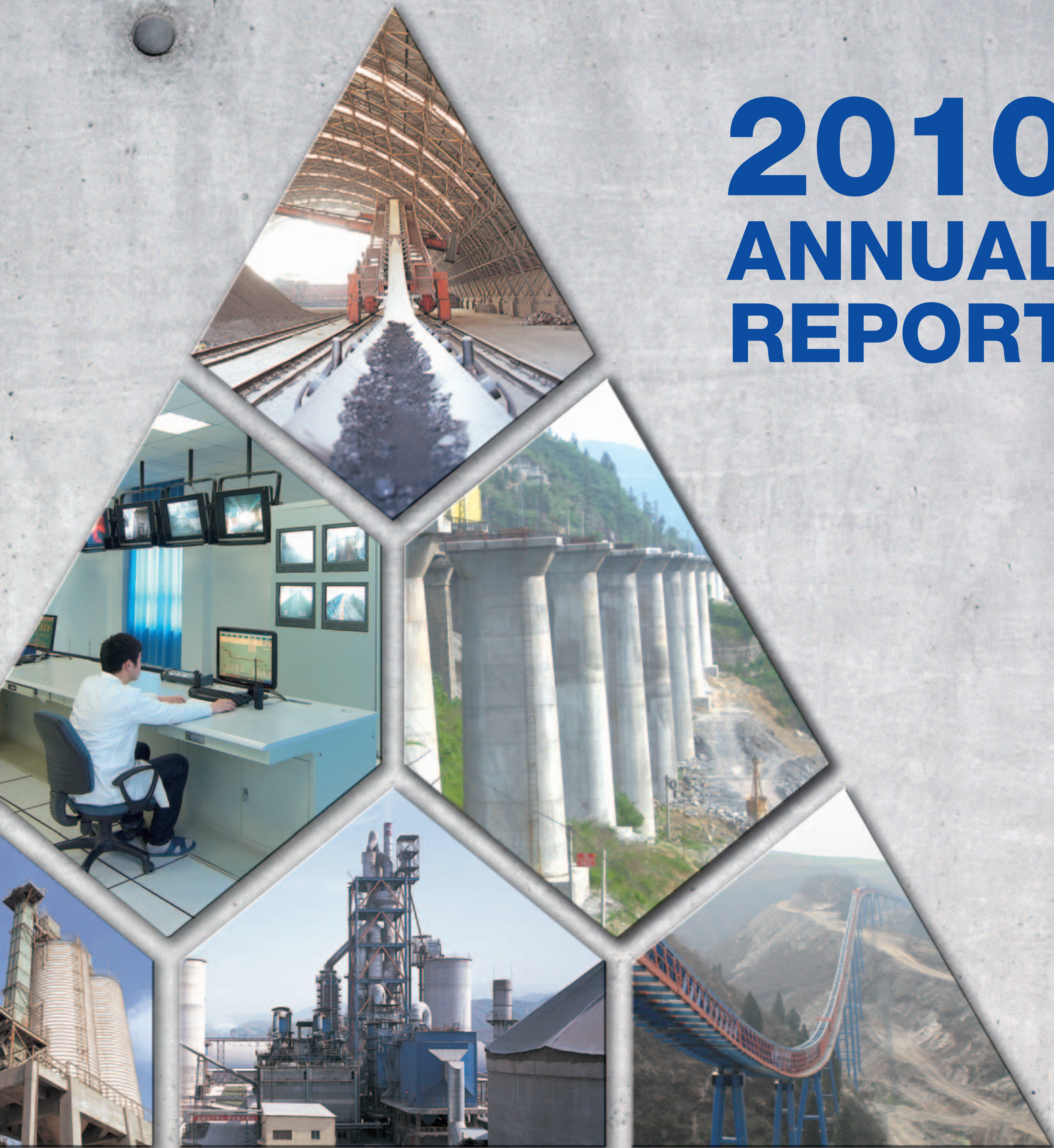
中國西部水泥有限公司
WEST CHINA CEMENT LIMITED

(Incorporated in Jersey with limited liability with registered number 94796)
Stock code: 2233

2010 ANNUAL REPORT




VOLVO

CONTENTS

CORPORATE INFORMATION

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Unit 1903, Tower A, Gaoke Plaza
Hi-Tech Industrial Development Zone
Xi'an, Shaanxi Province, PRC

REGISTERED OFFICE

47 Esplanade
St Helier
Jersey JE1 0BD

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1907, 19th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

COMPANY WEBSITE

www.westchinacement.com

BOARD OF DIRECTORS

Executive Directors

Zhang Jimin *(Chairman and resigned as Chief Executive Officer on March 23, 2011)*
Tian Zhenjun *(appointed as Chief Executive Officer on March 23, 2011)*
Wang Jianli *(Chief Engineer)*
Low Po Ling *(Chief Financial officer)*

Non-Executive Director

Ma Zhaoyang

Independent Non-Executive Directors

Lee Kong Wai Conway
Wong Kun Kau
Tam King Ching Kenny

COMPANY SECRETARY

Sin Lik Man *HKICPA, FCCA*

AUTHORIZED REPRESENTATIVES

Low Po Ling *FCCA*
Sin Lik Man *HKICPA, FCCA*

COMPLIANCE ADVISOR

Haitong International Capital Limited

25/F New World Tower
16-18 Queen's Road Central
Hong Kong

MEMBERS OF THE AUDIT COMMITTEE

Lee Kong Wai Conway *(Chairman)*
Wong Kun Kau
Tam King Ching Kenny

MEMBERS OF THE REMUNERATION COMMITTEE

Zhang Jimin *(Chairman)*
Tam King Ching Kenny
Wong Kun Kau

MEMBERS OF THE NOMINATION COMMITTEE

Zhang Jimin *(Chairman)*
Lee Kong Wai Conway
Tam King Ching Kenny

INDEPENDENT AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

JERSEY PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Investor Services (Channel Islands) Limited

Ordinance House
31 Pier Road
St Helier
Jersey JE4 8PW

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKER

Agricultural Bank of China Limited
Bank of China
Bank of Xi'an

CHAIRMAN'S STATEMENT

"The Group faced an extremely buoyant operating environment in 2010, with its business growth being fuelled by continued infrastructure and rural developments in Shaanxi Province."

Dear Shareholders,

On behalf of the board of directors (the "Board") of West China Cement Limited (the "Company") and its subsidiaries (collectively, the "Group"), I am pleased to present to our shareholders the annual report (including the audited consolidated financial statements) of the Group for the year ended December 31, 2010. This annual report is our first annual report after our successful relisting from the London Alternative Investment Market (the "AIM") to the Main Board of the Hong Kong Stock Exchange (the "HKSE") on August 23, 2010 (the "Listing Date").

LISTING ON THE HKSE

2010 was a momentous year for the Group. I am proud to report that the Company was successfully listed on the HKSE on August 23, 2010 and raised net proceeds of approximately HK$ 1,521 million. These proceeds were used for the Group's capacity expansion, repayment of loans and related interests, and for general working capital purpose. The Company was previously admitted to the AIM in London on December 4, 2006 and upon the Company's listing on the HKSE, the shares of the Company were delisted from the AIM. I am glad to report that many shareholders have followed the Company from the AIM to the HKSE and the Company is truly grateful for their long-term support.

FULL YEAR REVIEW

The Group faced an extremely buoyant operating environment in 2010, with its business growth being fuelled by infrastructure and rural developments in Shaanxi Province. During the financial year under review, the Group's total sales volume of cement increased by approximately 94.1% from approximately 5.1 million tons in 2009 to approximately 9.9 million tons in 2010. Sales revenue of the Group grew by approximately 95.2% from approximately RMB1,516.8 million in 2009 to approximately RMB2,960.8 million in 2010. Operating profit and net profit, after deducting RMB65.7 million of listing expenses, were approximately RMB1,156.9 million and RMB933.3 million respectively, representing year-on-year growth of approximately 87.8% and 182.4% respectively. Such remarkable growth is owing to the Group's expanding production and sales into markets which have grown very rapidly, and that the Group was set to benefit from the unprecedented government's investments in the western part of China. During 2010, three of our production facilities or production line commenced operation. These production facilities/ line are:

- Yangxian production facilities (approximately 1.1 million tons annual capacity) commenced operation in January 2010,
- Mianxian production facilities (approximately 1.1 million tons annual capacity) commenced operation in July 2010, and
- Pucheng second production line (approximately 1.1 million tons annual capacity) commenced operation in September 2010.

On December 31, 2010, the Group formed a joint venture with Shaanxi Ankang Jianghua Group Cement Co. Ltd. ("Jianghua Cement"), which increased 1.1 million tons annual cement production facilities to the Group.

As at December 31, 2010, the Group operates 8 production facilities with 10 production lines in total, including Jianghua. The annual aggregate cement production capacity is approximately 12.5 million tons. Construction of our Xixiang project is on schedule and the project is expected to be completed in the first quarter of year 2011, which will increase our annual cement production capacity by another 1.1 million tons. All of the Group's production facilities employ modern New Suspension Preheater ("NSP") cement production technology, which requires less energy to produce clinker and is more environmentally friendly than non-NSP technologies.

As part of the Group's focus on emissions reduction and cost reduction, we have invested in the construction of the residual heat recovery system at our production facilities. During 2010, the construction of the systems have commenced in Yangxian, Mianxian, Pucheng and Xixiang. We will commence the construction of the same in Danfeng and Jianghua in 2011.

PROSPECTS

Four years ago, upon listing on the AIM, the Company declared the goal of becoming a regional champion and a market leader in Shaanxi Province, achieving an annual capacity of 8 to 10 million tons. We have achieved our goal in 2010, and our expansion have enabled the Group to establish market leadership across the South of Shaanxi Province, as well as in Weinan to the northeast.

As the Board examines ambitions like these in the context of changing market circumstances and having regard to the implications of the PRC's Western Development Plan, the Group has decided to continue to roll out its growth strategy in 2011 and 2012. This includes expansion of the Group's production capacity through constructions or acquisitions of production facilities or production line, within Shaanxi Province as well as neighbouring provinces in western part of China.

I am delighted to advise that the Group is extending its market position in Weinan region, northeastern Shaanxi, and in Shangluo region, southern Shaanxi, by adding a new production line in each of the regions. Currently, the Group operates production facilities in Pucheng (approximately 2.5 million tons annual capacity), in Weinan region and in Zhen'an (approximately 0.7 million tons annual capacity) and in Danfeng (approximately 1.1 million tons annual capacity) in Shangluo region. We plan to construct a new 3.0 million tons annual capacity production line in Pucheng and a new 1.5 million tons annual capacity production line in Danfeng during 2011. The additional capacities will fill the market vacuum as a result of closures of outdated production facilities or production line in these regions.

In addition to the above-mentioned new projects, the Group is embarking on an exciting investment in Xinjiang Province. The Group has selected southern Xinjiang as its entry point to this new market. The investment in Xinjiang Province will be in several phases and the Board is currently finalising the first phase.

In January 2011, the Company has successfully issued US$400 million 7.50% Senior Notes Due 2016 (the "Notes"). Part of the proceeds of the Notes will be used for debt restructuring and the remaining will be used to fuel further expansion projects and to enhance the Group's working capital and liquidity position.

Looking forward, we aim to strengthen our leadership position in our core markets as well as venturing into new markets. We believe that our newly built and newly-acquired production facilities in southern Shaanxi will generate economies of scale in production and sales, which will in turn further strengthen our dominant position. In addition, we expect the phasing out of obsolete facilities and large-scale consolidation in the industry will accelerate over the next few years in Shaanxi as well as across China. The "Western Development Plan" of the PRC Government underpins continued infrastructure construction, rural development and urbanization in Shaanxi Province and other provinces in western part of China. The Group is well placed in an advantageous position to benefit from these developments. We will capitalise on the opportunity to integrate our businesses in various markets. We also plan to replicate the successful strategy and business models which we have developed in southern Shaanxi in other regions which with similar market conditions, such as southern Gansu, northern Hubei and Xinjiang – with a view to maintaining sustainable and rapid growth.

This remarkable achievement would not have happened without the exceptional commitment from the management and all employees of the Group. I am confident that they will continue to drive forward the growth of the Group, making it the safest as well as the most profitable enterprise in the region. I thank them on behalf of the Board and the shareholders for their outstanding achievements and commitments.

Zhang Jimin
Chairman

March 2, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

THE OPERATING ENVIRONMENT AND OUR COMPETITIVE STRENGTHS

West China Cement Limited ("WCC") is a leading cement manufacturer and distributor in Shaanxi Province. We have successfully established our strategic positioning, covering our core markets in Shaanxi, particularly north eastern and southern Shaanxi, including Weinan, Xi'an, Shangluo, Hanzhong and Ankang, and have established leading position in our core markets. As a result of our visionary expansion strategies and key competitive strengths, WCC has established sound and predictable credit and investment fundamentals.

We are well positioned to benefit from the growth of cement demand generated by the "Western Development Plan" launched by the government of the PRC. The government pays unprecedented attention to the construction of the infrastructure in Western China. Shaanxi Province, the "gateway to the west" has been one of the government's target areas for infrastructure investments. The construction of infrastructure projects has stimulated high demand for cement.

We have a high-quality and well diversified customer base which has enabled us to ensure rapid growth and stable cash in-flow. Such customer base will provide a solid foundation for the Group to capture the favourable opportunity brought by the consolidation trend in the cement industry by positioning as the major consolidator in that trend. WCC will expand its market share by capitalising on the opportunities presented by the phasing out of small and medium size cement corporations, with a view to further enhancing its leading position in the core markets.

BUSINESS REVIEW

Expanding Capacity

The Group has been rolling out its "core markets" strategy by building new facilities in southern Shaanxi. During the year ended December 31, 2010, three of the Group's production facilities or production line, of which two of them are located in southern Shaanxi, commenced operation. These production facilities/ line are:

- Yangxian production facility (approximately 1.1 million tons annual capacity), which commenced operation in January 2010,
- Mianxian production facility (approximately 1.1 million tons annual capacity), which commenced operation in July 2010, and
- Pucheng second production line (approximately 1.1 million tons annual capacity), which commenced operation in September 2010.

In addition to organic growth, the Group also expanded via business acquisition in 2010. In an effort to acquire a production facility with an annual capacity of approximately 1.1 million tons of cement production capacity and to increase its market share in Ankang region, on December 31, 2010, Yaobai Special Cement Group Co., Ltd., a wholly owned subsidiary of the Company, entered into a joint venture agreement with Shaanxi Ankang Jianghua Group Cement Co., Ltd. to acquire 80% interest in Ankang Yaobai Jianghua Cement Co. Ltd ("Jianghua").

As at December 31, 2010, the Group operated 8 production facilities with 10 production lines in total, including Jianghua. The Group has an annual cement production capacity of approximately 12.5 million tons (2009: 8.5 million tons). Construction of the Group's Xixiang project is on schedule and this project is expected to be completed in the first quarter of 2011, which will increase the Group's annual cement production capacity by another 1.1 million tons.

* Under construction

Pioneering Environmentally-friendly Technologies

All of the Group's production facilities employ the NSP cement technology, which requires less energy during the production of clinkers and is more environmentally friendly than non-NSP technologies.

As part of the Group's focus on emissions reduction and cost reduction, it has invested in the construction of the residual heat recovery system at its production facilities. The system collects residual heat produced from the kiln for power generation, reducing the amount of electricity acquired hence reducing the production costs and heat released to the environment. In 2010, the construction of the system commenced in Yangxian, Mianxian, Pucheng and Xixiang and the construction of the same in Danfeng and Jianghua will be commenced in 2011. The Group intends to install the residual heat recovery system at all of its production facilities in the future.

The Group is also the first cement player in Shaanxi Province which utilises desulfurisation gypsum and construction waste as additives. In addition, the Group recycles fly ash from power stations and slag iron plants as additives in its cement production. These recycling efforts have not only reduced the Group's production costs, but have also helped to reduce industrial waste and environmental pollution, which enabled the Group to enjoy various government subsidies.

Achieving Outstanding Operating Results

Leveraging the above technological and resources advantage, the Group has achieved total cement sales of 9.9 million tons for the year under review. Gross profit and net profit margins are substantially higher than our peers.

Listing on the HKSE

The successful listing of the shares of the Company on the Main Board of the HKSE on August 23, 2010 has brought the Group into another growth era. The Company was previously admitted to the AIM in London on December 4, 2006 and upon the Company's listing on the HKSE, the shares of the Company were delisted from the AIM. The Company raised net proceeds of HK$ 1,521 million on the initial public offering ("IPO").

FINANCIAL REVIEW

Revenue

Revenue increased by approximately 95.2% year-on-year to approximately RMB2,960.8 million for the year ended December 31, 2010 (2009: approximately RMB1,516.8 million). Such remarkable growth is owing to the Group's expanding production and sales into new markets in Shaanxi where demands for cement have grown very rapidly as a result of increasing infrastructure investments in Shaanxi Province. The Group's cement sales increased by approximately 94.1% from approximately 5.1 million tons in 2009 to approximately 9.9 million tons in 2010. This increase in sales volume was mainly the contribution from the newly constructed and acquired production facilities in Danfeng, Yangxian, Mianxian and Pucheng counties.

Cost of Sales

Cost of sales increased by approximately 101.4% year-on-year to approximately RMB1,768.4 million for the year ended December 31, 2010 (2009: approximately RMB878.1 million). The increase was generally in line with the increase of the sales volume.

The cost of coal is one of the largest components of the Group's cost of sales. The cost of coal as a percentage of cost of sales increased from approximately 31.2% for the year ended December 31, 2009 to approximately 36.5% for the year ended December 31, 2010. This increase was primarily due to an increase in coal transportation costs, which in turn, was primarily caused by the additions of production facilities in southern Shaanxi, which are located further away from coal mines than the other production facilities. In addition, the recovery of the global economy also contributed to the maiden increase in coal price.

The electricity costs as a percentage of cost of sales decreased from approximately 20.7% for the year ended December 31, 2009 to approximately 18.4% for the year ended December 31, 2010. The Group's residual heat recovery system has become increasingly important to its cost structure and will continue to reduce the Group's electricity costs as a percentage of cost of sales as the Group installs more units at its production lines.

Gross Profit and Gross Profit Margin

As a result of the increase in the sales volume, the gross profit increased by, approximately RMB553.7 million or approximately 86.7%, from approximately RMB638.7 million for the year ended December 31, 2009 to approximately RMB1,192.4 million for the year ended December 31, 2010. The gross profit margin was approximately 40.3% for the year ended December 31, 2010. The slight decrease in gross profit margin was primarily due to an increase in coal costs as discussed above.

Administrative Expenses

Administrative expenses primarily include staff costs, general administrative expenses, depreciation and amortization. For the year ended December 31, 2010, the administrative expenses also included approximately RMB65.7 million of expenses relating to the delisting of the Company's shares from the AIM and the listing of the Company's shares on the HKSE.

Administrative expenses increased by approximately 130.0% year-on-year to approximately RMB179.0 million for the year ended December 31, 2010 which was primarily attributable to the expenses arising out of the delisting of the Company's shares from the AIM and the listing of the Company's shares on HKSE which amounted to approximately RMB65.7 million and the newly added Danfeng, Yangxian, Mianxian and Pucheng production facilities. Without taking into account of the one off shares delisting and listing charge of RMB65.7 million, the administrative expenses as a percentage of the revenue decreased from approximately 5.1% in 2009 to approximately 3.8% in 2010 , which was primarily a result of the economies of scale after the expansion of the Group's production facilities.

Finance Costs

Net finance costs primarily include interest expenses on bank and other borrowings, early repayment charges, and after deducting interest income, net foreign exchange gains on financing activities and interest capitalised as part of the costs of assets.

Net finance costs decreased by approximately 58.8% year-on-year to approximately RMB99.3 million for the year ended December 31, 2010 (2009: approximately RMB241.1 million). The significant decrease was primarily owed to an inclusion in the finance costs for the year ended December 31, 2009 of an exceptional charge of RMB168.5 million losses on warrant redemption. The exceptional charge was recorded upon the full redemption of warrants issued to the Group's loan creditors in 2009 in connection with a US$60 million loan the Group borrowed in 2008. The US$60 million loan was fully repaid in 2010.

The interests capitalised as part of the costs of assets for year ended December 31, 2010 were approximately RMB35.5 million (2009: approximately RMB40.8 million).

Taxation

For the year ended December 31, 2010, the effective tax rate of the Group was 11.8% (2009: 11.9%) The change in effective tax rate was primarily due to different tax rates applied by for each of the operating subsidiaries of the Company. Each of such operating subsidiaries are located in the PRC and some of them are entitled to various preferential tax treatments. The detailed tax rates for each of these subsidiaries and the income tax expenses for the Group are outlined in note 29 to the consolidated financial statements above.

Income tax increased from approximately RMB44.7 million in 2009 to approximately RMB124.3 million in 2010. The increase in income tax was mainly due to an increase in sales contributed by the new subsidiaries of the Company.

Profit Attributable to Equity Holders of the Company

The Group achieved a profit attributable to equity holders of approximately RMB925.1 million (2009: approximately RMB330.5 million), an increase of approximately RMB594.6 million or 179.9%, as compared to 2009. Basic earnings per share rose approximately 150.0% to RMB0.255 for year ended December 31, 2010. (2009: RMB0.102).

After adjusting the exceptional charges of approximately RMB168.5 million losses on warrant redemption for year ended December 31, 2009 and approximately RMB65.7 million shares delisting and listing expenses for year ended December 31, 2010, profits attributable to equity holders were approximately RMB499.0 million and RMB990.8 million for the years ended December 31, 2009 and December 31, 2010, respectively, representing a year-on-year growth of 98.6% for year 2010. The adjusted basic earnings per shares were RMB0.15 and RMB0.27 for years ended December 31, 2009 and December 31, 2010, respectively, representing an increase of approximately 80% for the year ended December 31, 2010.

Financial and Liquidity Position

The Group maintained a healthy financial and liquidity position for the year ended December 31, 2010. The total assets increased by approximately 51.0% to approximately RMB5,545.7 million (2009: approximately RMB3,673.6 million) while the total equity grew by approximately 175.9% to approximately RMB3,574.0 million (2009: approximately RMB1,295.2 million).

As at December 31, 2010, the Group had cash and cash equivalents (including restricted cash) amounted to approximately RMB390.6 million (2009: approximately RMB365.8 million). After deducting the total borrowings of approximately RMB1,211.4 million (2009: approximately RMB1,648.9 million), the Group had a net borrowing of approximately RMB820.8 million (2009: approximately RMB1,283.1 million). Approximately 9.6% (2009: approximately 34.1%) of the borrowings are at fixed interest rate. Please refer to note 20 to the financial statements for the details of the borrowings and the respective charge of assets.

As at December 31, 2010, the Group's gearing ratio, measured as net debt to equity, was approximately 23.0% (2009: approximately 99.1%). The significant improvement in the gearing ratio was attributable to the increase in equity by approximately RMB2,278.8 million to approximately RMB3,574.0 million, as a result of the Hong Kong IPO, an increase in earning and the repayment of borrowings during the year ended December 31, 2010.

In January 2011, the Company has successfully issued US$400 million 7.50% Senior Notes Due 2016 (the "Notes"). Part of the proceeds of the Notes will be used for debt restructuring and the remaining will be used to fuel further expansion projects and to enhance the Group's working capital and liquidity position.

Capital Expenditure and Capital Commitment

Capital expenditure for the year ended December 31, 2010 amounted to approximately RMB1,417.0 million (2009: approximately RMB697.7 million) and capital commitments as at December 31, 2010 amounted to approximately RMB657.9 million (2009: approximately RMB558.3 million). Both the capital expenditure and capital commitments were mainly related to constructions of new production facilities, installation of residual heat recovery systems, and upgrading of existing production facilities. The Group funded its capital expenditure by using cash generated from operating activities, proceeds from the Company's IPO and bank borrowings. The Group planned to fund its capital commitments and any future capital expenditures from future operating cash flow, net proceeds from equity and debt issuances and and other sources of finance when appropriate.

Contingent Liabilities

As at December 31, 2010 and 2009, the Group had no material contingent liabilities.

Use of proceeds from the Company's initial public offering

The Company was listed on the HKSE on August 23, 2010 and raised net proceeds of approximately HK$1,521.0 million (equivalent to approximately RMB1,330.1 million). Details of the use of proceeds have been set out in the prospectus of the Company dated August 10, 2010 (the "Prospectus"). As at December 31, 2010, approximately HK$1,338.5 million of the net proceeds had been used with the remaining sum of approximately HK$182.5 million being unutilised as follows:

– approximately HK$638.8 million was used for constructions of new production facilities, installation of residual heat recovery systems, and upgrading of existing production facilities.

– approximately HK$699.7 million was used for working capital, repayment of loans and related interest, and other general corporate purposes.

Employees and Remuneration Policy

As at December 31, 2010, the Group employed a total of 3,069 full time employees. Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the year ended December 31, 2010, the employee benefit expense was approximately RMB89.8 million.

The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive directors of the Company, who are also employees of the Company, receive compensation in the form of salaries, bonuses and other allowances.

Material Acquisition and Disposals

During the year ended December 31, 2010, the Company's subsidiaries and associates had no material acquisition or disposals.

Foreign Exchange Risk Management

During the year ended December 31, 2010, the Group's sales and purchases were all denominated in Renminbi. However, some of the Group's bank borrowings and the proceeds raised through the IPO offering of the Company in August 2010 were denominated in foreign currencies.

The Renminbi is not a freely convertible currency. Future exchange rates of the Renminbi could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the Renminbi. The appreciation or devaluation of the Renminbi against foreign currencies may have an impact on the operating results of the Group. The Group currently does not maintain a foreign currency hedging policy. However, management team of the Company will continue to monitor the foreign exchange exposure and consider hedging significant foreign currency exposure should the need arise.

PROSPECTS AND PLANS

The outlook

2011 augurs well for the Group. The stable growth of the PRC's economy, and the "Western Development Plan" policies will fuel growth of infrastructure developments in Shaanxi and provinces in West China. The government's policy of phasing out small production plants will also be beneficial for major production facilities such as those held by the Group. As a leader in Shaanxi's cement market, the Group enjoys rapid growth amidst such a conducive operating environment.

The Group will increase its participation in infrastructural projects including Huanghanhou Railway, Guzhu Expressway, Xunhe Cascade Hydropower Station etc. Meanwhile, with cement prices expected to stay relatively stable for the near future, the Group expects to maintain its better-than-industry-average profit margins primarily owing to its strategic locations and its fine market reputation. The Group expects its sales and profitability to continue to enjoy growth for 2011 and beyond.

The Group will continue to beef up its production capacity so as to fully capitalise on growing market demand for cement products. The production facilities that commenced operations during 2010 in Yangxian, Mianxian and Pucheng counties, as well as the newly formed joint venture of Jianghua in Ankang region, will have a full-year operation in 2011. These newly added capacities will certainly fuel additional sales for the Group in the coming years.

The Group is strengthening its market position in Weinan region, northeastern Shaanxi, and in Shangluo region, southern Shaanxi, by adding a new production line in each of these regions. We plan to add an annual capacity of 3.0 million tons production line in Pucheng, Weinan region and an annual capacity of 1.5 million tons production line in Danfeng, Shangluo region during 2011. The additional capacities will fill the market vacuum as a result of closures of outdated capacities in these regions. We plan to achieve a total production capacity of approximately 18 million tons per annum in Shaanxi by the first half of 2012. No doubt, our market leadership position in southern Shaanxi will be further strengthened as a result of completion of these new projects.

In addition to the above-mentioned new projects, the Group is embarking on an exciting investment, beyond its home ground towards Xinjiang Province. The Group has selected southern Xinjiang as its entry to this new market. The investment in Xinjiang Province will be in several phases and the Board is currently finalising the first phase.

The Group will continue to look for opportunities for building new plants and acquiring existing plants, both in Shaanxi and in neighbouring provinces such as Hubei, Sichuan, Gansu and Xinjiang. The Group will fully leverage its competitive advantages to capture opportunities presented by the "Western Development Plan" policies.

Development Strategy

In 2006, the Group has drawn up a three-phased plan for its strategic development when the Company was admitted to the AIM in London:

Phase 1: Regional Development

In the first phase, the Group would focus on market development in southern Shaanxi, being the selected "core market". The strategic plan was carried out successfully and the Group has gained a leadership position in these core markets as well as in Shaanxi Province. The Group has surpassed its declared goal of achieving a capacity of 8-10 million tons by the end of 2010.

Phase 2: Regional Consolidation

In the second phase, the Group aims to strengthen its market position in the region. The Group believes that its newly built and newly acquired production facilities in southern and northeastern Shaanxi will generate economies of scale in production and sales and will further strengthen the leadership position of the Group in the region. In addition, it is expected that there will be an acceleration in the phasing-out of obsolete facilities and a large-scale consolidation in the industry over the next few years in Shaanxi Province as well as in China. The Group will take the opportunity to integrate its businesses in various markets.

Phase 3: Regional Replication

In the third phase, the Group plans to replicate the successful strategy and business models which it has developed in southern Shaanxi in other regions with similar market conditions, such as southern Gansu, northern Hubei, Xinjiang and Sichuan – with a view to maintaining sustainable and rapid growth in the future. The Group aims to achieve an annual production capacity of 25 – 30 million tons in the next five years.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the shareholders of the Company. These can be achieved by an effective Board, segregation of duties with clear accountability, sound internal control, appropriate risk assessment procedures and transparency of all operations of the Company. The Board will continue to review and improve the corporate governance practices from time to time to ensure the Group is led by an effective Board in order to optimize return for the shareholders of the Company.

The Company has applied the principles of and has complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices (the "Code") as set forth in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of the HKSE throughout the period from the Listing Date to December 31, 2010, save and except for the following deviation:

CODE PROVISION A.2.1

Under Code Provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. During the period from the Listing Date to December 31, 2010, the Company has not separated the roles of chairman and chief executive officer. Mr. Zhang Jimin is the chairman and also the chief executive officer of the Company responsible for overseeing the operations of the Group. Although the Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Company, however, for the purpose of complying with CG Code Provision A.2.1, the Company appointed Mr. Tian Zhenjun to take up the vote of chief executive officer in place of Mr. Zhang Jimin in March 2011.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by the directors of the Company of Listed Issuers (the "Model Code") as set forth in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. Specific enquiries have been made with all the directors of the Company, all the directors of the Company confirmed and declared that they have complied with the required standards as set out in the Model Code during the period from the Listing Date to December 31, 2010.

BOARD OF DIRECTORS

Responsibilities of the Board

The Board is primarily responsible for formulating the business strategy, reviewing and monitoring the business performance of the Group, approving the financial statements and annual budgets as well as directing and supervising the management of the Company. Execution of operational matters and the powers thereof are delegated to the management by the Board with clear directions. All Directors have full and direct access to the advices and services of the company secretary of the Company. The Company provides the Directors with sufficient resources to perform their duties and the Directors may seek independent professional advice at the Company's cost, where they consider relevant and necessary to the discharge of their duties.

Board Composition

The Board has a balanced composition of executive and non-executive Directors to ensure independent viewpoints in all discussions. The Board as at December 31, 2010 and the date of this annual report comprises eight Directors, including four executive Directors, one non-executive Director and three independent non-executive Directors. Board members are listed below:

Chairman and Executive Director

Mr. Zhang Jimin

Executive Directors

Mr. Tian Zhenjun
Mr. Wang Jianli
Ms. Low Po Ling

Non-executive Director

Mr. Ma Zhaoyang

Independent non-executive Directors

Mr. Lee Kong Wai Conway
Mr. Wong Kun Kau
Mr. Tam King Ching Kenny

The Board's composition satisfies the requirements of Rule 3.10(1) and 3.10(2) of the Listing rules, which stipulate that there should be at least three independent non-Executive Directors, and of whom at least one must possess appropriate professional qualifications or accounting or related financial managing expertise.

There was no relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

Biographical information of the Directors is set forth on pages 19 to 22 of this annual report.

Each of the executive Directors and non-executive Director has entered into a service contract with the Company for an initial term of three years commencing from the date of the Listing and may only be terminated in accordance with the provisions of the service contract by giving to the other not less than three months' prior notice in writing.

The Company has entered into an appointment letter with each of the Independent non-executive Directors for a term of one year commencing from the date of the Listing unless terminated by either party giving to the other not less than three months prior notice in writing.

The Company has received an annual confirmation of independence from each of its independence non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to Article 23 of the Company's Articles of Association (the "Articles"), the Directors shall have power at any time and from time to time to appoint any Person (other than one disqualified or ineligible by law to act as a director of a company) to be a Director either to fill a causal vacancy or as an addition to the existing Directors provided that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with these Articles as the maximum number of Directors. Any Director so appointed shall hold office until the next following Annual General Meeting of the Company and shall then be eligible for re-election at such meeting.

According to Article 24 of the Company's Articles, at every Annual General Meeting, one-third of the Directors or, if their number is not three or a multiple of three, the number nearest to one-third shall retire from office, but if any Director has at the start of the Annual General Meeting been in office for three years or more since his/her last appointment or re-appointment, he shall retire at that Annual General Meeting. If the Company does not fill the vacancy at the meeting at which a Director retires by rotation or otherwise, the retiring Director shall, if willing to act, be deemed to have been re-appointed unless at the meeting it is resolved not to fill the vacancy or unless a resolution for the re-appointment of the Director is put to the meeting and lost.

BOARD MEETINGS AND ATTENDANCES

The Board meets regularly in person or by means of electronic communication. After the Company has been listed on HKSE, four board meetings were held throughout the period ended December 31, 2010. Directors receive at least 14 days' prior written notice of regular board meetings and an agenda. For the other Board meetings, Directors are given as much notice as possible in the circumstances.

The company secretary of the Company is responsible for taking and keeping minutes of all Board meetings and committee meetings the final version is available for Directors' inspection.

The table below sets out the details of Board meeting attendance of each Director after listing on HKSE and throughout the period ended December 31, 2010.

Director	Number of Board meetings attended
Mr. Zhang Jimin	4/4
Mr. Tian Zhenjun	4/4
Mr. Wang Jianli	4/4
Ms. Low Po Ling	4/4
Mr. Ma Zhaoyang	3/4
Mr. Lee Kong Wai Conway	4/4
Mr. Wong Kun Kau	4/4
Mr. Tam King Ching Kenny	4/4

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has established in compliance with Rules 3.21 and Rules 3.22 of the Listing Rules and with written term of reference in compliance with the Code, the primary duties of the Audit Committee are to review and supervise the financial reporting process, internal control and risk management systems of the Group and to provide advice and comments to the Board, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time. The Audit Committee consists of three independent non-executive Directors, namely Mr. Lee Kong Wai Conway, Mr. Wong Kun Kau and Mr. Tam King Ching Kenny. Mr. Lee Kong Wai Conway is the chairman of the Audit Committee. The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended December 31, 2010.

The major duties performed by the Audit Committee for the purpose of discharging its responsibilities are as follow:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditors, as well as approving the remuneration and terms of engagement of the external auditors;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- discussing problems and findings arising from the interim and final audits, and any matters the external auditor may wish to discuss;
- monitoring integrity of the Group's financial statements, annual reports and accounts, interim report and reviewing significant financial reporting judgments contained in them.
- reviewing the Group's financial control, internal control and risk management systems;
- reviewing, assessing and commenting on the operational effectiveness of internal control policy and procedures;
- discussing with the management of the Group any matters in relation to the Company's internal control system and ensuring that the company has allocated sufficient resources in establishing the maintaining an effective internal control system including adequacy of resources, qualification and experience of the Group's internal audit, accounting and financial reporting function;
- assessing the impact of the internal audit findings on the Group's operating and financial reporting risk, and addressing to the Board for their further action if necessary;
- ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- assessing the external consultant engagement annually;

- reviewing the risk assessment committee's function and effectiveness, and addressing the deficiency noted on the risk assessment process to the Board for their respective action;
- considering any other topics assigned by the Board.

The table below sets out the details of Audit Committee meeting attendance of each Director during the period from the Listing Date to December 31, 2010.

Director	Number of Audit Committee meetings attended
Mr. Lee Kong Wai Conway	2/2
Mr. Wong Kun Kau	2/2
Mr. Tam King Ching Kenny	2/2

REMUNERATION COMMITTEE

The Company has established a remuneration committee with written terms of reference in compliance with paragraph B1 of the CG Code. The remuneration committee currently consists of two independent non-executive Directors, being Mr. Tam King Ching Kenny and Mr. Wong Kun Kau and one executive Director, being Mr. Zhang Jimin, with Mr. Zhang Jimin serving as chairman of the remuneration committee.

The primary duties of the remuneration committee are to establish and review the policy and structure of the remuneration for Directors and senior management.

No meeting of the Remuneration Committee was held during the period from the Listing Date to December 31, 2010.

REMUNERATION OF DIRECTORS

The Company has adopted full disclosure of remunerations of Directors with disclosure by name, amount and type in note 25 to the financial statements.

NOMINATION COMMITTEE

The Company has established a nomination committee with written terms of reference as recommended under the CG Code. The nomination committee currently consists of two independent non-executive Directors, being Mr. Lee Kong Wai Conway and Mr. Tam King Ching Kenny, and one executive Director, being Mr. Zhang Jimin, with Mr. Zhang Jimin serving as chairman of the committee.

The primary functions of the nomination committee are to make recommendations to the Board regarding the appointment of members of the Board. The nomination committee is responsible for identifying individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships.

No meeting of the Nomination Committee was held during the period from the Listing Date to December 31, 2010.

RISK ASSESSMENT COMMITTEE

The Company has established a risk assessment committee with written terms of reference. The risk assessment committee currently consists of 22 members including, among others, all the executive Directors, namely Mr. Zhang Jimin, Mr. Wang Jianli, Ms. Low Po Ling and Mr. Tian Zhenjun, the company secretary of the Company, Mr. Sin Lik Man, and its senior management, namely Mr. Chen Zhixin, Mr. Li Wenyu, Mr. Li Yongji, Mr. Lian Jie and Ms. Tang Huiqin, with Mr. Zhang Jimin serving as the chairman of the committee.

The primary functions of the risk assessment committee are to identify risk areas and formulate action plans for each department of the Group to execute.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors understand and acknowledge their responsibility for making sure that the financial statements for each financial year are prepared to reflect the true and fair view of the state of affairs, results and cash flow of the Group and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended December 31, 2010, the Directors have selected appropriate accounting policies and applied them consistently; made judgement and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors also ensure that the financial statements of the Group are published in a timely manner.

The statement by the external auditor of the Company regarding their reporting responsibilities of the financial statements of the Group is set forth in the Indepedence Auditors' Report on page 36 of this annual report.

EXTERNAL AUDITORS

The Company appointed PricewaterhouseCoopers as the Company's auditors. The acknowledgement of their responsibilities on the financial statements is set forth in the Independent Auditors' Report on page 36 of this annual report.

The remuneration paid to PricewaterhouseCoopers for services rendered in respect of the year ended December 31, 2010 is as follows:

	2010 **RMB'000**
Audit services	
Annual audit service	1,600
IPO related services	7,000
Non-audit services	
Internal control review service	1,800
Senior notes issuance services	1,000
Total	11,400

INTERNAL CONTROLS OVER FINANCIAL REPORTING

In November 2010, the Company engaged a reputable independent external consulting firm as its internal control advisor to review selected areas of our internal controls over financial reporting. The scope of review of the internal control advisor covered the areas of (i) Group's controls over treasury management (which included the budgeting system for the monitoring of compliance with covenants under relevant loan agreement entered into by our Group) and sales and receipts (which included the record system for retail customers) and (ii) business process level controls including sales and receipts, purchases and payments, inventory management, capital expenditure management, human resources and payroll, expenses and payment, financial reporting and information technology general controls at our new production facilities at Pucheng and Danfeng counties.

Further to the internal control review conducted in November 2010, with the assistance of our internal control advisor, the Company conducted a follow up review in January and February 2011. Based on the result of the review conducted in November 2010 and the follow up review conducted in January and February 2011, the internal control advisor noted that the Company has made significant improvement in response to those areas where deficiencies and weaknesses were identified under the scope of review described above.

After considering the implemented internal control procedures as a result of the above reviews and also the reviews conducted in connection with the listing on the HKSE (see the Prospectus dated August 10, 2010), the Directors (including our independent non-executive Directors) are of the view that the Group has adequate internal control procedures and policies in place and the Company is able to comply with the internal control requirements under the Listing Rules.

INVESTOR RELATIONS

The Company believes that investor relations are important to a listed company to enhance its transparency and corporate governance. During the year, the executive Directors and senior management of the Group have maintained sound communications with the investment community by actively participating in various investor-related activities and conference. The Group's investor relations representatives introduced the Group's strengths and growth strategies in order to gain support and recognition from the market and investors.

To promote effective communication with the public at large, the Company maintains a website on which comprehensive information about the Company's major businesses, financial information and announcements, annual and interim reports and shareholders circulars are being made available. Investors are welcome to share their views with the Board by sending enquiries to the Company's website at www.westchinacement.com

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Company has four executive Directors, one non-executive Director and three independent non-executive Directors. Their details are set out below:

Chairman and Executive Director

Mr. Zhang Jimin (張繼民), aged 56, is the chairman of the Company and an executive Director. From October 2006 to March 2011, he was also the chief executive officer of the Company. Mr. Zhang is the founder of our Group and is also a director of a number of our subsidiaries including West China BVI, Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Xiushan Yaobai, Xi'an Yaobai and Longqiao Yaobai. He is responsible mainly for our overall strategy planning and investment decisions.

Mr. Zhang has approximately 25 years of experience in the cement industry. Mr. Zhang actively participated in various cement technologies development projects and during 1992 to 1994, he led the development of low heat slag cement and moderate-heat Portland cement, which won the Second Grade Science and Technology Progress Prize issued by the Shaanxi Province government.

Mr. Zhang has also assumed several social positions, such as being the chairman of Shaanxi Province Cement Association and a representative of Xi'an City of the 11th Standing Committee of Shaanxi Provincial People's Congress.

Mr. Wang Jianli (王建禮), aged 47, is an executive director of our Company. He is also our chief engineer and director of a number of our subsidiaries including Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai, Mianxian Yaobai and Xixiang Yaobai. He is responsible mainly for our overall production management, technology quality assurance, safety, environmental protection, efficiency management and project management.

Mr. Wang graduated from Xi'an University of Technology with a bachelor's degree in engineering in December 1990. Mr. Wang has more than 28 years of experience in the cement industry. He worked at the Shaanxi Design & Research Institute of Building Materials, an integrated research institute supervised by the Science and Technology Department of Shaanxi Province and specializing in the scientific research and designing of construction materials from December 1982 to February 2002. He has been in his current position at Shaanxi Yaobai since March 2002.

Ms. Low Po Ling, aged 35, is an executive director of our Company. She is also our chief financial officer and a director of our subsidiary, Shaanxi Yaobai. She is responsible mainly for supervising our corporate finance, audit, securities and information dissemination.

Before joining us, Ms. Low worked in Malaysia, Singapore and the United Kingdom with PricewaterhouseCoopers Consulting Sdn Bhd, Tan Choon Chye & Co., BDO International, and PKF (UK) LLP, Ms. Low served as an associate director of Goldenway Capital and Chang'an Capital, an investment company before joining our Group. Ms. Low is a fellow member of the Association of Chartered Certified Accountants (ACCA). Ms. Low has more than 10 years of experience in audit practice and corporate finance.

Mr. Tian Zhenjun (田振軍), aged 50, Mr. Tian was appointed as an executive Director of our Company on May 17, 2010. He was also as our chief executive officer on March 23, 2011 and is responsible for our overall administrative, human resources and operational management. Mr. Tian is a director of a number of our subsidiaries including Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai.

Mr. Tian has received an undergraduate degree in accountancy from Shaanxi Finance & Economy College in December 2001. From August 1988 to August 1998, Mr. Tian served as the accounting manager of Pucheng County Coal Mine, a local state-owned enterprise. He joined Shaanxi Yaobai in September 1998 and has held several positions in our Company, including general accountant, director of the finance department, assistant general manager and sales manager. Mr. Tian became a certified accountant in the PRC in October 1994.

Non-executive Directors

Mr. Ma Zhaoyang (馬朝陽), aged 42, Mr. Ma was appointed a non-executive Director of our Company on July 29, 2010. Mr. Ma received a master's degree in management from Northwestern Polytechnic University in May 1998. Mr. Ma has been a professor of management at Northwestern Polytechnic University in Shaanxi, China since 1996. In view of his academic knowledge and extensive experience in strategic planning, Mr. Ma was appointed a non-executive Director of our Company and assumes an advisory role with us in respect of the overall strategic planning and operation of our business.

Mr. Ma has been the chairman and director of Sino Vanadium Inc., a vanadium mining company listed on the TSX Venture Exchange in Canada since June 2009. He has also been a non-executive director of Taihua PLC, a pharmaceutical company listed on the LSE, where he assumes an advisory role since December 2006. He is currently and has been an independent non-executive director of Xi'an Kaiyuan Holding Group Co., Ltd., a company listed on the Shenzhen Stock Exchange which is principally engaged in department store retail businesses and where he assumes an advisory role since May 2006.

Independent non-executive Directors

Mr. Lee Kong Wai Conway (李港衛), aged 56, Mr. Lee was appointed an independent non-executive Director of our Company on July 29, 2010. Mr. Lee received a bachelor's degree in arts from Kingston University (formerly known as Kingston Polytechnic) in London in July 1980 and further obtained his postgraduate diploma in business from Curtin University of Technology in Australia in February 1988. Mr. Lee served as a partner of Ernst & Young over the past 29 years and held key leadership positions in the development of such firm in China. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants. Mr. Lee currently also serves as an independent non-executive director of China Taiping Insurance Holdings Company Limited, Chaowei Power Holdings Limited, and China Modern Dairy Holdings Limited, companies listed on the Main Board of the Stock Exchange since October 2009, July 2010 and November 2010, respectively, and Sino Vanadium Inc., a company listed on the TSX Venture Exchange in Canada since October 2009. Mr. Lee was appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China since 2007.

Mr. Wong Kun Kau (黃灌球), aged 50, Mr. Wong was appointed an independent non-executive Director of our Company on July 29, 2010. Mr. Wong received a bachelor's degree in social sciences from the University of Hong Kong in November 1982. He has 28 years of experience in fund management, securities broking and corporate financing involving securities origination, underwriting and placing of equities and equity-linked products, mergers and acquisitions, corporate restructuring and reorganizations and other general corporate advisory activities. Mr. Wong has extensive experience in the Greater China region markets. He is the founder and currently the managing partner of Bull Capital Partners Ltd, a direct investment fund management company. Before founding Bull Capital Partners Ltd., Mr. Wong was the Head of Asia Investment Banking of BNP Paribas Capital (Asia Pacific) Limited from 2002 to 2007. Mr. Wong is also a non-executive Director of Sun. King Power Electronics Group Limited, a company listed on the Hong Kong Stock Exchange since October 2010.

Mr. Tam King Ching Kenny (譚競正), aged 61, Mr. Tam was appointed an independent non-executive Director of our Company on July 29, 2010. Mr. Tam received a bachelor's degree in commerce from the Concordia University in November 1975. He is a practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Tam is serving as a member of the Ethics Committee and Practice Review Committee in the Hong Kong Institute of Certified Public Accountants. He is also a past president of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an independent non-executive director of five other listed companies on the Main Board of the Stock Exchange, namely, Kingmaker Footwear Holdings Limited, CCT Telecom Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite Holdings Limited and Van Shung Chong Holdings Limited since May 1994, December 1999, February 1996, July 2004 and September 2004, respectively, and a listed company on the GEM board of the Stock Exchange, namely, North Asia Strategic Holdings Limited, since September 2004. He was also an independent non-executive director of King Stone Energy Group Limited (formerly known as Yun Sky Chemical (International) Holdings Limited), a listed company on the Main Board of the Stock Exchange, during the period from August 2005 to September 2008.

SENIOR MANAGEMENT

Mr. Chen Zhixin (陳志信), aged 50, Mr. Chen is a director of a number of our subsidiaries including Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai and Xiushan Yaobai. Mr. Chen received an undergraduate degree in commanding communications from the PLA Commanding Communications Academy in July 2000. From February 1978 to December 2002, Mr. Chen worked for the army of the PRC. From December 2002 to September 2005, he worked as vice general manager of the Shaanxi West Cyber Information Co. Ltd. Mr. Chen joined Shaanxi Yaobai in September 2005 and has held several positions in our Group.

Mr. Li Wenyu (李文育), aged 50, Mr. Li is responsible for sales and marketing of our products. He is also a director of Shaanxi Yaobai and Longqiao Yaobai. Mr. Li received professional training in business operations from Northwest University of China in March 2003. Mr. Li served as the director of supply and marketing division of Pucheng Shangwang Construction Material Co., Ltd. from February 1993 to October 1997 and has been involved in the building materials industry for approximately 17 years. In 1997, Mr. Li joined Shaanxi Yaobai and has held several positions in our Group.

Mr. Li Yongji (李永繼), aged 32, is the strategic planning director and secretary to the board of directors of Shaanxi Yaobai. He is responsible for our strategic planning of the development and public relations. Mr. Li is also a director of Xi'an Yaobai and Longqiao Yaobai. Mr. Li received a diploma in accounting from Xi'an Jiaotong University (西安交通大學) in December 2004. Mr. Li joined us in August 2002 and has worked in several departments of our Group including finance department, Lantian project department, and investment and development department. Mr. Li obtained the certificate for medium level accountant (中級會計師) issued by the Ministry of Finance of the PRC (中華人民共和國財政部) in May 2005 and became a certified tax planner in the PRC in March 2009.

Mr. Lian Jie（連杰）, aged 41, is a director and the general manager of Xiushan Yaobai and is responsible for the overall management of Xiushan Yaobai. Mr. Lian received an undergraduate degree in accounting from Shaanxi Economics and Trade Institute（陝西經貿管理學院，formerly known as Shaanxi College of Industry and Commerce(陝西工商學院)） in July 1995 and a bachelor's degree in accounting from Central Broadcasting and Television University（中央廣播電視大學)in June 2005. Prior to joining us, Mr. Lian worked as the deputy general manager of Shaanxi Xiushan Cement (Group) Co., Ltd.（陝西秀山水泥（集團）有限公司），the predecessor of Xiushan Yaobai, from January 2006 to July 2009 and as a director of the finance department of Shaanxi Xiushan Cement (Group) Co., Ltd.(陝西秀山水泥(集團)有限公司)from March 2005 to December 2005. Mr. Lian joined us in August 2009 as executive vice general manager of Xiushan Yaobai and is currently the general manager of Xiushan Yaobai. Mr. Lian obtained the certificate for medium level accountant（中級會計師）issued by Finance Department of PRC（中華人民共和國財政部）in May 2002.

Ms. Tang Huiqin (唐會芹), age 42, is the head of internal audit department of our Company and she joined us in November, 2004. Ms. Tang has approximately 19 years of experience in accounting and internal audit. Between July 1991 and October 2004, Ms. Tang worked at Shaanxi Shaanhua Company Fufei Factory (陝西陝化股份公司復肥廠) and served as a vice manager, responsible for financial reporting, costing and internal auditing. From November 2004 to December 2007, she served various positions in Shaanxi Yaobai, such as head of internal audit department of Pucheng branch office, deputy financial controller, head of internal control, deputy general manager and head of audit department, responsible for audit and internal control of Shaanxi Yaobai. She received a Master's degree of Business Administration from School of Economics and Management, Northwestern University (西北大學經濟管理學院) in the PRC in 2005. She also obtained the senior accountant certificate awarded by the Human Resources Bureau of Shaanxi Province in October 2007 and became a certified tax planner in the PRC in March 2009.

Mr. Sin Lik Man (冼力文), age 32, is the company secretary of our Company and he joined us on May 17, 2010. Mr. Sin received a bachelor's degree of Business Administration, with a major in accounting from the Hong Kong University of Science and Technology in November 2000 and further received a master's degree in accounting from Curtin University of Science and Technology, Australia in April 2007. Mr. Sin is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a fellow member of the Association of Chartered Certified Accountants (ACCA). Mr. Sin possesses about 10 years of experience in financial control, corporate finance, capital market relations, corporate governance and compliance, and company secretarial practice through his past working history which enabled him to discharge the functions as a company secretary of our Company. Before joining us, Mr. Sin worked as a senior finance manager of a subsidiary and an associated company of Norstar Founders Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, from April 2006 to May 2010 and was responsible for the management of the overall corporate finance and treasury functions, providing technical support on the financial control and corporate governance issues of the company. From May 2003 to September 2005, Mr. Sin served as an accounting services officer of HSBC International Trustee Limited, responsible for preparing the financial accounts, and internal audit officer of Delta Asia Financial Group, responsible for performing the internal audit and preparing internal audit report. Mr. Sin was a staff accountant of Ernst & Young from September 2000 to April 2003, responsible for reviewing accounting and internal control system, auditing financial accounts and preparing audited financial statements.

DIRECTORS' REPORT

The Directors are pleased to present the annual report of the Company, including the audited consolidated financial statements for the year ended December 31, 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's principal business activities are manufacture and sales of cement and cement products. The activities of the principal subsidiaries are set out on page 71 of this Annual Report. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended December 31, 2010 are set out in the consolidated statement of comprehensive income on page 41.

The Directors proposed to recommend the payment of a final dividend of RMB 1.53 cents per ordinary share for the year ended December 31, 2010. The proposed final dividend, if approved by the shareholders at the forthcoming annual general meeting of the Company, will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Friday, March 25, 2011. The proposed final dividend for the year ended December 31, 2010 has been approved at the Company's Board meeting on March 2, 2011. This recommendation has been incorporated in the financial statement as an allocation of share premium within the equity section of the balance sheet. Details of the dividends for the year ended December 31, 2010 are set forth in note 31 to the financial statements.

The final dividend of RMB1.53 cents per ordinary share is subject to approval by the shareholders in general meeting of the Company. Such dividend will be distributed from the share premium of the Company. In the opinion of the Directors, such distribution is in compliance with the Articles of Association adopted by the Company and also the Companies (Jersey) Law 1991, as amended (the "**Law**").

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, March 22, 2011 to Friday, March 25, 2011, both days inclusive, during which period no transfer of shares will be registered. In order to determine who are entitled to the proposed final dividend and to attend and vote at the forthcoming annual general meeting of the Company, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shop 1712-16, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, March 21, 2011. Subject to shareholder's approval of the proposed final dividend of shares at the forthcoming annual general meeting, the final dividend will be paid to shareholders whose names appear on the register of members of the Company at the close of business on Friday, March 25, 2011.

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

RESERVES

Details of movements in the reserve of the Company and the Group during the year are set forth in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at December 31, 2010, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Law, amounted to approximately RMB2,002 million, of which approximately RMB65 million has been proposed as a final dividend for the year ended December 31, 2010. Under the Law, a company may make distribution to its shareholders out of the share premium account provided that the other requirements of the Law are followed.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended December 31, 2010 amounted to RMB1.8 million.

PROPERTY, PLANT AND EQUIPMENT

Details of movement of property, plant and equipment of the Group, during the year ended December 31, 2010 are set out in note 6 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year are set forth in note 16 and 17 to the financial statements, respectively.

On July 20, 2010, an shareholders' resolution was passed to approve the delisting of the Company's ordinary shares from AIM, and the subdivision of each existing issued and unissued ordinary share of GBP0.1 each of the Company into 50 new ordinary shares of GBP0.002 each so that the authorized share capital of the Company of GBP20,000,000 is divided into 10,000,000,000 ordinary shares of GBP0.002 each, which were conditional upon and with effect from the date of commencement of trading of the Company's ordinary shares on the HKSE (the "Subdivision of Shares"). The delisting and subdivision came into effect upon the commencement of trading of the Company's ordinary shares on the HKSE on August 23, 2010.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its listed shares during the year ended December 31, 2010. Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company during the period from the Listing Date to December 31, 2010.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles of Asociation and the laws of Jersey, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended December 31, 2010, total sales attributable to the top five customers of the Group were less than 30% of total sales of the Group.

For the financial year ended December 31, 2010, total purchases attributable to the largest supplier accounted for approximately 14% of the total purchase of the Group and total purchases attributable to the top five suppliers of the Group were approximately 36% of total purchases of the Group.

At no time during the year did any Director or any shareholder of the Company have an interest in any of the Group's five largest suppliers or customers.

DIRECTORS

The Directors of the Company during the year ended December 31, 2010 and up to the date of this report were:

Chairman and Executive Director

Mr. Zhang Jimin

Executive Directors

Mr. Tian Zhenjun (appointed on May 17, 2010)
Mr. Wang Jianli
Ms. Low Po Ling

Non-executive Directors

Mr. Robert Sinclair Robertson (resigned on July 29, 2010 as a result of delisting of the Company from AIM)
Mr. Brett Lance Miller (resigned on July 29, 2010 as a result of delisting of the Company from AIM)
Mr. Ma Zhaoyang (appointed on July 29, 2010)

Independent non-executive Directors

Mr. Lee Kong Wai Conway (appointed on July 29, 2010)
Mr. Wong Kun Kau (appointed on July 29, 2010)
Mr. Tam King Ching Kenny (appointed on July 29, 2010)

According to Article 23 of the Company's Articles of Association (the "Articles"), any Director so appointed shall hold office until the next following Annual General Meeting of the Company and shall then be eligible for re-election at such meeting. A circular containing the explanatory statement on repurchase by the Company of its shares, the biographical details of the director candidates and the notice of annual general meeting will be sent to shareholders of the Company.

None of the Directors has any financial, business, family or other material/relevant relationships with one another.

DIRECTORS' AND SENIOR MANAGEMENTS BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set forth on page 19 to 22 of the Annual Report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS OF THE COMPANY

Details of the emoluments of the directors and the five highest paid individuals of the Company in 2010 are set in note 25 to the financial statements.

RETIREMENT BENEFIT SCHEMES

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contribution to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident fund legislation, subject to a cap of HK$1,000 per month.

Particular of the Group's retirement benefit schemes for its employees in Mainland China are set out in note 2.20 to the financial statements.

DIRECTORS' INTERESTS IN SIGNIFICANT CONTRACTS

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director had a material interest in, whether directly or indirectly, and subsisted at the end of the financial year under review or at any time during the period from the Listing Date to December 31 2010.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Director of the Company entered into a service contract with the Company for an initial term of three years commencing from the date of the Listing and may only be terminated in accordance with the provisions of the service contract by giving to the other not less than three months' prior notice in writing.

The Company has issued an appointment letter to each of the Independent non-executive Directors of the Company for a term of one year commencing from the date of the Listing unless terminated by either party giving to the other not less than three months prior notice in writing.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Group within one year without payment of compensation, other than normal statutory compensation.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent non-executive Directors has given an annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent non-executive Directors meet the independence guideline set forth in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "Directors' Interests and Short Positions in Shares and Underlying Shares" and the "Share Option Schemes" below, at no time during the period from the Listing Date to December 31, 2010 was the Company, or any of its holding company or subsidiaries, a party to any arrangements to enable the Directors or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RELATED PARTY TRANSACTIONS

The related party transactions set out in note 35 to the financial statements did not fall within the definition of "connected transaction or "continuing connected transaction" in Chapter 14A of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at December 31, 2010, being the date of this report, the interests and short positions of the Directors and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(1) Interests in shares of the Company

As at December 31, 2010:

Name of director	Capacity	Number of ordinary shares held as at December 31, 2010	Total *(Note 1)*	Approximate % of issued share capital of the Company as at December 31, 2010
Zhang Jimin	Interest of a controlled corporate	1,738,873,900 (L) *(Note 2)*	1,738,873,900 (L)	40.91%
Ma Zhaoyang	Interest of a controlled corporate	213,679,950 (L) *(Note 3)*	213,679,950 (L)	5.03%

Notes:

(1) The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.

(2) These shares are held by Asia Gain Investments Limited ("Asia Gain") which is beneficially and wholly-owned by Zhang Jimin.

(3) These shares are held by Techno Faith Investments Limited ("Techno Faith") which is beneficially and wholly-owned by Ma Zhaoyang.

(2) Interests in underlying shares of the Company - equity derivatives of the Company

As at December 31, 2010:

Name of Director	Capacity	Adjusted number of underlying shares in respect of the share options granted under the Share Option Scheme	Approximate % of issued share capital of the Company as at December 31, 2010
Low Po Ling	Beneficial owner	12,500,000 (L) *(Note)*	0.29%

Note: The letter "L" denotes the person's long position in such securities.

Save as disclosed above, as at December 31, 2010, none of the Directors, chief executives of the Company and their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year ended December 31, 2010, save as disclosed in the Prospectus, the Directors were not aware of any business or interest of the Directors or any substantial shareholder of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interest whcih any such person had or might have with the Group.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

As at December 31, 2010, being the date of this report, the persons other than a director or chief executive of the Company who had an interest or short position in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of SFO were as follows:

		As at December 31, 2010	
Name of shareholder	**Capacity**	**Number of ordinary shares of £0.002 each held** *(Note 1)*	**Approximate % of issued share capital of the Company**
Asia Gain *(Note 2)*	Beneficial owner	1,738,873,900 (L)	40.91%
Zhang *Jimin (Note 2)*	Interest of a controlled corporation	1,738,873,900 (L)	40.91%
Techno Faith *(Note 3)*	Beneficial owner	213,679,950 (L)	5.03%
Ma Zhaoyang *(Note 3)*	Interest of a controlled corporation	213,679,950 (L)	5.03%

Note:

(1) The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.

(2) Asia Gain is beneficially and wholly-owned by Zhang Jimin.

(3) Techno Faith is beneficially and wholly-owned by Ma Zhaoyang.

Save as disclosed above, the Company has not been notified by any person who had interests or short position in the shares or underlying shares of the Company as at December 31, 2010 which were required to be notified to the Company pursuant to part XV of the Securities and Futures Ordinance or which are recorded in the register required to be kept by the Company under the section 336 of the Securities and Futures Ordinance.

ENFORCEMENT OF THE DEED OF NON-COMPETITION

Each of Mr. Zhang Jimin, Asia Gain, Ms. Zhang Lili and Central Glory Holdings Limited has undertaken to the Company, subject to the exceptions mentioned in the Prospectus that each of them will not engage in any cement production business and details of such deed of non-competition dated 29 July 2010 are set out in the Prospectus.

The Company has received from Mr. Zhang Jimin, Asia Gain, Ms. Zhang Lili and Central Glory Holdings Limited an annual confirmation that it/he/she has complied with its/his/her obligations under the deed of non-competition during the year ended December 31, 2010.

SHARE OPTION SCHEMES

The Company has adopted a share option scheme (the "Share Option Scheme") and a post-IPO share option scheme (the "Post-IPO Share Option Scheme") on October 27, 2006 and March 31, 2010, respectively.

A. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme:

(a) Grant of options

The Company may, at its absolute discretion, from time to time grant an option consisting of the right to acquire Shares by subscription or invite or permit a person to grant an option consisting of the right to acquire Shares by purchase in each case to individuals, selected by the Board on such terms as the Board may determine.

The grant of the options under the Share Option Scheme shall be effected by the grantor and the option holder entering into an option agreement which shall state:

(i) the date on which the option is granted;

(ii) the number, or maximum number of Shares that may be acquired;

(iii) the price (if any) payable by the option holder to acquire the option, or the method by which that price is to be determined;

(iv) when and how the option under the Share Option Scheme may be exercised;

(v) any conditions, such as performance conditions, affecting the terms or extent of the option holder's entitlement; and

(vi) where the Shares which are subject of the option are restricted shares, details of the restrictions and for these purposes the Shares are restricted shares if there is any contract, agreement, arrangement or condition which imposes a restriction on the owner of the Shares from disposing of the Shares, enjoying the proceeds of sale of such Shares or from enjoying any other rights attaching to the Shares.

Subject to the above, the option agreement shall be in such form as the Board shall prescribe from time to time. No option may be granted later than the tenth anniversary of the date of adoption by the Board of the Share Option Scheme nor to an option holder within 6 months of his anticipated retirement date.

(b) Time of exercise of option and duration of the Share Option Scheme

The grantees to whom an option has been granted under the Share Option Scheme will not be entitled to exercise his/her option prior to the third anniversary of the date of grant unless such anniversary is preceded by the sale of more than 75% of the issued share capital of the Company or a substantial change of ownership in which case the option becomes exercisable upon the occurrence of such event even if it precedes the third anniversary of the date of grant. The options granted under the Share Option Scheme are not capable of transfer, assignment or other disposal by the option holder save that the option shall be transmitted to the personal representatives of the option holder on his death. Options not exercised within the exercise period above will lapse and cease to be of further effect.

(c) Lapse of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(1) the expiry of the respective stated exercise period in the Share Option Scheme;

(2) the passing of an effective resolution or the making of an order by the court for the winding-up of the Company;

(3) in the case of an option holder who is an employee, director or consultant of the Company or its subsidiary, the date on which the grantee ceases to be an employee, director or consultant of the Company or its subsidiaries; or

(4) the date of completion of a sale of more than 75% of the issued share capital of the Company or a substantial change in ownership of the Company.

(d) Adjustment of option

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

(e) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that in respect of options which have already been granted, such alteration shall first be approved by the grantees in accordance with the terms of the Share Option Scheme.

(f) Termination of the Share Option Scheme

The Share Option Scheme will be terminated with effect from the listing of the Company's shares on the HKSE. No further options may be granted under the Share Option Scheme after such termination. The provisions of the Share Option Scheme will continue to apply to options granted before such termination. The Directors have agreed not to grant any further options under the Share Option Scheme after July 30, 2010.

(g) Administration of the Board

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on the holders of the options.

(h) Movements of the share options granted under the Share Option Scheme

During the year ended December 31, 2010:

Category and name of participant	Date of grant of share options	Adjusted Exercise price (£)	Exercise period	Adjusted number of ordinary shares subject to share options granted under the share option scheme immediately following completion of the Subdivision of Shares: Outstanding as at January 1, 2010	Granted during the year ended December 31, 2010	Exercised during the year ended December 31, 2010	Lapsed during the year ended December 31, 2010	Outstanding as at December 31, 2010
Directors								
Low Po Ling	April 23, 2009	0.028	April 23, 2011 to April 23, 2014	12,500,000	—	—	—	12,500,000
Robert Sinclair Robertson *(Note 1)*	December 4, 2006	0.021	December 4, 2006 to December 4, 2011	31,844,150	—	31,844,150	—	—
Brett Lance Miller *(Note 1)*	December 4, 2006	0.021	December 4, 2006 to December 4, 2011	7,961,050	—	7,961,050	—	—
Total				52,305,200				12,500,000

Note:

(1) Each of Robert Sinclair Robertson and Brett Lance Miller was a former non-executive Director and resigned on July 29, 2010.

B. POST-IPO SHARE OPTION SCHEME

The following is a summary of the principal terms of the Post-IPO Share Option Scheme:

1. Purpose of the Post-IPO Share Option Scheme:

The Post-IPO Share Option Scheme is established to recognize and acknowledge the contributions the Eligible Participants (as defined in paragraph 2 below) had or may have made to the Group. The Post-IPO Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

2. Participants of the Post-IPO Share Option Scheme

The Board may, at its discretion, offer to grant an option to the following persons (collectively the "Eligible Participants") to subscribe for such number of new shares as the Board may determine:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and

(iii) any advisors, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the Board will contribute or have contributed to the Company or any of its subsidiaries.

3. Total number of shares available for issue under the Post-IPO Share Option Scheme and percentage of issued share capital as at August 23, 2010:

The maximum number of shares which maybe issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme shall not in aggregate exceed 411,533,185 shares (representing 10% of the issued share capital of the Company as at August 23, 2010).

4. Maximum entitlement of each participant under the Post-IPO Share Option Scheme:

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Post-IPO Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and

(ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his/her associates (as defined in the Listing Rules) abstaining from voting.

5. The period within which the shares must be exercised under the Post-IPO Share Option Scheme:

An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall not be more than 10 years from the date of grant of options subject to the provisions for early termination set out in the Post-IPO Share Option Scheme.

6. **The minimum period for which an option must be held before it can be exercised:**

   There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.

7. **The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be paid:**

   Options granted must be taken up within 21 days of the date of offer, upon payment of HK$1 per grant.

8. **The basis of determining the exercise price:**

   Determined by the Board but shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the HKSE daily quotation sheets on the date of grant of options, which must be a trading day; (ii) the average closing price of the ordinary shares as stated in the HKSE daily quotation sheets for the five business days immediately preceding the date of grant of options; and (iii) the nominal value of an ordinary share.

9. **The remaining life of the Post-IPO Share Option scheme:**

   It will remain in force for a period of 10 years. Since the adoption of the Post-IPO Share Option Scheme, no options had been granted under the Post-IPO Share Option Scheme.

During the year ended December 31, 2010, the Company has not granted any share option under the Post-IPO Share Option Scheme.

WARRANTS GRANTED TO OUR ADVISOR

On April 14, 2008 and July 15, 2009, the Company granted to Mr. Anthony Schindler ("Mr. Schindler") the right to subscribe (the "AS Warrants") for up to 420,000 ordinary shares of £0.10 each in the capital of the Company before the Subdivision of Shares (21,000,000 ordinary shares £0.002 each in the capital of the Company after Subdivision of Shares) ("AS Warrant Shares"), representing approximately 0.49% of the existing issued share capital of the Company after the Subdivision of Shares upon exercise of the AS Warrants in full.

The details of the principal terms and conditions of the warrants granted to Mr. Schindler are summarized in the Prospectus.

Movements of the AS Warrants during the year ended December 31, 2010:

Date of grant of AS Warrants	Adjusted exercise price	Exercise period	Outstanding as at January 1, 2010	Adjusted number of AS Warrants (Note) Granted during the year ended December 31, 2010	Exercised during the year ended December 31, 2010	Lapsed during the year ended December 31, 2010	Outstanding as at December 31, 2010
	£						
April 14, 2008	0.032	April 14, 2010 to April 14, 2013	16,000,000	—	16,000,000	—	—
December 4, 2006	1.05	December 4, 2006 to December 4, 2010	5,000,000	—	5,000,000	—	—
Total			21,000,000		21,000,000		—

Note: Such shares are ordinary shares of the Company after the Subdivision of Shares.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public, as at the date of this report.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who shall retire at the forthcoming annual general meeting. A resolution will be proposed at the forthcoming annual general meeting to appoint Deloitte Touche Tohmatsu as auditors of the Company

On behalf of the Board of Directors
Zhang Jimin
Chairman

March 2, 2011

INDEPENDENT AUDITOR'S REPORT

To the shareholders of West China Cement Limited

(incorporated in Jersey with limited liability with registered number 94796)

We have audited the consolidated financial statements of West China Cement Limited ("the Company") and its subsidiaries (together, the "Group") set out on pages 38 to 97, which comprise the consolidated and company balance sheets as at December 31, 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 International Financial Reporting Standards 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. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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.

OPINION

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

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 2, 2011

CONSOLIDATED BALANCE SHEET

As at December 31, 2010
(All amounts in RMB thousands unless otherwise stated)

	Note	As at December 31, 2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	6	**3,819,616**	2,611,502
Land use rights	7	**178,054**	124,571
Mining rights	8	**64,867**	46,373
Other intangible assets	9	**63,077**	65,104
Advances for business combination	10	**300,000**	—
Deferred income tax assets	11	**17,124**	13,540
		4,442,738	2,861,090
Current assets			
Inventories	13	**166,898**	128,979
Trade and other receivables and prepayments	14	**545,457**	317,670
Restricted cash	15	**16,122**	19,582
Cash and cash equivalents	15	**374,459**	346,258
		1,102,936	812,489
Total assets		**5,545,674**	3,673,579
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	16	**118,850**	97,623
Share premium	16		
– Proposed final dividend	31	**65,033**	—
– Others		**1,936,884**	672,775
Share options reserve	17	**593**	5,439
Reverse acquisition reserve	18	**(341,304)**	(341,304)
Statutory reserve	18	**220,388**	118,140
Retained earnings	19	**1,540,448**	717,553
		3,540,892	1,270,226
Non-controlling interests		**33,124**	25,000
Total equity		**3,574,016**	1,295,226

	Note	As at December 31, 2010	2009
LIABILITIES			
Non-current liabilities			
Borrowings	20	**131,255**	360,058
Provisions for other liabilities and charges	21	**8,444**	6,265
Deferred income tax liabilities	11	**8,959**	8,079
Other liabilities	22	**39,215**	117,049
		187,873	491,451
Current liabilities			
Trade and other payables	23	**644,056**	559,395
Current income tax liabilities		**59,548**	38,639
Borrowings	20	**1,080,181**	1,288,868
		1,783,785	1,886,902
Total liabilities		**1,971,658**	2,378,353
Total equity and liabilities		**5,545,674**	3,673,579
Net current liabilities		**(680,849)**	(1,074,413)
Total assets less current liabilities		**3,761,889**	1,786,677

The notes on pages 44 to 97 are an integral part of these financial statements.

The financial statements on pages 38 to 97 were approved by the Board of Directors on March 2, 2011 and were signed on its behalf by:

Zhang Jimin
Director

Low Po Ling
Director

BALANCE SHEET

As at December 31, 2010
(All amounts in RMB thousands unless otherwise stated)

	Note	As at December 31, 2010	2009
ASSETS			
Non-current assets			
Investment in a subsidiary	12	**447,285**	447,285
Current assets			
Other receivables	14	**1,838,305**	741,283
Dividend receivable from a subsidiary		**17,078**	44,078
Restricted cash	15	—	14,572
Cash and cash equivalents	15	**19,894**	27,758
		1,875,277	827,691
Total assets		**2,322,562**	1,274,976
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**118,850**	97,623
Share premium	16		
– Proposed final dividend	31	**65,033**	—
– Others		**1,936,884**	672,775
Share options reserve	17	**593**	5,439
Accumulated losses	19	**(346,094)**	(211,977)
Total equity		**1,775,266**	563,860
LIABILITIES			
Non-current liabilities			
Borrowings	20	—	77,258
Current liabilities			
Other payables		**9,115**	10,790
Borrowings	20	**538,181**	623,068
		547,296	633,858
Total liabilities		**547,296**	711,116
Total equity and liabilities		**2,322,562**	1,274,976
Net current assets		**1,327,981**	193,833
Total assets less current liabilities		**1,775,266**	641,118

The notes on pages 44 to 97 are an integral part of these financial statements.

The financial statements on pages 38 to 97 were approved by the Board of Directors on March 2, 2011 and were signed on its behalf by:

Zhang Jimin	**Low Po Ling**
Director	Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended December 31, 2010	2009
Revenue	5	**2,960,781**	1,516,766
Cost of sales	24	**(1,768,358)**	(878,087)
Gross profit		**1,192,423**	638,679
Selling and marketing expenses	24	**(27,860)**	(15,064)
Administrative expenses	24	**(179,028)**	(77,846)
Other income	26	**171,611**	71,526
Other losses - net	27	**(215)**	(1,057)
Operating profit		**1,156,931**	616,238
Finance income	28	**1,678**	1,190
Finance costs			
– Loss on redemption of warrants		**—**	(168,451)
– Other finance costs		**(101,005)**	(73,830)
Finance costs - net		**(99,327)**	(241,091)
Profit before income tax		**1,057,604**	375,147
Income tax expense	29	**(124,337)**	(44,687)
Profit for the year		**933,267**	330,460
Other comprehensive income		**—**	—
Total comprehensive income for the year		**933,267**	330,460
Profit / total comprehensive income attributable to			
– Equity holders of the Company		**925,143**	330,460
– Non-controlling interests		**8,124**	—
		933,267	330,460
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in Renminbi per share)			
Basic earnings per share	30(a)	**0.255**	0.102
Diluted earnings per share	30(b)	**0.254**	0.101
Dividends	31	**65,033**	—

The notes on pages 44 to 97 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010
(All amounts in RMB thousands unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital (Note 16)	Share premium (Note 16)	Reverse acquisition reserve (Note 18)	Share options reserve (Note 17)	Statutory reserve (Note 18)	Retained earnings (Note 19)	Total	Non-controlling interests	Total equity
At January 1, 2009	96,811	662,636	(341,304)	6,708	63,163	442,070	930,084	—	930,084
Comprehensive income									
Profit for the year	—	—	—	—	—	330,460	330,460	—	330,460
Transaction with owners									
Transfer to statutory reserve	—	—	—	—	54,977	(54,977)	—	—	—
Recognition of vested benefit in relation to employee share option scheme	—	—	—	1,161	—	—	1,161	—	1,161
New shares issued for exercise of share options and warrants	812	10,139	—	(2,430)	—	—	8,521	—	8,521
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	25,000	25,000
At December 31, 2009	97,623	672,775	(341,304)	5,439	118,140	717,553	1,270,226	25,000	1,295,226
At January 1, 2010	**97,623**	**672,775**	**(341,304)**	**5,439**	**118,140**	**717,553**	**1,270,226**	**25,000**	**1,295,226**
Comprehensive income									
Profit for the year	—	—	—	—	—	**925,143**	**925,143**	**8,124**	**933,267**
Transaction with owners									
Transfer to statutory reserve	—	—	—	—	**102,248**	**(102,248)**	—	—	—
Recognition of vested benefit in relation to employee share option scheme	—	—	—	**418**	—	—	**418**	—	**418**
New shares issued for new listing of the Company's shares	**19,972**	**1,310,167**	—	—	—	—	**1,330,139**	—	**1,330,139**
New shares issued for exercise of share options and warrants	**1,255**	**18,975**	—	**(5,264)**	—	—	**14,966**	—	**14,966**
At December 31, 2010	**118,850**	**2,001,917**	**(341,304)**	**593**	**220,388**	**1,540,448**	**3,540,892**	**33,124**	**3,574,016**

The notes on pages 44 to 97 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2010
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended December 31, 2010	2009
Cash flows from operating activities			
Cash generated from operations	32	**1,097,820**	696,738
Interest paid		**(121,577)**	(57,975)
Income tax paid		**(106,132)**	(19,087)
Net cash generated from operating activities		**870,111**	619,676
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	32	**2,219**	1,899
Interest received		**497**	803
Advances for business combination	36(a)(i)	**(200,000)**	—
Acquisition of subsidiary, net of cash acquired		**—**	(120,922)
Holding deposit for potential acquisition	14(d)	**—**	(100,000)
Purchase of property, plant and equipment		**(1,321,645)**	(599,998)
Purchase of land use rights	7	**(56,368)**	(27,398)
Purchase of mining rights	8	**(21,691)**	(1,807)
Purchase of other intangible assets	9	**(28)**	(80)
Net cash used in investing activities		**(1,597,016)**	(847,503)
Cash flows from financing activities			
Proceeds from issuance of share capital	16,17	**1,345,105**	8,521
Proceeds from bank borrowings		**1,372,620**	1,066,205
Proceeds from other borrowings		**3,000**	8,374
Decrease in restricted cash	15	**3,460**	16,417
Repayments of bank borrowings		**(1,677,959)**	(302,848)
Repayments of other borrowings		**(150,800)**	(53,167)
Repayments of payable to non-controlling interests of a subsidiary		**(140,320)**	—
Redemption of the warrants		**—**	(206,455)
Net cash generated from financing activities		**755,106**	537,047
Net increase in cash and cash equivalents		**28,201**	309,220
Cash and cash equivalents at beginning of year	15	**346,258**	37,038
Cash and cash equivalents at end of year	15	**374,459**	346,258

The notes on pages 44 to 97 are an integral part of these financial statements.

1. GENERAL INFORMATION

West China Cement Limited (the "Company") and its subsidiaries (Note 12) (together the "Group") are principally engaged in the production and sale of cement in Shaanxi Province, the People's Republic of China (the "PRC").

The Company was incorporated on October 16, 2006 in Jersey under the Companies (Jersey) Law 1991. The address of the registered office is 47 Esplanade, St Helier, Jersey JE1 0BD and the principal place of business is Unit 1903, Tower A, Gaoke Plaza, 4th Gaoxin Road, Xi'an Hi-Tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC.

The Company's ordinary shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") since August 23, 2010. The Company issued 946,588,000 ordinary shares of GBP0.002 each at HK$1.69 per share in the share capital and received net proceeds of approximately RMB1,330,139,000 from the listing (Note 16).

These consolidated financial statements are presented in thousands of units of Renminbi ("RMB'000") unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors on March 2, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, except that certain financial assets and financial liabilities are stated at fair value or recognised initially at fair value and subsequently measured at amortised cost using the effective interest method as appropriate.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Going concern basis

As at December 31, 2010, the Group's current liabilities exceeded its current assets by approximately RMB680,849,000. The Group's current liabilities mainly included bank borrowings, trade and other payables and advances from customers. The directors of the Company have prepared the Group's cash flow projections for the period from January 1, 2011 to May 31, 2012 and have assessed the compliance of loan covenants. The directors are of the opinion that, having taken into consideration of the expected cash flows and available financial resources of the Group, the Group has sufficient financial resources to meet its liabilities as and when they fall due in the 12 months from December 31, 2010. In addition, the Group has received net proceeds of approximately RMB2,578,154,000 (equivalent to US$391,335,000) through issuing US$400,000,000 Senior Notes due January 25, 2016 on January 25, 2011 (see Note 36(c)). Accordingly, the directors believe that the Group will continue as a going concern and consequently have prepared the consolidated financial statements on a going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

2.1.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2010.

- International Accounting Standard ("IAS") 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of IAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortized over the lease term. It is not considered to have any impact on the Group's financial statements.

- IAS 36 (amendment), 'Impairment of assets', effective January 1, 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). It is not expected to have any impact on the Group's financial statements.

- Second improvements to International Financial Reporting Standards (2009) were issued in April 2009 by International Accounting Standard Board ("IASB"). All improvements are effective in the financial year of 2010. These improvements do not have any significant impact on the Group's financial statements.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning January 1, 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- International Financial Reporting Interpretations Committee Interpretation ("IFRIC") 17, 'Distribution of non-cash assets to owners' (effective on or after July 1, 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after July 1, 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

2.1.2 Changes in accounting policy and disclosures (Cont'd)

(b) (Cont'd)

- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective July 1, 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective July 1, 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within a group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, a group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group. IAS 38 (amendment), 'Intangible assets', effective January 1, 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.
- IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from January 1, 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 - Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

2.1.2 Changes in accounting policy and disclosures (Cont'd)

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning January 1, 2010 and have not been early adopted.

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption. The impact on the Group's financial statements is considered insignificant.

- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted. The impact on the Group's financial statements is considered insignificant.

- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after February 1, 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. It is not expected to have any impact on the Group's financial statements.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective July 1, 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the Group's financial statements.

- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning January 1, 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. It is not expected to have any impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

2.1.2 Changes in accounting policy and disclosures (Cont'd)

(c) (Cont'd)

- Third improvements to International Financial Reporting Standards (2010) were issued in May 2010 by IASB. All improvements are effective in the financial year of 2011. The impact on the Group's financial statements is considered not significant.
- Since October 2010, the IASB has published amendments to IFRS 7, 'Financial instruments: Disclosures on derecognition', additions to IFRS 9, 'Financial instruments - Classification and measurement for financial liability', accounting and amendments to IAS 12, 'Income taxes on deferred tax: Recovery of underlying assets'. Management is in the process of making an assessment of their impact and is not yet in a position to state what impact, if any, they may make.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.8). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation (Cont'd)

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional and the presentation currency of the Company and the subsidiaries.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains – net.

Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.5 Property, plant and equipment ("PPE")

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and provision for any impairment in value. Historical cost includes its purchase price and any other expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the consolidated statement of comprehensive income during the period in which they are incurred.

Except for mining assets (see Note (a) and (b) below), depreciation on property and plant, motor vehicles, electronic and other equipment and machinery is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

– Property and plant	20 years
– Motor vehicles	8 years
– Electronic and other equipment	5 years
– Machinery	12 years

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

Construction in progress ("CIP") represents buildings, machinery and equipment on which construction work has not been completed. It is carried at cost which includes construction expenditure and other direct costs less any impairment loss. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost. No depreciation is provided for construction in progress until it is completed and available for use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains/(losses) - net", in the consolidated statement of comprehensive income.

Mining assets include development stripping costs and decommission and restoration provisions.

(a) Stripping costs

Stripping costs incurred during the development of a limestone mine are capitalized into PPE. Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred. Capitalized stripping costs are depleted on a unit of production basis, using estimated resources as the depletion base.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.5 Property, plant and equipment ("PPE") (Cont'd)

(b) Decommissioning, restoration and similar liabilities ("Asset retirement obligation" or "ARO")

The Company recognizes provision for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and mineral assets under PPE, when those obligations result from the acquisition, construction, or normal operation of the assets. Initially, a provision for an asset retirement obligation is recognized as its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using the unit of production method. Following initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

2.6 Lease prepayments - land use rights

Lease prepayments represent payments made to acquire land use rights. Land use rights are stated at cost less accumulated amortization and impairment losses. Amortization of land use rights is charged to the consolidated statement of comprehensive income on a straight-line basis over the respective periods of the land use rights.

2.7 Mining rights

The cost of acquiring rights for the Group to extract a mine over a certain period is capitalized and subsequently stated at cost less accumulated amortization and impairment loss. Amortization of mining rights is calculated to write off the cost less accumulated impairment losses over the useful lives of the mines in accordance with the production plans and reserves of the mines estimated on a unit of production method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.8 Other intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(b) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire the specific software. These costs are amortized over five years.

(c) Customer relationships

Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. Customer relationships have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationships.

2.9 Impairment of assets

(a) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life - for example, goodwill or intangible assets not ready to use - are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.9 Impairment of assets (Cont'd)

(b) Impairment of financial assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.10 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. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents' and 'restricted cash' in the balance sheet (Note 2.12, 2.13 and 2.14).

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses and costs to complete.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.14 Restricted cash

Restricted cash is short-term cash deposits held in a separate bank account to be used only for a specific purpose. These monies are pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee; and as security deposits under bank borrowing agreement. Restricted cash cannot be withdrawn until the relevant trade facilities or loan are repaid.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to be ready for their intended use or sale are capitalized as part of the costs of the assets. All other borrowing costs are expensed.

2.18 Derivative

Derivative financial instrument are recognized at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement of fair value is charged immediately to the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.19 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is recognized directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.20 Employee benefits

(a) Pension obligations

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. 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 non-PRC employees are not covered by the pension plans.

(b) Housing benefits

The PRC employees of the Group 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 employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing benefits.

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognized as an expense on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. These share-based payments are measured at fair value at the date of grant. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognizes the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income with a corresponding adjustment to equity.

For equity-settled transactions with non-employees, the costs are recognized through the consolidated statement of comprehensive income (or where they relate to issue costs, taken against the share premium account if appropriate) with measurement based on the fair value of goods or services received.

2.21 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are recognized in the consolidated statement of comprehensive income they are intended to compensate on a systematic basis, which otherwise, grants with no future related costs are recognized in the statement of comprehensive income over the periods in which the Group recognizes the costs they are intended to compensate on receipt basis.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods

The Group produces and sells cement products to customers in the Shaanxi Province of the PRC. Customers include distributors, constructors and property development companies. Sales of goods are recognized when a group entity has delivered products and transferred the significant risks and rewards of ownership of the product to the customers, when there is no unfulfilled obligation that could affect the customers' acceptance of the products, and collectability of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.23 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.25 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, the outflow of benefits is then recognized as a provision.

3. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include cash and bank deposits, trade and other receivables and prepayments, trade and other payables, borrowings and other liabilities. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how the Group mitigates these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar ("US$") denominated borrowings. The Group does not hedge against any fluctuation in foreign currency.

At December 31, 2010, if RMB had weakened/strengthened by 1% (2009: 1%) against US$ with all other variables held constant, post-tax profit for the year would have been approximately RMB5,561,000 (unaudited) (2009: RMB6,742,000 (unaudited)) lower/higher mainly as a result of foreign exchange losses/gains on translation of US$ denominated borrowings.

(ii) Cash flow and fair value interest rate risk

The Group's interest-rate risk mainly arises from bank deposits bearing floating rate interest income and borrowings bearing floating rate interest expense. Floating rate interest income and expense expose the Group to cash flow interest-rate risk. The Group does not have formal policies on managing interest rate risk.

During the year ended December 31, 2010, if interest rates on borrowings and bank deposits had been 10 percent higher/lower (2009: 10 percent) with all other variables held constant, post-tax profit for the year would have been approximately RMB8,441,000 (unaudited) (2009: RMB2,649,000 (unaudited)) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and bank deposits.

(b) Credit risk

The Group's credit risk is primarily attributable to its receivables and bank deposits. The Group has adopted a policy of only dealing with creditworthy counterparties. The credit risk on receivables and bank deposits is low. Based on past experience, the customer payment default rate is low. The bank deposits are mainly placed in reputable PRC state-owned banks for which the credit default risk is considered remote.

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. Ongoing credit evaluation is performed on accounts receivable balances. The Group does not hold any collateral for receivables.

(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk

The directors of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing including short-term and long-term borrowings and issuance of new ordinary shares to meet its construction commitments. Due to the dynamic nature of the underlying business, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through ensuring availability of appropriate sources of financing.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping, based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At December 31, 2010					
Borrowings	**1,104,930**	**133,000**	**5,000**	**—**	**1,242,930**
Trade and other payables	**654,401**	**4,900**	**—**	**—**	**659,301**
Other liabilities	**—**	**3,700**	**—**	**—**	**3,700**
	1,759,331	**141,600**	**5,000**	**—**	**1,905,931**
At December 31, 2009					
Borrowings	1,288,868	254,888	135,000	—	1,678,756
Trade and other payables	532,421	—	—	—	532,421
Other liabilities	—	73,860	3,700	487	78,047
	1,821,289	328,748	138,700	487	2,289,224

3. FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 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 stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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 debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity as shown in the consolidated balance sheet. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents and restricted cash.

The gearing ratios at December 31, 2010 and 2009 were as follows:

	As at December 31,	
	2010	2009
Total borrowings (Note 20)	**1,211,436**	1,648,926
Less: Cash and cash equivalents and restricted cash (Note 15)	**(390,581)**	(365,840)
Net debt	**820,855**	1,283,086
Total equity	**3,574,016**	1,295,226
Gearing ratio	**23%**	99%

The decrease in gearing ratio during the year ended December 31, 2010 resulted primarily from the issue of new ordinary shares of the Company in connection with the listing of the Company's ordinary shares on the HKSE (Note 16).

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Carrying value of non-current assets

Non-current assets, including property, plant and equipment, land use rights, mining rights and other intangible assets, are carried at cost less accumulated depreciation/amortization. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts are revised, and this may have an impact on the Group's results of operations or financial position.

(b) Useful lives of property, plant and equipment

The directors determine the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. These estimates may change in the future as a result of technical innovations and competitor actions. The directors will increase depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8(a). The recoverable amounts of cash-generating units to which goodwill has been allocated have been determined based on value-in use calculations using cash flow projections, based on financial budgets approved by senior management covering a certain period and management's assumptions and estimates including forecast of selling price, discount rate and inflation rate.

(d) Income tax

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

(e) Allowance for bad and doubtful debts

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customers' current credit-worthiness, as determined by a review of current credit information.

(f) Estimated impairment of inventories

The Group writes down inventories to net realizable value based on an assessment of the realisability of inventories. The assessment of write-downs requires the directors' judgment and estimates. Where expectation is different from an original estimate, the difference will impact the carrying values of inventories and may result in write-downs of inventories in the period in which such estimates have been changed.

(g) Environmental provision

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, the Group is presently not involved in any environmental remediation and has not incurred any amounts for environmental remediation relating to its operations. The environmental provision is based on the directors' best estimate in accordance with the information provided by a third party (Note 21). Under existing legislation, the directors believe that there are no further probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, may move further towards the adoption of more stringent environmental standards, which could require increased expenditure in the future.

(h) Operating licences

The Group's licences to operate at each of mines expire at various dates from August 2011 to December 2022. The directors believe that the Group will be able to renew these licences at their option and at minimal cost, provided the Group complies with the terms of the licence. The useful life of some of the Group's tangible and intangible assets would be reduced and the Group's operation results would be affected accordingly if any licences could not be renewed.

5. REVENUE AND SEGMENT INFORMATION

The Group's subsidiaries are engaged in the production and sale of cement. The chief operating decision maker reviews the results of individual plants to make decisions about the allocation of resources. These have similar economic characteristics and are therefore presented as a single reportable segment in these consolidated financial statements. All of the revenue and operating results of the Group are derived in Shaanxi Province, the PRC. The revenue represents the sale of cement during each of the year ended December 31, 2010 and 2009.

From January 1, 2009 onwards, the Group has expanded its operations through establishing/acquiring the following subsidiaries:

Subsidiaries established/acquired	Operation commencement/acquisition date
Ankang Yaobai Cement Co., Ltd.	Operation commenced in January, 2009
Hanzhong Yaobai Cement Co., Ltd.	Operation commenced in January, 2010
Shangluo Yaobai Longqiao Cement Co., Ltd.	Operation commenced in January, 2010
Hanzhong Mianxian Yaobai Cement Co., Ltd.	Operation commenced in July, 2010
Shangluo Yaobai Xiushan Cement Co., Ltd. ("Xiushan Yaobai")	Acquired on August 1, 2009

(All amounts in RMB thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

Group	Property and plant	Motor vehicles	Electronic and other equipment	Machinery	Mining assets	Construction in progress	Total
At January 1, 2009							
Cost	345,727	13,103	5,382	595,809	62,145	722,939	1,745,105
Accumulated depreciation	(68,382)	(2,990)	(2,426)	(124,731)	(6,043)	—	(204,572)
Net book amount	277,345	10,113	2,956	471,078	56,102	722,939	1,540,533
Year ended December 31, 2009							
Opening net book amount	277,345	10,113	2,956	471,078	56,102	722,939	1,540,533
Acquisition of a subsidiary	69,827	1,905	3,809	52,308	11,500	1,126	140,475
Transferred in and contributed from non-controlling interest of a subsidiary	176,591	1,869	4,827	153,939	—	—	337,226
Transfer in from CIP	291,232	—	—	487,695	85,923	(864,850)	—
Additions	1,108	9,902	7,813	5,319	7,878	665,662	697,682
Disposals	(1,962)	(2,093)	(65)	(512)	—	—	(4,632)
Depreciation charges	(15,404)	(2,061)	(2,548)	(72,902)	(6,867)	—	(99,782)
Closing net book amount	798,737	19,635	16,792	1,096,925	154,536	524,877	2,611,502
At December 31, 2009							
Cost	874,493	23,511	21,742	1,293,466	167,446	524,877	2,905,535
Accumulated depreciation	(75,756)	(3,876)	(4,950)	(196,541)	(12,910)	—	(294,033)
Net book amount	798,737	19,635	16,792	1,096,925	154,536	524,877	2,611,502
Year ended December 31, 2010							
Opening net book amount	**798,737**	**19,635**	**16,792**	**1,096,925**	**154,536**	**524,877**	**2,611,502**
Transfer in from CIP	**513,951**	**—**	**17,281**	**611,933**	**199,868**	**(1,343,033)**	**—**
Additions	**890**	**9,441**	**3,781**	**24,728**	**10,574**	**1,367,548**	**1,416,962**
Disposals	**—**	**(2,533)**	**—**	**(388)**	**—**	**—**	**(2,921)**
Depreciation charges	**(56,118)**	**(3,056)**	**(5,302)**	**(128,935)**	**(12,516)**	**—**	**(205,927)**
Closing net book amount	**1,257,460**	**23,487**	**32,552**	**1,604,263**	**352,462**	**549,392**	**3,819,616**
At December 31, 2010							
Cost	**1,389,334**	**29,205**	**42,804**	**1,929,313**	**377,888**	**549,392**	**4,317,936**
Accumulated depreciation	**(131,874)**	**(5,719)**	**(10,251)**	**(325,050)**	**(25,426)**	**—**	**(498,320)**
Net book amount	**1,257,460**	**23,486**	**32,553**	**1,604,263**	**352,462**	**549,392**	**3,819,616**

6. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The carrying amounts of the Group's construction in progress included capitalized interest of RMB35,493,000 (Note 28) as at December 31, 2010 (2009: RMB 40,789,000).

Interest was capitalized at a weighted average effective interest rate of 9% for the year ended December 31, 2010 (2009: 13%) (Note 28).

Certain items within property, plant and equipment with aggregated carrying amounts of RMB1,435,827,000 as at December 31, 2010 (2009: RMB1,627,328,000) were pledged to banks for securing borrowings (Note 20).

Depreciation of property, plant and equipment has been charged to cost of sales, administrative expenses and capitalized in construction in progress as follows:

	Year ended December 31,	
	2010	2009
Cost of sales	**196,389**	92,035
Administrative expenses	**9,117**	7,251
Capitalized in construction in progress (Note (a))	**421**	496
	205,927	99,782

Note (a)

The depreciation of certain items of property, plant and equipment charged during the course of plant construction was capitalized in construction in progress.

(All amounts in RMB thousands unless otherwise stated)

7. LAND USE RIGHTS

Group	
At January 1, 2009	
Cost	77,924
Accumulated amortization	(1,403)
Net book amount	76,521
Year ended December 31, 2009	
Opening net book amount	76,521
Additions	27,397
Acquisition of a subsidiary	6,924
Transferred in and contributed from non-controlling interest of a subsidiary	15,165
Amortization charges	(1,436)
Closing net book amount	124,571
At December 31, 2009	
Cost	127,410
Accumulated amortization	(2,839)
Net book amount	124,571
Year ended December 31, 2010	
Opening net book amount	**124,571**
Additions	**56,368**
Amortization charges	**(2,885)**
Closing net book amount	**178,054**
At December 31, 2010	
Cost	**183,778**
Accumulated amortization	**(5,724)**
Net book amount	**178,054**

Certain land use rights with aggregate carrying amounts of RMB41,710,000 as at December 31, 2010 (2009: RMB41,527,000) were pledged to secure bank borrowings (Note 20).

Land use rights are amortized over periods ranging between 36 years to 50 years.

8. MINING RIGHTS

Group	
At January 1, 2009	
Cost	29,607
Accumulated amortization	(1,700)
Net book amount	27,907
Year ended December 31, 2009	
Opening net book amount	27,907
Additions	1,807
Acquisition of a subsidiary	5,250
Transferred in and contributed from non-controlling interests of a subsidiary	12,930
Amortization charges	(1,521)
Closing net book amount	46,373
At December 31, 2009	
Cost	49,594
Accumulated amortization	(3,221)
Net book amount	46,373
Year ended December 31, 2010	
Opening net book amount	**46,373**
Additions	**21,691**
Amortization charges	**(3,197)**
Closing net book amount	**64,867**
At December 31, 2010	
Cost	**71,285**
Accumulated amortization	**(6,418)**
Net book amount	**64,867**

Mining rights are granted from the respective Land and Resource Bureaus in Shaanxi Province. The useful lives of the mining rights range from 10 years to 40 years.

(All amounts in RMB thousands unless otherwise stated)

9. OTHER INTANGIBLE ASSETS

Group

	Goodwill (Note (a))	Customer relationships (Note (b))	Computer software	Total
At January 1, 2009				
Cost	—	—	45	45
Accumulated amortization	—	—	(45)	(45)
Net book amount	—	—	—	—
Year ended December 31, 2009				
Opening net book amount	—	—	—	—
Additions	—	—	80	80
Acquisition of a subsidiary	45,274	20,610	—	65,884
Amortization charges	—	(859)	(1)	(860)
Closing net book amount	45,274	19,751	79	65,104
At December 31, 2009				
Cost	45,274	20,610	80	65,964
Accumulated amortization	—	(859)	(1)	(860)
Net book amount	45,274	19,751	79	65,104
Year ended December 31, 2010				
Opening net book amount	**45,274**	**19,751**	**79**	**65,104**
Additions	**—**	**—**	**28**	**28**
Amortization charges	**—**	**(2,015)**	**(40)**	**(2,055)**
Closing net book amount	**45,274**	**17,736**	**67**	**63,077**
At December 31, 2010				
Cost	**45,274**	**20,610**	**108**	**65,992**
Accumulated amortization	**—**	**(2,874)**	**(41)**	**(2,915)**
Net book amount	**45,274**	**17,736**	**67**	**63,077**

(a) The goodwill arising from the acquisition of Xiushan Yaobai in 2009 was tested for impairment at December 31, 2010. The impairment test was carried out based on the approach detailed in Note 4(c) and no impairment was identified as being necessary. Management believes that the fair value of the subsidiary has not fallen since the acquisition.

(b) The customer relationships amounting to are non-contractual customer relationships acquired through the acquisition of Xiushan Yaobai (Note 12(c)). In the past few years, Xiushan Yaobai has provided cement service for some large companies. Management estimates the Group will keep their business relationship with some or all of the existing customers in the future. It is believed by the management that the customer relationships will bring in net future cash flows to the Group, and is thus identified as an intangible asset. They are amortized over a period of 10 years, which the directors believe is the period over which the Group can retain the customers.

10. ADVANCES FOR BUSINESS COMBINATION

The balance represented advances paid by the Group to a third party for the purpose of a business acquisition. Please see Note 36 (a)(i) for details.

11. DEFERRED INCOME TAX

Group

	As at December 31, 2010	2009
Deferred tax assets:		
– to be recovered after more than 12 months	**8,012**	8,874
– to be recovered within 12 months	**9,112**	4,666
	17,124	13,540
Deferred tax liabilities:		
– to be settled after more than 12 months	**(1,888)**	(7,366)
– to be settled within 12 months	**(7,071)**	(713)
	(8,959)	(8,079)

Deferred tax assets:

	Allowance & provision	Deferred income	Others	Total
At January 1, 2009	798	—	—	798
Credited to the consolidated statement of comprehensive income	2,679	9,357	706	12,742
At December 31, 2009	3,477	9,357	706	13,540
Credited/(charged) to the consolidated statement of comprehensive income	4,768	(478)	(706)	3,584
At December 31, 2010	**8,245**	**8,879**	**—**	**17,124**

(All amounts in RMB thousands unless otherwise stated)

11. DEFERRED INCOME TAX (Cont'd)

Deferred tax liabilities:

	Assets booked at fair value on acquisition	Loans recorded at amortized cost	Total
At January 1, 2009	—	—	—
Acquisition of a subsidiary	(8,376)	—	(8,376)
Credited to the consolidated statement of comprehensive income	297	—	297
At December 31, 2009	(8,079)	—	(8,079)
Credited/(charged) to the consolidated statement of comprehensive income	713	(1,593)	(880)
At December 31, 2010	**(7,366)**	**(1,593)**	**(8,959)**

12. INVESTMENT IN A SUBSIDIARY

Company

	As at December 31, 2010	2009
Unlisted investment	**447,285**	447,285

Unlisted investment represents the investment cost for acquiring West China Cement Co. Ltd.

The Company is an investment holding company.

12. INVESTMENT IN A SUBSIDIARY (Cont'd)

Company (Cont'd)

The particulars of subsidiaries as at December 31, 2010 are as follows:

Name of Company	Place and date of incorporation/ establishment and kind of legal entity	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(a) Enterprise incorporated outside the PRC					
West China Cement Co. Ltd ("West China BVI")	British Virgin Islands July 14, 2006 limited liability company	HKD7,800	100%	—	Investment holding
Faithful Alliance Limited ("Faithful Alliance") 集誠有限公司	Hong Kong January 14, 2010 limited liability company	HKD100	—	100%	Investment holding
(b) Enterprises established by the Group and operating in the PRC					
Yaobai Special Cement Group Co., Ltd (Formerly known as 'Shaanxi Yaobai Special Cement Co. Ltd')("Shaanxi Yaobai") 堯柏特種水泥集團有限公司 (前稱「陝西堯柏特種水泥有限公司」)	Shaanxi, PRC December 21, 2000 limited liability company	RMB1,100,000,000	—	100%	Production and sale of cement
Xi'an Lantian Yaobai Cement Co. Ltd ("Lantian Yaobai") 西安藍田堯柏水泥有限公司	Shaanxi, PRC December 16, 2005 limited liability company	RMB100,000,000	—	100%	Production and sale of cement
Ankang Yaobai Cement Co. Ltd ("Ankang Yaobai") 安康堯柏水泥有限公司	Shaanxi, PRC April 12, 2007 limited liability company	RMB345,000,000	—	100%	Production and sale of cement
Hanzhong Yaobai Cement Co. Ltd ("Hanzhong Yaobai") 漢中堯柏水泥有限公司	Shaanxi, PRC July 10, 2008 limited liability company	RMB135,000,000	—	100%	Production and sale of cement
Hanzhong Mianxian Yaobai Cement Co. Ltd ("Mianxian Yaobai") 漢中勉縣堯柏水泥有限公司	Shaanxi, PRC December 22, 2008 limited liability company	RMB140,000,000	—	100%	Production and sale of cement
Xi'an Yaobai Material Co.Ltd ("Xi'an Yaobai") 西安市堯柏物資有限公司	Shaanxi, PRC July 27, 2009 limited liability company	RMB35,000,000	—	100%	Purchase and sale of raw material
Hanzhong Xixiang Yaobai Cement Co, Ltd ("Xixiang Yaobai") 漢中西鄉堯柏水泥有限公司	Shaanxi, PRC August 11, 2009 limited liability company	RMB21,000,000	—	100%	Production and sale of cement
Shangluo Yaobai Longqiao Cement Co. Ltd ("Longqiao Yaobai") 商洛堯柏龍橋水泥有限公司	Shaanxi, PRC December 31, 2009 limited liability company	RMB125,000,000	—	80%	Production and sale of cement
(c) The subsidiary acquired by the Group whose operation is in the PRC					
Xiushan Yaobai 商洛堯柏秀山水泥有限公司	Shaanxi, PRC March 25, 2005 limited liability company	RMB20,000,000	—	100%	Production and sale of cement

(All amounts in RMB thousands unless otherwise stated)

13. INVENTORIES

Group

	As at December 31, 2010	2009
Cost:		
Raw materials	**116,295**	81,751
Work in progress	**25,127**	23,618
Finished goods	**27,605**	25,739
	169,027	131,108
Provision for decline in net realizable value:		
Raw materials	**(2,129)**	(2,129)
Inventories, net	**166,898**	128,979

The cost of inventories recognized as an expense and included in "cost of sales" amounted to approximately RMB1,483,567,000 for the year ended December 31, 2010 (2009: RMB742,513,000).

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

Group

	As at December 31, 2010	2009
Bills receivable	**23,218**	5,370
Trade receivables (Note (a))	**230,609**	95,676
Less: provision for impairment of trade receivables (Note (c))	**(11,714)**	(4,881)
	242,113	96,165
Other receivables (Note (b))	**184,251**	54,975
Holding deposit for a potential acquisition (Note (d))	**—**	100,000
Less: provision for impairment of other receivables (Note (c))	**(1,807)**	(370)
	182,444	154,605
Prepayments	**120,900**	66,900
Trade and other receivables and prepayments – net	**545,457**	317,670

The carrying amounts of trade and other receivables and prepayments approximate to their fair values.

As at December 31, 2009 and 2010, trade and other receivables and prepayments were mainly denominated in RMB, except that as at December 31, 2010 a balance of RMB15,069,000 which was included in other receivables was denominated in HK dollar.

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Cont'd)

Group (Cont'd)

Note (a)

Bills receivable are mainly aged within three months.

Trade receivables are all due from third parties. The ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	As at December 31,	
	2010	2009
Within 90 days	168,098	64,220
Over 90 days and within 180 days	33,275	9,198
Over 180 days and within 360 days	15,560	6,947
Over 360 days and within 720 days	10,758	11,365
Over 720 days	2,918	3,946
	230,609	95,676

The average credit period taken on sale of goods is between 60-90 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sale of goods. This provision has been determined by reference to past default experience.

As at December 31, 2010, trade receivables of RMB11,714,000 were impaired (December 31, 2009: RMB4,881,000).

As at December 31, 2010, the trade receivables that were neither past due nor impaired were RMB136,205,000 (2009: RMB59,296,000).

The ageing analysis of trade receivables overdue but not impaired is as follows:

	As at December 31,	
	2010	2009
Overdue for 1 to 90 days	60,991	12,731
Overdue for 91 to 180 days	21,431	6,723
Overdue for 181 to 360 days	268	12,045
	82,690	31,499

Note (b)

Details of other receivables are as follows:

	As at December 31,	
	2010	2009
Value-added tax ("VAT") recoverable and income tax receivable	43,997	17,839
VAT refund receivable	17,171	—
Receivable from non-controlling interests of a subsidiary	—	30,000
Others (i)	123,083	7,136
	184,251	54,975

(i) Included in the balance was an amount of RMB100,000,000 paid by the Group to a third party on behalf of a new subsidiary to be established on January 6, 2011 for purchasing inventories. Please see Note 36(a)(ii) for details.

(All amounts in RMB thousands unless otherwise stated)

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Cont'd)

Group (Cont'd)

Note (c)

Movements in impairment of trade receivables are as follows:

	Year ended December 31,	
	2010	2009
At beginning of the year	**(4,881)**	(3,465)
Provision for impairment of trade receivables	**(7,058)**	(1,416)
Receivables written off during the year as uncollectible	**225**	—
At end of the year	**(11,714)**	(4,881)

Movements in impairment of other receivables are as follows:

	Year ended December 31,	
	2010	2009
At beginning of the year	**(370)**	(414)
Provision for impairment of other receivables	**(1,437)**	—
Reversal of impairment of other receivables	**—**	44
At end of the year	**(1,807)**	(370)

Impairment provision for trade and other receivables is charged to administrative expenses in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering of additional cash.

Note (d)

The balance represented a holding deposit paid by the Group to a third party for the purpose of securing the exclusivity of a business acquisition. Please see Note 36 (a)(i) for details.

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Cont'd)

Company

	As at December 31, 2010	2009
Amounts due from subsidiaries (Note (i))	**1,823,210**	726,691
Others	**15,095**	14,592
	1,838,305	741,283

(i) Amounts due from subsidiaries

	As at December 31, 2010	2009
Amounts due from Faithful Alliance	**1,140,831**	—
Amounts due from West China BVI	**421,708**	417,866
Amounts due from Shaanxi Yaobai	**260,671**	308,825
	1,823,210	726,691

The amounts due from subsidiaries are unsecured and repayable on demand. The carrying amounts of amounts due from subsidiaries approximate to their fair values.

15. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Group

	As at December 31, 2010	2009
Cash at bank and on hand (Note (a))	**390,581**	365,840
Less: Restricted cash (Note (b))	**(16,122)**	(19,582)
Cash and cash equivalents	**374,459**	346,258

	As at December 31, 2010	2009
Cash at bank and on hand is denominated in:		
– RMB	**354,314**	318,497
– GBP	**1,242**	5,378
– US$	**17,939**	22,380
– HKD	**964**	3
	374,459	346,258
Restricted cash is denominated in:		
– RMB	**16,122**	5,010
– US$	**—**	14,572
	16,122	19,582

(All amounts in RMB thousands unless otherwise stated)

15. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (Cont'd)

Company

	As at December 31, 2010	2009
Cash at bank and on hand (Note (a))	**19,894**	42,330
Less: restricted cash (Note (b))	**—**	(14,572)
Cash and cash equivalents	**19,894**	27,758

	As at December 31, 2010	2009
Cash at bank and on hand is denominated in:		
– US$	**17,913**	22,380
– GBP	**1,242**	5,378
– HK$	**739**	—
	19,894	27,758

The restricted cash of the Company as at December 31, 2009 is all denominated in US$.

(a) Bank deposits bear interests at rates based on bank deposit rates as agreed with banks for the year 2010. The weighted average effective interest rate on deposits was 0.35% per annum for the year ended December 31, 2010 (2009: 0.37% per annum)

(b) Restricted cash represents cash set aside as a result of issuance of trade facilities such as bankers' guarantee, and a security deposit pledged to a bank under a bank borrowing agreement.

(c) Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

(d) As at December 31, 2009 and 2010, the bank deposits were mainly placed in reputable PRC state-owned banks.

16. SHARE CAPITAL AND PREMIUM

Group and Company

	Number of issued and fully paid ordinary shares in thousand	Share capital	Share premium	Total
At January 1, 2009	64,113	96,811	662,636	759,447
New shares issued for exercise of share options and warrants (Note 17)	749	812	10,139	10,951
At December 31, 2009	64,862	97,623	672,775	770,398
Adjusted for subdivision of 1 into 50 (Note (b))				
At January 1, 2009 (after share subdivision)	3,205,650	96,811	662,636	759,447
New shares issued for exercise of share options and warrants (Note 17)	37,450	812	10,139	10,951
At December 31, 2009	3,243,100	97,623	672,775	770,398
At January 1, 2010 (after share subdivision)	**3,243,100**	**97,623**	**672,775**	**770,398**
New shares issued for new listing of the Company´s shares (Note (c))	**946,588**	**19,972**	**1,379,030**	**1,399,002**
Share issuance cost for new listing of the Company's shares (Note (c))	**—**	**—**	**(68,863)**	**(68,863)**
New shares issued for exercise of share options and warrants (Note 17)	**60,812**	**1,255**	**18,975**	**20,230**
At December 31, 2010	**4,250,500**	**118,850**	**2,001,917**	**2,120,767**

(a) The Company's shares had been originally listed on Alternative Investment Market ("AIM") in London since December 4, 2006. As at January 1 and December 31, 2009, the authorized share capital of the Company is GBP20,000,000 divided into 200,000,000 ordinary shares of GBP0.1 each.

(b) On July 20, 2010, an shareholders' resolution was passed to approve the delisting of the Company's ordinary shares from AIM, and the subdivision of each existing issued and unissued ordinary share of GBP0.1 each of the Company into 50 new ordinary shares of GBP0.002 each so that the authorized share capital of the Company of GBP20,000,000 is divided into 10,000,000,000 ordinary shares of GBP0.002 each, which were conditional upon and with effect from the date of commencement of trading of the Company's ordinary shares on the HKSE. The delisting and subdivision came into effect upon the commencement of trading of the Company's ordinary shares on the HKSE on August 23, 2010. The movements of ordinary shares shown above and the weighted average number of ordinary shares in issues for the purpose of calculation of earnings per share as detailed in Note 30 for each of the year ended December 31, 2009 and 2010 were adjusted for the effect of share subdivision.

16. SHARE CAPITAL AND PREMIUM (Cont'd)

Group and Company (Cont'd)

(c) On August 23, 2010, the Company issued 823,120,000 new ordinary shares of GBP0.002 each at a subscription price of HK$1.69 per share under a global offering. The new ordinary shares of the Company were listed on the HKSE on August 23, 2010. On August 30, 2010, 123,468,000 ordinary shares of GBP0.002 each, representing 15% of the shares issued under the global offering, were issued at a subscription price of HK$1.69 per share as over-allotment shares. These shares were listed on the HKSE on September 2, 2010. Total proceeds received by the Company amounted to approximately RMB1,399,002,000. In connection with listing of the Company's shares on the HKSE, approximately RMB68,863,000 were incurred as costs in relation to issue of new shares and debited to share premium.

17. SHARE-BASED PAYMENT

Group and Company

Share options and warrants are granted to directors and advisors of the Company respectively. The options and warrants are exercisable starting after two years from the grant date. The options and warrants have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options and warrants in cash.

Movements in the number of share options and warrants outstanding and their related weighted average exercise prices taken into account the share subdivision are as follows:

	Year ended December 31,			
	2010		2009	
	Average exercise price in GBP per share	Options/ warrants (thousand shares)	Average exercise price in GBP per share	Options/ warrants (thousand shares)
At beginning of the year	0.02	73,312	0.02	98,262
Granted	—	—	0.03	12,500
Exercised	0.02	(60,812)	0.02	(37,450)
At end of the year	0.03	12,500	0.02	73,312
Options		12,500		52,312
Warrants		—		21,000
		12,500		73,312

The related weighted average share price in the market at the time of exercise for the year ended December 31, 2010 was GBP 0.15 (2009: GBP 0.04).

For each of the year ended December 31, 2009 and 2010, as a result of exercise of share options and warrants (if any), total exercise price of RMB8,521,000 and RMB14,966,000 were received by the Company, RMB812,000 and RMB1,255,000 were credited to share capital, RMB10,139,000 and RMB18,975,000 were credited to share premium, and RMB2,430,000 and RMB5,264,000 were debited to share options reserve, respectively.

17. SHARE-BASED PAYMENT (Cont'd)

Group and Company (Cont'd)

Share options and warrants outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price in GBP per share	Options/warrants (thousands) As at December 31, 2010	2009
2010	0.02	—	5,000
2011	0.02	—	39,806
2013	0.03	—	16,000
2014	0.03	**12,500**	12,500
		12,500	73,306

The weighted average fair value of options granted for the year ended December 31, 2009 was GBP 0.01, determined using the Black-Scholes valuation model. The significant inputs into the model were as follows:

	Year ended December 31, 2009
Weighted average share price	GBP 1.39
Exercise price	GBP 1.42
Expected volatility	51%
Expected dividend yield	0%
Expected option life	5 years
Annual risk-free interest rate	2.55%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the past years.

18. OTHER RESERVES

Group

Reverse acquisition reserve

The acquisition of West China BVI by the Company on October 27, 2006 was accounted for as a reverse acquisition, in accordance with IFRS 3, 'Business Combinations'.

The Company became the legal parent of West China BVI by way of a share exchange agreement. According to the share exchange agreement, the shareholders of West China BVI transferred the entire issued share capital of West China BVI to the Company in consideration for 42,735,965 ordinary shares (equivalent to 2,136,798,250 ordinary shares after subdivision) of GBP 0.1 each. This business combination is regarded as a reverse acquisition whereby West China BVI, the legal subsidiary, is the acquirer and has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities.

The reverse acquisition reserve represents the difference between the fair value and carrying amount of net assets of West China BVI at the acquisition date.

Statutory reserve

In accordance with relevant rules and regulations in the PRC and provision of the articles of association of the Group companies established in the PRC, the Group companies in the PRC are required to appropriate 10% of the profit-after-taxation determined under the accounting principles and financial regulations applicable in the PRC to the statutory reserve until the balances reach 50% of their respective registered capital. The reserve can be used to offset losses incurred or to increase their respective paid-in capital. Except for offset of losses incurred, any other usage should not result in the reserve balance falling below 25% of registered capital.

19. RETAINED EARNINGS/(ACCUMULATED LOSSES)

Group	Year ended December 31, 2010	2009
Retained earnings:		
At beginning of the year	**717,553**	442,070
Profit for the year	**925,143**	330,460
Appropriation to statutory reserve	**(102,248)**	(54,977)
At end of the year	**1,540,448**	717,553

Company	Year ended December 31, 2010	2009
Accumulated losses:		
At beginning of the year	**(211,977)**	(50,705)
Loss for the year	**(134,117)**	(161,272)
At end of the year	**(346,094)**	(211,977)

The loss attributable to equity holders of the Company for the year ended December 31, 2010 is dealt with in the financial statements of the Company to the extent of RMB134,117,000 (2009: RMB161,272,000).

Dividends distribution

According to the relevant PRC regulations, retained earnings available for distribution by the Group's PRC subsidiaries should be the retained earnings recorded in the statutory financial statements that are prepared under the accounting principles and financial regulations applicable in the PRC.

Pursuant to the Corporate Income Tax Law of the PRC (the "New CIT Law") approved by the National People's Congress on March 16, 2007, which was effective from January 1, 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction, such as Hong Kong, of the foreign investors. For the Group, the applicable rate is estimated by management as 5% subject to the PRC tax bureau's approval at the time of dividend repatriation. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of their earnings generated from January 1, 2008.

(All amounts in RMB thousands unless otherwise stated)

20. BORROWINGS

Group	As at December 31, 2010	2009
Non-current		
Bank borrowings-secured (Note (a))	257,255	704,522
Less: Current portion	(132,000)	(376,464)
	125,255	328,058
Other borrowings (Note (b))	6,000	32,000
	131,255	360,058
Current		
Bank borrowings-secured (Note (a))	948,181	790,604
Other borrowings (Note (b))	—	121,800
Current portion of bank borrowings-secured	132,000	376,464
	1,080,181	1,288,868
Total borrowings	1,211,436	1,648,926

(a) Bank borrowings

The Group's bank borrowings are denominated in the following currencies:

	As at December 31, 2010	2009
RMB		
- borrowed by subsidiaries (i) (ii)	667,255	794,800
US$		
- US$60 million (iii)	—	358,921
- US$50 million from Superb Miles Limited (iv)	—	341,405
- US$85 million from ICBC International Finance Limited (v)	538,181	—
	1,205,436	1,495,126

Bank borrowings were secured as follows:

	As at December 31, 2010	2009
Jointly secured by land use rights and PPE (i)	410,000	478,000
Jointly secured by land use rights, PPE and equity interests of subsidiaries (ii)	257,255	316,800
Secured by equity interests of a subsidiary (iii)	—	358,921
Secured by the Company's shares (iv)	—	341,405
Secured by equity interests of a subsidiary (v)	538,181	—
	1,205,436	1,495,126

20. BORROWINGS (Cont'd)

(a) Bank borrowings (Cont'd)

(i) The bank borrowings were secured by certain land use rights (Note 7) and property and plant and equipment (Note 6) of the Group, with total carrying amounts of RMB548,811,000 as at December 31, 2010 (2009: RMB 681,764,000).

(ii) The Group's bank borrowings of RMB257,255,000 as at December 31, 2010 (2009: RMB 316,800,000) were jointly secured by certain land use rights (Note 7), property and plant and equipment (Note 6) of the Group with total carrying values of RMB928,726,000 as at December 31, 2010 (December 31, 2009: RMB987,091,000), and secured by 100% equity interests of Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai and Mianxian Yaobai. The loan was also secured by corporate guarantees issued by Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai and Mianxian Yaobai. During the year ended December 31, 2010, the Group incurred capital expenditures exceeding the limit stipulated in the loan agreement. The Group obtained a waiver from compliance with the limit from the agent bank representing the majority of lending banks by April 30, 2010. On December 29, 2010, the clauses in connection with compliance of capital expenditure limit were removed from the loan agreement. These borrowings were subsequently repaid on February 16, 2011 (Note 36(d)).

(iii) The Group's bank borrowings of US$60,000,000 from Credit Suisse, Singapore Branch ("CS Facility") as at December 31, 2009 were secured by 100% equity interests of Shaanxi Yaobai. The amount was fully repaid on March 9, 2010 and all related facility securities have been discharged. In connection with the repayment, an early repayment charge of RMB 7,479,000 was paid by the Group (Note 28). In addition, the Group had issued warrants for subscription of 7,082,142 ordinary shares (equivalent to 354,107,100 ordinary shares after subdivision) in the Company at a strike price of US$2.6916 as part of the CS Facility. On November 3, 2009, the Group redeemed the warrants by paying the warrant holders with total amount of RMB206,455,000. Taking into account the fair value of the warrants upon the redemption amounting to approximately RMB38,004,000, the Group charged a net amount of RMB168,451,000 as finance cost in 2009.

(iv) The Group's bank borrowings of US$50,000,000 from Superb Miles Limited, a subsidiary of ICBC International Holdings ("ICBCI Facility") as at December 31, 2009 were guaranteed by a director, Mr. Jimin Zhang ("Mr. Zhang"), and secured by 19,393,776 shares (equivalent to 969,688,800 shares after share subdivision) of the Company (the "Shares") held by Mr. Zhang. The whole amount of US$50,000,000 was fully repaid on August 23, 2010 and the charge over the Shares held by Mr. Zhang and personal guarantee provided by Mr. Zhang were released on the same day.

(v) On December 14, 2010, the Company entered into a bridge loan agreement of US$85,000,000 with ICBCI International Finance Limited (the "ICBCI Bridge Loan"). The ICBCI Bridge Loan is secured by (i) an equity pledge over Shaanxi Yaobai provided by Faithful Alliance; (ii) a share mortgage over the shares in Faithful Alliance executed by West China BVI; and (iii) a personal guarantee provided by Mr. Zhang in favor of the lender. In addition, share certificates of 1,000,000 issued shares of the Company held by Mr. Zhang were delivered to the lender under a custody arrangement. The ICBCI Bridge Loan was subsequently repaid on January 25, 2011 (Note 36(c)).

The Group's bank borrowings are repayable as follows:

	As at December 31,	
	2010	2009
6 months or less	**881,081**	626,563
6-12 months	**199,100**	540,505
1-2 years	**125,255**	204,596
2-5 years	**—**	123,462
	1,205,436	1,495,126

The fair values of current bank borrowings approximate to their carrying amounts as the discounting impact is not significant.

(All amounts in RMB thousands unless otherwise stated)

20. BORROWINGS (Cont'd)

(a) Bank borrowings (Cont'd)

The carrying amounts and fair values of the non-current bank borrowings are as follows:

	As at December 31, 2010	2009
Carrying amount		
- US$ bank borrowings (i)	—	77,258
- RMB bank borrowings (ii)	125,255	250,800
	125,255	328,058
Fair value		
- US$ bank borrowings (i)	—	114,819
- RMB bank borrowings (ii)	125,255	250,800
	125,255	365,619

(i) The carrying amounts of US$ bank borrowings represented the non-current portion of CS Facility as at December 31, 2009. The fair values are estimated based on discounted cash flows using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics as at December 31, 2009.

(ii) The fair values of non-current RMB bank borrowings approximate their carrying amounts at each of the balance sheet dates as all non-current RMB bank borrowings carry floating interest rates.

The weighted average effective interest rates at each balance sheet date were as follows:

	As at December 31, 2010	2009
RMB bank borrowings	6.64%	7.27%
US$ bank borrowings	12.00%	12.94%

20. BORROWINGS (Cont'd)

(b) Other borrowings

Other borrowings are all lent by third parties, unsecured and denominated in RMB. All of the other borrowings as at December 31, 2010 (2009: RMB3,000,000) are interest free. The weighted average effective interest rate for the remaining other borrowings as at December 31, 2009 was 9.16% per annum.

Other borrowings are repayable as follows:

	As at December 31, 2010	2009
6 months or less	—	92,800
6-12 months	—	29,000
1-2 years	**1,000**	29,000
2-5 years	**5,000**	3,000
	6,000	153,800

The fair values of other borrowings approximate to their carrying amounts because the impact of discounting is not significant.

Company

The borrowings of the Company represent all the US$ bank borrowings of the Group. For the breakdown of bank borrowings of the Company, please refer to Note 20 (a) (iii) - (v).

21. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Environmental restoration
At December 31, 2009	6,265
Additional provisions	1,755
Unwinding of discount (Note 28)	424
At December 31, 2010	**8,444**

According to a regulation issued in 2009 by the Ministry of Land and Resources of the People's Republic of China, the owner of a mine should undertake the obligation of environmental restoration. A provision is recognized for the present value of costs to be incurred for the restoration of the limestone mines of the Group based on the best estimate of future expenditure by the management. However, so far the local Land and Resource Bureau has not issued specific rules for the restoration standard, and if the restoration standard is released, the estimate of restoration costs may be subject to revision in the future. The amounts provided in relation to restoration and environmental cleanup costs are reviewed at least annually based upon the facts and circumstances available at the time, and the provisions are updated accordingly.

(All amounts in RMB thousands unless otherwise stated)

22. OTHER LIABILITIES

Group	As at December 31,	
	2010	2009
Non-current		
Long-term payables for mining rights (Note (a))	3,700	7,400
Deferred income for purchase of equipment (Note (b))	35,515	39,002
Payable to a non-controlling interests of a subsidiary	—	70,160
Others	—	487
	39,215	117,049

(a) Long-term payables represent amounts payable for the purchase of mining rights from the Ministry of Land and Resource of Lantian County, which is interest free and repayable in installments up to 2012. The carrying amount of the payable approximates to its fair value.

(b) Deferred income represents government grants to the Company's subsidiaries for the purchase of domestic equipment. The balance will be amortized based on the useful life of the equipment.

23. TRADE AND OTHER PAYABLES

Group

	As at December 31, 2010	2009
Trade payables	**327,195**	185,950
Other payables	**178,846**	141,343
Advances from customers	**80,213**	56,920
Accrued taxes other than income tax (Note (a))	**27,587**	32,288
Staff salaries and welfare payables	**12,813**	17,204
Other liabilities	**9,823**	10,472
Bonus payable	**6,000**	6,000
Acquisition consideration payable	**823**	36,050
Interest payable	**673**	3,007
Payable to non-controlling interests of a subsidiary	**83**	70,161
	644,056	559,395

The carrying amounts of trade and other payables approximate to their fair values.

The ageing analysis of the trade payables were as follows:

	As at December 31, 2010	2009
Within 90 days	**263,893**	147,187
Over 90 days and within 180 days	**39,564**	21,926
Over 180 days and within 360 days	**16,633**	12,851
Over 360 days and within 720 days	**7,105**	3,967
Over 720 days	**–**	19
	327,195	185,950

(a) Accrued taxes other than income tax are analyzed as follows:

	As at December 31, 2010	2009
VAT (i)	**14,431**	20,433
Resource tax, bulk cement special funds and other taxes	**13,156**	11,855
	27,587	32,288

(i) The sales of self-manufactured products of the PRC subsidiaries are subject to VAT. The applicable tax rate for domestic sales is 17%.

Input VAT on purchases of raw materials, fuel, utilities and certain PPE can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT.

(All amounts in RMB thousands unless otherwise stated)

24. EXPENSES BY NATURE

	Year ended December 31, 2010	2009
Changes in inventories of finished goods and work in progress	**(3,320)**	(17,440)
Raw materials and consumables used	**526,550**	303,015
Employee benefit expenses (Note 25)	**89,788**	57,653
Depreciation and amortization (Note 6, 7, 8 and 9)	**213,643**	103,103
Utilities and electricity	**960,337**	456,938
Marketing expenses	**8,221**	3,773
Transportation expenses	**20,233**	10,459
Provision for impairment loss on receivables (Note 14(c))	**8,495**	1,372
Entertainment expenses	**8,234**	4,582
Advertising costs	**2,354**	3,873
Auditor's remuneration	**1,750**	1,898
Taxes and levies	**30,968**	16,220
Operating lease payments	**835**	1,556
Expenses incurred in connection with the listing of the Company's shares on the HKSE	**65,679**	—
Other expenses	**41,479**	23,995
Total cost of sales, selling and marketing and administrative expenses	**1,975,246**	970,997

25. EMPLOYEE BENEFIT EXPENSE

	Year ended December 31, 2010	2009
Wages and salaries	**77,618**	51,685
Pension costs - defined contribution plans	**5,888**	1,983
Other social security costs	**2,922**	552
Share-based payment	**418**	1,161
Other allowances and benefits	**2,942**	2,272
Total including directors' emoluments	**89,788**	57,653

The number of employees of the Group is 3,069 as at December 31, 2010 (2009: 2,606).

25. EMPLOYEE BENEFIT EXPENSE (Cont'd)

(b) Directors' emoluments

Directors' emoluments for each of the year ended December 31, 2010 and 2009 are set out below:

	Year ended December 31, 2010	2009
Name of Director		
Robert Sinclair Robertson (i)		
– Salaries	**853**	801
– Share options scheme accrued	**88**	567
Brett Lance Miller (i)		
– Salaries	**597**	561
– Share options scheme accrued	**22**	144
Low Po Ling		
– Salaries	**720**	720
– Share options scheme accrued	**221**	265
Zhang Jimin		
– Salaries, bonus and pension scheme	**1,200**	1,200
Wang Jianli		
– Salaries, bonus and pension scheme	**466**	450
Tian Zhenjun (ii)		
– Salaries, bonus and pension scheme	**500**	—
Ma Zhaoyang (iii)		
– Fees	**58**	—
Lee Kong Wai Conway (iv)		
– Fees	**58**	—
Wong Kun Kau (iv)		
– Fees	**58**	—
Tam King Ching Kenny (iv)		
– Fees	**58**	—
	4,899	4,708

(i) Resigned as non-executive director on July 29, 2010.

(ii) Appointed as executive director on May 17, 2010.

(iii) Appointed as non-executive director on July 29, 2010.

(iv) Appointed as independent non-executive director on July 29, 2010.

No director has waived or agreed to waive any emoluments.

(All amounts in RMB thousands unless otherwise stated)

25. EMPLOYEE BENEFIT EXPENSE (Cont'd)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the year ended December 31, 2010 and 2009 are all directors.

26. OTHER INCOME

	Year ended December 31, 2010	2009
Tax refund (Note (a))	**162,647**	65,035
Government grant	**8,964**	6,491
	171,611	71,526

(a) The tax refund mainly represents the refund of VAT for sales of certain types of cement where industrial and construction wastes have been recycled.

27. OTHER LOSSES - NET

	Year ended December 31, 2010	2009
Write-back of aged payables	**1,526**	1,344
Donations	**(1,894)**	(825)
Loss on disposal of PPE	**(702)**	(2,733)
Others	**855**	1,157
	(215)	(1,057)

28. FINANCE INCOME AND COSTS

	Year ended December 31, 2010	2009
Finance income		
– Interest income on short-term bank deposits	**497**	803
– Net foreign exchange gains on financing activities (Note (a))	**1,181**	387
	1,678	1,190
Finance costs		
– Interest expense on bank borrowings	**(126,850)**	(113,443)
– Interest expense on other borrowings	**(1,745)**	(1,176)
– Charges on early repayment of bank borrowings (Note 20(a)(iii))	**(7,479)**	—
– Unwinding of discount (Note 21)	**(424)**	—
Less: amounts capitalized (Note (b))	**35,493**	40,789
	(101,005)	(73,830)
Loss on redemption of warrants (Note 20(a)(iii))	**–**	(168,451)
	(101,005)	(242,281)
Net finance costs	**(99,327)**	(241,091)

(a) Net foreign exchange gains mainly relate to the translation of the bank borrowings from US$ to RMB for each of the year ended December 31, 2010 and 2009. The US$ currency was depreciating as compared to RMB for each of the year ended December 31, 2010 and 2009.

(b) Interest expense was capitalized as construction in progress at the weighted average effective interest rate of 9% per annum for the year ended December 31, 2010 (2009: 13%) (Note 6).

29. INCOME TAX EXPENSE

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

	Year ended December 31, 2010	2009
Current tax	**127,041**	57,726
Deferred tax (Note 11)	**(2,704)**	(13,039)
Income tax expense	**124,337**	44,687

(All amounts in RMB thousands unless otherwise stated)

29. INCOME TAX EXPENSE (Cont'd)

Tax on the Group's profit before tax differs from the theoretical amount that would arise using the PRC corporate income tax rate of 25% as follows:

	Year ended December 31,	
	2010	2009
Profit before tax	**1,057,604**	375,147
Tax calculated at statutory income tax	**264,401**	93,787
Tax effects of:		
Expenses not deductible for tax purposes	**4,887**	614
Tax effect of tax exemption and reduced tax rate under tax holiday (Note (a))	**(164,112)**	(101,429)
Tax credit (Note (b))	**(6,085)**	(4,355)
Losses not subject to tax	**24,537**	55,333
Tax losses not recognized for deferred tax assets	**709**	737
Income tax expense	**124,337**	44,687

Pursuant to the rules and regulations of Jersey Island and the British Virgin Islands, the Company and West China BVI are not subject to any income tax in those jurisdictions.

The income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for each of the year ended December 31, 2010 and 2009 based on existing legislations, interpretations and practices.

Under the new PRC CIT Law, the corporate income tax rate applicable to the Group' s subsidiaries located in Mainland China from January 1, 2008 is 25% except for the subsidiaries entitled to preferential tax treatment as detailed in Note (a).

29. INCOME TAX EXPENSE (Cont'd)

(a) In light of that Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai and Hanzhong Yaobai are established in the western development zone of China, they are entitled to the preferential tax treatment for Western Development Policy ("WDP Policy") if they are engaged in projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000) as their principal business and the revenue from the principal operations accounts for over 70% of their total revenue. The applicable reduced preferential CIT rate under the WDP Policy is 15%. The operations of Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai and Hanzhong Yaobai have met the requirements under the WDP Policy and have obtained approval. WDP Policy expired by the end of 2010.

Furthermore, given that Shaanxi Yaobai and Lantian Yaobai are foreign invested enterprises, pursuant to old PRC corporate income tax law, they are entitled to a tax holiday of a two-year exemption from national corporate income tax, followed by a three-year 50% tax reduction commencing from the first profit-making year net of losses carried forward from previous five years. 2010 and 2011 are the last year of three-year 50% tax reduction enjoyed by Shaanxi Yaobai and Lantian Yaobai respectively.

The applicable CIT rates of Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai and Hanzhong Yaobai for each of the year ended December 31, 2010 and 2009 are as follows:

	Year ended December 31,	
	2010	2009
Shaanxi Yaobai	**7.5%**	7.5%
Lantian Yaobai	**7.5%**	7.5%
Ankang Yaobai	**15%**	15%
Hanzhong Yaobai	**15%**	25%

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for each of the year ended December 31, 2010 and 2009.

(b) Tax credit represents credit on corporate income tax for purchase of domestically produced equipment or environment protection related equipment pursuant to the applicable PRC tax laws and regulations.

30. EARNINGS PER SHARE

(a) Basic

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

	Year ended December 31,	
	2010	2009
Profit attributable to equity holders of the Company	**925,143**	330,460
Weighted average number of ordinary shares in issue (thousands)	**3,623,230**	3,226,550
Basic earnings per share (RMB per share)	**0.255**	0.102

30. EARNINGS PER SHARE (Cont'd)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the share options and warrants issued by the Company, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

	Year ended December 31,	
	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	**925,143**	330,460
Weighted average number of ordinary shares in issue (thousands)	**3,623,230**	3,226,550
Adjustments for share options and warrants (thousands)	**23,658**	32,650
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**3,646,888**	3,259,200
Diluted earnings per share (RMB per share)	**0.254**	0.101

31. DIVIDENDS

A dividend in respect of the year ended December 31, 2010 of RMB0.0153 per share, amounting to a total dividend of RMB65,033,000, is to be paid out from the Company's share premium. Such dividend is to be proposed at the annual general meeting on May 18, 2011. These financial statements do not reflect this dividend payable. In the opinion of the directors, such distribution is in compliance with the Articles of Association adopted by the Company and also the Companies (Jersey) Law 1991, as amended.

The aggregate amounts of the dividends proposed during the year ended December 31, 2010 (2009: Nil) have been disclosed in the consolidated statement of comprehensive income in accordance with the Hong Kong Companies Ordinance.

32. CASH GENERATED FROM OPERATIONS

	Year ended December 31,	
	2010	2009
Profit before income tax	**1,057,604**	375,147
Adjustments for:		
– Depreciation and amortization (Notes 24)	**213,643**	103,103
– Loss on disposal of PPE (Note 27)	**702**	2,733
– Provision for impairment loss for receivables (Note 24)	**8,495**	1,372
– Share-based payment	**418**	1,161
– Finance costs - net (Note 28)	**99,327**	241,091
Changes in working capital		
– Inventories	**(37,919)**	(29,881)
– Trade and bills receivables	**(153,007)**	(4,936)
– Other receivables and prepayments	**(168,175)**	(52,632)
– Trade and other payables	**76,732**	59,580
Cash generated from operations	**1,097,820**	696,738

32. CASH GENERATED FROM OPERATIONS (Cont'd)

In the consolidated cash flow statement, proceeds from sale of PPE comprise:

	Year ended December 31,	
	2010	2009
Net book amount (Note 6)	**2,921**	4,632
Loss on disposal of PPE (Note 27)	**(702)**	(2,733)
Proceeds from disposal of PPE	**2,219**	1,899

33. CONTINGENCIES

As at December 31, 2009 and 2010, the Company and the Group did not have any significant contingent liabilities.

34. COMMITMENTS

Group

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date, but not yet provided for was as follows:

	As at December 31,	
	2010	2009
Property, plant and equipment	**657,890**	558,336

(b) Operating lease commitments - Group companies as lessee

The Group leases various buildings as offices and warehouses under non-cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,	
	2010	2009
No later than 1 year	**775**	74
Later than 1 year and no later than 5 years	**646**	209
Later than 5 years	**—**	446
	1,421	729

Company

As at December 31, 2009 and 2010, the Company did not have any significant capital or operating lease commitments.

(All amounts in RMB thousands unless otherwise stated)

35. RELATED-PARTY TRANSACTIONS

(a) Key management compensation

Key management includes directors (executive and non-executive) and senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended December 31,	
	2010	2009
Salaries and other short-term employee benefits	**6,932**	5,821
Share-based payments	**331**	976
	7,263	6,797

(b) Amount due from key management

	As at December 31,	
	2010	2009
Yongji Li	**—**	2,662

The amount due from Mr. Yongji Li was relating to one customer who offered to settle its debts due to the Group by transferring its real property to the Group. Mr. Yongji Li, a director of Shaanxi Yaobai, accepted the property and assumed the liability due by this. The amount was interest free, unsecured and fully repaid in June 2010.

(c) The details of security provided by Mr. Jimin Zhang for bank borrowings are set out in Note 20(a)(iv).

36. EVENTS AFTER THE BALANCE SHEET DATE

(a)(i) On January 6, 2011, the Group acquired 80% equity interests in a cement production business through establishing a new joint venture, namely Ankang Yaobai Jianghua Cement Co. Ltd. (安康堯柏江華水泥有限公司, "New JV"), together with a 20% non-controlling interests, namely Shaanxi Ankang Jianghua Group Cement Co. Ltd. (陝西安康江華集團水泥有限公司, "Jianghua"). The business licence of New JV was approved by Ankang Administration for Industry and Commerce on January 6, 2011. As a result of the acquisition, the Group is expected to increase its market share in Ankang City, Shaanxi Province.

Pursuant to a joint venture agreement (the "JV Agreement") entered into by a Company's subsidiary, Shaanxi Yaobai, Jianghua and a Jianghua's related party, namely Ankang Jianghua Mining Resources Co. Ltd. (安康市江華礦產資源有限責任公司, "Jianghua Mining") on December 31, 2010, the Group would inject cash and assets totalling RMB320,000,000 into New JV, of which RBM120,000,000 would be credited as paid-in capital and RMB200,000,000 would be credited as share premium; and Jianghua would inject a group of assets and liabilities with net value of RMB80,013,000 into new JV, of which RMB30,000,000 would be credited as paid-in capital and RMB50,013,000 would be credited as share premium.

Upon the conclusion of the JV Agreement, the Group prepaid RMB200,000,000 to Jianghua for the purpose of establishing New JV. In connection with this business acquisition, the Group had already paid RMB100,000,000 to Jianghua in November 2009 as a deposit to secure the exclusivity (Note 2(d)). Accordingly the Group in total paid Jianghua RMB300,000,000 in advance up to December 31, 2010.

36. EVENTS AFTER THE BALANCE SHEET DATE (Cont'd)

Upon the establishment of New JV, the Group injected cash of RMB120,000,000 and receivables due from Jianghua of RMB200,000,000 into New JV as paid-in capital and share premium respectively; and Jianghua injected assets, mainly representing a cement production plant and other related non-current assets, totalling RMB378,481,000 and payables totalling RMB298,468,000 into New JV.

In summary, total considerations paid by the Group for the purpose of business acquisition totalled approximately RMB320,000,000.

As further stipulated in the JV Agreement, Jianghua Mining is obliged to transfer the mining right of a lime mine to New JV within three months subsequent to the date of the JV Agreement. The consideration is not exceeding RMB50,000,000 and to be determined based on the valuation of the mining right upon the transfer, and will be paid by New JV.

As at the date of this report, management has not finalised the identification of the fair value of the net assets acquired due to the valuation of certain tangible and intangible assets acquired including land use rights, PPE and mining rights has not been completed.

(a)(ii) In connection with establishment of New JV, on December 30, 2010, the Group prepaid Jianghua an amount of RMB100,000,000 on New JV's behalf for purchasing inventories from Jianghua. The inventories were transferred to New JV subsequent to New JV's establishment with creating a corresponding accounting entry of crediting the account of "Amount due to Shaanxi Yaobai" on the balance sheet of New JV.

(b) On January 10, 2011, the Group signed an agreement with the non-controlling shareholder of Longqiao Yaobai to acquire the remaining 20% equity interests in Longqiao Yaobai from the non-controlling shareholder with a cash consideration of RMB25 million. As a result of the acquisition, the Group holds 100% equity interests in Longqiao Yaobai.

(c) On January 25, 2011, the Company issued US$400,000,000 Senior Notes due January 25, 2016 (the "Notes") and listed on the Singapore Exchange Securities Trading Limited. The Notes bear interest from January 25, 2011 at 7.5% per annum payable semi-annually in arrears on January 25 and July 25 of each year. The Notes are senior obligations of the Company guaranteed by two subsidiaries, namely West China BVI and Faithful Alliance.

The Company may at its option redeem the Notes, in whole or in part, at any time on or after January 25, 2014, at redemption prices set forth in the Company's offering memorandum dated January 18, 2011 (the "OM") plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to January 25, 2014, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of ordinary share of the Company at a redemption price of 107.5% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. In addition, the Company may redeem the Notes, in whole but not in part, at any time prior to January 25, 2014, at a price equal to 100% of the principal amount of the applicable Notes plus a premium as set forth in the OM. Upon the occurrence of a change of control triggering event as detailed in the OM, the Company must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

After deducting the costs directly attributable to issuance of the Notes, the net proceeds received by the Company amounted to US$391,335,000. Upon the receipt of the net proceeds, the ICBCI Bridge Loan of US$85,000,000 was fully repaid (Note 20(a)(v)).

(d) On February 16, 2011, the Group repaid bank borrowings of RMB257,255,000 (Note 20(a)(ii)).

GROUP FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
	(note 1)	(note 2)	(note 2)	(note 2)	
Revenue	307,319	525,929	866,126	1,516,766	**2,960,781**
Profit before tax	86,308	150,273	257,729	375,147	**1,057,604**
Income tax expense	2,331	—	(11,566)	(44,687)	**(124,337)**
Profit for the year	88,639	150,273	246,163	330,460	**933,267**
Attributable to:					
Owners of the Company	88,639	150,273	246,163	330,460	**925,143**
Minority interests	—	—	—	—	**8,124**
	88,639	150,273	246,163	330,460	**933,267**

ASSETS AND LIABILITIES

	At 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
	(note 1)	(note 2)	(note 2)	(note 2)	
Total assets	912,411	1,218,617	1,926,073	3,673,579	**5,545,674**
Total liabilities	(389,163)	(536,176)	(995,989)	(2,378,353)	**(1,971,658)**
	523,248	682,441	930,084	1,295,226	**3,574,016**
Equity attributable to:					
Owners of the Company	523,248	682,441	930,084	1,270,226	**3,540,892**
Minority interests	—	—	—	25,000	**33,124**
	523,248	682,441	930,084	1,295,226	**3,574,016**

Note:

1. The figures for the year ended December 31, 2006 have been extracted from the annual report of the Company dated March 26, 2007, which is prepared in accordance with IFRSs as adopted by the European Union.
2. The figures for the three years ended December 31, 2009 have been extracted from the prospectus of the Company dated August 10, 2010.