or any of its subsidiaries was a party, and was subsisting on the financial year at the end of the year or at any time during the year.

MANAGEMENT CONTRACT

During the reporting period, the Company has not signed or held any contract concerning the management of the general business or any major business segment of the Company.

CONNECTED TRANSACTIONS

1. Exempted Connected Transactions

1.1 Non-competition Agreement

The Company entered into a non-competition agreement with the Parent on 23 November 2007. Pursuant to which, the Parent has agreed not to, and to procure its subsidiaries (other than the Group) not to, compete with the core businesses of the Group and granted the Group options and pre-emptive rights to acquire retained business and certain future business from the Parent.

For the year ended 31 December 2010, save as disclosed in the prospectus of the Company, no Directors (including independent non-executive Directors) of the Company has made any decision to exercise the options.

For the year ended 31 December 2010, the Parent confirmed its compliance with the commitments stated in the non-competition agreement, and provided the independent non-executive Directors of the Company with all information required for the annual review and the execution of the non-competition agreement.

2. Non-exempted Connected Transactions

Major connected transactions of the Group during 2010 are as follows:

2.1 Acquisition of 22.87% equity interest in Sinoma Changde by Sinoma Cement

On 8 February 2010, Sinoma Cement (a subsidiary of the Company) and Hunan Niuli Cement Company Limited ("Hunan Niuli") entered into the acquisition agreement, whereby Sinoma Cement has agreed to acquire a 22.87% equity interest of Hunan Niuli in Sinoma Changde for a cash consideration of RMB22,800,000. Upon completion of the acquisition agreement, Sinoma Changde will be a wholly-owned subsidiary of Sinoma Cement.

Details of the transaction are set out in the announcement of the Company dated 8 February 2010 on the website of the Hong Kong Stock Exchange.

Hunan Niuli was the substantial shareholder of Sinoma Changde and Sinoma Xiangtan, the subsidiaries of the Company, and therefore Hunan Niuli was a connected person of the Company under the Listing Rules.

Directors' Report

2.2 Acquisition of 24.85% equity interest in Sinoma Xiangtan by Sinoma Cement

On 8 February 2010, Sinoma Cement (a subsidiary of the Company) and Hunan Niuli entered into the acquisition agreement, whereby Sinoma Cement has agreed to acquire a 24.85% equity interest of Hunan Niuli in Sinoma Xiangtan for a cash consideration of RMB58,430,000. Upon completion of the acquisition agreement, Sinoma Xiangtan will be a wholly-owned subsidiary of Sinoma Cement.

Details of the transaction are set out in the announcement of the Company dated 8 February 2010 on the website of the Hong Kong Stock Exchange.

Hunan Niuli was the substantial shareholder of Sinoma Xiangtan and Sinoma Changde, subsidiaries of the Company, and was therefore a connected person of the Company under the Listing Rules.

3. Non-exempted Continuing Connected Transactions

The Group has entered into certain non-exempted continuing connected transactions in 2010. The table below has set out the annual caps and the actual transaction amounts of such transactions:

		Expenditure		Revenue	
Connected Transactions		**Actual amount**	**Cap**	**Actual amount**	**Cap**
		RMB	*RMB*	*RMB*	*RMB*
Property Lease Framework Agreement	(1)	24,187,091	40,000,000	–	–
Mutual Supply of Equipment and Parts, Provision of Maintenance, Repair and Installation Services Agreement between the Company and the Parent	(2)	47,295,663	80,000,000	6,870,172	50,000,000
Mutual Supply of Raw Materials, Products and Services Agreement between the Company and Hengda Hong Kong	(3)	106,998,760	142,570,000	13,092,840	153,180,000
Mutual Comprehensive Services Agreement between the Company and the Parent	(4)	147,027,298	180,000,000	15,580,372	60,000,000
Mutual Supply of Raw Materials and Products Agreement between the Company and the Parent	(5)	76,755,781	94,060,000	54,979,138	133,760,000
Agreements for the BOOT Project, the CDM Project and the SEEG Sub-contract Project between the Company and Sinoma Energy Conservation	(6)	343,016,045	481,800,000	–	–
Supply Framework Agreement between Jiangxi Sinoma and LDK	(7)	–	–	85,702,402	450,000,000

Directors' Report

3.1 Property Lease Framework Agreement

The Company and certain subsidiaries of the Company have entered into several property and building lease agreements with certain subsidiaries of the Parent before the listing, pursuant to which certain subsidiaries of the Parent have agreed to provide property and building leasing services to certain subsidiaries of the Company. The term of such agreements was 5 years, 10 years, 20 years and 40 years respectively.

The terms of such agreements have reflected the current conditions of the PRC, and the rents payable are fair and reasonable as a whole and reflect the prevailing market rate.

In order to regulate the property lease arrangements between the Parent Group (other than the Group) and the Group, a property lease framework agreement was entered into between the Parent and the Company on 5 May 2009.

Pursuant to the property lease framework agreement, the Group agreed, in accordance with the agreements between both parties from time to time, to lease from the Parent Group (other than the Group) certain lands and buildings (including but not limited to production lines, office buildings, warehouses and employees' quarters) owned or leased by the Parent Group in the PRC, for the purpose of the operation of the Group.

The term of the property lease framework agreement commenced from 5 May 2009 and will end on 31 December 2011. Upon expiry of the term, the property lease framework agreement shall be renewed for a further period of three years, subject to the relevant disclosure requirements under the Listing Rules and mutual agreement of the parties. Details of the transaction are set out in the announcement of the Company dated 5 May 2009 on the website of the Hong Kong Stock Exchange.

Parent is a controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules.

During the reporting period, the annual cap on the aggregate rents payable by the Group to certain subsidiaries of the Parent for 2010 under the above-mentioned property and building lease agreements was approximately RMB40,000,000 and the actual rental expenditure incurred was approximately RMB24,187,091.

3.2 Mutual Supply of Equipment and Parts, Provision of Maintenance, Repair and Installation Services Agreement between the Company and the Parent

On 31 December 2009, the Company renewed the mutual supply of equipment and parts, provision of maintenance, repair and installation services agreement with the Parent, whereby the Group has agreed to provide to the Parent Group equipment and parts for cement and concrete production, and the Parent Group has agreed to provide to the Group with certain cement production related equipment, parts and maintenance, repair and installation services.

Under the mutual supply of equipment and parts, provision of maintenance, repair and installation services agreement with the Parent, the price shall be determined in accordance with the following pricing principles: 1) the state-prescribed price; 2) where there is no state-prescribed price, then according to relevant state-recommended price; 3) where there is no state-recommended price, then according to relevant market price; 4) where there is no relevant market price, then according to the contracted price.

The mutual supply of equipment and parts, provision of maintenance, repair and installation services agreement commenced from 1 January 2010 and will end on 31 December 2012. Upon expiry of the term, the mutual supply of equipment and parts, provision of maintenance, repair and installation services agreement will be renewed for a further term of three years, subject to the relevant disclosure requirements under the Listing Rules and mutual agreement of the parties. Details of the transaction are set out in the announcement of the Company dated 31 December 2009 on the website of the Hong Kong Stock Exchange.

Parent is a controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules.

During the reporting period, a) the annual cap on revenue from the Group's provision of equipment and parts for production of cement and concrete to the Parent Group for 2010 was approximately RMB50,000,000 and the actual amount was approximately RMB6,870,172; b) the annual cap on expenditure from the provision of certain cement production related equipment and parts and the provision of the maintenance, repair and installation services to the Group by the Parent Group for 2010 was approximately RMB80,000,000 and the actual amount was approximately RMB47,295,663.

Directors' Report

3.3 Mutual Supply of Raw Materials, Products and Services Agreement between the Company and Hengda Hong Kong

On 31 December 2009, the Company entered into a mutual supply of raw materials, products and services agreement with Hengda Hong Kong, pursuant to which:

(1) The Group agreed to provide raw materials and products, such as, limestones, clinkers and cement to Hengda Hong Kong Group;

(2) Hengda Hong Kong Group agreed to provide the following raw materials and services to the Group:

- clay, limestones and volcanic ash;
- cement processing services;
- transportation services;
- supply of electricity and water;
- other related and ancillary services.

Under the mutual supply of raw materials, products and services agreement with Hengda Hong Kong, the price shall be determined in accordance with the following pricing principles: 1) the state-prescribed price; 2) where there is no state-prescribed price, then according to relevant state-recommended price; 3) where there is no state-recommended price, then according to relevant market price; 4) where there is no relevant market price, then according to contracted price which shall be determined by reference to the historical figures for preceding years (if any).

The mutual supply of raw materials, products and services agreement with Hengda Hong Kong commenced from 1 January 2010 and will end on 31 December 2012.

Upon expiry of the term, the mutual supply of raw materials, products and services agreement will be renewed for a further term of three years, subject to the relevant disclosure requirements under the Listing Rules and mutual agreement of the parties. Details of the transaction are set out in the announcement of the Company dated 31 December 2009 on the website of the Hong Kong Stock Exchange.

Hengda Hong Kong is a substantial shareholder of Sinoma Hengda, a subsidiary of the Company, and is therefore a connected person of the Company under the Listing Rules.

During the reporting period, a) the annual cap on revenue from the provision of raw materials and products as set out in (1) to Hengda Hong Kong Group by the Group for 2010 was approximately RMB153,180,000 and the actual amount was approximately RMB13,092,840; b) the annual cap on expenditure from the provision of raw materials and services as set out in (2) by Hengda Hong Kong Group to the Group for 2010 was approximately RMB142,570,000 and the actual amount was approximately RMB106,998,760.

3.4 Mutual Comprehensive Services Agreement between the Company and the Parent

On 31 December 2009, the Company renewed the mutual comprehensive services agreement with the Parent, pursuant to which:

(1) The Group agreed to provide the following services to the Parent Group:

- supply of water, electricity and heating;
- property management and maintenance services;
- design services;
- equipment maintenance and repair services; and
- other related and ancillary services.

(2) The Parent Group agreed to provide the following services to the Group:

- supply of water, electricity and heating;
- property management and maintenance services;
- equipment maintenance and repair services;
- site preparation, exploration and exploitation services;
- equipment leasing services;
- design, consultancy and technology services;
- transportation services; and
- other related and ancillary services.

Under the mutual comprehensive services agreement, the price shall be determined in accordance with the following pricing principles: 1) state-prescribed price; 2) where there is no state-prescribed price, then according to relevant state-recommended price; 3) where there is no state-recommended price, then according to relevant market price; 4) where there is no relevant market price, then according to contracted price which shall be determined by reference to the historical figures for preceding years (if any).

The mutual comprehensive services agreement commenced from 1 January 2010 and will end on 31 December 2012. The annual cap on transaction for the three years ending 31 December 2012 is also set. Upon expiry of the term, the mutual comprehensive services agreement will be renewed for a further term of three years, subject to the relevant disclosure requirements under the Listing Rules and mutual agreement of the parties. Details of the transaction are set out in the announcement of the Company dated 31 December 2009 on the website of the Hong Kong Stock Exchange.

Directors' Report

On 27 September 2010, the Company revised the annual caps on the transaction under the mutual comprehensive services agreement for the years ending 31 December 2012. Details of the transaction are set out in the announcement of the Company dated 27 September 2010 on the website of the Hong Kong Stock Exchange.

Parent is a controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules.

During the reporting period, a) the annual cap for 2010 on revenue from the Group's provision to the Parent Group of comprehensive services stated above in (1) was approximately RMB60,000,000, while the actual amount was approximately RMB15,580,372; b) the annual cap for 2010 on expenses incurred for the Parent Group's provision to the Group of the comprehensive services stated above in (2) was RMB180,000,000, while the actual amount was approximately RMB147,027,298.

3.5 Mutual Supply of Raw Materials and Products Agreement between the Company and the Parent

On 31 December 2009, the Company entered into a mutual supply of raw materials and products agreement with the Parent and also set the annual caps on the transaction for the three years ending 31 December 2012, pursuant to which:

(1) The Group agreed to provide certain raw materials and products such as composite materials, glass fiber products, cement and clinker to the Parent Group; and

(2) The Parent Group agreed to provide certain raw materials and other products for production of cement, including but not limited to limestones, ceramics products and pipes to the Group.

Under the mutual supply of raw materials and products agreement with the Parent, the price shall be determined in accordance with the following pricing principles: (a) state-prescribed price; (b) where there is no state-prescribed price, then according to relevant state-recommended price; (c) where there is no state-recommended price, then according to relevant market price; (d) where there is no relevant market price, then according to contracted price which shall be determined by reference to the historical figures for preceding years (if any).

The mutual supply of raw materials and products agreement commenced from 1 January 2010 and will end on 31 December 2012. Upon expiry of the term, the mutual supply of raw materials and products agreement with the Parent will be renewed for a further term of three years, subject to the requirements under the Listing Rules and mutual agreement of the parties. Details of the transaction are set out in the announcement of the Company dated 31 December 2009 on the website of the Hong Kong Stock Exchange.

Parent is a controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules.

During the reporting period, a) the annual cap on revenue from the provision of raw materials and products to the Parent Group by the Group for 2010 was RMB133,760,000, while the actual amount was approximately RMB54,979,138; b) the annual cap for 2010 on expenditure incurred for the provision of raw materials and other products stated at (2) by the Parent Group to the Group for 2010 was approximately RMB94,060,000, while the actual amount was approximately RMB76,755,781.

3.6 Agreements for the BOOT Project, the CDM Project and the SEEG Sub-Contract Project between the Company and Sinoma Energy Conservation

On 5 August 2008, the Company entered into agreements for the BOOT project, the CDM project and the SEEG sub-contract project with Sinoma Energy Conservation. Pursuant to the agreement under the BOOT project, the Group shall purchase electricity generated under the BOOT project from Sinoma Energy Conservation. All surplus electricity generation facilities constructed by Sinoma Energy Conservation under the BOOT Project shall be assigned to the Group for free after the end of the operation period, which is currently estimated to be 10 years.

Pursuant to the agreement under the CDM project, conditional upon the entering into the implementation agreements for the BOOT project by Sinoma Energy Conservation and any members of the Group, Sinoma Energy Conservation shall be responsible for the whole CDM project for the Group. Under the CDM project, Sinoma Energy Conservation shall, at its own costs, undertake the technology consultation and research and development of the CDM project, the registration of such project with the CDM executive board, and the application for the issue of CERs by CDM executive board. Upon selling of CERs derived from the CDM project by the Group, the Group shall pay Sinoma Energy Conservation part of revenue derived thereunder at a rate to be agreed by the parties.

Pursuant to the agreement under the SEEG sub-contract project, the Group may sub-contract its surplus energy electricity generation business through a tender process. If the proposals tendered by Sinoma Energy Conservation are better or no less favourable than those offered by other suppliers participating the tender, the Group shall consider to sub-contract the surplus energy electricity generation businesses to Sinoma Energy Conservation, pursuant to which, Sinoma Energy Conservation shall undertake, among others, the engineering design, equipment procurement and commissioning of such project.

The agreements for the BOOT project, the CDM project and the SEEG sub-contract project are for terms commencing from 5 August 2008 and ended on 31 December 2010. Upon expiry of the terms, the agreements will, subject to the applicable reporting, announcement, and independent shareholders' approval requirements under the Listing Rules, be automatically renewed for a further period of three years.

Pursuant to the agreements for the BOOT project, the CDM project and the SEEG sub-contract project, the prices shall be determined in accordance with the following pricing principles: (a) state-prescribed price; (b) where there is no state-prescribed price, then according to relevant state-recommended price; (c) where there is no state-recommended price, then according to relevant market price; (d) where there is no relevant market price, then according to the contracted price.

Details of the transaction are set out in the announcement of the Company dated 5 August 2008 on the website of the Hong Kong Stock Exchange.

Directors' Report

On 27 September 2010, the Company renewed the agreements for the BOOT Project, the CDM Project and the SEEG Sub-Contract Project and the agreement for the supply of equipment and parts project with effect from 1 January 2011 to 31 December 2012. Details of the transaction are set out in the announcement of the Company dated 27 September 2010 on the website of the Hong Kong Stock Exchange.

Sinoma Energy Conservation is a subsidiary of the Parent, and is therefore a connected person of the Company under the Listing Rules.

During the reporting period, the annual cap for the agreements regarding the BOOT project, the CDM project and the SEEG sub-contract project for 2010 was approximately RMB481,800,000, while the actual amount was approximately RMB343,016,045.

3.7 Supply Framework Agreement between Jiangxi Sinoma and LDK

On 26 June 2008, Jiangxi Sinoma, an indirect subsidiary of the Company, entered into a supply framework agreement with LDK, pursuant to which, Jiangxi Sinoma agreed to supply solar-energy fused silica crucibles to LDK.

The supply framework agreement was effective from 26 June 2008 and ended on 31 December 2010. Pursuant to the supply framework agreement, the price for the products shall be determined by reference to the prevailing market prices for comparable products. The method for settlement shall be agreed between the parties by separate contract(s).

Details of the transaction are set out in the announcement of the Company dated 26 June 2008 on the website of the Hong Kong Stock Exchange.

LDK is a substantial shareholder of Jiangxi Sinoma, a subsidiary of the Company, and is therefore a connected person of the Company under the Listing Rules.

During the reporting period, the annual cap for the supply framework agreement for 2010 was approximately RMB450,000,000, while the actual amount was approximately RMB85,702,402.

The Directors of the Company (including the Independent non-executive Directors) confirmed with the Board that they have reviewed the non-exempted continuing connected transactions under 3.1 to 3.7 and confirmed that such transactions have been: (a) entered into in the ordinary and usual course of business of the Group; (b) on normal commercial terms, or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The auditor of the Company has performed certain agreed-upon procedures on above continuing connected transactions and has provided a letter to the Board to report the factual findings as follows:

– The above continuing connected transactions have obtained the approval of the Board;

– The pricing of the continuing connected transactions involving provisions of goods and services by the Group, on a sample basis, are in accordance with the pricing policies of the Company as disclosed in Note 53 to the financial statements;

– The continuing connected transactions, on a sample basis, have been executed in accordance with the terms of the agreements governing such transactions;

– The continuing connected transactions as disclosed in 3.1 to 3.7 did not exceed the relevant annual caps as disclosed in the respective announcements of the Company.

Save as disclosed above, there is no related party transaction or continuing related party transaction set out in note 53 to the financial statements fall into the category of connected transactions or continuing connected transactions under the Listing Rules. The Company has complied with the requirements under Chapter 14A of the Listing Rules with respect to the connected transaction and continuing connected transaction.

PRE-EMPTIVE RIGHT

There is no pre-emptive right provision under the Articles of Association and the PRC laws which would oblige the Company to offer new shares to its existing shareholders on a pro-rata basis.

TAXATION

In accordance with the Letter on Matters Concerning the Taxation Levied on Dividends Derived by Foreign Individuals Holding Shares of Listed Companies Incorporated in PRC (Guoshuihan [1994] No.440) published by the State Administration of Taxation, foreign individuals holding H Shares are exempted from paying individual income tax for dividends obtained from companies incorporated in PRC issuing the H Shares.

As stipulated by the Notice on Issues relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H-Share Holders Who are Overseas Non-resident Enterprises by Chinese Resident Enterprises published by the State Administration of Taxation (Guoshuihan No. [2008] 897), when Chinese resident enterprises distribute annual dividends for the year 2008 and years thereafter to their H Share shareholders who are overseas non-resident enterprises, enterprise income tax shall be withheld at a uniform rate of 10%. Non-resident enterprises may apply for tax refund in accordance with relevant provisions including taxation agreements/arrangement after receiving dividends. Shareholders should consult their tax advisers regarding the PRC, Hong Kong and other tax implications of owning and disposing of the Company's H Shares.

Directors' Report

MATERIAL LEGAL MATTERS

On 21 December 2010, European Commission disclosed the final judgement on the anti-dumping investigation regarding the glass fiber products of China by European Union ("EU"). European Commission identified the fact that there is a dumping issue regarding the glass fiber products from China and such has caused harm to the industry peers in Europe. An anti-dumping duty of 13.8% shall be levied by the European Commission on the products from substantially all PRC glass fiber enterprises including CTG and Sinoma Jinjing, subsidiaries of the Company, which represents a substantial reduction as compared to the provisional anti-dumping levy at a rate of 43.6% according to the preliminary determination.

According to the EU anti-dumping investigation procedures, the anti-dumping identification and the anti-dumping levy rate disclosed in the final judgement of European Commission are subject to voting by EU Consultative Committee and Committee of European Commission. European Commission will announce the results of the final judgement thereafter.

In addition, the final judgement of the anti-dumping investigation on glass fiber products from China in Turkey and India was announced on 3 January 2011 and 6 January 2011 respectively. The government of Turkey identified the fact that there is a dumping issue regarding the glass fiber products imported from China and such has caused harm to the industry peers in Turkey and has therefore ruled that an anti-dumping levy to be imposed on the products imported from the Chinese glass fiber products manufacturers to Turkey. Of which, an anti-dumping levy at a rate of 23.75% is imposed on products from CTG and Sinoma Jinjing, subsidiaries of the Company. Such tax rate is determined as the final judgement. The authorities in India identified the fact that there is a dumping issue regarding the glass fiber products imported from China and such has caused harm to the industry peers in India and has therefore ruled that an anti-dumping levy to be imposed on the products imported from the Chinese glass fiber products manufacturers to India. Of which, an anti-dumping levy at 20.89% and 40.91% is imposed on products from CTG and Sinoma Jinjing, subsidiaries of the Company respectively. Such tax rates are determined as the final judgement.

The Company and its relevant subsidiaries have been actively coping with the anti-dumping investigation regarding the glass fiber products from China conducted by EU and other countries and regions and have conducted sufficient assessment on the results of the judgements of European Commission and other countries and regions. In 2010, the sales amount of glass fiber products exported from the relevant subsidiaries of the Company to the above countries and regions accounted for approximately 0.93% of the total revenue of the Company. The first-year anti-dumping levy will have certain impacts on the financial conditions and operating results of CTG.

During the period of investigation, the Company, subsidiaries of including CTG reinforce the adjustment efforts of product structure, increase the percentage of production of high-end products and expand the domestic and other overseas markets. It is expected that, in the coming two to three years, the above-mentioned proactive measures will take effect and the impact of anti-dumping levy imposed by countries and regions such as EU will be eliminated. It is determined that the anti-dumping levy on glass fiber products from China by countries and regions such as EU will not have a material adverse effect on the financial conditions, operating results and operation on a going-concern basis of the Company.

AUDITORS

SHINEWING (HK) CPA Limited and ShineWing Certified Public Accountants have been appointed as the Hong Kong auditor and PRC auditor of the Company respectively for the year ended 31 December 2010. SHINEWING (HK) CPA Limited has audited the accompanying financial statements that are prepared in accordance with Hong Kong Financial Reporting Standards. These two auditors have been appointed since our 2008 annual report.

Supervisory Committee's Report

During the reporting period, members of the Supervisory Committee actively performed their duties in accordance with the relevant laws and regulations and the requirements of the Articles of Association and effectively supervised the compliance of the convening and decision-making processes of the Board meetings and the implementation procedures with the relevant laws and regulations and the requirements of the Articles of Association, so as to protect the interests of the shareholders and the long-term interests of the Company.

During the reporting period, the Supervisory Committee has convened six meetings. At the seventh meeting of the first session of the Supervisory Committee commenced on 14 April 2010, the Company's 2009 annual report, the audited financial report, the annual profit distribution proposal and the Supervisory Committee's report were considered and approved. At the eighth meeting of the first session of the Supervisory Committee commenced on 28 April 2010, the 2010 first quarterly financial statements of the Company were considered and approved. At the ninth meeting of the first session of the Supervisory Committee commenced on 1 June 2010, the resolution regarding the change of session of the Supervisory Committee of the Company was considered and approved and such resolution was submitted to the 2010 first extraordinary general meeting of the Company for consideration and approval. At the first meeting of the second session of the Supervisory Committee commenced on 26 July 2010, Ms. XU Weibing was elected as chairman of the second session of the Supervisory Committee. At the second meeting of the second session of the Supervisory Committee commenced on 24 August 2010, the 2010 interim report of the Company was considered and approved. At the third meeting of the second session of the Supervisory Committee commenced on 27 October 2010, the 2010 third quarterly financial statements of the Company were considered and approved. Ms. Zhang Lirong authorised Ms. Xu Weibing, to attend the seventh and ninth meetings of the first session of the Supervisory Committee and exercise the voting rights on her behalf. Mr. Zhang Renjie and Mr. Wang Jianguo authorised Ms. Xu Weibing, to attend the second meeting of the second session of the Supervisory Committee and exercise the voting rights on their behalves. All of the other Supervisors attended the aforesaid meetings of the Supervisory Committee. During the reporting period, members of the Supervisory Committee attended all the general meetings of the Company convened during the year and attended the Board meetings in person as non-voting participants during the year, and also reviewed the proposals which have been submitted to the Board for consideration. The Supervisors supervised the Company's major decision-making processes and the performance of duties by the Directors and the senior management by attending such meetings as non-voting participants.

The Supervisory Committee is of the opinion that the Directors and senior management of the Company are committed and diligent in performing their duties, have duly implemented the resolutions of the general meetings, adhered to the lawful operations and cautious decision-making, and contributed greatly to the excellent operating results of the Company.

Supervisory Committee's Report

During the reporting period, the Supervisory Committee regularly reviewed the relevant financial information of the Group and the auditor's report of the Group, and confirmed that the accounts and audit work of the Group were in compliance with the requirements of Accounting Law of PRC, the accounting system issued by the Ministry of Finance of the PRC and the Hong Kong Financial Reporting Standards and the Supervisory Committee was not aware of any non-compliance.

The Supervisory Committee has duly reviewed the financial report for 2010 audited by the independent auditor with unqualified opinion, and considered that the report accurately, truly and fairly presented the financial position and the results of operations of the Company on a consistent basis.

The Supervisory Committee confirmed that the connected transactions between the Company and the controlling shareholder of the Company conducted during the reporting period were fair and reasonable and in the interests of the other shareholders and the Company as a whole. The Directors, president and other senior management of the Company have strictly complied with the principle of diligence, exercised powers delegated by the shareholders diligently and performed all responsibilities, and no abuse of authority and actions that would jeopardize the legal rights of the shareholders and employees of the Company has been identified.

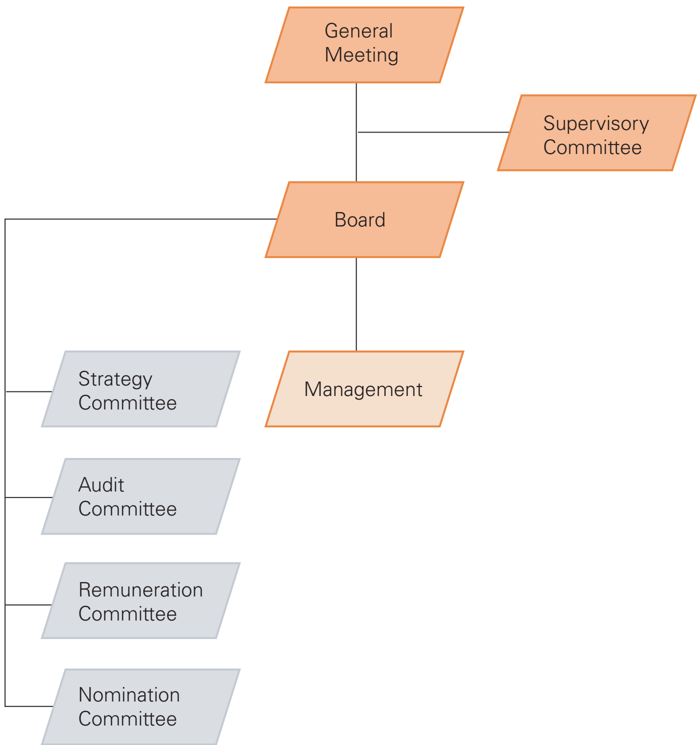
The Supervisory Committee is confident about the development prospects of the Company. In 2011, the Supervisory Committee will continue to perform all its duties to protect the interests of the shareholders in strict accordance with the Articles of Association of the Company and relevant requirements.

Corporate Governance Report

CORPORATE GOVERNANCE

During the reporting period, the Company established a standard and ideal corporate governance structure in strict compliance with laws and regulations such as the Company Law and the Securities Law and with the requirements of domestic and foreign regulatory bodies. The Company is committed to maintaining its corporate governance at a high standard to enhance the Shareholders' value in the long run.

CORPORATE GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE DOCUMENTS

Currently, the standard documents on corporate governance practices of the Company include but are not limited to the following:

1. Articles of Association

2. Rules of Procedures for General Meetings

3. Rules of Procedures for the Board

4. Rules of Procedures for the Supervisory Committee

5. Rules of Procedures for the Strategy Committee

Corporate Governance Report

6. Rules of Procedures for the Audit Committee
7. Rules of Procedures for the Remuneration Committee
8. Rules of Procedures for the Nomination Committee
9. Working System for Independent Directors
10. Administrative System for Information Disclosure
11. Administrative System for Connected Transactions
12. Administrative System for Investor Relations
13. Rules of Internal Auditing
14. Internal Control Audit Method
15. Financial Management System

The Board has reviewed the adopted corporate governance documents as stated above and is of the view that the requirements listed in the documents have complied with all the code provisions as set out in the "Code on Corporate Governance Practices" contained in Appendix 14 of the Listing Rules (the "Code") and are consistent with most of the recommended best practices set out therein.

In comparison with the code provisions as set out in the Code, the codes on corporate governance adopted by the Company are even more stringent in the following areas:

1. Other than the Audit Committee and the Remuneration Committee, the Company has also established the Strategy Committee and the Nomination Committee.

2. The Company's Rules of Procedures for the Board requires the independent non-executive Directors to review, at least once a year, the information provided by the Company's controlling shareholder in relation to the compliance with and enforcement of the non-competition agreement.

CODE ON CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2010, the Company has fully complied with code provisions as set out in the Code.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors and Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, and requests that securities transactions by Directors and Supervisors be conducted according to the Model Code, which is also applicable to the senior management of the Company. After the special inquiries conducted by the Company, all Directors and Supervisors have confirmed that they have fully complied with the Model Code during the entire year of 2010.

Corporate Governance Report

During the reporting period, the Company made amendments to the Articles of Association, details of which are set out below:

1. At the annual general meeting held on 1 June 2010, the following amendments to the Articles of Association were considered and approved:

   (1) Article 60 Paragraph 2 "The notice of a shareholders' general meeting shall be delivered to the shareholders (whether or not such shareholders are entitled to vote at the meeting) by hand or by pre-paid mail to the addresses of the shareholders as shown in the register of shareholders of the Company. For holders of domestic shares, the notice of the meeting may also be given by way of public announcement."

   has been amended as:

   "The notice of a shareholders' general meeting shall be delivered to the shareholders (whether or not such shareholders are entitled to vote at the meeting) by hand or by pre-paid mail to the addresses of the shareholders as shown in the register of shareholders of the Company. Subject to the obligations imposed by laws, administrative regulations or required by the listing rules of the stock exchange on which the Company's shares are listed, the notice of the meeting may also be given by way of public announcement (including publishing on the website of the Company).";

   (2) Article 119 Paragraph 1 "The supervisory committee shall be composed of seven (7) supervisors. One of the members of the supervisory committee shall act as the chairman. Each supervisor shall serve a term of three (3) years, whose term is renewable upon re-election and re-appointment."

   has been amended as:

   "The supervisory committee shall be composed of five (5) supervisors. One of the members of the supervisory committee shall act as the chairman. Each supervisor shall serve a term of three (3) years, whose term is renewable upon re-election and re-appointment.";

   (3) Article 120 Paragraph 1 "The supervisory committee shall consist of four (4) shareholder representatives, and three (3) employee representatives of the Company. The shareholder representatives shall be elected and removed by the general meeting of shareholders; and the employee representatives of the Company shall be elected and removed by the employees of the Company through employee representative meeting, employee meeting or any other democratic means."

   has been amended as:

   "The supervisory committee shall consist of three (3) shareholder representatives, and two (2) employee representatives of the Company. The shareholder representatives shall be elected and removed by the general meeting of shareholders; and the employee representatives of the Company shall be elected and removed by the employees of the Company through employee representative meeting, employee meeting or any other democratic means.";

Corporate Governance Report

(4) Article 148 Paragraph 2 "The Company shall deliver or send to each shareholder of overseas-listed foreign shares by pre-paid mail at the address registered in the register of shareholders the said reports no later than twenty-one (21) days prior to the date of the annual general meeting of the shareholders."

has been amended as:

"The Company shall deliver or send to each shareholder of overseas-listed foreign shares by pre-paid mail at the address registered in the register of shareholders the said reports no later than twenty-one (21) days prior to the date of the annual general meeting of the shareholders. Subject to the obligations imposed by laws, administrative regulations or required by the listing rules of the stock exchange on which the Company's shares are listed, the said reports may also be given by way of public announcement (including publishing on the website of the Company).";

(5) Article 165 (2) "When a notice is deposited under Article 165 (1), the Company shall, within fourteen (14) days, send a copy of the notice to the relevant competent authorities. If the notice contains any statement(s) referred to in Article 165 (1)(2), a copy of such statement(s) shall be placed at the Company for shareholders' inspection. The Company shall also send a copy of such statement(s) by prepaid mail to each shareholder of overseas-listed foreign shares at the address registered in the register of shareholders."

has been amended as:

"When a notice is deposited under Article 165 (1), the Company shall, within fourteen (14) days, send a copy of the notice to the relevant competent authorities. If the notice contains any statement(s) referred to in Article 165 (1)(2), a copy of such statement(s) shall be placed at the Company for shareholders' inspection. The Company shall also send a copy of such statement(s) by prepaid mail to each shareholder of overseas-listed foreign shares at the address registered in the register of shareholders. Subject to the obligations imposed by laws, administrative regulations or required by the listing rules of the stock exchange on which the Company's shares are listed, the notice of the meeting may also be given by way of public announcement (including publishing on the website of the Company).";

(6) Article 166 Paragraph 2 "Unless otherwise requires, "announcements" referred to in the Articles of Association shall mean, in relation to announcements to holders of domestic shares or announcements required by the relevant provisions and the Articles of Association to be published in the PRC, such announcements published in the PRC newspapers designated under PRC laws and regulations or by the securities regulatory authorities under the State Council; or, in relation to announcements to shareholders of foreign-listed shares or announcements required by the relevant provisions and the Articles of Association to be published in Hong Kong, such announcements must be published in the Hong Kong newspapers designated in accordance with the requirements of listing rules of the Hong Kong Stock Exchange."

has been amended as:

"Unless otherwise requires, "announcements" referred to in the Articles of Association shall mean, in relation to announcements to holders of domestic shares or announcements required by the relevant provisions and the Articles of Association to be published in the PRC, such announcements published in the PRC newspapers designated under PRC laws and regulations or by the securities regulatory authorities under the State Council; or, in relation to announcements to shareholders of foreign-listed shares or announcements required by the relevant provisions and the Articles of Association to be published in Hong Kong, such announcements must be published in accordance with the requirements of the listing rules of Hong Kong Stock Exchange.";

(7) Article 168 "Notice sent by personal delivery, receiver shall sign (or seal) on reply slip with the receiving date as the delivery date; for notice sent by mail, the 48th hour since the posting is the delivery date; for notices sent by fax or email or published on websites, the date of sending is the delivery date; for notice notified by announcement, the first publishing date is the delivery date. Relevant announcements shall be published on the newspapers as required by relevant requirements."

has been amended as:

"Notice sent by personal delivery, receiver shall sign (or seal) on reply slip with the receiving date as the delivery date; for notice sent by mail, the 48th hour since the posting is the delivery date; for notices sent by fax or email or published on websites, the date of sending is the delivery date; for notice notified by announcement, the first publishing date is the delivery date. Relevant announcements shall be published in order to comply with the requirements imposed by laws, administrative regulations or required by the listing rules of the stock exchange on which the Company's shares are listed.";

(8) Article 170 Paragraph 2 "The Company shall also send the aforesaid documents by email to shareholders of overseas-listed foreign shares."

has been amended as:

"The Company shall also send the aforesaid document by email to shareholders of overseas-listed foreign shares. Subject to the obligations imposed by laws, administrative regulations or required by the listing rules of the stock exchange on which the Company's shares are listed, the aforesaid documents may also be given by way of public announcement (including publishing on the website of the Company)."

Corporate Governance Report

BOARD OF DIRECTORS

The composition of the Board and relevant information are set out below:

Name	Position	Gender	Age	Term
TAN Zhongming	Chairman of the Board and executive Director	Male	57	26 July 2010 to 25 July 2013
LI Xinhua	Vice chairman of the Board and executive Director	Male	46	26 July 2010 to 25 July 2013
	President			4 January 2011 to 25 July 2013
YU Shiliang	Non-executive Director	Male	56	26 July 2010 to 25 July 2013
LIU Zhijiang	Non-executive Director	Male	53	26 July 2010 to 25 July 2013
CHEN Xiaozhou	Non-executive Director	Male	49	26 July 2010 to 25 July 2013
LEUNG Chong Shun	Independent non-executive Director	Male	45	26 July 2010 to 25 July 2013
SHI Chungui	Independent non-executive Director	Male	70	26 July 2010 to 25 July 2013
LU Zhengfei	Independent non-executive Director	Male	47	26 July 2010 to 25 July 2013
WANG Shimin	Independent non-executive Director	Male	62	26 July 2010 to 25 July 2013
Zhou Zude	Independent non-executive Director	Male	64	26 July 2010 to 25 July 2013

The Board is the standing decision-making body of the Company and it leads and supervises the Company in a responsible and efficient manner. All the Directors are obliged to act in the best interest of the Company. Members of the Board understand that they take jointly and severally responsibility to all the Shareholders for the management, supervision and operation matters of the Company.

The Board mainly decides on the following matters:

- Formulating of the Company's strategy and policy;
- Establishing of the management's target;
- Supervising the performance of the senior management; and
- Ensuring the Company's implementation of a prudent and effective monitoring structure to assess and manage risks.

It is the responsibility of the Board to prepare the financial statements for each fiscal year to give a true and fair view of the financial status of the Company and the results and cashflow during the relevant period. When preparing the financial statements for the year ended 31 December 2010, the Board has selected and applied appropriate accounting policies and made prudent, fair and reasonable judgement and estimates to prepare the financial statements on the basis of going concern. The Board is responsible for maintaining the accounting records properly, such records should be able to reasonably and accurately disclose the financial information of the Company at any time. The Board will convene meetings at least four times per year and whenever important decisions have to be made.

Corporate Governance Report

During the reporting period, Mr. TAN Zhongming served as the chairman of the Board, Mr. ZHOU Yuxian served as the president until 22 December 2010 when he resigned due to work re-designation. Chairman of the Board and president are two different positions which are clearly separated. The chairman shall not concurrently serve as the president. The division of the responsibilities between the chairman of the Board and the president shall be made clearly in the written terms of reference. The chairman of the Board is responsible for managing the operation of the Board while the president is responsible for the business operation of the Company. The Articles of Association has described in detail the respective responsibilities of the chairman of the Board and president. Senior management of the Company, other than the Directors and Supervisors, is responsible for the daily business operation of the Company. Their duties have been set out in the section of "Biography of Directors, Supervisors and Senior Management" in this annual report.

All the Directors are required to declare any direct or indirect interest involved in any matter or transaction discussed in the Board meetings, and the Directors will need not to be present at the meeting when appropriate. Directors are also requested by the Company to provide details in relation to any connected transactions that they or their respective associates had entered into with the Company or its subsidiaries for each financial period and make confirmations regarding the same.

A total of twelve Board meetings were convened during 2010. The attendance rate of the individual members in the Board meetings is as follows:

Directors	**Number of Attendance**	**Number of Attendance by proxy**	**Attendance Rate**
TAN Zhongming	11	1	92%
YU Shiliang	11	1	92%
LIU Zhijiang	11	1	92%
LI Xinhua	12	0	100%
CHEN Xiaozhou	10	2	83%
LEUNG Chong Shun	11	1	92%
SHI Chungui	12	0	100%
LU Zhengfei	12	0	100%
WANG Shimin	12	0	100%
ZHOU Zude	5	0	100%

Notes:

1. Mr. TONG Anyan resigned as the independent non-executive Director on 6 May 2010 due to personal commitment. Mr. TONG attended all of the three meetings of the Board prior to his resignation.

2. Mr. ZHOU Yuxian resigned as the executive Director on 22 December 2010 due to work re-designation. Mr. ZHOU attended all of the meetings of the Board during the year.

Since the incorporation of the Company on 31 July 2007, the Board has been complying with Rule 3.10(1) of the Listing Rules, which requires a minimum of three independent non-executive directors, and Rule 3.10(2), which requires that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise.

Corporate Governance Report

In accordance with the requirements of the Listing Rules, the Company made the following confirmation as to the independence of the independent non-executive Directors: the Company has accepted the confirmation letter from each of the independent non-executive Directors and confirms their compliance with the independence requirements as set out in Rule 3.13 of the Listing Rules. The Company also is of the view that all the independent non-executive Directors are independent parties.

Each of the independent non-executive Directors has a term of office of three years and is eligible for re-election and re-appointment subject to a maximum period of six years. Independent non-executive Directors shall not be removed without reasonable ground prior to the expiry of their terms of office. The Company shall make special disclosure for any early removal of any independent non-executive Director.

Other than their duties in the Company, the Directors, Supervisors and senior management do not have any relationship with the Company in financial, business, family or other material aspects.

Other than their service contracts, the Directors and Supervisors do not have any direct or indirect personal material interest in the contracts of significance entered into by the Company or any of its subsidiaries in 2010.

The Company has established the Strategy Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee under the Board.

STRATEGY COMMITTEE

On 26 July 2010, election for change of session was completed at the first meeting of the second session of the Board. Prior to such election, the Strategy Committee comprised Mr. TAN Zhongming, Mr. YU Shiliang, Mr. LIU Zhijiang, Mr. ZHOU Yuxian, Mr. LI Xinhua and Mr. CHEN Xiaozhou. After the election, the second session of the Strategy Committee comprises Mr. TAN Zhongming, Mr. YU Shiliang, Mr. LIU Zhijiang, Mr. ZHOU Yuxian, Mr. LI Xinhua, Mr. CHEN Xiaozhou and Mr. ZHOU Zude with Mr. TAN Zhongming as the chairman. Mr. ZHOU Yuxian resigned as a member of the Strategy Committee on 22 December 2010.

The Strategy Committee considers, evaluates, reviews and recommends to the Board the proposed major investments, acquisitions and disposals and conducts post-investment evaluation of investment projects, and reviews and considers the overall strategic direction of the Company and business developments of the Company.

During the reporting period, the Strategy Committee convened one meeting. At the second meeting of the first session of the Strategy Committee, the Work Report of the General Manager of China National Materials Company Limited for 2009 was approved and the financial budget (draft) and investment budget (draft) of the Company for 2010 was considered and then submitted at the thirty-first meeting of the first session of the Board of the Company for approval.

AUDIT COMMITTEE

On 26 July 2010, election for change of session was completed at the first meeting of the second session of the Board. Prior to such election, the Audit Committee comprised Mr. LU Zhengfei, Mr. WANG Shimin and Mr. LIU Zhijiang with Mr. LU Zhengfei as the chairman. After the election, the second session of the Audit Committee continues to comprise Mr. LU Zhengfei, Mr. WANG Shimin and Mr. LIU Zhijiang with Mr. LU Zhengfei as the chairman.

The primary duty of the Audit Committee is to examine and supervise the financial reporting procedures and internal control system of the Company and give advice to the Board.

From the date of the Company's listing on the Hong Kong Stock Exchange and up to 31 December 2010, the Company has been fully in compliance with the requirements of Rule 3.21 of the Listing Rules.

According to the requirements of the Rules of Procedures of the Audit Committee, a total of three meetings were held for the year. At the eighth meeting of the first session of the Audit Committee held on 30 March 2010, the resolutions regarding the implementation of auditing plans of SHINEWING (HK) CPA Limited for auditing the 2009 annual report and their report on audit results; and the 2009 annual report submitted to the Board were considered and approved. At the ninth meeting of the first session of the Audit Committee held on 30 May 2010, the resolution regarding the re-appointment of ShineWing Certified Public Accountants Co., Ltd. and SHINEWING (HK) CPA Limited as domestic and international auditors, respectively, for 2010 was considered and approved. At the first meeting of the second session of the Audit Committee held on 18 August 2010, the report prepared by SHINEWING (HK) CPA Limited on the audit of the 2010 interim report was heard and the resolutions regarding the 2010 interim report submitted to the Board and the audit fees for the 2010 annual report were considered and approved.

REMUNERATION COMMITTEE

On 26 July 2010, election for change of session was completed at the first meeting of the second session of the Board. Prior to such election, the Remuneration Committee comprised Mr. SHI Chungui, Mr. LEUNG Chong Shun and Mr. LU Zhengfei with Mr. SHI Chungui as the chairman. After the election, the second session of the Remuneration Committee continues to comprise Mr. SHI Chungui, Mr. LEUNG Chong Shun and Mr. LU Zhengfei with Mr. SHI Chungui as the chairman

The primary duties of the Remuneration Committee include the determination and reviewing the specific remuneration package and performance of the Directors and senior management of the Company according to the remuneration and performance management policy and structure for Directors and senior management established by the Board.

During the reporting period, a total of three meetings were held by the Remuneration Committee. As authorised by the Shareholders at the fifth extraordinary general meeting for 2009, the Remuneration Proposal for New Directors of China National Materials Company Limited, which defines the remuneration matters of the new Directors to the first session of the Board, was considered and approved at the third meeting of the first session of the Remuneration Committee held on 9 February 2010. At the fourth meeting of the first session of the Remuneration Committee held on 30 March 2010, the Administrative Rules on Remuneration of Senior Management of China National Materials Company Limited, which was passed at the thirty-first meeting of the first session of the Board, was considered and approved. Those rules define the annual remuneration system of executive Directors and senior management of the Company. The annual remuneration includes basic salaries and performance-linked incentives where the basic salaries will be paid on a monthly basis and the performance-linked incentives will be determined by the Board. As authorised by the Shareholders at the first extraordinary general meeting in 2010, the Remuneration Proposal for Directors and Supervisors of China National Materials Company Limited, which determines the remuneration for Directors of the second session of the Board and Supervisors of the second session of the Supervisory Committee, was considered and approved at the first meeting of the second session of the Remuneration Committee held on 29 July 2010.

Corporate Governance Report

NOMINATION COMMITTEE

On 26 July 2010, election for change of session was completed at the first meeting of the second session of the Board. Prior to such election, the Nomination Committee comprised Mr. YU Shiliang, Mr. TAN Zhongming, Mr. LIU Zhijiang and Mr. ZHOU Yuxian with Mr. YU Shiliang as the chairman. After the election, the second session of the Nomination Committee comprises Mr. YU Shiliang, Mr. TAN Zhongming, Mr. LIU Zhijiang and Mr. ZHOU Yuxian with Mr. YU Shiliang as the chairman. Mr. ZHOU Yuxian resigned as a member of the Nomination Committee on 22 December 2010 and Mr. LI Xinhua was appointed as a member of the Nomination Committee on 4 January 2011.

The Nomination Committee is responsible for reviewing the structure, numbers and composition of the Board and making recommendations to the Board in relation to any changes; and making recommendations to the Board in respect of the candidates for Directors and Supervisors who are not employee representatives in the wholly-owned companies, holding companies and joint stock companies of the Company.

During the reporting period, a total of seven meetings were held by the Nomination Committee. In particular, the eleventh to sixteenth meetings of the Nomination Committee were held during the first session of the Board and the first meeting of the Nomination Committee was held during the second session of the Board. At the eleventh meeting of the first session of the Nomination Committee held on 1 March 2010, Mr. ZHANG Zhifa was recommended to be the vice president of the Company. At the twelfth meeting of the first session of the Nomination Committee held on 3 March 2010, Mr. WANG Wei and Mr. LIU Yan were recommended to be the vice presidents of the Company. At the thirteenth meeting of the first session of the Nomination Committee held on 22 March 2010, Mr. TANG Zhiyao was appointed as the director of the board of CTG and Mr. SUI Yumin was appointed as the director of the board of Sinoma Cement. At the fourteenth meeting of the first session of the Nomination Committee held on 6 May 2010, Mr. ZHOU Yuxian, Mr. TUO Licheng, Mr. WEI Qixin, Mr. LIU Jibin and Mr. CAI Junheng were recommended as candidates of directors of the board of Qilianshan Holdings; and Mr. QU Xiaoli and Mr. WANG Yingcai were recommended as candidates for supervisors of the supervisory committee of Qilianshan Holdings. At the fifteenth meeting of the first session of the Nomination Committee held on 19 May 2010, Mr. TAN Zhongming, Mr. YU Shiliang, Mr. ZHOU Yuxian, Mr. SUI Yumin and Mr. WANG Guanglin were appointed as directors of the third session of the board of Sinoma Cement; and Mr. QU Xiaoli and Mr. WANG Yingcai were appointed as supervisors of the third session of the supervisory committee of Sinoma Cement. At the sixteenth meeting of the first session of the Nomination Committee held on 7 July 2010, Mr. TAN Zhongming, Mr. ZHOU Yuxian, Mr. ZHANG Zhifa, Mr. TANG Zhiyao and Mr. SU Kui were appointed as directors of the second session of the board of CTG; Mr. QU Xiaoli and Mr. WANG Yingcai were appointed as supervisors of the second session of the supervisory committee of CTG; and Mr. LIU Ying was recommended as the candidate of director of Sinoma Science & Technology. At the first meeting of the second session of the Nomination Committee held on 7 July 2010, Mr. JIN Leyong, Mr. PENG Mingde and Mr. WANG Fei were appointed as directors of the second session of the board of Sinoma Shangrao; and Mr. QU Xiaoli and Mr. WANG Yingcai were appointed as supervisors of the second session of the supervisory committee of Sinoma Shangrao. At the second meeting of the second session of the Nomination Committee held on 29 December 2010, Mr. LI Xinhua was recommended to be the president of the Company.

The Company appoints new Directors according to a transparent procedure which has been duly formulated after prudent consideration. The nomination of the candidate for directorship is usually submitted by the Board to the general meeting of the Company. The Shareholders and the Supervisory Committee may nominate candidates for directorship according to the requirements of the Articles of Association.

Corporate Governance Report

AUDITOR'S REMUNERATION

The Company appointed SHINEWING (HK) CPA Limited and ShineWing Certified Public Accountants Co., Ltd. as the international auditor and domestic auditor of the Company for 2010, respectively, and authorised the Audit Committee to fix their remuneration. The Company's annual audit fees for the year ended 31 December 2010 amounted to RMB8.6 million.

SHAREHOLDERS' RIGHT

As the owners of the Company, shareholders of the Company are entitled to the various rights stipulated by laws, administrative rules and regulations and the Articles of Association. Shareholders' general meeting is the supreme mechanism possessing the greatest power and shareholders exercise their power through general meetings. During the reporting period, the Company held six general meetings.

The Board and senior management understand that they are representing the overall interest of all the Shareholders and their first priority is to maintain the stable and continuous growth of shareholders' value and investment return in the long run and enhance the competitiveness of the business.

According to the Articles of Association, when shareholder(s) who solely or jointly hold 10% or more (inclusive) of the Company's outstanding voting shares demand to convene an extraordinary general meeting in writing (the number of shares held is determined on the day on which the shareholder lodges his demand in writing), the extraordinary general meeting shall be convened within two months. The relevant documents shall state clearly the purpose of such meeting and shall be sent to all the shareholders. Shareholders may suggest to the Board with the procedure for enquiry and propose such procedure in a general meeting.

INTERNAL CONTROL SYSTEM

In order to fulfil the relevant regulatory requirements of the places where the Company is listed and strengthen the internal control management of the Company, the Company has established a range of internal control systems, including the following documents such as "Administrative System for Information Disclosure", "Administrative System for Connected Transactions", "Administrative System for Investor Relations", "Working System for Independent Directors" and "Financial Management System", "Rules of Internal Auditing" and "Internal Control Audit Method", thus establishing the internal control system.

The Directors have reviewed the effectiveness of the internal control systems of the Company and its subsidiaries according to code provision C.2.1 of the "Code on Corporate Governance Practices". The review covered financial control, operation control and compliance control and risk management function control.

REVIEW FOR THE YEAR

In 2010, the headquarters of the Company and two subsidiaries, namely, Sinoma International and CTG, completed the initial establishment of their all-around risk management systems. Through risk identification and assessment, material risks were highlighted and their corresponding strategies and solutions were recommended. The systems relating to material risks and the key control procedures were rationalized to identify the key control points of risks and formulate rectification measures. The Company has commenced detailed analyses and arrangements regarding the establishment of a sound risk management system for its subsidiaries, meanwhile procured its subsidiaries to further enhance risk avoidance and internal control level so as to strengthen the market competitiveness of the Company.

Corporate Governance Report

The Board has analyzed in detail the procedure, method and assessment results of the above internal control review by reference to the relevant requirements of the Listing Rules, and no significant problem has been identified. The internal control system can safeguard the safety and integrity of the assets, and enhance the operating efficiency and effectiveness of the Company. The Company maintained appropriate information, records and programme, guaranteed the timeliness, relevance and reliability of the Company's financial statements and relevant information. It also ensured that relevant information has been sufficiently disclosed in these financial statements and applicable law and requirements have been complied with.

INTERNAL AUDIT UNIT

The Company has set up an independent audit department which is responsible for the internal auditing.

During the reporting period, with the comprehensive audit system focusing on risk management, internal control, corporate governance and value maximization, the Company pushed ahead the audit of economic responsibilities, audit of corporate governance and audit of key risk management. Initial achievements were made in respect of the transformation of internal audit to risk monitoring management.

Firstly, the Company has highlighted the details relating to the audit of corporate governance and the audit of key risk management in adherence to the risk-oriented and comprehensive audit system, and regulated the implementation of internal auditing with the support of these sound systems. In accordance with the principles of "Responsibility at each level under standardized requirements", the Company has adopted various methods including direct auditing by internal audit department or by certified professional intermediaries to carry out a comprehensive auditing for subsidiaries, which enhanced the level of its overall internal auditing.

Secondly, the Company has pushed ahead the audit of economic responsibilities. In strict compliance with the Provisional Measures on Audit Management of Economic Responsibilities of Central Enterprises and Administrative Measures on Audit of Economic Responsibilities of Central Enterprises promulgated by the State-owned Assets Supervision and Administration Commission of the State Council, in terms of form of audit, on the basis certain requirements regarding the integrity conduct of the management of state-owned enterprises, the requirement of "undertaking letter for operational compliance" signed by the officer-in-charge by the entity subject to audit was imposed where the officer-in-charge of the entity subject to audit is required to make an undertaking for operational compliance in writing. In the course of audit, the Company will further collect feedbacks from the general public to strengthen its audit reports based on the general public. As to the audit proposals, the Company will focus on the business and operating characteristics of the entity subject to audit and make sufficient preparation by identifying the weakness in the internal control system and step up the project-specific audit work to enhance audit efficiency and effectiveness. As to the audit contents, the Company strengthened the audit of major decision-making, appointment and removal of key personnel and management, major project arrangement and utilisation of large-sum funds. As to the audit efforts, the Company seized the basis of the issues and examined the procedures and system thoroughly. At the same time, the Company made use of the audit results on improving and implementing the system and procedures through identifying the fundamentals.

Thirdly, the Company has commenced the audit of corporate governance and the audit of key risk management. Based on the actual risk management and operational characteristics, the Company accurately focused on the relevant audit area and identified the audit focus to formulate a detailed audit plan and appointed competent auditor and audit project manager for implementation of audit work and issuance of audit report. The Company also made assessment on the environment, procedures and methods of corporate governance as well as key risk management by making rectification advice highly relevant to the operations and implementing audit rectification with a view to enhancing the standard of corporate governance and key risk management.

Corporate Governance Report

Fourthly, the Company has strengthened the audit of internal control matters. Combining the management difficulties and hot topics, the Company commenced a project-specific audit on the management of project investment, scientific research and development and "three wastes". Through the project-specific audit, the Company assessed on the economic efficiency after implementation of the decisions of the investment project, and audited the management of state-owned scientific research projects, and examined the development and execution of the "three wastes" management system, and made rectification advice in respect of management weaknesses and supervised such implementation.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

During the reporting period, the Group communicated with its investors and shareholders in a pro-active, honest, open and fair manner through numerous official channels including holding shareholders' general meetings and results announcement meetings etc., to ensure fair disclosure of the Group's performance and business and to make comprehensive and transparent reports.

Shareholders' general meetings not only make decisions on major matters of the Group, but also provide direct communication channels among the Directors, the management and the shareholders. Therefore, the Company highly value shareholders' general meetings and send notices of such meetings 45 days prior to the meetings which set out the procedures for voting by poll and the rights of shareholders to demand to vote by poll in accordance with the Listing Rules. During the reporting period, the Company held three shareholders' general meetings at which major matters of the Company were considered (such as profit distribution, connected transactions, amendments to the Articles of Association, change of session of the Board and Supervisory Committee of the Company etc.).

The Company highly values investor relations and has set up a special telephone number and electronic mail box for investors. During the year, the Company received 637 visits from investment organizations and dealt with more than 8,000 correspondences from investors, participated in eight large investor summits organized by Morgan Stanley, Merrill Lynch, Citi Group, Deutsche Bank, BNP Paribas, UBS, BOCI etc.; and ran two non-deal roadshows, two reverse roadshows and one featured roadshow. Through contacts with the investors, investors have timely full understanding of various financial and operating information of the Company and its latest development, and are able to support decisions made by the Company.

The Company issues annual report and interim report for despatching to all shareholders. The Company also publishes its announcements, circulars and news releases on its website at www.sinoma-ltd.cn.

To provide more effective channels of communication, the Company updates its website from time to time and releases corporate information and other related financial and non-financial information on its website in time.

Independent Auditor's Report

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF
CHINA NATIONAL MATERIALS COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China National Materials Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 68 to 212, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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 auditor's judgment, 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 auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427

Hong Kong
29 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Turnover	7	**44,246,476**	30,367,972
Cost of sales		**(35,395,260)**	(24,969,401)
Gross profit		**8,851,216**	5,398,571
Interest income	9	**154,061**	253,774
Other gains	10	**922,208**	774,777
Selling and marketing expenses		**(1,132,858)**	(824,932)
Administrative expenses		**(3,589,585)**	(2,451,188)
Exchange loss	11	**(104,129)**	(11,551)
Other expenses	12	**(78,200)**	(115,631)
Finance costs	13	**(921,288)**	(626,226)
Share of results of associates		**70,124**	46,120
Profit before tax		**4,171,549**	2,443,714
Income tax expense	14	**(777,847)**	(446,190)
Profit for the year	15	**3,393,702**	1,997,524
Profit for the year attributable to:			
Owners of the Company		**1,090,482**	719,504
Non-controlling interests		**2,303,220**	1,278,020
		3,393,702	1,997,524
Earnings per share – basic and diluted (expressed in RMB per share)	19	**0.305**	0.201

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010	2009
	RMB'000	*RMB'000*
Profit for the year	**3,393,702**	1,997,524
Other comprehensive income (expenses)		
Safety fund set aside	**63,433**	74,791
Utilisation of safety fund	**(31,922)**	–
Exchange differences arising on translation	**(1,693)**	9,178
Gain on fair value changes of available-for-sale financial assets	**336,943**	1,942,593
Reversal of gain on fair value change of an available-for-sale financial asset upon transfer to investment in an associate	**–**	(278,300)
Income tax relating to gain on fair value changes of available-for-sale financial assets	**(86,325)**	(388,459)
Other comprehensive income for the year (net of tax)	**280,436**	1,359,803
Total comprehensive income for the year	**3,674,138**	3,357,327
Total comprehensive income attributable to:		
Owners of the Company	**1,372,571**	1,898,101
Non-controlling interests	**2,301,567**	1,459,226
	3,674,138	3,357,327

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	20	**27,950,602**	18,538,699
Prepaid lease payments	21	**2,893,964**	2,010,748
Investment properties	22	**128,088**	126,758
Intangible assets	23	**619,620**	151,717
Mining rights	25	**440,015**	146,476
Interests in associates	27	**1,136,414**	765,119
Available-for-sale financial assets	28	**2,576,123**	2,167,356
Trade and other receivables	32	**72,170**	68,424
Deposits paid for acquisition of subsidiaries	30	**–**	632,770
Other non-current assets		**193,760**	132,852
Deferred income tax assets	45	**446,197**	261,911
		36,456,953	25,002,830
Current assets			
Inventories	31	**5,357,215**	4,539,818
Trade and other receivables	32	**10,291,213**	8,285,598
Amounts due from customers for contract work	33	**183,628**	168,261
Prepaid lease payments	21	**89,147**	67,447
Derivative financial instruments	29	**34,464**	13,550
Other current assets		**29,718**	42,927
Restricted bank balances	34	**1,257,740**	1,561,888
Bank balances and cash	35	**13,213,985**	10,077,924
		30,457,110	24,757,413
Current liabilities			
Trade and other payables	36	**20,693,310**	19,395,443
Amounts due to customers for contract work	33	**440,889**	405,084
Derivative financial instruments	29	**–**	648
Income tax liabilities		**539,987**	192,463
Short-term financing bills	37	**400,000**	–
Borrowings	38	**8,148,389**	5,439,633
Early retirement and supplemental benefit obligations	39	**34,532**	20,479
Provisions	41	**35,104**	–
		30,292,211	25,453,750
Net current assets (liabilities)		**164,899**	(696,337)
Total assets less current liabilities		**36,621,852**	24,306,493

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Trade and other payables	36	**1,197**	1,438
Derivative financial instruments	29	**3,415**	4,586
Corporate bonds	42	**2,485,545**	2,483,381
Medium-term notes	43	**1,700,000**	–
Borrowings	38	**10,542,043**	6,863,743
Provisions	41	**31,874**	–
Deferred income	44	**262,597**	312,081
Early retirement and supplemental benefit obligations	39	**317,908**	142,693
Deferred income tax liabilities	45	**733,308**	533,514
		16,077,887	10,341,436
NET ASSETS		**20,543,965**	13,965,057
Capital and reserves			
Share capital	46	**3,571,464**	3,571,464
Reserves	47	**6,113,722**	4,692,600
Equity attributable to owners of the Company		**9,685,186**	8,264,064
Non-controlling interests		**10,858,779**	5,700,993
TOTAL EQUITY		**20,543,965**	13,965,057

The consolidated financial statements on pages 68 to 212 were approved and authorised for issuance by the board of directors on 29 March 2011 and are signed on its behalf by:

TAN Zhongming
Director

LI Xinhua
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company											
	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Safety fund *RMB'000* *(Note (i))*	Foreign exchange reserve *RMB'000*	Investment revaluation reserve *RMB'000*	Other reserves *RMB'000* *(Note (ii))*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2009	3,571,464	3,273,160	(942,833)	30,197	–	(2,503)	3,441	129,068	731,636	6,793,630	5,422,097	12,215,727
Profit for the year	–	–	–	–	–	–	–	–	719,504	719,504	1,278,020	1,997,524
Other comprehensive income for the year	–	–	–	–	48,730	3,498	1,126,369	–	–	1,178,597	181,206	1,359,803
Total comprehensive income for the year	–	–	–	–	48,730	3,498	1,126,369	–	719,504	1,898,101	1,459,226	3,357,327
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(337,936)	(337,936)
Contributions received from non-controlling interests	–	–	–	–	–	–	–	–	–	–	82,989	82,989
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	4,900	4,900
Transactions with non-controlling interests	–	–	–	–	–	–	–	(356,238)	–	(356,238)	(930,283)	(1,286,521)
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(71,429)	(71,429)	–	(71,429)
Appropriation to statutory surplus reserve	–	–	–	15,644	–	–	–	–	(15,644)	–	–	–
At 31 December 2009 and 1 January 2010	**3,571,464**	**3,273,160**	**(942,833)**	**45,841**	**48,730**	**995**	**1,129,810**	**(227,170)**	**1,364,067**	**8,264,064**	**5,700,993**	**13,965,057**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,090,482**	**1,090,482**	**2,303,220**	**3,393,702**
Other comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**21,893**	**(721)**	**260,917**	**–**	**–**	**282,089**	**(1,653)**	**280,436**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**21,893**	**(721)**	**260,917**	**–**	**1,090,482**	**1,372,571**	**2,301,567**	**3,674,138**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(352,791)**	**(352,791)**
Contributions received from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**617,325**	**617,325**
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,275,183**	**2,275,183**
Capital reduction of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,000)**	**(9,000)**
Transactions with non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(486,163)**	**–**	**(486,163)**	**325,502**	**(160,661)**
Government contributions *(Note (iii))*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**624,001**	**–**	**624,001**	**–**	**624,001**
Dividend recognised as distribution	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(89,287)**	**(89,287)**	**–**	**(89,287)**
Appropriation to statutory surplus reserve	**–**	**–**	**–**	**6,852**	**–**	**–**	**–**	**–**	**(6,852)**	**–**	**–**	**–**
At 31 December 2010	**3,571,464**	**3,273,160**	**(942,833)**	**52,693**	**70,623**	**274**	**1,390,727**	**(89,332)**	**2,358,410**	**9,685,186**	**10,858,779**	**20,543,965**

Notes:

(i) Pursuant to certain regulations issued by the State Administration of Work Safety of the People's Republic of China (the "PRC"), the Group is required to set aside an amount to a safety fund. The fund can be used for improvements of safety at the mines and construction sites, and is not available for distribution to owners.

(ii) Other reserves mainly comprise of reserves from transactions with the non-controlling interests, deemed contributions from owners of the Company and government contributions.

(iii) During the year ended 31 December 2010, national funds amount to RMB624,001,000 are contributed by the PRC Government to the Group. Such funds are used specifically for energy saving and emission reduction and key industries construction projects.

Pursuant to the requirements of the relevant notice, the national funds are designated as capital contribution and vested solely by the PRC Government. They are non-repayable and can be converted to share capital of the entities receiving the funds upon approval by their shareholders and completion of other procedures.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**4,171,549**	2,443,714
Adjustments for:		
Allowance for inventories	**17,303**	24,009
Amortisation of intangible assets	**35,286**	29,382
Amortisation of mining rights	**48,587**	11,564
Amortisation of prepaid lease payments	**80,260**	63,430
Depreciation of property, plant and equipment and investment properties	**1,691,925**	1,013,140
Dividend income on available-for-sale financial assets	**(29,932)**	(13,346)
Gain on bargain purchases	**(70,782)**	(881)
Finance costs	**921,288**	626,226
Foreseeable losses on construction contracts	**126,748**	16,343
Government grants	**(207,134)**	(160,267)
Impairment loss recognised in respect of property, plant and equipment	**378,995**	68,067
Impairment loss recognised in respect of trade receivables	**113,431**	70,900
Impairment loss recognised in respect of other receivables	**20,897**	1,175
Impairment loss recognised in respect of loan receivables	**5,507**	9,624
Interest income	**(154,061)**	(253,774)
Gain on debts restructuring	**(12,157)**	–
Loss on disposal of an available-for-sale financial asset	**–**	9
Net change in fair value of derivative financial instruments	**(22,733)**	(42,120)
Net (gain) loss arising from foreign currency forward contracts	**(54,435)**	70,574
Net loss arising from interest rate swap contract	**5,974**	4,768
Net (gain) loss on disposals of property, plant and equipment	**(22,256)**	3,511
Net gain on disposal of prepaid lease payments	**(7,806)**	–
Loss on written off of intangible assets	**1,730**	–
Loss on written off of mining rights	**394**	–
Reversal of allowance for inventories	**(3,563)**	(4,154)
Reversal of provision upon settlement	**–**	(10,747)
Safety fund set aside	**63,433**	74,791
Share of results of associates	**(70,124)**	(46,120)
Utilisation/amortisation of government grants	**(75,093)**	(172,135)
Waiver on other payables	**(8,525)**	(2,529)
Operating cash flows before movements in working capital	**6,944,706**	3,825,154
Increase in inventories	**(462,515)**	(540,357)
Increase in trade and other receivables	**(1,269,037)**	(1,632,308)
(Increase) decrease in contracts work-in-progress	**(106,310)**	146,058
(Increase) decrease in other current and non-current assets	**(11,199)**	27,303
(Decrease) increase in trade and other payables	**(179,027)**	1,151,150
Increase (decrease) in provisions	**66,978**	(25,100)
Increase (decrease) in early retirement and supplemental benefit obligations	**27,198**	(509)
Decrease in safety fund	**(31,922)**	–
Cash generated from operations	**4,978,872**	2,951,391
Income tax paid	**(621,906)**	(463,151)
NET CASH FROM OPERATING ACTIVITIES	**4,356,966**	2,488,240

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(7,241,257)**	(4,634,686)
Payments for acquisition of additional equity interests in subsidiaries		**(149,994)**	(1,286,521)
Increase in investments in associates		**(868,257)**	(520,712)
Purchase of prepaid lease payments		**(444,317)**	(431,038)
Increase in deposits paid for acquisition of subsidiaries		**–**	(332,770)
Purchase of mining rights		**(68,643)**	(101,705)
Received on (payments for) net gain (loss) arising from foreign currency forward contracts		**54,435**	(68,001)
Purchase of investment properties		**(14,871)**	(38,176)
Purchase of available-for-sale financial assets		**(30,756)**	–
Decrease (increase) in loan receivables		**9,507**	(28,031)
Purchase of intangible assets		**(30,099)**	(19,465)
Payments for net loss arising from interest rate swap contracts		**(5,974)**	(4,768)
Net cash outflow on disposals of subsidiaries	49	**–**	(168)
Decrease in restricted bank balances		**306,148**	3,032,636
Interest received on bank deposits and loan receivables		**154,061**	253,774
Proceeds from disposals of property, plant and equipment		**221,927**	158,991
Dividends received on available-for-sale financial assets		**29,932**	13,346
Dividends received from associates		**10,839**	5,468
Net cash inflow on acquisition of subsidiaries	48	**744,436**	1,916
Proceeds from disposals of available-for-sale financial assets		**–**	491
Proceeds from disposals of prepaid lease payments		**49,675**	–
NET CASH USED IN INVESTING ACTIVITIES		**(7,273,208)**	(3,999,419)
FINANCING ACTIVITIES			
Proceeds from new borrowings		**13,905,904**	12,245,994
Gross proceeds from issuance of corporate bonds		**–**	2,500,000
Government grants received		**232,743**	305,403
Contributions received from non-controlling interests		**617,325**	82,989
Repayments of borrowings		**(9,518,364)**	(12,772,779)
Repayments of other payables		**(338,574)**	–
Interest paid		**(739,270)**	(566,302)
Dividends paid to non-controlling interests		**(331,482)**	(378,837)
Dividends paid		**(89,287)**	(71,429)
Gross proceeds from issuance of medium-term notes		**1,700,000**	–
Government contributions		**624,001**	–
Capital reduction of a subsidiary		**(9,000)**	–
Disbursement of incremental costs directly attributable to issuance of corporate bonds		**–**	(17,500)
NET CASH FROM FINANCING ACTIVITIES		**6,053,996**	1,327,539
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,137,754**	(183,640)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**10,077,924**	10,252,386
Effect of foreign exchange rate changes		**(1,693)**	9,178
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**13,213,985**	10,077,924

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION

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

The address of the registered office and the principal place of business of the Company is at No. 11, Beishuncheng Street, Xizhimennei, Xicheng District, Beijing, the PRC.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in provision of cement equipment and engineering services, production and sales of cement and high-tech materials. Particulars of the Company's principal subsidiaries are set out in Note 55(a).

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

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
Hong Kong Accounting Standard ("HKAS") 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK – Interpretation ("Int") 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

HKFRS 3 (Revised 2008) Business Combinations

HKFRS 3 (Revised 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

HKFRS 3 (Revised 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of acquisition.

In the current period, this changes in policies has affected the accounting for the acquisition of Anhui Yingpu Jinlong Cement Co., Ltd. The amount of reduction of gain on a bargain purchase recognised as result of the application of HKFRS 3 (Revised 2008) and decreased in profit for the year arising on the recognition of acquisition-related costs incurred amounting to approximately RMB8,063,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements

In prior years, there are no specific requirements in HKFRSs regarding changes in ownership interests in existing subsidiaries. Under HKAS 27 (Revised 2008), all increases or decreases in such interests that do not result in the Group losing control over the subsidiaries are dealt with in equity, with no impact on goodwill or profit or loss. The Group used the same accounting treatment in prior years.

In addition, under HKAS 27 (Revised 2008), the definition of non-controlling interest has been changed. Specifically, under the revised standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent. The application of HKAS 27 (Revised 2008) has had no significant effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HK – Int 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

HK – Int 5 clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK – Int 5 for the first time in the current year. HK – Int 5 requires retrospective application. Under HK – Int 5, term loans with a repayment on demand clause are classified as current liabilities. The application of HK – Int 5 has had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The application of the other new and revised HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adoption[5]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

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

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. To date, the Group has not entered into transactions involving transfers of financial assets. However, if the Group enters into any such transactions in the future, disclosures regarding those transfers may be affected.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

The amendments to HK(IFRIC) – Int 14 require entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions.

HK(IFRIC) – Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) – Int 19 will affect the required accounting. In particular, under HK(IFRIC) – Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Business combinations that took place on or after 1 January 2010 *(Continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments relate to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Business combinations that took place on or after 1 January 2010 *(Continued)*

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair values at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented as an intangible asset.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For the goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognise in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after assessment, is recognised immediately in profit and loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group similar line items, line by line, in the consolidated financial statements.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a business or a jointly controlled entity (see the accounting policy above).

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of the reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see accounting policy in respect of impairment losses on tangible and intangible assets below).

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Research and development expenditure *(Continued)*

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Mining rights

Mining rights represent upfront prepayments made for the mining rights and are expensed in the consolidated income statement on a straight-line basis over the period of the mining rights or when there is impairment, the impairment is expensed in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with highly liquidity that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Financial instruments

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

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

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at FVTPL, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

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

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition, it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, restricted bank balances and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 365 days, observable changes in national or local economic conditions that correlate with default on receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- on initial recognition, it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and other payables, short-term financing bills, corporate bonds, medium-term notes and borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately. The fair values of derivatives are classified as non-current assets or liabilities when the remaining maturity of the items are more than one year and current assets or liabilities when the remaining maturity are less than one year.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group are not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Warranties

Provisions for the expected cost of warranty obligations under the sale contracts are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rates of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the foreign exchange reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

(a) Revenue from cement equipment and engineering services

Revenue from cement equipment and engineering services is recognised under the percentage of completion method when the contract has progressed to a stage where the stage of completion and expected profit on the contract can be reliably determined and, is measured mainly by reference to the contract costs incurred up to the end of the reporting period as a percentage of estimated total costs.

Variation in contract work, claims and incentive payments are included in the contract revenue to the extent that the amount can be measured reliably and its receipt is considered probable.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in the consolidated income statement in the period in which the circumstances that give rise to the revision become known by management.

(b) Other services rendered

Revenue for other services rendered, which includes, among others, technique development, design, consultation and supervision, is recognised when such services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity.

(c) Sales of products

Sales of products are recognised when significant risks and rewards of ownership of the goods are transferred to the customer and the customer has accepted the products.

(d) Rental income

Rental income under operating leases of buildings is recognised on a straight-line basis over the lease term.

(e) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(f) Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

(g) Penalty income

Penalty income is recognised when the Group's rights to receive payment have been established.

Borrowing costs

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

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

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

The measurement of deferred income tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred income tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred income tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

(a) Pension obligations

The full-time employees of the Group in the PRC are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

The Group also provided supplemental pension subsidies to its employees in the PRC who retired prior to 31 December 2006. Such supplemental pension subsidies are considered to be defined benefit plans as they oblige the Group to provide post-employment benefits to set amounts of employees. 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 end of the reporting period less the fair value of plan assets, 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 bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the consolidated income statement over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in the consolidated income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Employees who retire after 31 December 2006 are not entitled to such supplemental pension subsidies.

(b) Other post-employment obligations

Some Group companies in the PRC provide post-retirement medical benefits to their retired employees. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are charged or credited to the consolidated income statement over the employees' expected average remaining working lives. These obligations are valued annually by independent qualified actuaries. Employees who retire after 31 December 2006 are not entitled to such post-retirement medical benefits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

(c) Termination and early retirement benefits

Termination and early retirement benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these 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 and early retirement 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 location of the employee concerned. Benefits falling due more than 12 months after end of the reporting period are discounted to present value. After 31 December 2006, the Company will not allow early retirement, nor provide such termination benefits to employees who are terminated after then.

(d) Housing funds

All full-time employees of the Group in the PRC are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(e) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

Cash-settled share-based payment transactions

For cash-settled share-based payments, the Group measures the services acquired and the liability incurred at the fair value of the liability. At the end of the reporting period, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognised in profit or loss.

Impairment losses on tangible assets, mining rights and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets, mining rights and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. FINANCIAL INSTRUMENTS

4.1 Categories of financial instruments

	2010	2009
	RMB'000	*RMB'000*
Financial assets		
Derivative financial instruments	**34,464**	13,550
Loans and receivables (including cash and cash equivalents)	**20,506,517**	15,703,347
Available-for-sale financial assets	**2,576,123**	2,167,356
	23,117,104	17,884,253
Financial liabilities		
Derivative financial instruments	**3,415**	5,234
Amortised cost	**34,306,983**	23,625,342
	34,310,398	23,630,576

4.2 Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale financial assets, derivative financial instruments, trade and other receivables, restricted bank balances, bank balances and cash, trade and other payables, short-term financing bills, borrowings, corporate bonds and medium-term notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. FINANCIAL INSTRUMENTS *(Continued)*

4.2 Financial risk management objectives and policies *(Continued)*

(a) Foreign exchange risk

The Group's functional currency is RMB with the majority of transactions settled in RMB. However, foreign currencies are used to collect the Group's revenue from overseas operations and settle the Group's purchases of machinery and equipment from overseas suppliers and certain expenses. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The Group's exposure to foreign exchange risk relates principally to its trade and other receivables (except for prepayments to suppliers and subcontractors), restricted bank balances, bank balances and cash, trade and other payables (except for prepayments from customers) and borrowings as at 31 December 2010 denominated in foreign currencies, mainly United States Dollars ("US$"), Euro ("EUR"), Hong Kong Dollars ("HK$"), United Arab Emirates Dirhams ("AED"), Nigerian Naira ("NGN"), Vietnamese Dong ("VND"), Iraqi Dinar ("IQD"), Egyptian Pound ("EGP"), Albanian Lek ("ALL"), Saudi Arabian Riyal ("SAR"), Azerbaijani Manat ("AZN") and South African Rand ("ZAR"). Analysis of these assets and liabilities by currency are disclosed in Notes 32, 34, 35, 36 and 38.

To mitigate the impact of exchange rate fluctuations, the Group continually assesses and monitors the exposure to foreign exchange risk. During the year, management of the Group has entered into certain foreign currency forward contracts, however they do not qualify for hedge accounting, therefore, they are deemed as financial assets or financial liabilities held for trading. The particulars of the outstanding foreign currency forward contracts as at the end of the reporting period are disclosed in Note 29.

The carrying amounts of the Group's monetary assets and liabilities that are denominated in currencies other than the functional currencies of relevant group entities at the end of reporting period are as follows:

	Assets		**Liabilities**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
US$	**750,376**	1,020,800	**(571,937)**	(182,005)
EUR	**739,508**	768,977	**(597,602)**	(591,011)
HK$	**4**	1,797	**–**	(995)
AED	**3,614**	138,122	**–**	(10,757)
NGN	**24,511**	93,298	**(27,693)**	(21,264)
VND	**36,101**	12,824	**–**	–
IQD	**5,006**	893	**–**	–
EGP	**72,658**	11,958	**–**	–
ALL	**64,948**	40,082	**(10,446)**	–
SAR	**116,505**	23,577	**–**	–
AZN	**77,455**	26,051	**(9,634)**	–
ZAR	**80,439**	20,896	**(77,149)**	–
Others	**256,755**	228,834	**(47,369)**	(3,893)
	2,227,880	2,388,109	**(1,341,830)**	(809,925)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. FINANCIAL INSTRUMENTS *(Continued)*

4.2 Financial risk management objectives and policies *(Continued)*

(a) Foreign exchange risk *(Continued)*

The Group's exposure to foreign exchange risk mainly relates to US$, EUR, NGN, VND, EGP, ALL, SAR, AZN and ZAR. The following sensitivity rates used when reporting foreign exchange risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

Sensitivity analysis

As at 31 December 2010, if RMB had strengthened by 2% (2009: 1%) against US$ with all other variables held constant, which was considered reasonably possible at that date by management, the profit for the year would have been approximately RMB3,395,000 lower (2009: RMB6,742,000 lower), mainly as a result of foreign exchange losses on translation of US$-denominated trade and other receivables (except for prepayments to suppliers and subcontractors), restricted bank balances, bank balances and cash, trade and other payables (except for prepayments from customers) and borrowings. As a result of the volatile financial market in 2010, the management adjusted the sensitivity rate from 1% to 2% for the purpose of assessing foreign currency risk. The adverse movement in US$ would be an equal and opposite impact on the profit for the year.

As at 31 December 2010, if RMB had strengthened by 2% (2009: 2%) against EUR with all other variables held constant, which was considered reasonably possible at that date by management, the profit for the year would have been approximately RMB2,412,000 lower (2009: RMB2,765,000 lower), mainly as a result of foreign exchange losses on translation of EUR-denominated trade and other receivables (except for prepayments to suppliers and subcontractors), restricted bank balances, bank balances and cash, trade and other payables (except for prepayments from customers). The adverse movement in EUR would be an equal and opposite impact on the profit for the year.

As at 31 December 2010, if RMB had strengthened by 4% (2009: 1%) against NGN with all other variables held constant, which was considered reasonably possible at that date by management, the profit for the year would have been approximately RMB525,000 higher (2009: RMB612,000 higher), mainly as a result of foreign exchange gains on translation of NGN-denominated trade and other receivables (except for prepayments to suppliers and subcontractors) and bank balances and cash and trade and other payables (except for prepayments from customers). As a result of the volatile financial market in 2010, the management adjusted the sensitivity rate from 1% to 4% for the purpose of assessing foreign currency risk. The adverse movement in NGN would be an equal and opposite impact on the profit for the year.

As at 31 December 2010, if RMB had strengthened by 4% (2009: 4%) against VND with all other variables held constant, which was considered reasonably possible at that date by management, the profit for the year would have been approximately RMB1,228,000 lower (2009: RMB436,000 lower), mainly as a result of foreign exchange losses on translation of VND-denominated bank balances and cash. The adverse movement in VND would be an equal and opposite impact on the profit for the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. FINANCIAL INSTRUMENTS *(Continued)*

4.2 Financial risk management objectives and policies *(Continued)*

(a) Foreign exchange risk *(Continued)*

Sensitivity analysis (Continued)

As at 31 December 2010, if RMB had strengthened by 5% (2009: 1%) against EGP with all other variables held constant, which was considered reasonably possible at that date by management, the profit for the year would have been approximately RMB3,088,000 lower (2009: RMB102,000 lower), mainly as a result of foreign exchange losses on translation of EGP-denominated bank balances and cash. As a result of the volatile financial market in 2010, the management adjusted the sensitivity rate from 1% to 5% for the purpose of assessing foreign currency risk. The adverse movement in EGP would be an equal and opposite impact on the profit for the year.

As at 31 December 2010, if RMB had strengthened by 3% (2009: 1%) against ALL with all other variables held constant, which was considered reasonably possible at that date by management, the profit for the year would have been approximately RMB1,390,000 lower (2009: RMB341,000 lower), mainly as a result of foreign exchange losses on translation of ALL-denominated trade and other receivables (except for prepayments to suppliers and subcontractors) and bank balances and cash. As a result of the volatile financial market in 2010, the management adjusted the sensitivity rate from 1% to 3% for the purpose of assessing foreign currency risk. The adverse movement in ALL would be an equal and opposite impact on the profit for the year.

As at 31 December 2010, if RMB had strengthened by 3% (2009: 1%) against SAR with all other variables held constant, which was considered reasonably possible at that date by management, the profit for the year would have been approximately RMB2,915,000 lower (2009: RMB200,000 lower), mainly as a result of foreign exchange losses on translation of SAR-denominated trade and other receivables (except for prepayments to suppliers and subcontractors) and bank balances and cash. As a result of the volatile financial market in 2010, the management adjusted the sensitivity rate from 1% to 3% for the purpose of assessing foreign currency risk. The adverse movement in SAR would be an equal and opposite impact on the profit for the year.

As at 31 December 2010, if RMB had strengthened by 1% (2009: 1%) against AZN with all other variables held constant, which was considered reasonably possible at that date by management, the profit for the year would have been approximately RMB576,000 lower (2009: RMB221,000 lower), mainly as a result of foreign exchange gains on translation of AZN-denominated trade and other receivables (except for prepayments to suppliers and subcontractors) and bank balances and cash and trade and other payables (except for prepayments from customers). The adverse movement in AZN would be an equal and opposite impact on the profit for the year.

As at 31 December 2010, if RMB had strengthened by 7% (2009: 10%) against ZAR with all other variables held constant, which was considered reasonably possible at that date by management, the profit for the year would have been approximately RMB196,000 lower (2009: RMB1,776,000 lower), mainly as a result of foreign exchange gains on translation of ZAR-denominated bank balances and cash and trade and other payables (except for prepayments from customers). As a result of the volatile financial market in 2010, the management adjusted the sensitivity rate from 10% to 7% for the purpose of assessing foreign currency risk. The adverse movement in ZAR would be an equal and opposite impact on the profit for the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. FINANCIAL INSTRUMENTS *(Continued)*

4.2 Financial risk management objectives and policies *(Continued)*

(b) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its restricted bank balances, bank balances, short-term financing bills, borrowings, corporate bonds and medium-term notes. Bank balances and borrowings at variable rates expose the Group to cash flow interest-rate risk, and those at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2010, approximately RMB1,257,740,000 (2009: RMB1,561,888,000) of the Group's restricted bank balances, approximately RMB4,613,647,000 (2009: RMB4,450,432,000) of the Group's bank balances, approximately RMB400,000,000 (2009: Nil) of the Group's short-term financing bills, approximately RMB8,875,898,000 (2009: RMB4,515,500,000) of the Group's fixed rate borrowings, approximately RMB2,485,545,000 (2009: RMB2,483,381,000) of the Group's corporate bonds and approximately RMB1,700,000,000 (2009: Nil) of the Group's medium-term notes were at fixed rates, respectively. The interest rates and maturities of the Group's restricted bank balances, bank balances, short-term financing bills, borrowings, corporate bonds and medium-term notes are disclosed in Notes 34, 35, 37, 38, 42 and 43.

To mitigate the impact of interest rate fluctuations, the Group continually assesses and monitors the exposure to interest rate risk.

As at 31 December 2010, if the interest rate on variable-rate borrowings had been 100 basis points (2009: 100 basis points) higher with all other variables held constant, which was considered reasonably possible at that date by management, profit for the year would has been RMB78,421,000 lower (2009: RMB58,409,000 lower), mainly as a result of higher interest expenses on bank borrowings.

(c) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity securities price risks at the reporting date.

If the price of the respective equity securities had been 10% (2009: 10%) higher/lower, the investment revaluation reserve would increase/decrease by approximately RMB241,932,000 (2009: approximately RMB208,210,000) for the Group as a result of the changes in fair value of available-for-sale financial assets.

(d) Credit risk

The carrying amounts of trade and other receivables (except for prepayments to suppliers and subcontractors), restricted bank balances and bank balances represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies in place to ensure that services are rendered and products are sold to customers with appropriate credit history and the Group performs periodic assessment on the credit quality of the customers, taking into account its financial position, past experience and other factors. Normally the Group does not hold any collaterals as security. The directors of the Company consider the Group does not have a significant concentration of credit risk. Contributions from the largest customer accounted for approximately 4% (2009: 3%) of the Group's total revenues for the year ended 31 December 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. FINANCIAL INSTRUMENTS *(Continued)*

4.2 Financial risk management objectives and policies *(Continued)*

(d) Credit risk *(Continued)*

The credit risk on bank balances is limited because the restricted bank balances and bank balances are maintained with state-owned banks or other creditworthy financial institutions in the PRC and overseas.

The credit risk on financial guarantee given by the Group is limited as the guarantees are either the stated-owned enterprises or enterprises with strong financial position as at 31 December 2010 and 2009.

The counterparties of the Group are mainly in the PRC. However, the credit risk on geographical locations is limited as the counterparties are spread over among different cities and provinces in the PRC as at 31 December 2010 and 2009.

(e) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group aims to maintain a reasonable level of cash and cash equivalents and flexibility in funding by keeping committed credit lines available.

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations, short-term financing bills, bank borrowings, corporate bonds, medium-term notes and the net proceeds from the initial public offering.

The maturity analysis of short-term financing bills, borrowings, corporate bonds and medium-term notes that shows the remaining contractual maturities is disclosed in Notes 37, 38, 42 and 43 respectively. Generally there is no specific credit period granted by the suppliers but the related trade payables are normally expected to be settled within one year after receipt of goods or services.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is calculated by interest rate curve at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted gross cash flows on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. FINANCIAL INSTRUMENTS *(Continued)*

4.2 Financial risk management objectives and policies *(Continued)*

(e) Liquidity risk *(Continued)*

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
As at 31 December 2010						
Non-derivative financial liabilities						
Trade and other payables	11,029,809	–	1,197	–	11,031,006	11,031,006
Short-term financing bills	404,941	–	–	–	404,941	400,000
Borrowings	8,797,956	3,782,869	6,016,907	3,019,106	21,616,838	18,690,432
Corporate bonds	135,000	135,000	405,000	2,578,041	3,253,041	2,485,545
Medium-term notes	76,160	76,160	1,866,717	–	2,019,037	1,700,000
Financial guarantee contracts	365,500	–	30,000	–	395,500	–
	20,809,366	3,994,029	8,319,821	5,597,147	38,720,363	34,306,983
Derivative financial instruments – gross settlement						
Interest rate swaps	–	–	3,445	–	3,445	3,415

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. FINANCIAL INSTRUMENTS *(Continued)*

4.2 Financial risk management objectives and policies *(Continued)*

(e) Liquidity risk *(Continued)*

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amounts
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2009						
Non-derivative financial liabilities						
Trade and other payables	8,837,147	–	1,438	–	8,838,585	8,838,585
Borrowings	5,687,190	1,593,035	5,793,843	1,602,137	14,676,205	12,303,376
Corporate bonds	135,000	135,000	135,000	2,983,750	3,388,750	2,483,381
Financial guarantee contracts	608,500	40,000	30,000	–	678,500	–
	15,267,837	1,768,035	5,960,281	4,585,887	27,582,040	23,625,342
Derivative financial instruments – gross settlement						
Interest rate swaps	–	–	4,648	–	4,648	4,586
Foreign currency forward contracts	648	–	–	–	648	648
	648	–	4,648	–	5,296	5,234

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. FINANCIAL INSTRUMENTS *(Continued)*

4.3 Fair value

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis;
- the fair value of the foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;
- the fair value of the interest rate swap contracts are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates; and
- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default. The fair values of financial guarantee contracts were insignificant at the grant date.

The carrying amounts of financial assets and financial liabilities that are current in nature reported in the consolidated statement of financial position of the Group approximate their fair values due to their immediate or short-term maturities.

The directors of the Company consider the carrying amounts of the non-current trade and other receivables and payables approximate their fair values as the impact of discounting is not significant.

Fair value measurements recognised in the consolidated statement of financial position

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

- *Level 1 – quoted market prices:*

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

- *Level 2 – valuation technique using observable inputs:*

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

- *Level 3 – valuation technique with significant unobservable inputs:*

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. FINANCIAL INSTRUMENTS *(Continued)*

4.3 Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
As at 31 December 2010				
Financial assets at FVTPL				
Derivative financial assets	**–**	**34,464**	**–**	**34,464**
Available-for-sales financial assets				
Equity securities	**2,419,319**	**–**	**–**	**2,419,319**
	2,419,319	**34,464**	**–**	**2,453,783**
Financial liabilities at FVTPL				
Derivative financial liabilities	**–**	**(3,415)**	**–**	**(3,415)**
As at 31 December 2009				
Financial assets at FVTPL				
Derivative financial assets	–	13,550	–	13,550
Available-for-sales financial assets				
Equity securities	2,082,099	–	–	2,082,099
	2,082,099	13,550	–	2,095,649
Financial liabilities at FVTPL				
Derivative financial liabilities	–	(5,234)	–	(5,234)

There were no transfers between Level 1 and 2 during the year ended 31 December 2010 and 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged from prior year.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debts.

The Group monitors its capital on the basis of the net debt ratio which is calculated as net debt divided by total equity. Net debt is calculated as the total amount of interest-bearing debts (including current and non-current borrowings, short-term financing bills, corporate bonds and medium-term notes as shown in the consolidated statement of financial position) less bank balances and cash. The Group aims to maintain the net debt ratio at a reasonable level.

The net debt ratios of the Group as at 31 December 2010 and 2009 are as follows:

	2010	2009
	RMB'000	*RMB'000*
Short-term financing bills	**400,000**	–
Total borrowings *(Note 38)*	**18,690,432**	12,303,376
Corporate bonds *(Note 42)*	**2,485,545**	2,483,381
Medium-term notes	**1,700,000**	–
Less: Bank balances and cash *(Note 35)*	**(13,213,985)**	(10,077,924)
Net debt	**10,061,992**	4,708,833
Total equity	**20,543,965**	13,965,057
Net debt ratio	**48.98%**	33.72%

The increase in the net debt ratio during the year ended 31 December 2010 resulted primarily from more borrowings has been obtained from the Group to provide fund for operation. The Group did not breach any loan covenants at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying the entity's accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

(a) De facto control over subsidiaries

The Group's management exercises its critical judgment when determining whether the Group has de facto control over an entity by evaluating, among other things: (i) the amount of additional interests in the subsidiary required to be acquired by the Group so as to obtain the legal rights to govern financial and operating policies; (ii) the ability to demonstrate effective control during the shareholders' meetings and board meetings; (iii) the extent of reliance of the subsidiary on the financial and operational support from the Group; and (iv) the extent of involvement of directors of the subsidiary nominated by the Group in its operational and financial policy setting and decision making.

(b) Significant influence over associates

The Group's management exercises its critical judgment when determining whether the Group has significant influence over an entity by evaluating, among other things: (i) the ability to demonstrate effective significant influence during the shareholders' meetings and board meetings; and (ii) the extent of involvement of directors of the associate nominated by the Group in its operational and financial policy setting and decision making.

(c) Current and deferred income tax

The Group is subject to income taxes in several jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgments in applying the entity's accounting policies *(Continued)*

(c) Current and deferred income tax *(Continued)*

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimates are changed.

(d) Ownership of the buildings and prepaid lease payments

Despite the Group has paid the full purchase consideration as detailed in Notes 20 and 21, respectively, formal titles of certain of the Group's rights to the use of the buildings and prepaid lease payments were not yet granted from the relevant government authorities. In the opinion of the directors, the absence of formal title to these buildings and prepaid lease payments does not impair the value of the relevant assets to the Group.

Key sources of estimation uncertainty

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

(a) Useful lives and residual value of property, plant and equipment

The Group's management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions. They could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated.

(b) Impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment, in accordance with relevant accounting policies. The recoverable amounts of property, plant and equipment have been determined based on value in use calculations. These calculations and valuations require the use of judgment and estimates on future operating cash flows and discount rates adopted.

(c) Impairment loss recognised in respect of available-for-sale financial assets

The Group follows the guidance of HKAS 39 Financial Instruments – Recognition and Measurement in determining when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(d) Allowance for inventories

During the year, the Group reversed the allowance of inventory of approximately RMB3,563,000 (2009: RMB4,154,000) and write down of inventory of approximately RMB17,303,000 (2009: RMB24,009,000). The Group makes allowance for inventories based on assessment of the net realisable value of inventories. Allowance is applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories required the use of judgment and estimates on the conditions and usefulness of the inventories.

(e) Impairment loss recognised in respect of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables with the accounting policy stated in Note 3. Such provision for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Management reassesses the adequacy of any such provision on a regular basis. As at 31 December 2010, the carrying amount of trade and other receivables is approximately RMB10,363,383,000 (net of allowance of doubtful debts of approximately RMB659,571,000) (2009: carrying amount of approximately RMB8,354,022,000, net of allowance for doubtful debts of approximately RMB578,835,000).

(f) Impairment loss of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 3. The recoverable amounts of cash-generating units have been determined based on the higher of the cash-generating units' ("CGU") fair value less costs to sell and its value in use. These calculations require the use of estimates which are disclosed in Note 24. No impairment loss has been recognised during the two years ended 31 December 2010.

Further details of the results of the review undertaken by management as at 31 December 2010 are set out in Note 24.

(g) Construction contracts

Revenue from individual contracts is recognised under the percentage of completion method which requires judgment of the management. Anticipated losses are fully provided on contracts when identified. Management estimates the amount of foreseeable losses of construction work based on the estimation prepared for the construction contracts. Because of the nature of the activity undertaken in construction and engineering businesses, the contract activity will usually last for a period over one year and therefore fall into different accounting periods. During the year ended 31 December 2010, foreseeable losses on construction contracts of approximately RMB126,748,000 (2009: RMB16,343,000) have been recognised.

The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses and regularly reviews the progress of the contracts and the corresponding costs of the contract revenue. If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in the consolidated income statement in the period in which the circumstances that give rise to the revision become known by management.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(h) Provision for guarantees

The Group follows the guidance of HKAS 37 Provisions, Contingent Liabilities and Contingent Assets in determining the provision for guarantees. Provisions have been made based on management's best estimates and judgments at the date of grant and at the end of the reporting period if it is probable that an outflow of resources will be required to settle the defaulted guarantees and the amount of such provision can be measured reliably. The Group's management considers the fair value of the guarantees at the date of grant is insignificant and the default risk is low at the end of the reporting period.

(i) Contingent liabilities in respect of litigations and claims

The Group has been engaged in a number of litigations and claims in respect of certain construction works. Contingent liabilities arising from these litigations and claims have been assessed by management with reference to legal advice. Provisions on the possible obligation have been made based on management's best estimates and judgments. As at 31 December 2010, the carrying amount of provision for litigation is approximately RMB27,780,000 (2009: Nil).

(j) Provision for warranties

Provisions for the expected cost of warranty obligations under the sale contracts are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation. As at 31 December 2010, the carrying amount of provision for warranties is approximately RMB39,198,000 (2009: Nil).

7. TURNOVER

Turnover represents revenue arising from provision of cement equipment and engineering services, production and sales of cement and high-tech materials.

	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Turnover comprises:		
– Cement equipment and engineering services	**24,289,969**	18,884,856
– Cement	**14,208,783**	7,709,359
– High-tech materials	**5,747,724**	3,773,757
	44,246,476	30,367,972

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the nature of business for the goods supplied and services provided.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

Cement equipment and engineering services	Provision of engineering equipment and engineering services for new dry process cement production lines and mining projects and equipment manufacturing
Cement	Production and sales of cement and clinker
High-tech materials	Production and sales of glass fiber, glass fiber products, specialty fiber, fiber reinforcement composite materials and standard sand; equipment and engineering services for glass fiber production and non-metal mineral fine processing and advance ceramics

The executive directors of the Company, after considering the nature of standard sand, decided that it is more appropriate to include standard sand operation in assessing the performance of high-tech materials segment rather than in cement segment. The production and sales of standard sand was reclassified from cement segment to high-tech materials segment in the current year. The relevant segment information for the year ended 31 December 2009 was restated for the reclassification.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. SEGMENT INFORMATION *(Continued)*

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 December 2010

	Cement equipment and engineering services *RMB'000*	Cement *RMB'000*	High-tech materials *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE					
External sales	24,289,969	14,208,783	5,747,724	–	44,246,476
Inter-segment sales	1,604,501	57,781	4,141	(1,666,423)	–
Total	25,894,470	14,266,564	5,751,865	(1,666,423)	44,246,476
Segment results	1,908,779	2,583,716	576,142	(148,751)	4,919,886
Unallocated operating income and expenses					(51,234)
Interest income					154,061
Finance costs					(921,288)
Share of results of associates					70,124
Profit before tax					4,171,549

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. SEGMENT INFORMATION *(Continued)*

(a) Segment revenues and results *(Continued)*

For the year ended 31 December 2009

	Cement equipment and engineering services *RMB'000*	Cement *RMB'000* (Restated)	High-tech materials *RMB'000* (Restated)	Eliminations *RMB'000*	Total *RMB'000*
REVENUE					
External sales	18,884,856	7,709,359	3,773,757	–	30,367,972
Inter-segment sales	656,699	7,097	3,266	(667,062)	–
Total	19,541,555	7,716,456	3,777,023	(667,062)	30,367,972
Segment results	1,065,681	1,371,914	436,368	(51,218)	2,822,745
Unallocated operating income and expenses					(52,699)
Interest income					253,774
Finance costs					(626,226)
Share of results of associates					46,120
Profit before tax					2,443,714

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit earned by each segment without allocation of directors' remuneration, interest income, finance costs, share of results of associates and other head office administrative expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. SEGMENT INFORMATION *(Continued)*

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

Segment assets

	2010 **RMB'000**	2009 RMB'000 (Restated)
Cement equipment and engineering services	**10,444,028**	10,364,674
Cement	**26,852,250**	15,240,246
High-tech materials	**11,479,724**	9,801,580
Total segment assets	**48,776,002**	35,406,500
Eliminations	**(728,008)**	(831,887)
Unallocated assets	**18,866,069**	15,185,630
Consolidated assets	**66,914,063**	49,760,243

Segment liabilities

	2010 **RMB'000**	2009 RMB'000 (Restated)
Cement equipment and engineering services	**14,905,247**	15,542,558
Cement	**6,015,506**	4,217,623
High-tech materials	**2,758,294**	2,380,523
Total segment liabilities	**23,679,047**	22,140,704
Eliminations	**(2,010,490)**	(1,965,740)
Unallocated liabilities	**24,701,541**	15,620,222
Consolidated liabilities	**46,370,098**	35,795,186

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segment other than deferred income tax assets and unallocated assets including interests in associates, available-for-sale financial assets, derivative financial instruments, restricted bank balances, bank balances and cash and certain unallocated head office assets; and

- all liabilities are allocated to reportable segments other than income tax liabilities, deferred income tax liabilities and unallocated liabilities including derivative financial instruments, short-term financing bills, borrowings, corporate bonds, medium-term notes and certain unallocated head office liabilities.

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For the year ended 31 December 2010

8. SEGMENT INFORMATION *(Continued)*

(c) Other segment information

For the year ended 31 December 2010

	Cement equipment and engineering services *RMB'000*	Cement *RMB'000*	High-tech materials *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment results or segment assets:					
Depreciation on property, plant and equipment and investment properties	183,444	892,689	615,447	345	1,691,925
Amortisation	12,140	108,782	39,278	3,933	164,133
Impairment loss recognised in respect of property, plant and equipment	–	150,593	228,402	–	378,995
Impairment loss recognised (reversed) in respect of trade receivables	90,375	(8,182)	31,238	–	113,431
Impairment loss recognised (reversed) in respect of other receivables	(19,762)	40,019	386	254	20,897
Impairment loss recognised (reversed) in respect of loan receivables	26,588	(19,980)	(1,101)	–	5,507
Allowance for inventories	–	2,621	14,682	–	17,303
Reversal of allowance for inventories	–	(416)	(3,147)	–	(3,563)
Loss on written off of intangible assets	–	23	1,707	–	1,730
Loss on written off of mining rights	–	171	223	–	394
Net (gain) loss on disposals of property, plant and equipment	(19,298)	(12,054)	7,366	–	(23,986)
Gain on disposals of prepaid lease payments	–	(4,678)	(3,128)	–	(7,806)
Foreseeable losses on construction contracts	126,748	–	–	–	126,748
Additions to non-current assets *(Note)*	589,668	11,404,043	1,671,906	193	13,665,810
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results:					
Interest income	(111,884)	(29,204)	(10,281)	(2,692)	(154,061)
Finance costs	25,882	429,877	226,682	238,847	921,288
Share of results of associates	(10,451)	(58,348)	(1,325)	–	(70,124)
Income tax expense (credit)	396,748	291,857	89,771	(529)	777,847
Interests in associates	62,926	1,021,706	51,782	–	1,136,414

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. SEGMENT INFORMATION *(Continued)*

(c) Other segment information *(Continued)*

For the year ended 31 December 2009

	Cement equipment and engineering services *RMB'000*	Cement *RMB'000* (Restated)	High-tech materials *RMB'000* (Restated)	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment results or segment assets:					
Depreciation on property, plant and equipment and investment properties	139,966	512,654	360,227	293	1,013,140
Amortisation	11,056	58,716	34,588	16	104,376
Impairment loss recognised in respect of property, plant and equipment	–	61,732	6,335	–	68,067
Impairment loss recognised (reversed) in respect of trade receivables	48,185	(12,440)	35,155	–	70,900
Impairment loss recognised (reversed) in respect of other receivables	7,367	1,060	(6,748)	(504)	1,175
Impairment loss recognised (reversed) in respect of loan receivables	6,388	3,323	(87)	–	9,624
Allowance for inventories	15,172	5,154	3,683	–	24,009
Reversal of allowance for inventories	(1,801)	(169)	(2,184)	–	(4,154)
Net (gain) loss on disposals of property, plant and equipment	(4,899)	4,609	3,801	–	3,511
Foreseeable losses on construction contracts	16,343	–	–	–	16,343
Additions to non-current assets *(Note)*	704,427	3,416,912	1,228,517	333,423	5,683,279
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results:					
Interest income	(211,843)	(22,953)	(15,490)	(3,488)	(253,774)
Finance costs	53,752	247,762	204,322	120,390	626,226
Share of results of associates	(11,259)	(32,702)	(2,159)	–	(46,120)
Income tax expense (credit)	279,593	127,232	60,749	(21,384)	446,190
Interests in associates	52,403	688,058	24,658	–	765,119

Note: Non-current assets exclude interest in associates, financial instruments and deferred income tax assets. Additions to non-current assets for the year ended 31 December 2010 resulting from acquisitions through business combinations amounting to RMB5,589,444,000 (2009: RMB3,549,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. SEGMENT INFORMATION *(Continued)*

(d) Geographical information

The Group operates in five principal geographical areas – the PRC (country of domicile), Middle East, Africa, other Asian countries and Europe.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed as below:

	Revenue from external customer		Non-current assets	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The PRC	**30,961,720**	19,050,415	**33,339,525**	22,443,833
Middle East	**4,060,035**	1,704,429	**2,957**	20,264
Africa	**6,796,741**	7,818,562	**13,997**	17,077
Other Asian countries	**1,268,535**	871,284	**425**	512
Europe	**584,415**	494,786	**5,559**	8,316
Others	**575,030**	428,496	**–**	15,137
	44,246,476	30,367,972	**33,362,463**	22,505,139

Note: Non-current assets exclude financial instruments and deferred income tax assets.

(e) Information about major customers

During the two years ended 31 December 2010 and 2009, no revenues from transactions with any single external customer amounted to 10% or more of the Group's revenues.

9. INTEREST INCOME

	2010	2009
	RMB'000	*RMB'000*
Interest income on bank deposits	**152,380**	252,524
Interest income on loan receivables	**1,681**	1,250
Total interest income	**154,061**	253,774

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

10. OTHER GAINS

	2010	2009
	RMB'000	*RMB'000*
Gain on debts restructuring *(Note a)*	**12,157**	–
Gain on disposals of property, plant and equipment	**23,986**	–
Gain on disposals of prepaid lease payments	**7,806**	–
Exchange gain in realisation of forward contracts	**54,435**	–
Dividend income on available-for-sale financial assets *(Note b)*	**29,932**	13,346
Other service income	**382**	9,820
Income from sales of scrap materials	**1,129**	918
Gain on bargain purchases *(Note 48)*	**70,782**	881
Change in fair values of the derivative financial instruments		
– foreign currency forward contracts	**21,562**	12,902
– interest rate swap contracts	**1,171**	29,218
Penalty income *(Note c)*	**31,948**	34,512
Rental income *(Note d)*	**34,722**	33,721
Waiver of other payables	**8,525**	2,529
Reversal of provision upon settlement of litigation *(Note 41)*	**–**	10,747
Value-added tax refunds *(Note e)*	**336,468**	289,320
Government grants		
– utilisation/amortisation of deferred income for the year *(Note 44)*	**75,093**	172,135
– grants related to expenses recognised as other gains *(Note f)*	**207,134**	160,267
Others	**4,976**	4,461
	922,208	774,777

Notes:

(a) During the year, a subsidiary of the Company had settled certain bank borrowings at a discount of RMB12,157,000.

(b) Dividend income from available-for-sale financial assets represented dividend income from unlisted equity investments.

(c) The penalty income mainly represented the compensation income received from the subcontractors or constructors in relation to the delay of the contract works or construction of property, plant and equipment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

10. OTHER GAINS *(Continued)*

(d) Rental income:

	2010 RMB'000	2009 RMB'000
Gross rental income from investment properties	**34,722**	33,721
Less: Direct operating expenses that generate rental income	**(7,875)**	(6,466)
Net rental income from investment properties	**26,847**	27,255

(e) The balances represent refunds of value-added tax paid by certain subsidiaries since these subsidiaries produce certain specific cement products.

(f) Government grants related to expenses recognised as other gains are awarded to the Group by the local government agencies as incentives primarily to encourage the development of the Group and the contribution to the local economic development.

11. EXCHANGE LOSS

Foreign exchange differences are included in the consolidated income statement as follows:

	2010 RMB'000	2009 RMB'000
Net exchange loss	**104,167**	11,562
Less: Net foreign exchange loss on bank borrowings *(Note 13)*	**(38)**	(11)
Exchange loss arising from the operating activities	**104,129**	11,551

12. OTHER EXPENSES

	2010 RMB'000	2009 RMB'000
Provision for litigation *(Note 41)*	**27,780**	–
Net loss arising from foreign currency forward contracts	**–**	70,574
Net loss arising from interest rate swap contract	**5,974**	4,768
Net loss on disposals of property, plant and equipment	**–**	3,511
Loss on disposal of an available-for-sale financial asset	**–**	9
Loss on written off of intangible assets	**1,730**	–
Loss on written off of mining rights	**394**	–
Penalty	**28,581**	18,629
Donations	**7,037**	4,801
Others	**6,704**	13,339
	78,200	115,631

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

13. FINANCE COSTS

	2010	2009
	RMB'000	*RMB'000*
Interest expenses		
– Bank borrowings wholly repayable within 5 years	**691,448**	595,410
– Bank borrowings not wholly repayable within 5 years	**24,689**	13,199
– Corporate bonds not wholly repayable within 5 years	**137,164**	57,131
– Medium-term notes wholly repayable within 5 years	**61,351**	–
– Short-term financing bills wholly repayable within 5 years	**10,995**	–
– Other borrowings	**56,005**	15,202
	981,652	680,942
Less: Amounts capitalised as construction in progress	**(73,063)**	(61,130)
	908,589	619,812
Net foreign exchange loss on bank borrowings *(Note 11)*	**38**	11
Discount charges on bank acceptance notes	**12,661**	6,403
Total finance costs	**921,288**	626,226

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

14. INCOME TAX EXPENSE

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

Certain of the companies now comprising the Group are subject to the PRC enterprise income tax, which has been provided for based on the statutory income tax rates of 25% (2009: 25%) on the assessable income of each of these companies during the year as determined in accordance with the relevant PRC income tax rules and regulations except that certain subsidiaries and jointly controlled entities which were taxed at preferential rate of 15% (2009: 15%).

During the year ended 31 December 2010, certain subsidiaries of the Group have obtained a preferential rate and changed the tax rates from 25% to 15%.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

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

	2010 ***RMB'000***	2009 *RMB'000*
Current income tax:		
– PRC enterprise income tax	**932,747**	493,841
– Overseas taxation	**10,083**	7,196
– Overprovision in previous years	**(17,885)**	(16,690)
	924,945	484,347
Deferred income tax *(Note 45)*		
– Net effect of changes in tax rates on deferred income tax assets and liabilities	**(1,275)**	1,677
– Other deferred income tax	**(145,823)**	(39,834)
	(147,098)	(38,157)
	777,847	446,190

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

14. INCOME TAX EXPENSE *(Continued)*

The difference between the actual income tax expense in the consolidated income statement and the amounts which is calculated based on the statutory tax rate of 25% (2009: 25%) is as follows:

	2010	2009
	RMB'000	*RMB'000*
Profit before tax	**4,171,549**	2,443,714
Less: Share of results of associates	**(70,124)**	(46,120)
	4,101,425	2,397,594
Tax calculated at the statutory tax rate of 25% (2009: 25%)	**1,025,356**	599,399
Tax effect of income not taxable for tax purpose	**(82,706)**	(36,536)
Tax effect of expenses not deductible for tax purpose	**54,785**	46,824
Tax effect on tax losses not recognised	**37,579**	24,152
Utilisation of tax losses previously not recognised	**(446)**	(4,892)
Recognition of deferred income tax assets for previously unrecognised temporary differences	**–**	(14,520)
Additional deduction arising from research and development expenditure	**(2,201)**	(20,036)
Effect of differences in tax rates applicable to certain domestic subsidiaries and jointly controlled entities	**(221,208)**	(133,188)
Net effect of changes in tax rates on deferred income tax assets and liabilities	**(1,275)**	1,677
Additional deduction arising from equipment produced in the PRC	**(14,152)**	–
Overprovision in previous years	**(17,885)**	(16,690)
Income tax expense	**777,847**	446,190

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

15. PROFIT FOR THE YEAR

The Group's profit for the year has been arrived at after charging (crediting):

	2010	2009
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses	**22,494,555**	15,410,660
Auditor's remuneration	**8,600**	8,100
Employee benefit expense *(Note 16)*	**2,697,133**	2,055,883
Depreciation and amortisation		
– property, plant and equipment	**1,682,571**	1,002,270
– prepaid lease payments	**80,260**	63,430
– investment properties	**9,354**	10,870
– intangible assets	**35,286**	29,382
– mining rights	**48,587**	11,564
Operating lease rentals	**170,454**	191,029
Share of income tax expenses:		
– associates	**24,910**	15,562
– jointly controlled entities	**523**	477
Research and development costs	**504,446**	455,184
Safety fund set aside	**63,433**	74,791
Provision for warranties *(Note 41)* (included in cost of sales)	**39,743**	–
Foreseeable losses on construction contracts (included in cost of sales)	**126,748**	16,343
Impairment loss recognised in respect of trade receivables (included in administrative expenses)	**113,431**	70,900
Impairment loss recognised in respect of other receivables (included in administrative expenses)	**20,897**	1,175
Impairment loss recognised in respect of loan receivables (included in administrative expenses)	**5,507**	9,624
Impairment loss recognised in respect of property, plant and equipment (included in administrative expenses)	**378,995**	68,067
Allowance for inventories (included in cost of sales)	**17,303**	24,009
Reversal of allowance for inventories (included in cost of sales)	**(3,563)**	(4,154)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

16. EMPLOYEE BENEFITS

	2010	2009
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**1,987,337**	1,526,463
Contributions to pension plans *(Note a)*	**308,081**	210,839
Early retirement and supplemental pension benefits *(Note 39 and Note b)*	**61,730**	19,970
Housing funds *(Note c)*	**95,049**	73,354
Welfare, medical and other expenses	**244,936**	225,257
	2,697,133	2,055,883

Notes:

(a) During the two years ended 31 December 2010 and 2009, the employees of the Company and the subsidiaries in the PRC participate in various retirement benefit plans organised by the relevant municipal and provincial governments in the PRC to which the Group is required to make monthly contributions at rates ranging from 18% to 22%, depending on the applicable local regulations, of the employees' basic salary for the previous year.

(b) Certain employees of the Group were directed to early retire in previous years. Early retirement benefits are recognised in the consolidated income statement in the period in which the Group entered into an agreement specifying the terms of redundancy or after the individual employee had been advised of the specific terms. These specific terms vary among the terminated and early retired employees depending on various factors including position, length of service and location of the employee concerned.

The Group also provided supplemental pension subsidies or pension contributions to certain employees who retired prior to 31 December 2006. The costs of providing these pension subsidies and pension contributions are charged to the consolidated income statement so as to spread the service costs over the average service lives of the retirees. Employees who retire after 31 December 2006 are not entitled to such supplemental pension subsidies or pension contributions.

(c) These represent contributions to the government-sponsored housing funds (at rates ranging from 6% to 12% of the employees basic salary of the previous year) in the PRC for both years.

17. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and supervisors' emoluments

	2010	2009
	RMB'000	*RMB'000*
Directors and supervisors		
– Fee for directors and supervisors	**900**	866
– Basic salaries, housing allowances and other allowances	**1,620**	2,503
– Contributions to pension plans	**99**	129
– Discretionary bonuses	**1,427**	2,324
– Share-based payments	**118**	–
	4,164	5,822

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

17. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' and supervisors' emoluments *(Continued)*

(i) The emoluments of every directors and supervisors for the year ended 31 December 2010 were set out below:

Name	Fee for directors and supervisors *RMB'000*	Basic salaries, housing allowances and other allowances *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Share-based payments *RMB'000*	Total *RMB'000*
Executive directors						
– Mr. Tan Zhongming	–	–	–	–	30	30
– Mr. Zhou Yuxian *(Note a)*	–	–	–	–	–	–
– Mr. Li Xinhua	–	550	29	385	22	986
Non-executive directors						
– Mr. Liu Zhijiang	–	–	–	–	22	22
– Mr. Yu Shiliang	–	–	–	–	22	22
– Mr. Chen Xiaozhou	60	–	–	–	–	60
Independent non-executive directors						
– Mr. Leung Chong Shun	180	–	–	–	–	180
– Mr. Tong Anyan *(Note b)*	–	–	–	–	–	–
– Mr. Shi Chungui	180	–	–	–	–	180
– Mr. Lu Zhengfei	180	–	–	–	–	180
– Mr. Wang Shimin	180	–	–	–	–	180
– Mr. Zhou Zude *(Note d)*	90	–	–	–	–	90
Supervisors						
– Ms. Xu Weibing	–	–	–	–	–	–
– Mr. Wang Jianguo	15	–	–	–	–	15
– Mr. Yu Xingmin	–	527	22	566	–	1,115
– Mr. Zhang Renjie	15	–	–	–	–	15
– Ms. Zhang Lirong *(Note c)*	–	258	12	316	–	586
– Mr. Qu Xiaoli *(Note d)*	–	185	28	28	–	241
– Mr. Wang Wei *(Note e)*	–	100	8	132	22	262
	900	1,620	99	1,427	118	4,164

Notes:

a. Resigned on 22 December 2010.

b. Resigned on 6 May 2010.

c. Resigned on 26 July 2010.

d. Appointed on 26 July 2010.

e. Resigned on 3 March 2010.

f. In addition to the directors' emoluments disclosed above, certain directors of the Company received emoluments from Sinoma Group which totaled approximately RMB1,111,000 for the year ended 31 December 2010, part of which was in respect of their services to the Group. No apportionment had been made as it was impracticable to apportion this amount between their services to the Group and their services to Sinoma Group.

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17. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' and supervisors' emoluments *(Continued)*

(ii) The emoluments of every directors and supervisors for the year ended 31 December 2009 were set out below:

Name	Fee for directors and supervisors *RMB'000*	Basic salaries, housing allowances and other allowances *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Executive directors					
– Mr. Tan Zhongming	–	–	–	–	–
– Mr. Zhou Yuxian *(Note a)*	–	–	–	–	–
– Mr. Li Xinhua *(Note b)*	–	462	26	515	1,003
Non-executive directors					
– Mr. Liu Zhijiang	–	–	–	–	–
– Mr. Yu Shiliang *(Note c)*	–	–	–	–	–
– Mr. Chen Xiaozhou	60	–	–	–	60
Independent non-executive directors					
– Mr. Leung Chong Shun	180	–	–	–	180
– Mr. Tong Anyan *(Note b)*	–	–	–	–	–
– Mr. Shi Chungui *(Note b)*	–	–	–	–	–
– Mr. Lu Zhengfei *(Note b)*	–	–	–	–	–
– Mr. Wang Shimin *(Note b)*	–	–	–	–	–
– Mr. Yang Yuzhong *(Note d)*	180	–	–	–	180
– Mr. Zhang Lailiang *(Note d)*	180	–	–	–	180
– Mr. Zhang Qiusheng *(Note d)*	180	–	–	–	180
Supervisors					
– Ms. Xu Weibing	–	–	–	–	–
– Mr. Wang Jianguo	15	–	–	–	15
– Mr. Yu Xingmin	15	510	24	433	982
– Mr. Wang Wei *(Note e)*	15	602	24	530	1,171
– Mr. Wang Jijun *(Note f)*	5	277	14	6	302
– Mr. Zhang Renjie *(Note g)*	9	–	–	–	9
– Ms. Zhang Lirong	15	370	15	458	858
– Mr. Wang Baoguo *(Note h)*	12	282	26	382	702
	866	2,503	129	2,324	5,822

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

17. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' and supervisors' emoluments *(Continued)*

(ii) The emoluments of every directors and supervisors for the year ended 31 December 2009 were set out below: *(Continued)*

Notes:

a. Redesignated from non-executive director to executive director on 27 March 2009.

b. Appointed on 24 December 2009.

c. Redesignated from executive director to non-executive director on 27 March 2009.

d. Resigned on 24 December 2009.

e. Resigned on 3 March 2010.

f. Resigned on 14 April 2009.

g. Appointed on 9 June 2009.

h. Resigned on 27 October 2009.

i. In addition to the directors' emoluments disclosed above, certain directors of the Company received emoluments from Sinoma Group which totaled approximately RMB896,000 for the year ended 31 December 2009, part of which was in respect of their services to the Group. No apportionment had been made as it was impracticable to apportion this amount between their services to the Group and their services to Sinoma Group.

(iii) During the two years ended 31 December 2010 and 2009, no directors or supervisors of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

The discretionary bonuses of directors and supervisors for the two years ended 31 December 2010 and 2009 is determined by the remuneration committee and having regard to the performance of individuals and market trends.

Notes to the Consolidated Financial Statements

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17. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(Continued)

(b) Five highest paid individuals

(i) The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2010 include one supervisor (2009: one director and three supervisors) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2009: one) individuals during the year are as follows:

	2010	2009
	RMB'000	*RMB'000*
Basic salaries, housing allowances and other allowances	**2,735**	364
Contributions to pension plans	**173**	18
Discretionary bonuses	**13,669**	512
	16,577	894

(ii) The emoluments of the above individuals fell within the following bands:

	2010	2009
HK$1,000,001 to HK$1,500,000 (2010: equivalent to RMB870,301 to RMB1,305,450 and 2009: equivalent to RMB879,063 to RMB1,318,590)	**1**	1
HK$1,500,001 to HK$2,000,000 (2010: equivalent to RMB1,305,451 to RMB1,740,600 and 2009: equivalent to RMB1,318,591 to RMB1,740,600)	**2**	–
HK$10,000,001 to HK$15,000,000 (2010: equivalent to RMB8,703,010 to RMB13,054,500 and 2009: equivalent to RMB8,790,630 to RMB13,185,900)	**1**	–
	4	1

(iii) During the two years ended 31 December 2010 and 2009, no highest paid individuals of the Company waived any emoluments and no emoluments were paid by the Company to any of the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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18. DIVIDENDS

	2010 **RMB'000**	2009 RMB'000
Dividends paid and recognised as distribution during the year:		
– 2009 final dividend: RMB0.025 (2009: 2008 final dividend RMB0.020) per share	**89,287**	71,429

The final dividend of RMB0.040 (2009: RMB0.025) per share (tax inclusive) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

19. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during each of the year ended 31 December 2010 and 2009.

	2010	2009
Profit for the year attributable to owners of the Company *(RMB'000)*	**1,090,482**	719,504
Weighted average number of ordinary shares in issue *('000)*	**3,571,464**	3,571,464
Basic earnings per share *(RMB)*	**0.305**	0.201

(b) Diluted

Diluted earnings per share was the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the two years ended 31 December 2010 and 2009.

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20. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Furniture, office and other equipment	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	4,382,493	7,362,569	258,041	266,193	2,810,591	15,079,887
Additions	136,854	400,980	233,024	141,268	3,783,690	4,695,816
Attributable to acquisition of subsidiaries	642	281	29	97	–	1,049
Disposals	(72,381)	(72,433)	(15,758)	(1,930)	–	(162,502)
Eliminated on disposal of a subsidiary	(5,214)	–	–	–	–	(5,214)
Reclassification upon completion	1,049,998	1,841,817	–	–	(2,891,815)	–
Depreciation charged for the year	(186,627)	(699,318)	(60,421)	(55,904)	–	(1,002,270)
Impairment loss recognised in the consolidated income statement	(27,519)	(34,559)	–	(5,989)	–	(68,067)
At 31 December 2009 and 1 January 2010	**5,278,246**	**8,799,337**	**414,915**	**343,735**	**3,702,466**	**18,538,699**
Additions	**342,031**	**705,375**	**259,575**	**413,054**	**5,680,294**	**7,400,329**
Attributable to acquisition of subsidiaries	**1,977,735**	**1,645,536**	**76,050**	**10,138**	**541,224**	**4,250,683**
Disposals	**(104,238)**	**(64,816)**	**(18,362)**	**(12,255)**	**–**	**(199,671)**
Reclassification from investment properties	**22,128**	**–**	**–**	**–**	**–**	**22,128**
Reclassification upon completion	**2,022,352**	**3,365,323**	**–**	**–**	**(5,387,675)**	**–**
Depreciation charged for the year	**(288,862)**	**(1,195,289)**	**(89,500)**	**(108,920)**	**–**	**(1,682,571)**
Impairment loss recognised in the consolidated income statement	**(158,667)**	**(147,765)**	**(7,503)**	**(8,057)**	**(57,003)**	**(378,995)**
At 31 December 2010	**9,090,725**	**13,107,701**	**635,175**	**637,695**	**4,479,306**	**27,950,602**
At 31 December 2010						
Cost	**10,277,541**	**16,889,887**	**802,582**	**907,738**	**4,536,309**	**33,414,057**
Accumulated depreciation	**(963,727)**	**(3,554,351)**	**(158,554)**	**(255,899)**	**–**	**(4,932,531)**
Accumulated impairment loss	**(223,089)**	**(227,835)**	**(8,853)**	**(14,144)**	**(57,003)**	**(530,924)**
Carrying values	**9,090,725**	**13,107,701**	**635,175**	**637,695**	**4,479,306**	**27,950,602**
At 31 December 2009						
Cost	6,049,126	11,357,262	530,091	524,641	3,702,466	22,163,586
Accumulated depreciation	(705,855)	(2,477,855)	(113,826)	(174,819)	–	(3,472,355)
Accumulated impairment loss	(65,025)	(80,070)	(1,350)	(6,087)	–	(152,532)
Carrying values	5,278,246	8,799,337	414,915	343,735	3,702,466	18,538,699

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20. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Depreciation of the Group's property, plant and equipment has been charged to the consolidated income statement as follows:

	2010	2009
	RMB'000	*RMB'000*
Cost of sales	**1,458,803**	868,976
Selling and marketing expenses	**36,483**	21,732
Administrative expenses	**187,285**	111,562
	1,682,571	1,002,270

(b) As at 31 December 2010, borrowings are secured by certain property, plant and equipment of the Group with an aggregate carrying values of approximately RMB2,444,338,000 (2009: RMB2,468,196,000) *(Note 38)*.

(c) During the year, the directors of the Company conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired, due to physical damage and technical obsolescence. Accordingly, impairment loss of RMB378,995,000 (2009: RMB68,067,000) has been recognised for those assets, which are used in the cement segment and high-tech materials segment. The recoverable amounts of the relevant assets have been determined on the basis of their estimated residual values.

(d) The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	2.5% to 5%
Plant and machinery	6.67% to 20%
Motor vehicles	10% to 20%
Furniture, office and other equipment	10% to 20%

(e) At 31 December 2010, the Group has not obtained the formal ownership certificates for certain properties including in the buildings above, the carrying values of which at that date was approximately RMB693,717,000 (2009: RMB198,319,000). In the opinion of the directors, the absence of formal title to these properties does not impair their values to the Group as the Group has paid the full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote.

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21. PREPAID LEASE PAYMENTS

	2010	2009
	RMB'000	*RMB'000*
Cost	**3,255,610**	2,274,578
Accumulated amortisation	**(272,499)**	(196,383)
Carrying values	**2,983,111**	2,078,195
Analysed for reporting purposes as:		
Current asset	**89,147**	67,447
Non-current asset	**2,893,964**	2,010,748
	2,983,111	2,078,195

(a) Prepaid lease payments represent the Group's interests in land which are held under medium-term leases between 30 to 50 years, all located in the PRC.

(b) Amortisation of prepaid lease payments has been charged to the cost of sales.

(c) As at 31 December 2010, borrowings are secured by certain prepaid lease payments of the Group with an aggregate carrying values of approximately RMB253,235,000 (2009: RMB298,340,000) *(Note 38)*.

(d) At 31 December 2010, the Group has not obtained the formal ownership certificates for certain prepaid lease payments above, the carrying values of which at that date was approximately RMB154,814,000 (2009: RMB173,448,000). In the opinion of the directors, the absence of formal title to these prepaid lease payments does not impair their values to the Group as the Group has paid the full purchase consideration of these prepaid lease payments and the probability of being evicted on the ground of an absence of formal title is remote.

Notes to the Consolidated Financial Statements

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22. INVESTMENT PROPERTIES

	2010	2009
	RMB'000	*RMB'000*
At 1 January		
Cost	**151,867**	118,931
Accumulated depreciation	**(25,109)**	(16,774)
Carrying values	**126,758**	102,157
At 1 January	**126,758**	102,157
Additions	**25,476**	38,176
Attributable to acquisition of subsidiaries	**7,336**	–
Eliminated on disposal of a subsidiary	**–**	(2,705)
Reclassification to property, plant and equipment	**(22,128)**	–
Depreciation charged for the year	**(9,354)**	(10,870)
At 31 December	**128,088**	126,758
At 31 December		
Cost	**152,384**	151,867
Accumulated depreciation	**(24,296)**	(25,109)
Carrying values	**128,088**	126,758
Fair values at 31 December *(Note b)*	**458,580**	205,167

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For the year ended 31 December 2010

22. INVESTMENT PROPERTIES *(Continued)*

(a) The investment properties are situated on pieces of land which are held under medium term leases of which are located in the PRC.

(b) The fair values of investment properties has been arrived at on the basis of a valuation carried out by Greater China Appraisal Limited, an independent qualified valuer not connected with the Group. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions, except for those located in areas where such information is not available, where discounted cash flow projections are used.

(c) All of the Group's investment properties are held to earn rentals.

(d) The above investment properties are depreciated on a straight-line basis over the shorter of the term of the lease and 30 years.

(e) The following amounts have been recognised in the consolidated income statement:

	2010	2009
	RMB'000	*RMB'000*
Rental income recorded as other gains	**34,722**	33,721
Depreciation recorded as administrative expenses	**9,354**	10,870

(f) At 31 December 2010, borrowings are secured by certain investment properties of the Group with an aggregate carrying values of approximately RMB54,340,000 (2009: RMB11,625,000) *(Note 38)*.

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23. INTANGIBLE ASSETS

	Goodwill	Patent and proprietary technologies	Customer relationships	Trademarks	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	48,438	30,987	11,530	59,021	11,658	161,634
Additions	–	11,846	–	–	7,619	19,465
Amortisation charged for the year	–	(9,787)	(5,325)	(4,743)	(9,527)	(29,382)
At 31 December 2009 and 1 January 2010	**48,438**	**33,046**	**6,205**	**54,278**	**9,750**	**151,717**
Additions	**–**	**9,454**	**–**	**–**	**20,645**	**30,099**
Attributable to acquisition of subsidiaries	**472,045**	**–**	**–**	**–**	**2,775**	**474,820**
Amortisation charged for the year	**–**	**(12,354)**	**(5,825)**	**(4,755)**	**(12,352)**	**(35,286)**
Written off	**–**	**(1,707)**	**–**	**–**	**(23)**	**(1,730)**
At 31 December 2010	**520,483**	**28,439**	**380**	**49,523**	**20,795**	**619,620**
At 31 December 2010						
Cost	**529,551**	**86,422**	**32,337**	**67,862**	**65,082**	**781,254**
Accumulated amortisation	**–**	**(56,405)**	**(31,957)**	**(18,339)**	**(44,287)**	**(150,988)**
Accumulated impairment loss	**(9,068)**	**(1,578)**	**–**	**–**	**–**	**(10,646)**
Carrying values	**520,483**	**28,439**	**380**	**49,523**	**20,795**	**619,620**
At 31 December 2009						
Cost	57,506	79,274	32,337	67,862	41,693	278,672
Accumulated amortisation	–	(44,650)	(26,132)	(13,584)	(31,943)	(116,309)
Accumulated impairment loss	(9,068)	(1,578)	–	–	–	(10,646)
Carrying values	48,438	33,046	6,205	54,278	9,750	151,717

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

23. INTANGIBLE ASSETS *(Continued)*

(a) Amortisation of intangible assets has been charged in administrative expenses.

(b) The goodwill impairment assessment is based on the recoverable amount of the CGU which is explained in Note 6 above. Particulars regarding impairment testing on goodwill are disclosed in Note 24.

(c) The above items of intangible assets are amortised on a straight-line basis at the following rates per annum:

Patent and proprietary technologies	10% to 33.33%
Customer relationships	20% to 33.33%
Trademarks	5% to 10%
Computer software	20% to 33.33%

24. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill set out in Note 23 have been allocated to four individual CGUs. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2010 allocated to these units are as follows:

	2010	2009
	RMB'000	*RMB'000*
High-tech materials segment – Shandong Taishan Composite Materials Co., Ltd ("Taishan Composite") and its subsidiaries (hereinafter collective referred to as "Taishan Composite Group")	**22,868**	22,868
Cement segment – Yixing Tianshan Cement Co. Ltd. ("Yixing Tianshan")	**22,718**	22,718
Cement segment – Xinjiang Tianshan Cement Co. Ltd. ("Tianshan Cement") and its subsidiaries (hereinafter collective referred to as "Tianshan Cement Group")	**2,852**	2,852
Cement segment – Gansu Qilianshan Building Materials Holdings Company Limited ("Qilianshan Holdings")	**472,045**	–
	520,483	48,438

During the year ended 31 December 2010 and 2009, management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

24. IMPAIRMENT TESTING ON GOODWILL *(Continued)*

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

Taishan Composite Group

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by Taishan Composite Group's management covering a ten-year period, and discount rate of 7.70% (2009: 11.18%). Taishan Composite Group's cash flows beyond the five-year period are assumed constant with zero growth rate. This discount rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate of 15% for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales, and gross profit margin ranging from 24.20% to 24.45%. Such estimation is based on the unit's past performance and management's expectations for the market development. Management of Taishan Composite Group believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Taishan Composite Group to exceed the aggregate recoverable amount of Taishan Composite Group.

Yixing Tianshan

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by Yixing Tianshan's management covering a ten-year period, and discount rate of 9.79% (2009: 9.45%). Yixing Tianshan's cash flows beyond the five-year period are assumed constant with zero growth rate. This discount rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate of 10% for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales, and gross profit margin of 11.38% to 13.34%. Such estimation is based on the unit's past performance and management's expectations for the market development. Management of Yixing Tianshan believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Yixing Tianshan to exceed the aggregate recoverable amount of Yixing Tianshan.

Tianshan Cement Group

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by Tianshan Cement Group's management covering a ten-year period, and discount rate of 7.97% (2009: 7.97%). Tianshan Cement Group's cash flows beyond the five-year period are assumed constant with zero growth rate. This discount rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate of 10% for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales, and gross profit margin of 11.38% to 13.34%. Such estimation is based on the unit's past performance and management's expectations for the market development. Management of Tianshan Cement Group believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Tianshan Cement Group to exceed the aggregate recoverable amount of Tianshan Cement Group.

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24. IMPAIRMENT TESTING ON GOODWILL *(Continued)*

Qilianshan Holdings

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by Qilianshan Holdings's management covering a five-year period, and discount rate of 11.11%. Qilianshan Holdings's cash flows beyond the five-year period are assumed constant with zero growth rate. This discount rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate of 10.94% for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales, and gross profit margin of 27.60% to 31.98%. Such estimation is based on the unit's past performance and management's expectations for the market development. Management of Qilianshan Holdings believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Qilianshan Holdings to exceed the aggregate recoverable amount of Qilianshan Holdings.

25. MINING RIGHTS

	2010 *RMB'000*	2009 *RMB'000*
At 1 January		
Cost	**166,803**	65,098
Accumulated amortisation	**(20,327)**	(8,763)
Carrying values	**146,476**	56,335
At 1 January	**146,476**	56,335
Additions	**68,643**	101,705
Attributable to acquisition of subsidiaries	**273,877**	–
Amortisation charged for the year	**(48,587)**	(11,564)
Written off	**(394)**	–
At 31 December	**440,015**	146,476
At 31 December		
Cost	**508,752**	166,803
Accumulated amortisation	**(68,737)**	(20,327)
Carrying values	**440,015**	146,476

Mining rights are amortised over its concession period from 3 years to 30 years. Amortisation of mining rights has been charged in cost of sales.

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26. JOINTLY CONTROLLED ENTITIES

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group consolidates its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements. The Group's share of assets and liabilities, turnover and results of jointly controlled entities included in the consolidated statement of financial position and consolidated income statement are as follows:

	2010	2009
	RMB'000	*RMB'000*
Assets		
Non-current assets	**233,068**	238,677
Current assets	**118,575**	102,150
	351,643	340,827
Liabilities		
Non-current liabilities	**11,091**	26,071
Current liabilities	**160,709**	144,809
	171,800	170,880
Net assets	**179,843**	169,947
Turnover	**240,726**	196,974
Profit (loss) for the year	**5,711**	(20,704)

There are no material contingent liabilities and commitments relating to the Group's interests in the jointly controlled entities.

Particulars of the Group's principal jointly controlled entities are set out in Note 55(b).

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27. INTERESTS IN ASSOCIATES

	2010	2009
	RMB'000	*RMB'000*
Cost of investments in associates		
– listed equity security in the PRC	**–**	517,912
– unlisted equity interests	**1,005,576**	153,687
Share of post-acquisition profits and other comprehensive income, net of dividends	**130,838**	93,520
	1,136,414	765,119
Fair value of listed investment	**–**	975,545

(a) During the year ended 31 December 2009, included in the cost of investments in associates is goodwill of approximately RMB252,463,000 arising on acquisition of the listed associate, Gansu Qilianshan Cement Group Co., Ltd. ("Qilianshan Co."). On 23 April 2010, Qilianshan Co. became a non-wholly-owned subsidiary of the Company. The movement of goodwill is set out below:

	2010	2009
	RMB'000	*RMB'000*
Cost		
At 1 January	**252,463**	–
Arising on acquisition of an associate	**–**	252,463
Deemed disposal of an associate *(Note c)*	**(252,463)**	–
At 31 December	**–**	252,463

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27. INTERESTS IN ASSOCIATES *(Continued)*

(b) Summarised financial information in respect of the Group's associates is set out below:

	2010 *RMB'000*	2009 *RMB'000*
Total assets	**3,786,025**	7,283,810
Total liabilities	**(1,584,354)**	(3,870,083)
Non-controlling interests	**–**	(199,169)
Net assets	**2,201,671**	3,214,558
Group's share of net assets of associates	**1,136,414**	512,656
Revenue	**1,906,339**	2,446,540
Profit for the year	**258,999**	305,832
Group's share of results of associates	**70,124**	46,120

(c) On 15 June 2009, the Group acquired 11.58% equity interests in Qilianshan Co. for a consideration of RMB501,050,000 and classified as an available-for-sale financial asset of the Company. On 28 July 2009, the Group appointed 3 of the 15 directors in the board of directors of Qilianshan Co.. Due to the appointment of directors, the directors of the Company consider that the Group does exercise significant influence over Qilianshan Co. and it is therefore classified as an associate. In September 2009, the Group acquired additional 0.30% equity interests in Qilianshan Co. for a consideration of approximately RMB16,862,000. On 23 April 2010, the Company acquired 51% equity interests in Qilianshan Holdings, a holding company of Qilianshan Co. and therefore Qilianshan Co. became a non-wholly-owned subsidiary of the Company thereafter.

Refer to Note 48(a)(i) for details of acquisition of Qilianshan Holdings.

(d) Since 15 November 2007, the Group has 45% equity interests in Jiangsu Jiashi Engineering & Construction Co., Ltd. ("Jiangsu Jiashi"), which was classified as an associate up to 10 July 2009. On 10 July 2009, the Group acquired additional 55% equity interests in Jiangsu Jiashi for a consideration of approximately RMB3,391,000 and therefore Jiangsu Jiashi became a subsidiary of the Group thereafter.

Result of Jiangsu Jiashi from 1 January 2009 to the date of deemed disposal amounted to approximately RMB721,000 was shared by the Group.

(e) Particulars of the Group's principal associates are set out in Note 55(c).

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28. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010	2009
	RMB'000	*RMB'000*
Listed equity securities in PRC	**270,573**	291,132
Unlisted equity securities	**2,305,550**	1,876,224
	2,576,123	2,167,356

(a) The listed equity investments are measured at fair value.

(b) Included in the unlisted equity investments, which amounted to RMB156,804,000 (2009: RMB85,257,000), are measured at cost less impairment loss because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably. As at 31 December 2010 and 2009, the directors of the Company were of the opinion that no impairment loss on the available-for-sale financial assets is recognised.

(c) As at 31 December 2010 and 2009, included in unlisted equity securities were investment in unlisted domestic shares in BBMG Corporation, a company listed on the Stock Exchange. As at 31 December 2010, the directors of the Company reviewed the carrying amounts of the domestic shares by reference to the price of the listed share quoted in the Stock Exchange and the increase in fair value of approximately RMB357,779,000 (2009: RMB1,386,202,000) has been credited to the other comprehensive income and accumulated in investment revaluation reserve.

(d) As at 31 December 2010 and 2009, included in listed equity securities was investment in legal person shares in Xinjiang West-construction Co., Ltd. ("West-construction"), a company listed on the Shenzhen Stock Exchange of the PRC. The Group equity interests in West-construction, the legal person shares have been transferable in the market since 3 November 2010. As at 31 December 2010, the decrease in fair value of approximately RMB19,355,000 has been debited to the other comprehensive income and reduced the investment revaluation reserve. As at 31 December 2009, the directors of the Company reviewed the carrying amounts of the legal person shares by reference to the price of the listed share quoted in the Shenzhen Stock Exchange of the PRC and the increase in fair value of approximately RMB274,248,000 has been credited to the other comprehensive income and accumulated in investment revaluation reserve.

(e) During the year ended 31 December 2009, the Group disposed of an unlisted equity security with carrying amount of RMB500,000, which had been carried at cost before the disposal. A loss amounted to RMB9,000 has been resulted from the disposal for the year ended 31 December 2009.

(f) All available-for-sale financial assets are denominated in RMB.

29. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives not under hedge accounting:

	Current		Non-current	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Derivative financial assets				
– Foreign currency forward contracts	**34,464**	13,550	**–**	–
Derivative financial liabilities				
– Foreign currency forward contracts	**–**	648	**–**	–
– Interest rate swap contract	**–**	–	**3,415**	4,586
	–	648	**3,415**	4,586

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29. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

As at 31 December 2010, major terms of the foreign currency forward contracts are as follows:

Notional amounts	Maturities	Exchange rates
Sell EUR5,000,000	31 January 2011	RMB9.1802: EUR1
Sell EUR5,000,000	28 February 2011	RMB9.2240: EUR1
Sell EUR5,000,000	28 February 2011	RMB9.1604: EUR1
Sell EUR10,000,000	14 March 2011	RMB8.7480: EUR1
Sell EUR5,000,000	31 March 2011	RMB9.0150: EUR1
Sell EUR5,000,000	31 March 2011	RMB9.1342: EUR1
Sell EUR5,000,000	15 April 2011	RMB9.0206: EUR1
Sell EUR5,000,000	29 April 2011	RMB9.1160: EUR1
Sell EUR10,000,000	13 May 2011	RMB8.9500: EUR1
Sell EUR10,000,000	31 May 2011	RMB9.0314: EUR1
Sell US$5,000,000	1 January 2011	RMB6.6220: US$1
Sell US$10,000,000	18 January 2011	RMB6.6080: US$1
Sell US$5,000,000	1 February 2011	RMB6.6020: US$1
Sell US$5,000,000	1 March 2011	RMB6.5920: US$1
Sell US$5,000,000	1 April 2011	RMB6.5790: US$1
Sell US$5,000,000	1 May 2011	RMB6.5620: US$1
Sell US$5,000,000	1 June 2011	RMB6.5470: US$1
Sell US$10,000,000	1 July 2011	RMB6.5370: US$1
Sell US$3,000,000	29 July 2011	RMB6.5620: US$1
Sell US$5,000,000	1 August 2011	RMB6.5620: US$1
Sell US$10,000,000	1 August 2011	RMB6.5270: US$1
Sell US$3,000,000	31 August 2011	RMB6.5448: US$1
Sell US$10,000,000	1 September 2011	RMB6.5170: US$1
Sell US$10,000,000	30 September 2011	RMB6.5360: US$1
Sell US$10,000,000	1 October 2011	RMB6.5070: US$1
Sell US$3,000,000	31 October 2011	RMB6.5100: US$1
Sell US$10,000,000	1 November 2011	RMB6.4970: US$1
Sell US$10,000,000	30 November 2011	RMB6.5000: US$1
Sell US$10,000,000	1 December 2011	RMB6.4820: US$1
Sell US$3,000,000	20 December 2011	RMB6.4940: US$1
Sell EUR5,000,000	10 January 2011	US$1.2868: EUR1 and RMB6.7849: US$1
Sell EUR5,000,000	10 February 2011	US$1.2851: EUR1 and RMB6.7829: US$1
Sell EUR5,000,000	11 March 2011	US$1.2863: EUR1 and RMB6.7777: US$1
Sell EUR5,000,000	11 April 2011	US$1.2859: EUR1 and RMB6.7713: US$1
Sell EUR5,000,000	10 May 2011	US$1.2858: EUR1 and RMB6.7649: US$1

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For the year ended 31 December 2010

29. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

As at 31 December 2010, major terms of the interest rate swap contract was as follows:

Notional amounts	Maturities	Swaps
RMB277,670,000	20 December 2012	Form 0.45% when US\$ CMS30[1] ≥3.9% and US\$ 6-month LIBOR[2] ≤7% to US\$ CMS30[1] <3.9% and US\$ 6-month LIBOR>7%

[1] CMS30 represented the 30-year constant maturity swap.

[2] LIBOR represented London inter-bank offered rate.

As at 31 December 2009, major terms of the foreign currency forward contracts were as follows:

Notional amounts	Maturities	Exchange rates
Sell EUR5,000,000	20 January 2010	RMB9.7989: EUR1
Sell EUR5,000,000	20 February 2010	RMB9.7981: EUR1
Sell EUR5,000,000	22 March 2010	RMB9.7964: EUR1
Sell EUR5,000,000	20 April 2010	RMB9.7950: EUR1
Sell EUR5,000,000	20 May 2010	RMB9.7932: EUR1
Sell EUR5,000,000	21 June 2010	RMB9.7882: EUR1
Sell EUR5,000,000	20 July 2010	RMB9.7815: EUR1
Sell EUR5,000,000	20 August 2010	RMB9.7785: EUR1
Sell EUR5,000,000	20 November 2010	RMB9.7749: EUR1
Sell US\$5,000,000	2 January 2010	RMB6.8267: US\$1
Sell US\$5,000,000	2 February 2010	RMB6.8245: US\$1
Sell US\$5,000,000	2 March 2010	RMB6.8200: US\$1
Sell US\$5,000,000	2 April 2010	RMB6.8209: US\$1
Sell US\$5,000,000	2 May 2010	RMB6.8195: US\$1
Sell US\$5,000,000	2 June 2010	RMB6.8143: US\$1
Sell US\$5,000,000	2 July 2010	RMB6.8110: US\$1
Sell US\$5,000,000	2 August 2010	RMB6.8032: US\$1
Sell US\$5,000,000	2 November 2010	RMB6.7895: US\$1

As at 31 December 2009, major terms of the interest rate swap contract was as follows:

Notional amounts	Maturities	Swaps
RMB338,400,000	20 December 2012	From 0.45% when US\$ CMS30[1] ≥3.9% and US\$ 6-month LIBOR[2] ≤7% to US\$ CMS30[1] <3.9% and US\$ 6-month LIBOR >7%

[1] CMS30 represented the 30-year constant maturity swap.

[2] LIBOR represented London inter-bank offered rate.

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30. DEPOSITS PAID FOR ACQUISITION OF SUBSIDIARIES

(a) Balance as at 31 December 2009 of RMB332,770,000 represented the deposits paid by the Company for a capital injection and acquisition on Qilianshan Holdings.

On 27 December 2009, the Company entered into a capital injection and acquisition agreement with the State-owned Assets Supervision and Administrative Commission of Gansu Provincial Government ("Gansu Provincial SAC") and Qilianshan Holdings, whereby the Company has agreed to inject additional capital into Qilianshan Holdings amounted to RMB100,000,000, representing 15.33% of the enlarged registered share capital of Qilianshan Holdings. In addition, the Company also agreed to acquire 35.67% equity interests from Gansu Provincial SAC for a consideration of approximately RMB232,770,000. Details of the capital injection and acquisition were set out in the Company's announcement dated 27 December 2009. Upon completion of the capital injection and acquisition, the Company shall hold 51% equity interests in Qilianshan Holdings.

The capital injection and acquisition on Qilianshan Holdings has been completed on 23 April 2010. Details of the capital injection and acquisition are set out in Note 48 (a)(i).

(b) Balance as at 31 December 2009 of RMB300,000,000 represents the deposit paid by Sinoma Cement Co., Ltd. ("Sinoma Cement"), a wholly-owned subsidiary of the Group, to acquire the 100% equity interests in Anhui Yingpu Jinlong Cement Co., Ltd. ("Anhui Yingpu") according to the framework agreement signed in February 2008.

The acquisition on Anhui Yingpu has been completed on 11 February 2010. Details of the acquisition are set out in Note 48 (a)(ii).

31. INVENTORIES

	2010 ***RMB'000***	2009 *RMB'000*
Raw materials	**1,832,882**	1,233,193
Work-in-progress	**1,662,250**	1,892,630
Finished goods	**1,862,083**	1,413,995
	5,357,215	4,539,818

During the year ended 31 December 2010, reversal of allowance of inventories of approximately RMB3,563,000 (2009: RMB4,154,000) has been recognised as the corresponding inventories were either sold or used.

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32. TRADE AND OTHER RECEIVABLES

	2010 **RMB'000**	2009 RMB'000
Trade receivables and retentions		
Trade receivables	**5,570,478**	3,534,111
Retentions	**97,893**	145,821
	5,668,371	3,679,932
Less: Impairment loss recognised	**(537,958)**	(456,896)
Trade receivables and retentions, net	**5,130,413**	3,223,036
Loan receivables, prepayments, deposits, staff advances and other receivables		
Loan receivables *(Note h)*	**92,033**	96,033
Prepayments to suppliers and subcontractors	**4,328,591**	4,290,487
Staff advances	**114,573**	139,265
Deposits	**105,874**	89,935
Other receivables	**713,512**	637,205
	5,354,583	5,252,925
Less: Impairment loss recognised	**(121,613)**	(121,939)
Loan receivables, prepayments, deposits, staff advances and other receivables, net	**5,232,970**	5,130,986
Total trade and other receivables	**10,363,383**	8,354,022
Less: Non-current portion		
Retentions	**(72,170)**	(68,424)
Current portion	**10,291,213**	8,285,598

Refer to Note 53(b) for details of receivables due from related parties.

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32. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis of the Group's trade receivables and retentions net of impairment loss at the end of the reporting period presented based on the invoice date are as follows:

	2010	2009
	RMB'000	*RMB'000*
Less than 6 months	**4,054,406**	2,031,251
6 months to 1 year	**608,648**	740,394
1 year to 2 years	**285,745**	317,033
2 years to 3 years	**128,752**	102,744
Over 3 years	**52,862**	31,614
	5,130,413	3,223,036

Settlement of trade receivables and retentions generated through engineering and construction services is made in accordance with the terms specified in the contracts governing the relevant transactions, among which retentions are generally settled within one to two years after completion of corresponding services. The Group allows credit period ranging from 30 to 365 days to its trade and construction customers. The Group does not hold any collateral over these balances.

(b) As at 31 December 2010, RMB702,084,000 (2009: RMB631,645,000) of the Group's trade receivables were past due but not impaired. The ageing analysis of these receivables is as follows:

	2010	2009
	RMB'000	*RMB'000*
Less than 6 months	**95,601**	86,295
6 months to 1 year	**199,124**	164,418
1 year to 2 years	**225,745**	314,998
2 years to 3 years	**128,752**	34,320
Over 3 years	**52,862**	31,614
	702,084	631,645

Trade receivables that were past due but not impaired were related to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances that are still considered fully recoverable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. TRADE AND OTHER RECEIVABLES *(Continued)*

(c) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2010	2009
	RMB'000	*RMB'000*
RMB	**9,487,028**	6,955,238
US$	**328,761**	558,448
EUR	**252,618**	638,084
AED	**–**	1,719
NGN	**–**	5,971
ALL	**64,249**	29,009
SAR	**97,849**	23,577
AZN	**75,862**	6,447
Others	**57,016**	135,529
	10,363,383	8,354,022

(d) The Group does not hold any collateral over the balances of loan and other receivables.

(e) Movement on the impairment loss of trade receivables is as follows:

	2010	2009
	RMB'000	*RMB'000*
At 1 January	**456,896**	425,945
Impairment loss recognised	**113,431**	70,900
Receivables written off as uncollectible	**(32,369)**	(39,949)
At 31 December	**537,958**	456,896

Included in the impairment loss recognised are individually impaired trade receivables with an aggregate balance of approximately RMB537,958,000 (2009: RMB456,896,000) which the Group does not hold any collateral over these balances. The individually impaired receivables mainly related to customers that are in unexpected difficult economic situations or of poor credit history. The factors considered by management in determining the impairment are described in Note 6. It was assessed that a portion of the receivables is expected to be recovered.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. TRADE AND OTHER RECEIVABLES *(Continued)*

(f) Movement on the impairment loss of other receivables is as follows:

	2010	2009
	RMB'000	*RMB'000*
At 1 January	**91,772**	111,686
Impairment loss recognised	**20,897**	1,175
Receivables written off as uncollectible	**(26,730)**	(21,089)
At 31 December	**85,939**	91,772

Included in the impairment loss recognised are individually impaired other receivables with an aggregate balance of approximately RMB85,939,000 (2009: RMB91,772,000) which the Group does not hold any collateral over these balances. The individually impaired receivables mainly related to debtors that are in unexpected difficult economic situations or of poor credit history. The factors considered by management in determining the impairment are described in Note 6. It was assessed that a portion of the receivables is expected to be recovered.

(g) Movement on the impairment loss of loan receivables is as follows:

	2010	2009
	RMB'000	*RMB'000*
At 1 January	**30,167**	20,543
Impairment loss recognised	**5,507**	9,624
At 31 December	**35,674**	30,167

Included in the impairment loss recognised are individually impaired loan receivables with an aggregate balance of approximately RMB35,674,000 (2009: RMB30,167,000) which the Group does not hold any collateral over these balances. The individually impaired receivables mainly related to debtors that are in unexpected difficult economic situations or of poor credit history. The factors considered by management in determining the impairment are described in Note 6. It was assessed that a portion of the receivables is expected to be recovered.

(h) For the year ended 31 December 2010, the interest bearing loan receivables amounted to RMB20,000,000 (2009: RMB15,000,000) bear interest at 5.23% and 5.31% (2009: 5.31%). The remaining loan receivables amounted RMB72,033,000 (2009: RMB81,033,000) are non-interest bearing. The interest bearing and non-interest bearing loan receivables are unsecured and repayable on demand.

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33. CONTRACT WORK-IN-PROGRESS

	2010	2009
	RMB'000	*RMB'000*
Contract cost incurred plus recognised profit less recognised losses	**34,764,822**	21,591,300
Less: Progress billings	**(35,022,083)**	(21,828,123)
Contract work-in-progress	**(257,261)**	(236,823)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**183,628**	168,261
Amounts due to customers for contract work	**(440,889)**	(405,084)
	(257,261)	(236,823)
Contract revenue recognised as turnover	**13,742,624**	10,391,794

Included in the trade and other receivable are retentions due from customers for contract works of approximately RMB97,893,000 (2009: RMB145,821,000).

Included in the trade and other payables are advances received from customers for contract works of approximately RMB6,908,581,000 (2009: RMB7,859,589,000).

When it is probable that total contract costs exceed total contract revenue, the foreseeable loss is recognised as an expense immediately.

During the year ended 31 December 2010, foreseeable losses on construction contracts of approximately RMB126,748,000 (2009: RMB16,343,000) have been recognised in the consolidation income statement.

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For the year ended 31 December 2010

34. RESTRICTED BANK BALANCES

The carrying amounts of the Group's restricted bank balances are denominated in the following currencies:

	2010	2009
	RMB'000	*RMB'000*
RMB	**1,246,915**	1,548,353
US$	**5,764**	3,863
EUR	**4,966**	8,370
Others	**95**	1,302
	1,257,740	1,561,888

Restricted bank balances are held in dedicated bank accounts under the name of the Group for the issuance of performance bonds of approximately RMB775,901,000 (2009: RMB814,114,000) and letter of credits to customers or bank acceptance notes to suppliers.

As at 31 December 2010, the fixed interest rate on restricted bank balances, with maturities ranging from 6 months to 1 year, were 0.36% to 2.25% (2009: 0.36% to 4.14%) per annum.

35. BANK BALANCES AND CASH

	2010	2009
	RMB'000	*RMB'000*
Cash at bank and in hand	**8,600,338**	5,627,492
Bank deposits		
– Term deposits	**3,199,334**	3,672,389
– Other bank deposits	**1,414,313**	778,043
	4,613,647	4,450,432
Cash and cash equivalents	**13,213,985**	10,077,924

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

35. BANK BALANCES AND CASH *(Continued)*

(a) The carrying amounts of the Group's bank balances and cash are denominated in the following currencies:

	2010	2009
	RMB'000	*RMB'000*
RMB	**11,972,380**	9,102,134
EUR	**481,924**	122,523
US$	**415,851**	458,489
ZAR	**80,439**	20,896
EGP	**72,658**	11,958
VND	**36,101**	12,824
NGN	**24,511**	87,327
SAR	**18,656**	–
SYP	**12,934**	8,117
OMR	**9,815**	19,104
XOF	**8,881**	4,519
MYR	**7,126**	–
YER	**5,216**	1,429
IQD	**5,006**	893
AED	**3,614**	136,403
AZN	**1,593**	19,604
ALL	**699**	11,073
Others	**56,581**	60,631
	13,213,985	10,077,924

(b) As at 31 December 2010, the fixed interest rate on term deposits with initial terms over three months were 1.91% to 4.14% (2009: 1.71% to 3.78%) per annum.

As at 31 December 2010, the fixed interest rate on other bank deposits with initial terms ranging from one month to three months were 2.25% to 3.5% (2009: 1.35% to 2.25%) per annum.

(c) Cash at bank denominated in RMB are deposited with banks in the PRC at the prevailing market rate. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

36. TRADE AND OTHER PAYABLES

	2010 **RMB'000**	2009 RMB'000
Trade payables	**9,206,973**	7,180,966
Deposits, advances, accruals and other payables		
Prepayment from customers	**9,392,840**	10,406,273
Accrued payroll and welfare	**338,059**	191,145
Accrued social security costs	**247,610**	201,741
Other taxes	**270,661**	152,023
Accrued expenses	**221,180**	169,210
Deposits payable	**181,200**	143,072
Dividends payable to non-controlling interests by subsidiaries	**79,422**	58,113
Other payables	**756,562**	894,338
	11,487,534	12,215,915
Total trade and other payables	**20,694,507**	19,396,881
Less: Non-current portion:		
Accrued payroll and welfare	**1,197**	1,438
Current portion	**20,693,310**	19,395,443

Refer to Note 53(b) for details of payables due to related parties.

(a) Ageing analysis of trade payables at the end of the reporting period presented based on the invoice date are as follows:

	2010 **RMB'000**	2009 RMB'000
Within 6 months	**4,849,906**	4,249,504
6 months to 1 year	**2,413,615**	1,951,479
1 year to 2 years	**1,634,333**	789,146
2 years to 3 years	**147,806**	100,405
Over 3 years	**161,313**	90,432
	9,206,973	7,180,966

The credit period on purchases of goods ranges from 90 days to 180 days. The Group has financial risk management policies in the place to ensure that all payables are settled within the credit timeframe.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

36. TRADE AND OTHER PAYABLES *(Continued)*

(b) The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2010 **RMB'000**	2009 RMB'000
RMB	**19,533,581**	18,676,166
US$	**391,033**	92,795
EUR	**597,602**	591,011
HK$	**–**	995
AED	**–**	10,757
NGN	**27,693**	21,264
ALL	**10,446**	–
AZN	**9,634**	–
ZAR	**77,149**	–
Others	**47,369**	3,893
	20,694,507	19,396,881

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

37. SHORT-TERM FINANCING BILLS

	2010 **RMB'000**	2009 RMB'000
Short-term financing bills	**400,000**	–

On 21 January 2010, Qilianshan Co., a non-wholly-owned subsidiary which acquired by the Group through the acquisition of Qilianshan Holdings on 23 April 2010 as detailed in Note 48(a)(i), issued one-year short-term financing bills of face value at RMB400,000,000 in the PRC inter-bank bond market.

The short-term financing bills are denominated in RMB. The short-term financing bills bear a fixed interest rate of 3.99% per annum and the interest is paid on mature.

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38. BORROWINGS

	2010	2009
	RMB'000	*RMB'000*
Non-current		
Long-term bank borrowings		
– Secured *(Note a)*	**1,237,746**	1,335,977
– Unsecured	**9,260,861**	5,481,686
	10,498,607	6,817,663
Other borrowings		
– Secured *(Note a)*	**2,000**	2,000
– Unsecured	**41,436**	44,080
	43,436	46,080
Total non-current borrowings	**10,542,043**	6,863,743
Current		
Current portion of long-term bank borrowings		
– Secured *(Note a)*	**39,416**	320,878
– Unsecured	**696,504**	448,403
	735,920	769,281
Short-term bank borrowings		
– Secured *(Note a)*	**403,170**	522,360
– Unsecured	**5,990,175**	3,544,227
	6,393,345	4,066,587
Other borrowings		
– Secured *(Note a)*	**–**	1,000
– Unsecured	**1,019,124**	602,765
	1,019,124	603,765
Total current borrowings	**8,148,389**	5,439,633
Total borrowings	**18,690,432**	12,303,376

Notes:

(a) Secured borrowings of the Group were secured by the Group's property, plant and equipment (Note 20), prepaid lease payments (Note 21) and investment properties (Note 22).

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For the year ended 31 December 2010

38. BORROWINGS *(Continued)*

(b) The exposure of borrowings to interest rate changes is as follows:

	2010	2009
	RMB'000	*RMB'000*
Fixed-rate borrowings	**8,875,898**	4,515,500
Variable-rate borrowings	**9,814,534**	7,787,876
	18,690,432	12,303,376

(c) The maturities of total borrowings are set out as follows:

	2010	2009
	RMB'000	*RMB'000*
Within 1 year	**8,148,389**	5,439,633
1 year to 2 years	**3,778,543**	1,441,637
2 years to 5 years	**4,809,423**	4,261,089
Wholly repayable within 5 years	**16,736,355**	11,142,359
Over 5 years	**1,954,077**	1,161,017
	18,690,432	12,303,376

(d) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2010	2009
	RMB'000	*RMB'000*
RMB	**18,509,528**	12,214,166
US$	**180,904**	89,210
	18,690,432	12,303,376

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38. BORROWINGS *(Continued)*

(e) Certain borrowings of the Group are guaranteed by other state-owned enterprises and independent third parties. The amounts of the guarantees provided by other state-owned enterprises and independent third parties to the Group at the end of the reporting period are as follows:

	2010	2009
	RMB'000	*RMB'000*
Guarantees provided by other state-owned enterprises	**–**	6,000
Guarantees provided by independent third parties	**703,210**	898,747
	703,210	904,747

(f) The weighted average effective interest rates (per annum) at the respective end of the reporting periods are as follows:

	2010	2009
	RMB'000	*RMB'000*
Bank borrowings		
– RMB	**5.07%**	5.37%
– US$	**2.75%**	3.72%
Other borrowings		
– RMB	**4.74%**	4.44%

(g) The undrawn borrowing facilities are as follows:

	2010	2009
	RMB'000	*RMB'000*
Floating rate		
– Expiring within 1 year	**8,411,991**	8,360,130
– Expiring beyond 1 year	**5,869,675**	4,711,410
Fixed rate		
– Expiring within 1 year	**1,817,354**	3,002,120
– Expiring beyond 1 year	**799,500**	733,600
	16,898,520	16,807,260

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39. EARLY RETIREMENT AND SUPPLEMENTAL BENEFIT OBLIGATIONS

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

The amounts of early retirement and supplemental benefit obligations recognised in the consolidated statements of financial position are as follows:

	2010 ***RMB'000***	2009 *RMB'000*
Total liability in the consolidated statement of financial position	**352,440**	163,172
Less: Current portion	**(34,532)**	(20,479)
	317,908	142,693

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

	2010 ***RMB'000***	2009 *RMB'000*
At 1 January	**163,172**	163,681
For the year		
– Attributable to acquisition of subsidiaries *(Note 48(a)(i))*	**162,070**	–
– Interest cost *(Note 16) (include in administrative expenses)*	**10,769**	5,525
– Actuarial losses *(Note 16) (include in administrative expenses)*	**50,961**	14,445
	223,800	19,970
– Payments	**(34,532)**	(20,479)
At 31 December	**352,440**	163,172

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39. EARLY RETIREMENT AND SUPPLEMENTAL BENEFIT OBLIGATIONS *(Continued)*

The above obligations were determined based on actuarial valuations performed by an independent and qualified actuarial firm, Mercer Consulting (China) Limited, using the projected unit credit method. The material actuarial assumptions used in valuing these obligations are as follows:

(a) Discount rates adopted (per annum):

	2010	2009
Discount rates	**4%**	4.2%

The effect of above changes in discount rates was reflected as actuarial gains and losses and charged to the consolidated income statement in the period of change;

(b) Early-retirees' and retirees' supplemental pension subsidies increase rate: 0% (2009: 0%);

(c) Early-retirees' and retirees' (where applicable) pension contributions increase rate: 5% (2009: 5%), depending on whether the pension contributions are subject to the change of the minimum social security contribution stipulated by the government;

(d) Medical cost trend rate: 6% (2009: 6%);

(e) Mortality: Average life expectancy of residents in the PRC; and

(f) Medical costs paid to certain early-retirees' and retirees' are assumed to continue until the death of the retirees.

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40. CASH-SETTLED SHARE-BASED PAYMENTS

The Group implemented a share appreciation rights scheme to motivate and award the senior management team and other key members of the Company. Under this share appreciation rights scheme, share appreciation rights are granted in units representing one H share. No share will be issued under the share appreciation rights scheme. Upon exercise of the share appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollars amount equal to the product of the number of share appreciation rights exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the applicable exchange rate between RMB and Hong Kong dollars at the date of the exercise. The Company recognises compensation expense of the share appreciation rights over the applicable vesting period.

The share appreciation rights scheme has been approved at the second extraordinary general meeting held on 22 October 2010. On 13 December 2010, 4,130,000 units of the share appreciation rights scheme were granted to sixteen senior officers, including five directors and eleven senior management members, at an exercise price of RMB5.17 per unit. On 22 December 2010, Mr. Zhou Yuxian, executive director, has resigned and his related right of acquiring 300,000 units of the share appreciation rights has been voided under the share appreciation rights scheme. Under the terms of this grant, all share appreciation rights had a contractual life of seven years from the date of grant. A recipient of share appreciation rights may not exercise the rights in the first twenty four months after the date of grant. As at each of the second, third and fourth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed one-third, two-third and 100%, respectively, of the total share appreciation rights granted to such person. The total amounts paid in cash as a result of the Company's market price being higher that the exercise price of the share appreciation rights shall not exceed 40% of the salaries level of those grantees accessed at the date of grant. The share appreciation rights which have not been exercised after the expiration of the term of the scheme shall lapse.

During the year ended 31 December 2010, no share appreciation rights granted was exercised or expired. As at 31 December 2010, the expiry date of the outstanding share appreciation rights is seven years.

For the year ended 31 December 2010, the Group has recorded liabilities and expenses of approximately RMB316,000 related to the share appreciation rights. The fair value of share appreciation rights is determined using the Black-Scholes pricing model with expected volatility of 50%, risk free rate of 4.46% and dividend yield of 1%. The share appreciation rights liability was recorded in accrued payroll and welfare in the trade and other payables and administrative expenses.

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For the year ended 31 December 2010

41. PROVISIONS

	2010	2009
	RMB'000	*RMB'000*
Analysed for reporting purposes:		
Non-current liabilities	**31,874**	–
Current liabilities	**35,104**	–
	66,978	–

	Provision for litigation	**Warranties**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Note i)	*(Note ii)*	
1 January 2009	35,847	–	35,847
Utilised during the year	(25,100)	–	(25,100)
Reversal upon settlement	(10,747)	–	(10,747)
At 31 December 2009 and 1 January 2010	–	–	–
Additional provision recognised	27,780	39,743	67,523
Utilised during the year	–	(545)	(545)
At 31 December 2010	27,780	39,198	66,978

Notes:

(i) Provision for litigation is made based on management's best estimates and judgments, as described in Note 6 above.

(ii) The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under the Groups' obligations for warranties under the sale contracts. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

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For the year ended 31 December 2010

42. CORPORATE BONDS

	2010	2009
	RMB'000	*RMB'000*
Corporate bonds, at amortised cost	**2,485,545**	2,483,381

On 31 July 2009, the Company issued seven-year corporate bonds of face value at RMB2,500,000,000 in the PRC debenture market. The issuance expenses amounting to RMB17,500,000 had been deducted from the corporate bonds account. The corporate bonds bear a fixed interest rate of 5.40% per annum and the interest is paid annually.

The corporate bonds are denominated in RMB. The effective interest rate of the corporate bonds is 5.52%.

43. MEDIUM-TERM NOTES

	2010	2009
	RMB'000	*RMB'000*
Medium-term notes, at amortised cost	**1,700,000**	–

On 10 March 2010, the Company issued the medium-term notes amounting to RMB1,700,000,000 with a term of five years. The medium-term notes bear a fixed interest rate of 4.48% per annum and the interest is paid annually.

The medium-term notes are denominated in RMB. The effective interest rate of the medium-term notes is 4.78% per annum.

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44. DEFERRED INCOME

	Government grants relating to research and development expenditure	Government grants relating to property, plant and equipment	Government grants relating to land use rights	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	74,062	202,995	62,023	339,080
Additions	72,463	67,121	5,552	145,136
Utilised/amortised during the year	(66,672)	(102,811)	(2,652)	(172,135)
At 31 December 2009 and 1 January 2010	79,853	167,305	64,923	312,081
Additions	10,817	9,100	5,692	25,609
Utilised/amortised during the year	(8,472)	(60,971)	(5,650)	(75,093)
At 31 December 2010	**82,198**	**115,434**	**64,965**	**262,597**

In 2010, the Group received government grants of approximately RMB10,817,000 (2009: RMB72,463,000) towards the research and development expenditure. The amounts have been treated as deferred income and are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. This policy has resulted in a credit to income in the current year of approximately RMB8,472,000 (2009: RMB66,672,000). As at 31 December 2010, an amount of approximately RMB82,198,000 (2009: RMB79,853,000) remains unutilised.

In 2010, the Group received government grants of approximately RMB14,792,000 (2009: RMB72,673,000) towards the cost of construction of property, plant and equipment and acquisition of land use rights. The amounts have been treated as deferred income and transferred to income over the useful lives of the related assets. This policy has resulted in a credit to income in the current year of approximately RMB66,621,000 (2009: RMB105,463,000). As at 31 December 2010, an amount of approximately RMB180,399,000 (2009: RMB232,228,000) remains unamortised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

45. DEFERRED INCOME TAX

The movements in deferred income tax assets and liabilities during the year are as follows:

(a) Deferred income tax assets

	Provision for impairment of assets	Assets revaluation surplus during the Reorganisation	Tax losses	Deferred income arising from government grants	Unrealised profit on inter-company transactions	Provision for early retirement and supplemental benefit obligations	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	140,909	5,596	–	10,887	20,912	27,651	27,876	233,831
Credited (charged) to the consolidated income statement	17,050	(243)	–	(355)	8,478	(123)	4,950	29,757
Effect of changes in tax rates	(920)	–	–	(276)	–	–	(481)	(1,677)
At 31 December 2009 and 1 January 2010	157,039	5,353	–	10,256	29,390	27,528	32,345	261,911
Acquisition of subsidiaries	19,511	–	946	1,382	24	26,353	31,897	80,113
Credited (charged) to the consolidated income statement	36,427	(356)	5,004	10,897	38,025	(5,432)	21,691	106,256
Effect of changes in tax rates	(1,365)	–	–	–	–	(718)	–	(2,083)
At 31 December 2010	**211,612**	**4,997**	**5,950**	**22,535**	**67,439**	**47,731**	**85,933**	**446,197**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

45. DEFERRED INCOME TAX *(Continued)*

(b) Deferred income tax liabilities

The deferred income tax liabilities of the Group mainly arise from taxable temporary differences when the fair values of property, plant and equipment, prepaid lease payments, intangible assets, mining rights and available-for-sale financial assets exceed the corresponding carrying values arising from revaluation surplus in business combinations, or reassessment in debt restructurings and no equivalent adjustments are made for tax purposes.

	Assets revaluation surplus in business combinations	Borrowings reassessed in debt restructurings	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	145,186	9,360	586	155,132
Charged to other comprehensive income	–	–	388,459	388,459
Credited to consolidated income statement	(5,162)	(4,915)	–	(10,077)
At 31 December 2009 and 1 January 2010	140,024	4,445	389,045	533,514
Attributable to acquisition of subsidiaries	156,394	–	–	156,394
Charged to other comprehensive income	–	–	86,325	86,325
Credited to consolidated income statement	(38,398)	(1,169)	–	(39,567)
Effect of changes in tax rates	(3,358)	–	–	(3,358)
At 31 December 2010	254,662	3,276	475,370	733,308

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

45. DEFERRED INCOME TAX *(Continued)*

(c) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2010, a deferred tax asset has been recognised in respect of RMB23,800,000 (2009: Nil) of such losses. No deferred tax assets has been recognised in respect of the remaining tax losses amounting to approximately RMB358,360,000 (2009: RMB197,566,000), as management believes it is more likely than not that such tax losses would not be realised before they expire. The expiry of the unrecognised deferred income tax assets relating to tax losses are analysed as follows:

	2010	2009
	RMB'000	*RMB'000*
Between 2 to 3 years	**155,242**	8,407
Between 3 to 4 years	**124,587**	60,402
Between 4 to 5 years	**78,531**	128,757
	358,360	197,566

46. SHARE CAPITAL

	Non-listed domestic shares		Non-listed foreign shares		H Shares		Total	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
	'000	*RMB'000*	*'000*	*RMB'000*	*'000*	*RMB'000*	*'000*	*RMB'000*
Registered, issued and fully paid:								
1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	2,276,523	2,276,523	130,793	130,793	1,164,148	1,164,148	3,571,464	3,571,464

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

47. RESERVES

Safety fund

	2010 RMB'000	2009 RMB'000
At 1 January	**48,730**	–
Safety fund set aside	**51,527**	48,730
Utilisation of safety fund	**(29,634)**	–
At 31 December	**70,623**	48,730

Foreign exchange reserve

	2010 RMB'000	2009 RMB'000
At 1 January	**995**	(2,503)
Exchange differences arising on translation	**(721)**	3,498
At 31 December	**274**	995

Investment revaluation reserve

	2010 RMB'000	2009 RMB'000
At 1 January	**1,129,810**	3,441
Gain on fair value changes of available-for-sale financial assets	**349,059**	1,766,752
Reversal of gain on fair value change of an available-for-sale financial assets upon transfer to investment in an associate	**–**	(278,300)
Deferred income tax arising on fair value changes of available-for-sale financial assets	**(88,142)**	(362,083)
At 31 December	**1,390,727**	1,129,810

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

48. BUSINESS COMBINATIONS

(a) Business combinations for the year ended 31 December 2010

(i) Qilianshan Holdings

On 27 December 2009, the Company entered into a capital injection and acquisition agreement with Gansu Provincial SAC and Qilianshan Holdings, whereby the Company has agreed to inject additional capital into Qilianshan Holdings amounted to RMB100,000,000, representing 15.33% of the enlarged registered share capital of Qilianshan Holdings. In addition, the Company also agreed to acquire 35.67% equity interests from Gansu Provincial SAC for a consideration of approximately RMB232,770,000. Details of the capital injection and acquisition were set out in the Company's announcement dated 27 December 2009. Upon completion of the capital injection and acquisition on 23 April 2010, the Company holds 51% equity interests in Qilianshan Holdings.

As disclosed in Note 27(c), Qilianshan Co. is classified as an associate up to 23 April 2010. On 23 April 2010, the Company acquired 51% equity interests in Qilianshan Holdings and therefore Qilianshan Co. became a non-wholly-owned subsidiary of the Company thereafter.

This acquisition of Qilianshan Holdings has been accounted for using acquisition method. The amount of goodwill arising as a result of the acquisition is approximately RMB418,130,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

48. BUSINESS COMBINATIONS *(Continued)*

(a) Business combinations for the year ended 31 December 2010 *(Continued)*

(i) Qilianshan Holdings *(Continued)*

Consideration transferred

	RMB'000
Consideration given for controlling interest satisfied by:	
Capital injection into Qilianshan Holdings by cash	100,000
Acquisition of equity interests by cash	232,770
	332,770

Acquisition-related costs were borne by the vendor and have been excluded from the consideration transferred.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	3,219,065
Prepaid lease payments	467,062
Investment properties	7,336
Intangible assets	55,909
Mining rights	114,788
Available-for-sale financial assets	51,735
Other non-current assets	34,853
Deferred income tax assets	47,069
Inventories	322,096
Trade and other receivables	800,849
Other current assets	1,647
Restricted bank balances	2,000
Bank balances and cash	1,144,284
Trade and other payables	(910,288)
Income tax liabilities	(44,300)
Short-term financing bills	(400,000)
Borrowings	(1,894,430)
Early retirement and supplemental benefit obligations	(162,070)
Deferred income tax liabilities	(118,161)
	2,739,444

The trade and other receivables acquired (which principally comprised trade receivables) with a fair value of RMB800,849,000 had gross contractual amounts of RMB802,477,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected is RMB1,628,000.

Goodwill of approximately RMB53,915,000 was included in the intangible assets of Qilianshan Holdings at the date of acquisition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

48. BUSINESS COMBINATIONS *(Continued)*

(a) Business combinations for the year ended 31 December 2010 *(Continued)*

(i) Qilianshan Holdings *(Continued)*

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	332,770
Plus: non-controlling interests (49% in Qilianshan Holdings)	2,270,731
Plus: fair value of previously held interest	554,073
Less: net assets acquired	(2,739,444)
Goodwill arising on acquisition	418,130

Goodwill arose in the acquisition of Qilianshan Holdings because the consideration paid for the acquisition effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Qilianshan Holdings. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash inflow on acquisition of Qilianshan Holdings:

	RMB'000
Cash consideration paid	(332,770)
Cash and cash equivalents acquired	1,144,284
	811,514
Deposit paid for acquisition in previous years	332,770
	1,144,284

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

48. BUSINESS COMBINATIONS *(Continued)*

(a) Business combinations for the year ended 31 December 2010 *(Continued)*

(i) Qilianshan Holdings *(Continued)*

Included in the profit for the year is RMB371,811,000 attributable to the additional business generated by Qilianshan Holdings. Turnover for the year includes RMB2,195,514,000 generated from Qilianshan Holdings.

Had the acquisition been completed on 1 January 2010, the Group's turnover for the period would have been RMB45,055,472,000, and profit for the period would have been RMB3,522,415,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Qilianshan Holdings been acquired at the beginning of the current year, the directors have:

- calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

48. BUSINESS COMBINATIONS *(Continued)*

(a) Business combinations for the year ended 31 December 2010 *(Continued)*

(ii) Anhui Yingpu

On 11 February 2010, the Group acquired 100% equity interests in Anhui Yingpu from independent third parties for a consideration of approximately RMB740,117,000. This acquisition has been accounted for using acquisition method. The amount of gain on a bargain purchase arising as a result of the acquisition was RMB70,610,000.

Consideration transferred

	RMB'000
Cash	704,217
Other payable	35,900
Total	740,117

Acquisition-related costs amounting to RMB8,063,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses in the consolidated income statement.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	1,028,592
Prepaid lease payments	115,666
Intangible assets	66
Mining rights	159,089
Deferred income tax assets	33,044
Inventories	39,870
Trade and other receivables	95,952
Bank balances and cash	1,825
Trade and other payables	(524,959)
Income tax liabilities	(185)
Borrowings	(100,000)
Deferred income tax liabilities	(38,233)
Net assets acquired	810,727

The fair value of trade and other receivables at the date of acquisition amounted to RMB95,952,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB95,952,000 at the date of acquisition. No estimated uncollectible contractual cash flows were expected at acquisition date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

48. BUSINESS COMBINATIONS *(Continued)*

(a) Business combinations for the year ended 31 December 2010 *(Continued)*

(ii) Anhui Yingpu *(Continued)*

Gain on a bargain purchase arising on acquisition:

	RMB'000
Consideration transferred	740,117
Less: net assets acquired	(810,727)
Gain on a bargain purchase arising on acquisition	(70,610)

The gain on a bargain purchase is attributable to the ability of the Group in negotiating the agreed terms of the transaction with the vendor.

Net cash outflow on acquisition of Anhui Yingpu:

	RMB'000
Cash consideration paid	(704,217)
Cash and cash equivalents acquired	1,825
	(702,392)
Deposit paid for acquisition in previous years	300,000
	(402,392)

Included in the profit for the year is RMB70,483,000 attributable to the additional business generated by Anhui Yingpu. Turnover for the year includes RMB635,244,000 generated from Anhui Yingpu.

Had the acquisition been completed on 1 January 2010, total Group turnover for the period would have been RMB44,293,576,000, and profit for the period would have been RMB3,394,044,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Anhui Yingpu been acquired at the beginning of the current year, the directors have:

- calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and
- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

48. BUSINESS COMBINATIONS *(Continued)*

(a) Business combinations for the year ended 31 December 2010 *(Continued)*

(iii) Beijing Tiandi Orient Superhard Materials Co., Ltd. ("Beijing Tiandi")

On 1 October 2010, the Group acquired an additional 36% of the equity interests of the former associate, Beijing Tiandi, for a consideration of approximately RMB3,556,000. After the acquisition, the Group's interest held in Beijing Tiandi increased from 21% to 57%. The acquisition has been accounted for using acquisition method. The amount of gain on a bargain purchase arising as a result of the acquisition was RMB172,000.

Consideration transferred

	RMB'000
Consideration given for controlling interest satisfied by cash	3,556

Acquisition-related costs were insignificant and have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses in the consolidated income statement.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	3,026
Intangible assets	715
Inventories	6,656
Trade and other receivables	3,470
Bank balances and cash	6,100
Trade and other payables	(9,613)
	10,354

Gain on a bargain purchase arising on acquisition:

	RMB'000
Consideration transferred	3,556
Plus: non-controlling interests (43% in Beijing Tiandi)	4,452
Plus: fair value of previously held interest	2,174
Less: net assets acquired	(10,354)
Gain on a bargain purchase arising on acquisition	(172)

The gain on a bargain purchase is attributable to the ability of the Group in negotiating the agreed terms of the transaction with the vendor.

Notes to the Consolidated Financial Statements

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48. BUSINESS COMBINATIONS *(Continued)*

(a) Business combinations for the year ended 31 December 2010 *(Continued)*

(iii) Beijing Tiandi Orient Superhard Materials Co., Ltd. ("Beijing Tiandi") *(Continued)*

Net cash inflow on acquisition of Beijing Tiandi:

	RMB'000
Cash consideration paid	(3,556)
Cash and cash equivalents acquired	6,100
	2,544

Included in the profit for the year is RMB347,000 attributable to the additional business generated by Beijing Tiandi. Turnover for the year includes RMB4,893,000 generated from Beijing Tiandi.

Had the acquisition been completed on 1 January 2010, the Group turnover for the period would have been RMB44,255,845,000, and profit for the period would have been RMB3,393,818,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Beijing Tiandi been acquired at the beginning of the current year, the directors have:

- calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

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48. BUSINESS COMBINATIONS *(Continued)*

(b) Business combinations for the year ended 31 December 2009

(i) Xinganmeng Taixin Mining Co., Ltd. ("Taixin Mining")

On 5 August 2009, the Group acquired 51% equity interests in Taixin Mining from an independent third party for a consideration of RMB5,100,000. This acquisition had been accounted for using purchase method.

Consideration transferred

	RMB'000
Consideration given for controlling interest satisfied by cash	5,100

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Plant and equipment	1,001
Prepaid lease payment	2,500
Trade and other receivables	607
Inventories	1,097
Bank balances and cash	5,488
Other payables	(680)
Income tax liabilities	(13)
	10,000

	RMB'000
Consideration transferred	5,100
Plus: non-controlling interests (49% in Taixin Mining)	4,900
Less: net assets acquired	(10,000)
	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

48. BUSINESS COMBINATIONS *(Continued)*

(b) Business combinations for the year ended 31 December 2009 *(Continued)*

(i) Xinganmeng Taixin Mining Co., Ltd. ("Taixin Mining") *(Continued)*

Net cash inflow on acquisition of Taixin Mining

	RMB'000
Cash consideration paid	(5,100)
Cash and cash equivalents acquired	5,488
	388

Included in the profit for the year is loss amounted to RMB669,000 attributable to the additional business generated by Taixin Mining. Turnover for the year includes RMB517,000 generated from Taixin Mining.

Had the acquisition been completed on 1 January 2009, the Group turnover for the period would have been RMB30,368,613,000, and profit for the period would have been RMB1,997,306,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

(ii) Jiangsu Jiashi

On 10 July 2009, the Group acquired the remaining 55% of the issued share capital of the former associate, Jiangsu Jiashi for a consideration of approximately RMB3,391,000. After the acquisition, the Group's interest held in Jiangsu Jiashi was increased from 45% to 100%. This acquisition has been accounted for using purchase method. The amount of gain on a bargain purchase arising as a result of the acquisition was RMB881,000.

Consideration transferred

	RMB'000
Consideration given for controlling interest satisfied by cash	3,391

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For the year ended 31 December 2010

48. BUSINESS COMBINATIONS *(Continued)*

(b) Business combinations for the year ended 31 December 2009 *(Continued)*

(ii) Jiangsu Jiashi *(Continued)*

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Plant and equipment	48
Inventories	3,500
Trade receivables	415
Bank balances and cash	4,919
Trade and other payables	(1,115)
	7,767

Gain on a bargain purchase arising on acquisition:

	RMB'000
Consideration transferred	3,391
Plus: 45% equity interests acquired previously recognised as interest in an associate	3,495
Less: net assets acquired	(7,767)
Gain on a bargain purchase arising on acquisition	(881)

The gain on a bargain purchase is attributable to the ability of the Group in negotiating the agreed terms of the transaction with the vendor.

Net cash inflow on acquisition of Jiangsu Jiashi

	RMB'000
Cash consideration paid	(3,391)
Cash and cash equivalents acquired	4,919
	1,528

Included in the profit for the year is RMB3,054,000 attributable to the additional business generated by Jiangsu Jiashi. Turnover for the year includes RMB17,139,000 generated from Jiangsu Jiashi.

Had the acquisition been completed on 1 January 2009, the Group turnover for the period would have been RMB30,369,124,000, and profit for the period would have been RMB1,997,956,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

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49. DISPOSAL OF SUBSIDIARIES

On 22 December 2009, the Group disposed of its entire equity interests in Ningxia Jianfu Investment Co., Ltd. ("Ningxia Jianfu") and its subsidiaries (hereinafter collectively referred to as "Ningxia Jianfu Group"), the wholly-owned subsidiaries of the Group, to an independent third party for a total consideration of RMB1,000,000. The net assets of Ningxia Jianfu Group at the date of disposal were as follows:

	RMB'000
Property, plant and equipment	5,214
Investment property	2,705
Inventories	13
Trade and other receivables	1,043
Bank balances and cash	1,168
Trade and other payables	(9,141)
Income tax liabilities	(2)
Net assets disposed of	1,000
Gain (loss) on disposal	–
Total consideration	1,000
Satisfied by:	
Cash	1,000
Net cash outflow arising from disposal:	
Cash consideration	1,000
Cash and cash equivalents disposed of	(1,168)
	(168)

The subsidiaries disposed of during the year ended 31 December 2009 contributed approximately RMB926,000 to the Group's turnover and no significant impact on the results of the Group. The subsidiaries also contributed approximately RMB461,000 to the Group's net operating cash inflow, and no cash flow impacts in respect of investing activities and financing activities were noted.

Notes to the Consolidated Financial Statements

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50. CONTINGENT LIABILITIES

	2010	2009
	RMB'000	*RMB'000*
Pending lawsuits/arbitrations *(Note a)*	**–**	68,168
Outstanding guarantees *(Note b)*	**395,500**	751,500
	395,500	819,668

Notes:

(a) The Group has been named in certain lawsuits and other legal proceedings arising in the ordinary course of business. Provision as set out in Note 41 has been made for the probable losses to the Group on the claim when management can reasonably estimate the outcome of the lawsuit based on management's judgments and the legal advice. No provision had been made for pending lawsuits as at 31 December 2009 as the management believed the outflow of resources was not probable.

(b) The Group has acted as the guarantors for various external borrowings made by other state-owned enterprises and certain independent third parties. Outstanding guarantees amounted to RMB395,500,000 (2009: RMB678,500,000) have been utilised by other state-owned enterprises and certain independent third parties at the end of the reporting period.

(c) At the end of the reporting period, the Group has provided the following guarantees to other state-owned enterprises/independent third parties which will be expired on:

	2010	2009
	RMB'000	*RMB'000*
Within one year	**365,500**	141,000
In the second to fifth year inclusive	**30,000**	610,500
	395,500	751,500

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

51. COMMITMENTS

(a) Capital commitments

	2010	2009
	RMB'000	*RMB'000*
Capital expenditure authorised but not contracted for in respect of the acquisition of:		
– Property, plant and equipment	**3,262**	956,909
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
– Property, plant and equipment	**1,100,167**	972,634
– Prepaid lease payments	**10,025**	–
	1,110,192	972,634
	1,113,454	1,929,543

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

51. COMMITMENTS *(Continued)*

(b) Operating lease commitments

The Group as lessee

The Group leases various offices, warehouses and residential properties under non-cancellable operating lease agreements. At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010	2009
	RMB'000	*RMB'000*
Within one year	**2,100**	12,850
In the second to fifth year inclusive	**8,142**	39,142
After five years	**51,500**	66,119
	61,742	118,111

Operating lease payments represents rentals payables by the Group for various offices, warehouses and residential properties. Leases are negotiated for a period from 2 to 30 years and rentals are fixed during the relevant lease periods.

The Group as lessor

The Group rents out various investment properties and equipment under non-cancellable operating lease agreements. The rented out properties are expected to generate rental yield of 32% (2009: 27%) on an ongoing basis. All of the properties held have committed tenants for the next 5 years.

At the end of the reporting period, the Group had contracted with tenants for future minimum lease payments as follows:

	2010	2009
	RMB'000	*RMB'000*
Within one year	**4,642**	5,345
In the second to fifth year inclusive	**5,622**	3,844
After five years	**6,750**	7,650
	17,014	16,839

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

52. MAJOR NON-CASH TRANSACTIONS

The Group has undertaken the following non-cash transactions during the two years ended 31 December 2010 and 2009:

(a) During the year ended 31 December 2010, the Group has acquired 51% equity interests in Qilianshan Holdings for a consideration of approximately RMB332,770,000 which had been paid in the year ended 31 December 2009 as the deposit.

(b) During the year ended 31 December 2010, the Group has acquired 100% equity interests in Anhui Yingpu for a consideration of approximately RMB740,117,000 of which RMB300,000,000 had been paid in the previous year as the deposit and RMB35,900,000 has been included in other payables as at 31 December 2010.

(c) During the year ended 31 December 2010, the Group has acquired property, plant and equipment amounting to approximately RMB86,009,000 which has been included in other payables as at 31 December 2010.

(d) During the year ended 31 December 2010, an investment property had been transferred to the Group from a debtor for settling the other receivable of approximately RMB10,605,000 owned by the Group.

(e) During the year ended 31 December 2009, the Group acquired additional 55% of equity interests in Jiangsu Jiashi, therefore Jiangsu Jiashi has been accounted for as a subsidiary of the Group. The interest in an associate of RMB3,975,000 as at the date it became a subsidiary of the Group has been deemed as disposal of an associate.

53. RELATED PARTY DISCLOSURES

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

53. RELATED PARTY DISCLOSURES *(Continued)*

In addition to the related party information disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the two years ended 31 December 2010 and 2009 and balances as at 31 December 2010 and 31 December 2009 arising from related party transactions.

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

(a) Significant related party transactions

The Group had the following significant transactions with related parties:

	2010	2009
	RMB'000	*RMB'000*
Transactions with Sinoma Group and fellow subsidiaries		
Revenue		
– Sales of goods or provision of services	**100,259**	120,933
Expenses		
– Purchases of goods or services	**105,456**	171,221
– Rental expense	**22,537**	24,112
Transactions with jointly controlled entities (after elimination of the Group's proportionate interest in those jointly controlled entities)		
Revenue		
– Sales of goods or provision of services	**2,904**	34,622
– Interest income	**1,631**	841
Expenses		
– Purchases of goods or services	**17,843**	15,342
Transactions with associates		
Revenue		
– Sales of goods or provision of services	**2,358**	1,519
Expenses		
– Purchases of goods or services	**65,275**	47,954

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

53. RELATED PARTY DISCLOSURES *(Continued)*

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

	2010 RMB'000	2009 RMB'000
Transactions with non-controlling shareholders		
Revenue		
– Sales of goods or provision of services	**8,942**	11,143
Expenses		
– Purchases of goods or services	**107,457**	114,136
– Rental expense	**1,540**	–
Acquisition of additional equity interests in subsidiaries	**131,009**	1,286,521
Transactions with joint venture partners of jointly controlled entities		
Revenue		
– Sales of goods or provision of services	**61,153**	21,991
Expenses		
– Purchases of goods or services	**5,184**	2,352
Transactions with other state-owned enterprises		
Revenue		
– Sales of goods or provision of services	**1,394,637**	1,242,554
– Interest income from bank deposits	**149,981**	236,991
Expenses		
– Purchases of goods or services	**1,497,581**	1,065,492
– Interest expense of bank borrowings	**918,537**	617,569
Others		
– Outstanding guarantees provided by the Group to other state-owned enterprises	**395,000**	90,000
– Outstanding guarantees provided by other state-owned enterprises to the Group	**365,000**	6,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

53. RELATED PARTY DISCLOSURES *(Continued)*

(b) Balances with related parties

	2010 *RMB'000*	2009 *RMB'000*
Deposit paid for acquisition of a subsidiary		
– Other state-owned enterprises	–	332,770
Trade and other receivables		
Trade receivables due from		
– Sinoma Group and fellow subsidiaries	**57,492**	36,717
– Jointly controlled entities	**25,812**	9,070
– Non-controlling shareholders	**15,879**	17,163
– Joint venture partners of jointly controlled entities	**6,447**	5,653
– Other state-owned enterprises	**279,645**	264,753
– Less: Impairment loss recognised	**(14,503)**	(13,475)
	370,772	319,881
Other receivables due from		
– Sinoma Group and fellow subsidiaries	**16,894**	144,961
– Jointly controlled entities	**40,724**	30,024
– Non-controlling shareholders	**22,301**	32,805
– Other state-owned enterprises	**29,781**	40,335
– Less: Impairment loss recognised	**(1,321)**	(1,652)
	108,379	246,473
	479,151	566,354

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

53. RELATED PARTY DISCLOSURES *(Continued)*

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

	2010 RMB'000	2009 RMB'000
Trade and other payables		
Trade payables due to		
– Sinoma Group and fellow subsidiaries	**42,031**	28,311
– Jointly controlled entities	**9,241**	7,309
– Associates	**15,682**	5,630
– Non-controlling shareholders	**5,262**	6,435
– Joint venture partners of jointly controlled entities	**4,563**	5,989
– Other state-owned enterprises	**167,831**	152,387
	244,610	206,061
Other payables due to		
– Sinoma Group and fellow subsidiaries	**6,960**	18,433
– Non-controlling shareholders	**50,865**	59,136
– Other state-owned enterprises	**65,795**	73,592
	123,620	151,161
	368,230	357,222

The credit periods of trade receivables due from related parties and trade payables due to related parties, if any, generally range from 30 to 365 days. Other receivables due from related parties and other payables due to related parties are generally unsecured, non-interest bearing and repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

53. RELATED PARTY DISCLOSURES *(Continued)*

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

	2010	2009
	RMB'000	*RMB'000*
Borrowings		
– Sinoma Group and fellow subsidiaries	**900,000**	600,000
– Other state-owned enterprises	**17,736,255**	11,664,236
	18,636,255	12,264,236
Other balances with other state-owned enterprises		
– Restricted bank balances	**1,198,817**	1,497,867
– Bank balances	**13,097,564**	9,870,156
	14,296,381	11,368,023

Restricted bank balances, bank balances and borrowings with related parties mainly represent balances with state-owned banks, which constitute of majority of restricted bank balances, bank balances and borrowings. Detailed information of restricted bank balances, bank balances and borrowings are disclosed in Notes 34, 35 and 38 respectively.

The weighted average effective interest rate of borrowings from related parties is 5.35% (2009: 5.37%) per annum as at 31 December 2010.

Notes to the Consolidated Financial Statements

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53. RELATED PARTY DISCLOSURES *(Continued)*

(c) Loans to related parties

	2010 RMB'000	2009 RMB'000
Loans to other state-owned enterprises:		
– At 1 January	–	5,353
– At 31 December	5,000	–
– Maximum amounts outstanding during the year	5,000	5,353

Loans to related parties are included in trade and other receivables in the consolidated statement of financial position. The interest rate of loans to related parties is 5.31% (2009:7.47%) per annum as at 31 December 2010.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2010 RMB'000	2009 RMB'000
Short-term benefits	5,793	6,569
Post employment benefits	128	147
Share-based payments	316	–
	6,237	6,716

The remuneration of the key management is determined by the remuneration committee and having regard to the performance of individuals and market trends.

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54. EVENTS AFTER THE REPORTING PERIOD

(a) On 12 January 2011, Sinoma Shangrao Machinery Co., Ltd. ("Sinoma Shangrao"), a wholly-owned subsidiary of the Company, entered into a share transfer agreement with Sinoma Group to acquire 100% equity interest of Sinoma Slipform Leasing (Shangrao) Co., Ltd. at a consideration of approximately RMB9,867,000 through Shanghai United Assets and Equity Exchange. The acquisition has been completed on 17 January 2011.

Details of the acquisition were set out in the Company's announcement dated 12 January 2011.

(b) On 12 January 2011, Sinoma Shangrao, a wholly-owned subsidiary of the Company, entered into a share transfer agreement with Sinoma Group to acquire 100% equity interest of Sinoma Equipment Maintenance (Shangrao) Co., Ltd at a consideration of approximately RMB30,852,000 through Shanghai United Assets and Equity Exchange. The acquisition has been completed on 17 January 2011.

Details of the acquisition were set out in the Company's announcement dated 12 January 2011.

(c) On 28 January 2011, Sinoma Advanced Materials Co. Ltd., a non wholly-owned subsidiary of the Company, entered into a share transfer agreement with Sinoma Group to acquire 100% equity interest of Shandong Research & Design Institute of Industrial Ceramics Co., Ltd. at a consideration of approximately RMB8,152,000 through Shanghai United Assets and Equity Exchange. The acquisition has been completed on 15 February 2011.

(d) On 22 February 2011, Sinoma Cement, a wholly-owned subsidiary of the Company, entered into a share transfer agreement with Sinoma Group to acquire 100% equity interest of Suzhou Concrete Cement Products Research & Design Institute Co., Ltd. at a consideration of approximately RMB95,176,000 through Shanghai United Assets and Equity Exchange. The acquisition has been completed on 17 March 2011.

Details of the acquisition were set out in the Company's announcement dated 22 February 2011.

(e) Upon the approval of China Securities Regulatory Commission, A shares of BBMG Corporation was listed on the Shanghai Stock Exchange on 1 March 2011. The Company undertook that 239,580,000 A Shares in BBMG Corporation held by it would not be transferred or managed by others within twelve months after the listing of A shares of BBMG Corporation.

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For the year ended 31 December 2010

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

(a) Principal subsidiaries

As at 31 December 2010 and 2009, the Company has direct and indirect equity interests in the following principal subsidiaries:

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital *RMB'000*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities and place of operation
Listed:					
Sinoma International (中國中材國際工程股份有限公司)	The PRC 28 December 2001 Joint stock company	759,234 (2009: 421,797)	42.46% *(Notes (ii) and (vi))*	–	Construction and engineering services; The PRC, Europe, Africa and other Asian countries
Sinoma Science & Technology Co., Ltd. (中材科技股份有限公司) ("Sinoma Science & Technology")	The PRC 28 December 2001 Joint stock company	200,000 (2009: 150,000)	54.32% (2009: 47.67%) *(Note (iii) and (ix))*	–	High-tech materials operations; The PRC
Tianshan Cement (新疆天山水泥股份有限公司)	The PRC 18 November 1998 Joint stock company	388,945 (2009: 312,033)	41.95% (2009: 36.28%) *(Note (iv) and (viii))*	–	Cement operations; The PRC
Ningxia Saima Industry Co., Ltd (寧夏賽馬實業股份有限公司) ("Saima Industry")	The PRC 4 December 1998 Joint stock company	195,134	–	35.74% *(Note (v))*	Production and sales of cement and clinker; The PRC
Qilianshan Co. (甘肅祁連山水泥集團股份有限公司)	The PRC 3 December 1995 Joint stock company	474,902	12.81% (2009: nil) *(Note 27(c) and Note (vii))*	12.78%	Cement Operations; The PRC

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(a) Principal subsidiaries *(Continued)*

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital RMB'000	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities and place of operation
Unlisted:					
CBMI Construction Co., Ltd. (中材建設有限公司)	The PRC 13 November 2002 Limited liability company	72,580	–	100%	Construction and engineering services; The PRC, Africa, Europe and South America
Chengdu Design & Research Institute of Building Materials Industry Co., Ltd. (成都建築材料工業設計研究院有限公司)	The PRC 28 November 2002 Limited liability company	50,000	–	100%	Construction and engineering services; The PRC
Sinoma Tangshan Heavy Machinery Co., Ltd. (唐山中材重型機械有限公司)	The PRC 27 January 2003 Limited liability company	44,166	–	100%	Manufacture of cement equipment; The PRC
Sinoma (Suzhou) Construction Co., Ltd. (蘇州中材建設有限公司)	The PRC 19 December 2002 Limited liability company	50,080	–	100%	Construction and engineering services; The PRC
Sinoma (Handan) Construction Co., Ltd. (邯鄲中材建設有限公司)	The PRC 17 December 2002 Limited liability company	15,650	–	100%	Construction and engineering services; The PRC
Tianjin Cement Industry Design and Research Institute Co., Ltd. (天津水泥工業設計研究院有限公司)	The PRC 13 December 2006 Limited liability company	200,000	–	100%	Construction and engineering services; The PRC, Africa and other Asian countries
China National Building Material Equipment Corp., Ltd. (中國建材裝備有限公司)	The PRC 3 June 1988 Limited liability company	22,000	–	100%	Construction and engineering services; The PRC and other Asian countries

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55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(a) Principal subsidiaries *(Continued)*

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital	Attributable equity interest		Principal activities and place of operation
			Directly held	Indirectly held	
		RMB'000			
Unlisted: *(Continued)*					
CEMTECH (中天仕名科技集團有限公司)	The PRC 7 April 2000 Limited liability company	55,280	–	100%	Manufacture of cement equipment; The PRC
CEMTECH Xuzhou Heavy Machinery Co., Ltd. (中天仕名(徐州)重型機械有限公司)	The PRC 16 December 2002 Limited liability company	38,000	–	91%	Manufacture of cement equipment; The PRC
CEMTECH Zibo Heavy Machinery Co., Ltd. (中天仕名(淄博)重型機械有限公司)	The PRC 8 January 2002 Limited liability company	50,000	–	100%	Manufacture of cement equipment; The PRC
CEMTECH Changshu (常熟仕名重型機械有限公司)	The PRC 23 October 2003 Limited liability company	20,000	–	100%	Manufacture of cement equipment; The PRC
Xi'an Engineering (中國建築材料工業建設西安工程有限公司)	The PRC 28 December 2001 Limited liability company	30,516	–	100%	Construction and engineering services; The PRC
Jiangsu Sinoma Cement Technology Equipment Co., Ltd. (江蘇中材水泥技術裝備有限公司)	The PRC 25 July 2007 Limited liability company	72,220	–	100%	Manufacture of cement equipment; The PRC
Jiangsu Jiashi (江蘇嘉實工程建設有限公司)	The PRC 15 November 2007 Limited liability company	6,000	–	100% *(Note 27(d))*	Construction and engineering services; The PRC
Sinoma Nanjing Mining Engineering Co., Ltd. (中國非金屬材料南京礦山工程有限公司)	The PRC 29 June 2007 Limited liability company	29,746 *(Note (xiii))*	–	100%	Construction and engineering services; The PRC

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55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(a) Principal subsidiaries *(Continued)*

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital RMB'000	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities and place of operation
Unlisted: *(Continued)*					
Sinoma Shangrao Machinery Co., Ltd. (上饒中材機械有限公司)	The PRC 19 April 2007 Limited liability company	12,457	100%	–	Construction and engineering services; The PRC
Sinoma Tianjin Mining Engineering Co., Ltd. (天津礦山工程有限公司)	The PRC 26 June 2007 Limited liability company	28,953	–	100%	Construction and engineering services; The PRC
Sinoma Yanzhou Mining Engineering Co., Ltd. (兗州中材建設工程有限公司)	The PRC 14 August 2007 Limited liability company	27,867 *(Note (xiii))*	–	100%	Construction and engineering services; The PRC
Henan Sinoma Environmental Protection Co., Ltd. (河南中材環保有限公司)	The PRC 17 November 2003 Limited liability company	28,500	100%	–	Manufacture of cement equipment; The PRC
Sinoma Cement (中材水泥有限責任公司)	The PRC 20 November 2003 Limited liability company	1,761,500 (2009: 1,501,883) *(Note (xi) and (xiii))*	100%	–	Cement operations; The PRC
Sinoma Hanjiang (中材漢江水泥股份有限公司)	The PRC 25 August 1994 Joint stock company	282,167 *(Note (xiii))*	–	90.45% *(Note (xiv))*	Cement operations; The PRC
Sinoma Hengda Cement Co., Ltd. (中材亨達水泥有限公司)	The PRC 6 February 2006 Limited liability company	270,000	–	70%	Cement operations; The PRC
Yunfu Tianshan Cement Co., Ltd. (中材天山(雲浮)水泥有限公司)	The PRC 4 April 2003 Limited liability company	180,000	–	81.59%	Cement operations; The PRC

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55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(a) Principal subsidiaries *(Continued)*

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital	Attributable equity interest		Principal activities and place of operation
			Directly held	Indirectly held	
		RMB'000			
Unlisted: *(Continued)*					
Xinjiang Tianshan Zhuyou Concrete Co., Ltd. (新疆天山築友混凝土有限責任公司)	The PRC 20 April 2003 Limited liability company	27,541 *(Note (xiii))*	–	91.95% *(Note (xiv))*	Cement operations; The PRC
Xinjiang Hejing Tianshan Cement Co., Ltd. (新疆和靜天山水泥有限責任公司)	The PRC 16 January 1996 Limited liability company	35,526 *(Note (xiii))*	–	74.63%	Cement operations; The PRC
Korla Tianshan Shenzhou Concrete Co., Ltd. (庫爾勒天山神州混凝土有限責任公司)	The PRC 28 January 2003 Limited liability company	24,253	–	60%	Cement operations; The PRC
Aksu Tianshan Duolang Cement Co., Ltd. (阿克蘇天山多浪水泥有限責任公司)	The PRC 25 April 2001 Limited liability company	135,250	–	100%	Cement operations; The PRC
Xinjiang Tunhe Cement Co., Ltd. (新疆屯河水泥有限責任公司)	The PRC 16 October 2000 Limited liability company	350,000	–	51%	Cement operations; The PRC
Suzhou Tianshan Cement Co., Ltd. (蘇州天山水泥有限公司)	The PRC 6 November 2003 Limited liability company	30,000	–	100%	Cement operations; The PRC
Wuxi Tianshan Cement Co., Ltd. (無錫天山水泥有限公司)	The PRC 28 February 2003 Limited liability company	80,000	–	100%	Cement operations; The PRC
Jiangsu Tianshan Cement (Group) Co., Ltd. (江蘇天山水泥集團有限公司)	The PRC 11 November 2002 Limited liability company	311,353	–	66.01%	Cement operations; The PRC
Suzhou Tianshan Concrete Co., Ltd. (蘇州天山商品混凝土有限公司)	The PRC 26 July 2002 Limited liability company	4,000	–	75%	Cement operations; The PRC

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55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(a) Principal subsidiaries *(Continued)*

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital	Attributable equity interest		Principal activities and place of operation
			Directly held	Indirectly held	
		RMB'000			
Unlisted: *(Continued)*					
Sinoma Advanced Materials Co. Ltd. (中材高新材料股份有限公司)	The PRC 25 December 2000 Joint stock company	107,591	99.46% *(Note (xvi))*	–	High-tech materials operations; The PRC
Jiangxi Sinoma New Solar Materials Co., Ltd. (江西中材太陽能新材料有限公司)	The PRC 30 April 2007 Limited liability company	100,000	–	64%	Manufacture of new materials; The PRC
Beijing Sinoma Synthetic Crystals Co., Ltd. (北京中材人工晶體有限公司)	The PRC 22 April 2005 Limited liability company	18,000	–	100%	High-tech materials operations; The PRC
Beijing Composite Material Co., Ltd. (北京玻鋼院複合材料有限公司)	The PRC 2 January 2003 Limited liability company	60,000	20%	80%	High-tech materials operations; The PRC
Sinoma Science & Technology (Suzhou) Co., Ltd. (中材科技(蘇州)有限公司)	The PRC 26 October 2004 Limited liability company	100,000	–	100% *(Note (xiv))*	High-tech materials operations; The PRC
Taishan Fiberglass Inc. (泰山玻璃纖維有限公司)	The PRC 17 September 1999 Limited liability company	1,934,712	100%	–	Glass fiber operations; The PRC
Taishan Fiberglass Zoucheng Co., Ltd. (泰山玻璃纖維鄒城有限公司)	The PRC 26 July 2001 Limited liability company	631,020	–	87.41% *(Note (xii))* (2009: 80.56%)	Glass fiber operations; The PRC
Taishan Composite (山東泰山複合材料有限公司)	The PRC 16 April 2003 Limited liability company	238,684	–	100%	Glass fiber operations; The PRC

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55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(a) Principal subsidiaries *(Continued)*

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital	Attributable equity interest		Principal activities and place of operation
			Directly held	Indirectly held	
		RMB'000			
Unlisted: *(Continued)*					
CTG International Inc. (CTG北美貿易有限公司)	United States ("U.S.") 16 April 2004 Limited liability company	13,457	–	100%	Trading of glass fiber; U.S.
Tai'an Huatai Nonmetal Micronization Co., Ltd. (泰安華泰非金屬微粉有限公司)	The PRC 4 January 2002 Limited liability company	18,980	–	100%	Production and sale of non-metallic crystal; The PRC
Sinoma Jinjing Fiber Glass Co., Ltd. (中材金晶玻纖有限公司)	The PRC 17 January 2004 Limited liability company	203,957 (2009: 200,000)	50.01% (2009: 51%) *(Note (x))*	–	Glass fiber operations; The PRC
Xiamen ISO Standard Sand Co., Ltd. (廈門艾思歐標準砂有限公司)	The PRC 22 December 1999 Limited liability company	32,000 (2009: 25,000) *(Note (xi))*	51%	–	Manufacture of Chinese ISO standard sands; The PRC
Yixing Tianshan (宜興天山水泥有限責任公司)	The PRC 29 July 2008 Limited liability company	150,000	–	100%	Cement operations; The PRC
Midong Tianshan Cement Co. Ltd. (新疆米東天山水泥有限責任公司)	The PRC 24 April 2007 Limited liability company	201,365	–	83.93%	Cement operations; The PRC
Sinoma Luoding Cement Co., Ltd. (中材羅定水泥有限公司)	The PRC 4 December 2007 Limited liability company	290,000	–	100%	Production and sales of cement and clinker; The PRC
Sinoma Zhuzhou Cement Co. Ltd. (中材株洲水泥有限公司)	The PRC 11 October 2005 Limited liability company	230,000	–	100%	Cement operation; The PRC
Changde Sinoma Cement Co. Ltd. (常德中材牛力水泥有限公司)	The PRC 10 October 2007 Limited liability company	157,420	–	100% *(Note (xii))* (2009: 83.50%)	Cement operation; The PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(a) Principal subsidiaries *(Continued)*

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital	Attributable equity interest		Principal activities and place of operation
			Directly held	Indirectly held	
		RMB'000			
Unlisted: *(Continued)*					
Xiang Tan Sinoma Cement Co. Ltd. (湘潭中材牛力水泥有限公司)	The PRC 28 September 2007 Limited liability company	289,710	–	100% *(Note (xii))* (2009: 77.97%) *(Note (xiv))*	Production and sales of cement and clinker; The PRC
Sinoma Fan Blades (中材科技風電葉片股份有限公司)	The PRC 14 June 2007 Joint stock company	255,000	–	89.41% *(Note (ix))* (2009: 54.12%)	Sales of wind power blade; The PRC
Ningxia Building Materials (寧夏建材集團有限責任公司)	The PRC 5 September 1997 Limited liability company	781,711	100% *(Note (xvi))*	–	Cement operation; The PRC
Ning Xia Qingtongxia Cement Co. Ltd. (寧夏青銅峽水泥股份有限公司)	The PRC 11 August 2001 Joint stock company	334,750	–	87.19% *(Note (xiv))*	Cement operation; The PRC
Ning Xia Zhongning Saima Cement Co. Ltd. (寧夏中寧賽馬水泥有限公司)	The PRC 24 June 2004 Limited liability company	180,910	–	100%	Cement operation; The PRC

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities subsisting at the end of the year or any time during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(a) Principal subsidiaries *(Continued)*

(i) As at 31 December 2010 and 2009, the Group's shares in companies listed in the PRC comprise:

(1) 42.46% equity interests in Sinoma International, a company listed on the Shanghai Stock Exchange of the PRC. The Company's equity interests in Sinoma International represents 322,405,013 A shares which have been tradable in the stock market since 6 July 2009. The market value of the 322,405,013 tradable shares as at 31 December 2010 is approximately RMB13,125,108,000 (2009: RMB6,657,664,000 for 179,113,896 tradable shares).

(2) 54.32% (2009: 47.67%) equity interests in Sinoma Science & Technology, a company listed on the Shenzhen Stock Exchange of the PRC. The Company's equity interests in Sinoma Science & Technology represents 108,649,143 A shares which will be tradable after 29 December 2013, including 71,506,800 A shares which have been tradable since 3 November 2009. Pursuant to the agreement for increasing registered capital mentioned in note (ix), these A shares are only tradable with the same date of the newly acquired A shares. The market value of the 108,649,143 tradable shares as at 31 December 2010 is approximately RMB4,498,075,000 (2009: RMB2,567,094,000 for 71,506,800 tradable shares).

(3) 41.95% (2009: 36.28%) equity interests in Tianshan Cement, a company listed on the Shenzhen Stock Exchange of the PRC. The Company's equity interests in Tianshan Cement represents 163,171,495 A shares which will be tradable since 20 May 2013, including 15,601,680 shares which have been tradable since 26 May 2007 and 97,594,803 shares have been tradable since 26 May 2009. Pursuant to the agreement for increasing registered capital mentioned in note (viii), these A shares are only tradable with the same date of the newly acquired A shares. The market value of the 163,171,495 tradable shares as at 31 December 2010 is approximately RMB5,151,324,000 (2009: RMB2,403,161,000 for 113,196,483 tradable shares).

(4) 35.74% equity interests in Saima Industry, a company listed on the Shanghai Stock Exchange of the PRC. The Group's equity interests in Saima Industry represents 69,750,000 A shares which are only tradable in the stock market by stages, of which 7,210,800 shares have been tradable since 5 August 2008, 14,421,600 shares have been tradable since 5 August 2009 and 48,117,600 shares have been tradable since 5 August 2010. The market value of the 69,750,000 tradable shares as at 31 December 2010 is approximately RMB2,508,210,000 (2009: RMB806,240,000 for 21,632,400 tradable shares).

(5) 19.33% effective equity interests in Qilianshan Co., a company listed on the Shanghai Stock Exchange of the PRC. The Group's equity interests in Qilianshan Co. represents 121,524,698 A shares which including 55,000,000 shares have been tradable in the stock market since 25 June 2011 and 1,397,292 shares will be tradable after 12 May 2013. The market value of these shares as at 31 December 2010 is approximately RMB2,084,148,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(a) Principal subsidiaries *(Continued)*

(ii) As the Group has obtained de facto control over Sinoma International as set out in Note 6 above and therefore Sinoma International became a subsidiary of the Group.

(iii) As the Group has obtained de facto control over Sinoma Science & Technology as set out in Note 6 above and therefore Sinoma Science & Technology became a subsidiary of the Group.

(iv) As the Group has obtained de facto control over Tianshan Cement as set out in Note 6 above and therefore Tianshan Cement became a subsidiary of the Group.

(v) Ningxia Building Materials holds 35.74% equity interests in Saima Industry. As Ningxia Building Materials has obtained de facto control over Saima Industry as set out in Note 6 above and therefore Saima Industry became a subsidiary of Ningxia Building Materials and the Group.

(vi) On 29 April 2010, resolutions about bonus issue to existing shareholders of Sinoma International and capital reserve convert to share capital have been passed in the 2009 annual general meeting of Sinoma International. The bonus issue is based on the existing 421,796,782 number of shares and offering 2 shares for every 10 existing shares of Sinoma International. Accordingly, 84,359,357 bonus shares have been issued to existing shareholders. Moreover, capital reserve in the amount of RMB253,078,069 have been converted to 253,078,069 new shares of Sinoma International at RMB1 at par each.

Upon the completion of the above transactions, the registered capital of Sinoma International and the number of shares held by the Company have been increased to 759,234,208 and 322,405,013 respectively. The transaction has no effect in the percentage of equity interests directly held by the Group.

Details of which are set out in the Company's announcement dated 6 May 2010.

(vii) As the Group has obtained de facto control over Qilianshan Co. as set out in Notes 6 and 27 above and therefore Qilianshan Co. become a subsidiary of the Group.

(viii) On 28 April 2009, Tianshan Cement entered into an agreement on increased in registered capital with its existing shareholder, the Company and new shareholders. Pursuant to the Agreement, the registered capital of Tianshan Cement shall be increased by RMB76,911,544. Such increased registered capital shall be contributed by cash.

Accordingly, the Company shall inject cash in the amount of RMB999,999,990 in acquiring 49,975,012 new shares of Tianshan Cement. The new shareholders shall inject cash in the amount of RMB539,000,005 in acquiring 26,936,532 new shares of Tianshan Cement. Upon completion of the transaction on 11 May 2010, the equity interests held by the Company, was approximately 41.95%. Tianshan Cement remains a non-wholly-owned subsidiary of the Company.

Details of which are set out in the Company's announcement dated 20 May 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(a) Principal subsidiaries *(Continued)*

(ix) On 15 September 2009, Sinoma Science & Technology entered into an agreement on increase in registered capital with its existing shareholders, including the Company. Pursuant to the Agreement, the registered capital of Sinoma Science & Technology shall be increased by RMB50,000,000. Such increased registered capital shall be partly contributed by China Three Gorges by way of the shares of Sinoma Fan Blades and cash, partly contributed by China Energy Conservation by way of the shares of Sinoma Fan Blades and cash and partly contributed by the Company by cash.

Accordingly, the Company shall inject cash in the amount of RMB931,529,962 in acquiring 37,142,343 new shares of Sinoma Science & Technology. The remaining 12,857,657 new shares of Sinoma Science & Technology was acquired by other existing shareholders contributed by way of 90,000,000 shares of Simona Fan Blades, valued approximately RMB322,470,000. Upon completion of the transaction on 23 December 2010, the equity interests held by the Company, in the enlarged registered capital of Sinoma Science & Technology was approximately 54.32%. Sinoma Science & Technology remains a non-wholly-owned subsidiary of the Company.

Details of which are set out in the Company's announcement dated 28 December 2010.

(x) On 28 July 2010, Sinoma Jinjing Fiber Glass Co., Ltd. entered into an agreement on increase in registered capital with a new shareholder namely Zibo High-tech Industrial Development Zone State-owned Assets Management Company ("Zibo High-tech Industrial") ("new shareholder"). Pursuant to the agreement, the registered capital of Sinoma Jinjing Fiber Glass Co., Ltd. shall be increased by approximately RMB3,957,000, which shall be contributed by Zibo High-tech Industrial cash in approximately RMB6,859,000. Upon completion of the transaction, the equity interests in Sinoma Jinjing Fiber Glass Co., Ltd. held by the Company decreased from 51% to 50.01%.

(xi) During the year ended 31 December 2010, Sinoma Cement and Xiamen ISO Standard Sand Co., Ltd. increased the registered capital from the contributions of the owners.

(xii) During the year ended 31 December 2010, the Group acquired additional equity interests in Taishan Fiberglass Zoucheng Co., Ltd., Changde Sinoma Cement Co. Ltd. and Xiang Tan Sinoma Cement Co., Ltd. from the shareholders of the non-controlling interests.

(xiii) During the year ended 31 December 2009, Sinoma Nanjing Mining Engineering Co., Ltd., Sinoma Yanzhou Mining Engineering Co., Ltd., Sinoma Cement, Sinoma Hanjiang, Xinjiang Tianshan Zhuyou Concrete Co., Ltd. and Xinjiang Hejing Tianshan Cement Co., Ltd. increased the registered capital from the contributions of the owners.

(xiv) During the year ended 31 December 2009, the Group acquired additional equity interests in Sinoma Hanjiang, Xinjiang Tianshan Zhuyou Concrete Co., Ltd., Sinoma Science & Technology (Suzhou) Co., Ltd., Xiang Tan Sinoma Cement Co., Ltd. and Ning Xia Qingtongxia Cement Co. Ltd. from the shareholders of the non-controlling interests.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(a) Principal subsidiaries *(Continued)*

(xv) On 21 January 2009, the Company has entered into an equity transfer agreement ("ETA") with Shandong Aluminum Company ("Shandong Aluminum"). Pursuant to the ETA, the Company agreed to acquire 4.37% equity interests in Sinoma Advanced Materials Co., Ltd. ("Sinoma Advanced Materials") from Shangdong Aluminum ("Acquisition") at a cash consideration of approximately RMB18,186,000. Upon completion of the Acquisition on 6 February 2009, the equity interests in Sinoma Advanced Materials held by the Company increased from 94.49% to 98.86%.

Details of which are set out in the Company's announcement dated 21 January 2009.

(xvi) On 13 April 2009, the Company has entered into an equity transfer agreement with SINOMA Group (the "Equity Transfer Agreement"). Pursuant to the Equity Transfer Agreement, the Company has agreed to acquire 49.94% equity interests in Ningxia Building Materials from SINOMA Group ("Acquisition") for a cash consideration of approximately RMB1,011,256,000. Upon completion of the Acquisition on 31 May 2009, Ningxia Building Materials becomes a wholly-owned subsidiary of the Company.

Details of which are set out in the Company's announcement dated 13 April 2009.

(b) Jointly controlled entities

As at 31 December 2010 and 2009, the Company has direct and indirect equity interests in the following principal jointly controlled entities (all are unlisted):

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital RMB'000	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities and place of operation
PPG Sinoma Jinjing Fiber Glass Co., Ltd. (龐貝捷中材金晶玻纖有限公司)	Hong Kong 24 March 2006 Limited liability company	216,567	–	50%	Glass fiber operations; Hong Kong
PPG Sinoma Zibo Jinjing Fiber Glass Co., Ltd. (淄博中材龐貝捷金晶玻纖有限公司)	The PRC 19 April 2006 Limited liability company	212,394	–	50%	Glass fiber operations; The PRC
Dongguan Taiguang Fiberglass Ltd. (東莞泰廣玻璃纖維有限公司)	The PRC 10 June 2003 Limited liability company	6,710	–	50%	Glass fiber operations; The PRC
Shandong Taishan Fiberex Fiberglass Co., Ltd. (山東泰山發博瑞克玻璃纖維有限公司)	The PRC 31 October 2006 Limited liability company	23,620	–	50%	Glass fiber operations; The PRC

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

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55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(c) Associates

As at 31 December 2010 and 2009, the Company has direct and indirect equity interests in the following principal associates:

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital	Attributable equity interest Directly held	Indirectly held	Principal activities and place of operation
		RMB'000			
Listed:					
Qilianshan Co. (甘肅祁連山水泥集團股份有限公司)	The PRC 3 December 1995 Joint stock company	474,902	– (2009: 11.88%) *(Notes 27(c))*	–	Cement operations; The PRC
Unlisted:					
Nanjing Chunhui Science & Technology Industry & Commerce Co., Ltd. (南京春輝科技實業有限公司)	The PRC 24 January 1997 Limited liability company	8,043	–	20.59%	Glass fiber operations; The PRC
Hangzhou Qiangshi Engineering & Materials Co., Ltd. (杭州強士工程材料有限公司)	The PRC 30 July 2000 Limited liability company	17,750	–	30%	Glass fiber operations; The PRC
Hanjiang Concrete Co., Ltd. (漢中市漢江混凝土有限責任公司)	The PRC 24 March 2000 Limited liability company	15,000	–	26.67%	Cement operations; The PRC
Beijing Tongda Refractory Technologies Co., Ltd. (北京通達耐火技術股份有限公司)	The PRC 10 May 2006 Joint stock company	125,326	–	23.75%	Cement operation, real estate, import and export trade; The PRC
Jiugang (Group) Hongda Building Materials Co., Ltd. (酒鋼（集團）宏達建材有限責任公司)	The PRC 10 February 1998 Limited liability company	136,730,300	–	60% *(Notes (i) and (ii))*	Cement operation; The PRC
Baotou Xishui Cement Co., Ltd. (包頭市西水水泥有限責任公司)	The PRC 29 December 2006 Limited liability company	40,000,000	–	35% *(Notes (i))*	Cement operation; The PRC
Wuhai Xishui Cement Co., Ltd. (烏海市西水水泥有限責任公司)	The PRC 11 January 2007 Limited liability company	100,000,000	–	45% *(Note (i))*	Cement operation; The PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(Continued)*

(c) Associates *(Continued)*

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

(i) During the year ended 31 December 2010, the Group acquired equity interests in Jiugang (Group) Hongda Building Materials Co., Ltd., Baotou Xishui Cement Co., Ltd. and Wuhai Xishui Cement Co., Ltd. from independent third parties.

(ii) The Group appointed three of the seven directors in the board of directors of Jiugang (Group) Hongda Building Materials Co., Ltd. ("Jiugang Hongda"). The Group has significant influence over Jiugang Hongda as set out in Note 6 above and therefore Jiugang Hongda treated as an associate of the Group.

(d) The operations of the principal subsidiaries, jointly controlled entities and associates are principally located in the PRC, Middle East and other Asian countries.

Except for Sinoma International, Sinoma Science & Technology, Tianshan Cement and Saima Industry, Qilianshan Co. which are listed companies in the PRC, all subsidiaries, jointly controlled entities and associates have substantially the same characteristics as a Hong Kong incorporated private company.

The English names of certain subsidiaries, jointly controlled entities and the associates referred to in these consolidated financial statements represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

None of the subsidiaries, jointly controlled entities and associates had issued debt securities at the end of the reporting period.

Notes to the Consolidated Financial Statements

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56. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	**2010** **RMB'000**	2009 RMB'000
Non-current assets			
Property, plant and equipment		**2,048**	2,204
Intangible assets		**14,851**	2,911
Investments in subsidiaries		**10,493,097**	7,477,828
Interest in an associate		**639,012**	517,913
Available-for-sale financial assets		**2,153,835**	1,796,007
Deposit paid for acquisition of a subsidiary		**–**	332,770
Deferred income tax assets		**7,825**	7,349
		13,310,668	10,136,982
Current assets			
Other receivables		**1,380,089**	1,586,795
Bank balances and cash		**150,170**	22,227
		1,530,259	1,609,022
Current liabilities			
Other payables		**216,815**	455,507
Income tax liabilities		**1,981**	–
Borrowings		**1,300,000**	600,000
Early retirement and supplemental benefit obligations		**3,214**	3,404
		1,522,010	1,058,911
Net current assets		**8,249**	550,111
Total assets less current liabilities		**13,318,917**	10,687,093
Non-current liabilities			
Corporate bonds		**2,485,545**	2,483,381
Medium-term notes		**1,700,000**	–
Early retirement and supplemental benefit obligations		**24,281**	25,993
Deferred income tax liabilities		**436,849**	347,392
		4,646,675	2,856,766
NET ASSETS		**8,672,242**	7,830,327
Capital and reserves			
Share capital		**3,571,464**	3,571,464
Reserves	(a)	**5,100,778**	4,258,863
TOTAL EQUITY		**8,672,242**	7,830,327

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

56. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(a) The reserves movements of the Company

	Share premium	Capital reserve	Statutory surplus reserve	Investment revaluation reserve	Other reserves	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	3,273,160	(546,272)	30,197	2,127	98,700	290,405	3,148,317
Profit for the year	–	–	–	–	–	140,863	140,863
Other comprehensive income for the year	–	–	–	1,041,112	–	–	1,041,112
Total comprehensive income for the year	–	–	–	1,041,112	–	140,863	1,181,975
Dividend recognised as distribution	–	–	–	–	–	(71,429)	(71,429)
Appropriation to statutory surplus reserve *(Note b(ii))*	–	–	15,644	–	–	(15,644)	–
At 31 December 2009 and 1 January 2010	3,273,160	(546,272)	45,841	1,043,239	98,700	344,195	4,258,863
Profit for the year	–	–	–	–	–	90,481	90,481
Other comprehensive income for the year	–	–	–	268,371	–	–	268,371
Total comprehensive income for the year	–	–	–	268,371	–	90,481	358,852
Dividend recognised as distribution	–	–	–	–	–	(89,287)	(89,287)
Government contributions	–	–	–	–	572,350	–	572,350
Appropriation to statutory surplus reserve *(Note b(ii))*	–	–	6,852	–	–	(6,852)	–
At 31 December 2010	3,273,160	(546,272)	52,693	1,311,610	671,050	338,537	5,100,778

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

56. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(b) The reserves of the Company

(i) In October 2007, Sinoma Group entered into an irrevocable guarantee agreement with the Ministry of Commerce of the PRC ("MOC"), which released a guarantee previously provided by the Company to a subsidiary of Sinoma Group on a special foreign aid fund loans lent by MOC to such subsidiary. According to the agreement, Sinoma Group will assume the responsibility as the guarantor of the loans. The provision made by the Company for such guarantee, amounting to RMB98,700,000, was reversed and accounted for as an equity contribution from Sinoma Group.

During the year ended 31 December 2010, national funds amount to RMB572,350,000 are contributed by the PRC Government to the Company through Sinomer Group. Such funds are used specifically for energy saving and emission reduction and key industries construction projects.

Pursuant to the requirements of the relevant notice, the national funds are designated as capital contribution and vested solely by the PRC Government. They are non-repayable and can be converted to share capital of the entities receiving the funds upon approval by their shareholders and completion of other procedures.

(ii) Statutory surplus reserve

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to appropriate 10% of its profit after tax as determined in accordance with the PRC GAAP and regulations applicable to the Company, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company. The appropriation to the reserve must be made before any distribution of dividends to owners.

The statutory surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

For the year ended 31 December 2010, the Board of Directors proposed appropriation of 10% of profit after tax as determined under the PRC GAAP, amounting to RMB6,852,000 (2009: RMB15,644,000), to the statutory surplus reserve.

(iii) Profit for the year attributable to owners of the Company

The profit for the year attributable to owners of the Company for the year ended 31 December 2010 has incorporated a profit of approximately RMB90,481,000 (2009: RMB140,863,000) arising from the financial statements of the Company.

Definitions

"Anhui Yingpu"	Anhui Yingpu Jinlong Cement Co., Ltd. (安徽瀛浦金龍水泥有限公司)
"Articles of Association" or "Articles"	the articles of association of the Company amended the fourth time at the 2009 annual general meeting of the Company held on 1 June 2010
"Audit Committee"	the audit committee of the Board
"BBMG"	BBMG Group Co., Ltd. (北京金隅集團有限責任公司), one of the promoters of the Company
"Board"	the board of Directors of the Company
"CBMI Construction"	CBMI Construction Co., Ltd. (中材建設有限公司), an indirect subsidiary of the Company
"Cinda"	China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司), one of the promoters of the Company
"Company", "our Company", "we" or "us"	China National Materials Company Limited (中國中材股份有限公司), a joint stock limited company incorporated on 31 July 2007 under the laws of the PRC
"Company Law"	the Company Law of the People's Republic of China
"CTG"	Taishan Fiberglass Inc. (泰山玻璃纖維有限公司), a wholly-owned subsidiary of the Company
"Director(s)"	the director(s) of the Company
"Domestic Shares"	ordinary shares in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and credited as fully paid up in RMB by PRC nationals and/or PRC incorporated entities
"Group"	the Company and its subsidiaries
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"H Shares"	overseas listed foreign shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and for which an application has been made for permission to deal in and the grant of listing on the Hong Kong Stock Exchange
"Hengda Hong Kong"	Hengda (Hong Kong) International Investment Company (亨達 (香港) 國際投資有限公司), a company incorporated under the laws of Hong Kong
"Hengda Hong Kong Group"	collectively, Hengda Hong Kong and its subsidiaries and associates
"Hong Kong Stock Exchange"	the Stock Exchange of Hong Kong Limited

Definitions

"Jiangxi Sinoma"	Jiangxi Sinoma New Solar Materials Co. Ltd. (江西中材太陽能新材料有限公司), a subsidiary of the Company
"Jiugang Hongda"	Jiugang Hongda Building Materials Company Limited (酒鋼 (集團) 宏達建材有限責任公司)
"LDK"	Jiangxi LDK Solar Hi-Tech Co., Ltd. (江西賽維LDK太陽能高科技有限公司), a limited liability company incorporated under the laws of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Main Board"	the main board of the Hong Kong Stock Exchange
"Ningxia Building Materials"	Ningxia Building Materials Group Company Limited (寧夏建材集團有限責任公司), a wholly-owned subsidiary of the Company
"Nomination Committee"	the nomination committee of the Board
"Parent" or "Sinoma Group"	China National Materials Group Corporation Ltd. (中國中材集團有限公司) (previously known as China National Materials Group Corporation), the controlling shareholder and one of the promoters of the Company
"Parent Group"	collectively, Parent and its subsidiaries (excluding the Group)
"PRC" or "China"	the People's Republic of China, which for the purposes of this annual report only (unless otherwise indicated) excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Qilianshan Co."	Gansu Qilianshan Cement Group Company Limited (甘肅祁連山水泥集團股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600720), a subsidiary of the Company
"Qilianshan Holdings"	Gansu Qilianshan Building Materials Holdings Company Limited (甘肅祁連山建材控股有限公司), a subsidiary of the Company
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	Renminbi, the lawful currency of the People's Republic of China
"Saima Industry"	Ningxia Saima Industry Co., Ltd. (寧夏賽馬實業股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600449), a subsidiary of the Company
"Securities Law"	the Securities Law of the People's Republic of China
"Sinoma Advanced Materials"	Sinoma Advanced Materials Co., Ltd. (中材高新材料股份有限公司), a subsidiary of the Company

Definitions

"Sinoma Cement"	Sinoma Cement Co., Ltd. (中材水泥有限責任公司), a wholly-owned subsidiary of the Company
"Sinoma Changde"	Sinoma Niuli (Changde) Cement Co., Ltd. (常德中材牛力水泥有限公司), a subsidiary of the Company
"Sinoma Energy Conservation"	Sinoma Energy Conservation Ltd. (中材節能發展有限公司), a subsidiary of the Parent
"Sinoma Environmental"	Henan Sinoma Environmental Protection Co., Ltd. (河南中材環保有限公司), a wholly-owned subsidiary of the Company
"Sinoma Fan Blades"	Sinoma Tech Wind & Power Blade Co., Ltd. (中材科技風電葉片股份有限公司), a subsidiary of the Company
"Sinoma Hanghuo"	Sinoma Hanghuo Science Park Development Co., Ltd. (中材恒和科技園開發有限公司), a wholly-owned subsidiary of the Company
"Sinoma Hengda"	Sinoma Hengda Cement Co., Ltd. (中材亨達水泥有限公司), a subsidiary of the Company
"Sinoma International"	Sinoma International Engineering Co., Ltd. (中國中材國際工程股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (Stock code: 600970), a subsidiary of the Company
"Sinoma Jinjing"	Sinoma Jinjing Fiber Glass Co., Ltd. (中材金晶玻纖有限公司), a subsidiary of the Company
"Sinoma Mining"	Sinoma Mining Construction Co., Ltd (中材礦山建設有限公司), a wholly-owned subsidiary of the Company
"Sinoma Science & Technology"	Sinoma Science & Technology Co., Ltd. (中材科技股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002080), a subsidiary of the Company
"Sinoma Shangrao"	Sinoma Shangrao Machinery Co., Ltd. (上饒中材機械有限公司), a wholly-owned subsidiary of the Company
"Sinoma Xiangtan"	Sinoma Niuli (Xiangtan) Cement Co., Ltd (湘潭中材牛力水泥有限公司), a subsidiary of the Company
"Strategy Committee"	the strategy committee of the Board

Definitions

"Substantial Shareholder"	has the meaning ascribed to it under the Listing Rules
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisor committee of the Company
"Taian State-owned Assets"	Taian State-owned Assets Management Co., Ltd. (泰安市國有資產經營有限公司), one of the promoters of the Company
"Taishan Investment"	Taian Taishan Investment Co., Ltd. (泰安市泰山投資有限公司), one of the domestic shareholders of the Company
"TCDRI"	Tianjin Cement Industry Design and Research Institute Co., Ltd. (天津水泥工業設計研究院有限公司), a subsidiary of the Company
"Tianshan Cement"	Xinjiang Tianshan Cement Co., Ltd. (新疆天山水泥股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000877), a subsidiary of the Company
"Tianshan Group"	Xinjiang Tianshan Building Materials (Group) Company Limited (新疆天山建材(集團) 有限責任公司), a subsidiary of the Parent and one of the promoters of the Company
"Well Kent"	Well Kent International Holdings Company Limited (華建國際集團有限公司), one of the promoters of the Company
"Xi'an Engineering"	China Building Materials Industrial Corporation Xi'an Engineering Co., Ltd. (中國建築材料工業建設西安工程有限公司), a wholly-owned subsidiary of Sinoma Mining
"Xiamen Standard Sand"	Xiamen ISO Standard Sand Co., Ltd. (廈門艾思歐標準砂有限公司), a subsidiary of the Company
"Zibo Hi-Tech"	Zibo New & Hi-Tech Venture Capital Co., Ltd. (淄博高新技術風險投資股份有限公司), one of the promoters of the Company

China National Materials
Company Limited