Materials
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Prosperous Life

2011
Interim Report

SINOMA
中国中材

**China National Materials Company Limited**

A joint stock company incorporated in the People's Republic of China with limited liability
(Stock Code: 01893)

# Contents

SINOMA

# Corporate Information

*As at 30 June 2011*

## DIRECTORS

### Executive Directors

TAN Zhongming *(Chairman)*

LI Xinhua[1]

### Non-executive Directors[2]

YU Shiliang *(Vice Chairman)*[3]

LIU Zhijiang

CHEN Xiaozhou[4]

### Independent Non-executive Directors

LEUNG Chong Shun

SHI Chungui

LU Zhengfei

WANG Shimin

ZHOU Zude

## SUPERVISORS

XU Weibing *(Chairman)*

ZHANG Renjie

WANG Jianguo

YU Xingmin

QU Xiaoli

## STRATEGY COMMITTEE

TAN Zhongming *(Chairman)*

YU Shiliang

LIU Zhijiang

LI Xinhua

CHEN Xiaozhou[4]

ZHOU Zude

## AUDIT COMMITTEE

LU Zhengfei *(Chairman)*

WANG Shimin

LIU Zhijiang

## REMUNERATION COMMITTEE

SHI Chungui *(Chairman)*

LEUNG Chong Shun

LU Zhengfei

## NOMINATION COMMITTEE

YU Shiliang *(Chairman)*

TAN Zhongming

LIU Zhijiang

LI Xinhua[1]

[1] Mr. LI Xinhua was appointed as the president of the Company and member of the Nomination Committee on 4 January 2011. Please refer to the announcement of the Company dated 4 January 2011 for details.

[2] Mr. ZHANG Hai and Mr. TANG Baoqi were appointed as the non-executive Directors of the Company upon the shareholders' approval on the first extraordinary general meeting for 2011 held on 12 July 2011 (the "**EGM**"). Please refer to the announcements of the Company dated 20 May 2011 and 12 July 2011 for details.

[3] Mr. YU Shiliang was appointed as the vice chairman of the Board in substitution of Mr. LI Xinhua who has resigned as the vice chairman. Please refer to the announcement of the Company dated 20 May 2011 for details.

[4] Mr. CHEN Xiaozhou resigned as the non-executive Director and member of the Strategy Committee due to job re-designation. His resignation became effective upon shareholders' approval on the appointment of Mr. TANG Baoqi as a non-executive Director at the EGM. Please refer to the announcements of the Company dated 20 May 2011 and 12 July 2011 for details.

## SECRETARY OF THE BOARD

GU Chao

## JOINT COMPANY SECRETARIES

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

## AUTHORISED REPRESENTATIVES

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

## REGISTERED OFFICE AND PLACE OF BUSINESS

11 Beishuncheng Street
Xizhimennei
Xicheng District
Beijing 100035, the PRC

## PLACE OF BUSINESS IN HONG KONG

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

## LEGAL ADVISORS

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

## AUDITORS

### Hong Kong auditor

SHINEWING (HK) CPA Limited

### PRC auditor

ShineWing Certified Public Accountants Co., Ltd.

## HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

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

## STOCK CODE

01893

## COMPANY WEBSITE

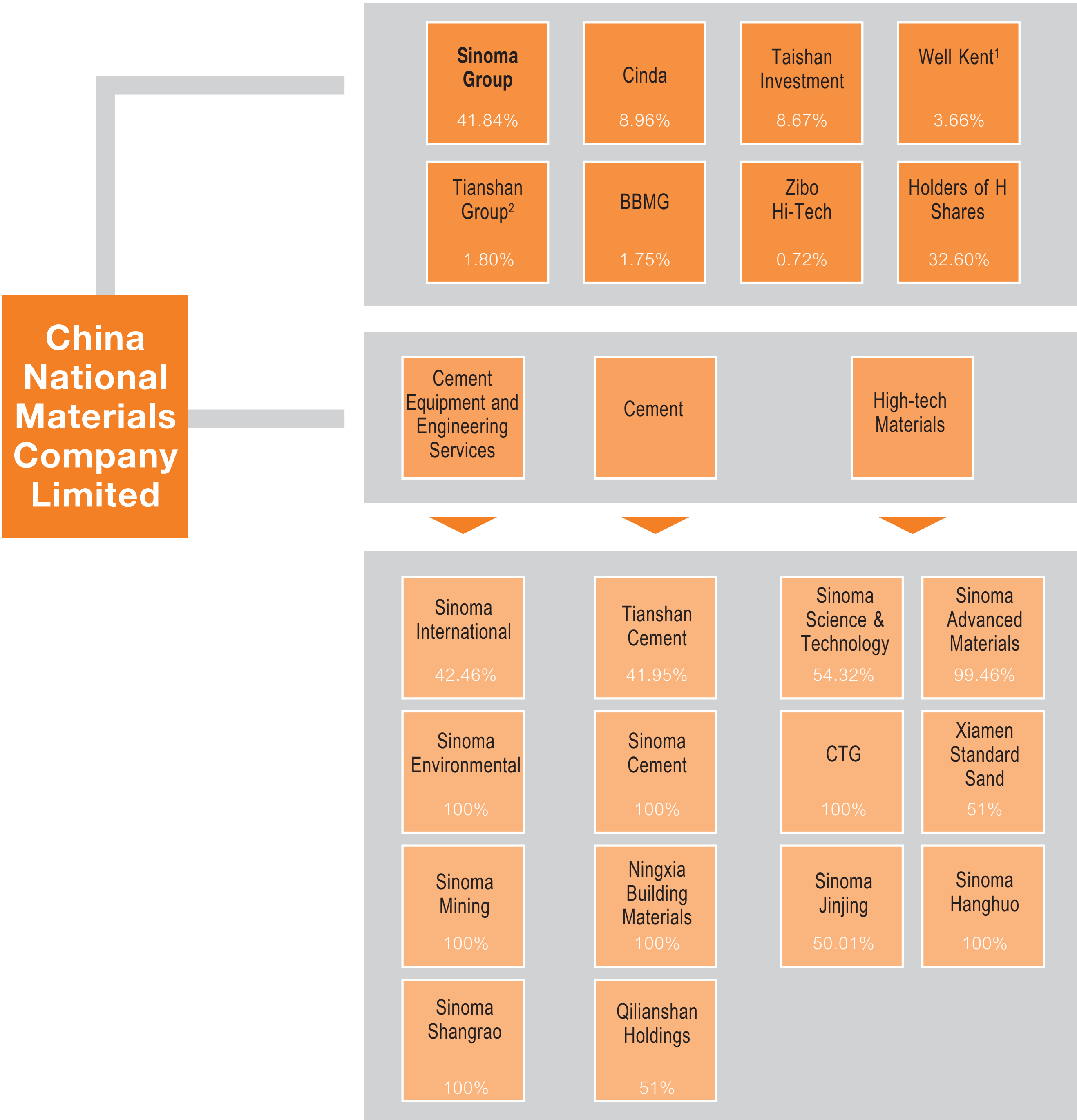
http://www.sinoma-ltd.cn

## INVESTOR CONTACT

Tel: (8610)8222 9925
Fax: (8610)8222 8800
E-mail: ir@sinoma-ltd.cn

# Corporate Structure

*As at 30 June 2011*




Notes:

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

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

# Financial Summary

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2011** | 2010 | Change |
| | **RMB million** | RMB million | % |
| | **(Unaudited)** | (Unaudited) | |
| | | (Restated) | |
| Turnover | **22,315.77** | 18,261.71 | 22.20 |
| Profit for the period | **1,947.23** | 1,351.03 | 44.13 |
| Profit attributable to owners of the Company | **765.95** | 448.59 | 70.75 |
| Basic earnings per share (RMB) | **0.214** | 0.126 | 69.84 |

| | **30 June** | 31 December | |
|---|---|---|---|
| | **2011** | 2010 | Change |
| | **RMB million** | RMB million | % |
| | **(Unaudited)** | (Unaudited) | |
| | | (Restated) | |
| Total assets | **75,582.67** | 67,221.50 | 12.44 |
| Total liabilities | **52,265.12** | 46,697.32 | 11.92 |
| Equity attributable to owners of the Company | **11,480.25** | 9,644.93 | 19.03 |
| Equity per share (RMB) | **3.21** | 2.70 | 18.89 |

Note: The figures for 2010 have been restated due to the completion of acquisitions of Shangrao Slipform, Shangrao Maintenance, Suzhou Concrete Cement Institute and Shandong Industrial Ceramics during the reporting period, which were under common control.

# Business Summary

## CEMENT EQUIPMENT AND ENGINEERING SERVICES

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2011** | 2010 | Change % |
| Amount of new order intakes (RMB million) | **23,259** | 16,318 | 42.54 |

| | **30 June 2011** | 31 December 2010 | Change % |
|---|---|---|---|
| Amount of backlog (RMB million) | **60,155** | 49,211 | 22.24 |

## CEMENT

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2011** | 2010 | Change % |
| Sales volume of cement ('000 tonnes) | **19,626** | 13,758 | 42.65 |
| Sales volume of clinker ('000 tonnes) | **5,327** | 4,523 | 17.78 |

## HIGH-TECH MATERIALS

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2011** | 2010 | Change % |
| Sales volume of glass fiber and products ('000 tonnes) | **232** | 200 | 16.00 |
| Sales volume of fan blades for wind power generator (set) | **594** | 559 | 6.26 |
| Sales volume of solar-energy fused silica crucibles (unit) | **41,770** | 10,102 | 313.48 |
| Sales volume of CNG cylinders (unit) | **70,728** | 33,210 | 112.97 |

**Dear Shareholders,**

On behalf of the Board, I am pleased to report to the shareholders the interim report of the Group for the six months ended 30 June 2011.

During the reporting period, though the world economy, following last year's momentum, continued to recover, a number of obstacles were on the way of recovery. Due to further increasing inflationary pressure, the Chinese economy maintained steady yet slightly slowing-down growth. Led by the strategy under the "Twelfth Five Year Plan", the Company continued to leverage on its leading technology, market layout and industrial competitiveness, strengthened the development of core industries, and strived to expand both domestic and foreign markets; the Company also actively integrated internal resources, and constantly improved various management systems, thus ensuring its sound growth on the performance of the Company. During the reporting period, turnover of the Group was RMB22,315.77 million, representing an increase of 22.20% as compared with the corresponding period of 2010; profit for the period was RMB1,947.23 million, representing an increase of 44.13% as compared with the corresponding period of 2010; profit attributable to owners of the Company was RMB765.95 million, representing an increase of 70.75% as compared with the corresponding period of 2010. Earnings per share amounted to RMB0.214.

## CEMENT EQUIPMENT AND ENGINEERING SERVICES

During the reporting period, the Company's cement equipment and engineering services segment continued to maintain a healthy growth, by exercising its advantages in market competitiveness and industry leadership. While consolidating the traditional market, this segment also actively explored the emerging markets domestically and overseas. The amount of new order intakes during the reporting period was RMB23.259 billion, representing a growth of 42.54% as compared with the corresponding period of 2010. As at 30 June 2011, the amount of backlog of the segment hit a new record high of RMB60.155 billion. The further expansion of its leading market share ensured stable profit growth of this segment.

During the reporting period, the Company continuously promoted industrial extension, actively diversified into related industries with bright development prospects, and further expanded the sales and marketing business on spare parts and storage network construction in this segment. The first investment project for co-disposal of solid waste in cement kilns is in a smooth progress. The Company conducted effective optimization and integration of its internal organizational structure, leading to more efficient cost control and continuous growth of gross profit margin of the segment and an increase in segment results.

## CEMENT

Through improving internal management to enhance the core competitiveness, the Company maintained good profitability amidst fierce market competition in this segment. The Company continued to promote its strategy on expansion of cement business in West China. By seizing the opportunities on the Chinese government's policy of supporting the development of Xinjiang region, the Company accelerated the expansion of its production capacity in this region, and further strengthened its leading position in the Northwest region. During the reporting period, the production capacity increased by 5.5 million tonnes. While expanding production capacity, the Company also strengthened the industrial chain extension, speeded up its steps into concrete and related fields, and successfully raised the production capacity of commercial concrete by 3.15 million cubic meters in this segment. Despite being dedicated to development in this segment, the Company also fulfilled corporate social responsibility, and stepped up efforts in energy conservation and emission reduction. During the reporting period, the Company's generation capacity from waste heat of cement clinker production line amounted to 420.55 million KWH, while 377,400 tonnes of carbon dioxide emission was reduced. The turnover and results of the Company's cement segment increased by 66.14% and 89.00% respectively as compared with the corresponding period of 2010.

## HIGH-TECH MATERIALS

During the reporting period, the Company seized the opportunities driven by the State's "Twelfth Five Year Plan" which focused on the development of high-tech materials, new energy and other strategic emerging industries, and enhanced its sales volume by fine-tuning its product mix, expanding the production capacity and market share of its competitive products, continuously improving its product quality and sales volume of products was continuously increased. The sales volume of glass fiber and related products witnessed an increase of 16% as compared with the corresponding period of 2010. The production automation level and efficiency of solar-energy fused silicon crucibles were obviously enhanced, with sales volume increased by 313% as compared with the corresponding period of 2010, and the actual production capacity increasing to over 200,000 units. By seizing market opportunities, the production capacity utilization rate of CNG cylinder business was improved, with sales volume up by 113% as compared with the corresponding period of 2010. Facing the fierce competition in wind power blades business, the Company, while striving to reduce costs, gave full play to its technological advantages to actively develop new products and continuously improve its product competitiveness.

## PROSPECTS

In the second half of 2011, the Company will closely monitor the changes in the macroeconomic environment, monetary policy dynamics and market fluctuations in both domestic and foreign markets, while accelerating the development of competitive industries, increasing investment in scientific research, and stepping up efforts in cultivating new industries. In addition to a continuous integration of internal resources, the Company will actively seek opportunities for reorganization, merger and acquisition, and enhance its regional leadership and its market leading position. The Company will also strengthen its cost control, perfect the risk management and control system, continuously improve its core competitiveness, and strive to realize a higher growth rate in annual turnover. The Company is confident that it will achieve outstanding results and lay a solid foundation for its future rapid development.

For the cement equipment and engineering services segment, the Company will continue to strengthen its strategic layout in Indian and the South American markets, and further explore new markets. By seizing the opportunities presented by the newly developed cement market in West China, the Company will continue to maintain its leading market position. The amount of new order intakes for the whole year is expected to exceed RMB30 billion. With further optimization of the industrial structure of this segment, the equipment self-sufficiency rate will be steadily raised, thus gradually boosting the level of gross profit margin and net profit margin; the Company will further speed up the cultivation of related diversified businesses, and based on large-scale domestic and international storage layout, the Company will develop the spare parts and after-sale service business in this segment, and offer a full range of online services for global cement manufacturers. As the national policies give further support to energy-saving environmental protection industries, the Company will increase investment in research and development, and actively promote the use of cement kiln in co-disposal of urban household waste and urban sludge, and promote the industrialization of equipment.

For the cement segment, the Company will continue to adhere to the strategies of expansion in West China, maintaining regional leadership and promoting environment-friendly measures. By seizing on the favorable opportunities brought by the State policies of supporting the development of Xinjiang region, the Company will accelerate project construction and acquisition, actively expand production capacity and market share, enhance industrial concentration, and continue to improve product profitability. Meanwhile, the Company will strengthen its internal management and improve its operational efficiency. The sales volume of cement and clinker for the whole year is expected to exceed 60 million tonnes. The Company will accelerate the development of concrete business, vigorously expand the market, and strive to achieve concrete production capacity of 20 million cubic meters.

For the high-tech materials segment, the Company will grasp the favorable opportunities brought by the State policies on cultivation and development of strategic emerging industries and leverage on its synergic advantage in R&D provided by the Company's various research institutes, to continue to fine-tune its product mix and improve its product quality. The Company will continue to expand the production capacity of solar-energy fused silicon crucibles, and complete the production bases located in Jiangxi, Jiangsu, Sichuan and other regions. In terms of wind power blades, research and development of new products shall be accelerated, the production lines of wind power blade mould shall be promoted and the wind power blades industrial chain will be extended. While fine-tuning the product mix of glass fiber, the Company will actively seek overseas acquisitions to further expand its production capacity and improve its product quality. The Company will continue to improve the capacity utilization rate, reduce costs and improve profitability, so as to ensure a rapid growth in the performance of the segment in 2011.

On behalf of the Board, I would like to express my heartfelt gratitude to all the shareholders, investors and customers for your continuous support and thank the management and all the staff of the Company for their dedication and hard work for the Group.

**TAN Zhongming**
*Chairman of the Board*

Beijing, China
30 August 2011

# Management Discussion and Analysis

## BUSINESS REVIEW

### Overview

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

During the reporting period, facing the complicated and changing economic environment domestically and internationally, the Company fully tapped on its comprehensive advantages to further develop domestic and international market. The Company witnessed a significant increase in new order intakes in the cement equipment and engineering services segment as compared with the corresponding period of last year together with a record high in backlog, further securing the Company's leading position in the global cement engineering market. The Company accelerated business development and improved industrial layout in the cement segment while proactively extending its industrial chains by leveraging on the favourable opportunities from the new round of incentive Chinese government policies on the West Development and the faster paces to eliminate obsolete cement capacities, which further enhanced the Company's regional advantages and market dominance. For the high-tech materials segment, investment in new materials, environmental protection industries and advantageous products was boosted to profit from Chinese government's efforts in developing emerging strategic sectors and industrial restructuring. With continuously enhanced technological innovation capability and internal management, significant improvements were achieved in business scale, market competitiveness and operating profitability. In addition, the Company strengthened its capital operation and management to proactively cope with the pressures from domestic inflation and tightening monetary policies, ensuring healthy and sound expansion of its businesses. The Company realized continuous and rapid growth on operating results during the reporting period with the efforts from all of the segments.

## CEMENT EQUIPMENT AND ENGINEERING SERVICES

### Industry Review

The global economy recovered slowly with heightened uncertainties during the reporting period. The uncertain economic prospect in short run slowed down the construction of new cement engineering projects, as recovery was weak in developed economies and the reviving emerging economies were also faced with escalating inflation risks.

In line with the faster paces of cement industrial restructuring under the appropriately tight monetary policies of Chinese government continued during the reporting period, the national fixed assets investment in the cement industry for the first half of 2011 recorded a decrease of 15.34% as compared with the corresponding period of last year. The demand for newly-added production capacity was relatively high with the support of some regional policies.

### Business Review

#### Securing the advantage of leading market share by pressing ahead with market development

Aggressively exploring overseas market during the reporting period, the Company continued to strengthen its strategic presence in markets including India and South America and further expanded its market share in Africa and Southeast Asia, with new overseas order intakes amounting to RMB12.454 billion, representing a growth of 33.89% as compared with the corresponding period of last year. Paralleling to its continuous efforts in exploring markets globally, the Company captured the opportunities from the State's support to West regions especially to Xinjiang to push forward business expansion under EP and EPC modes, with new domestic order intakes amounting to RMB10.805 billion, representing a growth of 53.98% as compared with the corresponding period of last year. The total new order intakes during the reporting period reached RMB23.259 billion, representing an increase of 42.53% as compared with the corresponding period of last year. As at 30 June 2011, the Company's backlog amounted to RMB60.155 billion, hitting a record high.

#### Strengthening contract fulfillment capability to facilitate smooth implementation of projects

During the reporting period, the Company further strengthened its ability to allocate project resources, and continuously improved its scientific management rationality and risk control ability to ensure the smooth implementation of projects under construction in a high-quality and high-efficiency way. The production lines including cement line III in Oman, NOSTRA project in Hungary, line II of GOE project in Egypt, VASSILIKO project in Cyprus and standard cement line in Kazakhstan successfully commenced production, while the AYCC project in Yemen received Provisional Acceptance Certificate (PAC), and the Tracim 5000t/d project in Turkey received Final Acceptance Certificate (FAC) from the project owner. A number of production lines including Mengxi Qingshui, Chongqing Conch line II, Zunyi Sancha Lafarge Rui'an were completed and put into operation. The overseas projects under construction were progressing smoothly in spite of the instabilities in some areas.

#### Enhancing resource consolidation to continuously improve operating efficiency

During the reporting period, Sinoma Technology & Equipment Group Co., Ltd. was established through the consolidation of internal equipment resources and organisational restructuring, laying a solid foundation for larger, stronger and more specialized equipment business. Based on the ongoing resource consolidation and improving organisational structure, the Company expects to further optimise resource allocation and improve operating efficiency to secure a sustainable steady growth for this segment in the future.

## CEMENT

### Industry Review

During the reporting period, cement industry maintained a sound growth benefiting from the steady growth momentum of macro economy in China. In the first half year, the production volume of 951 million tonnes has been reached in China, representing an increase of 19.6% as compared with the corresponding period of last year. In terms of supply, along with the in-depth implementation of the government policies on limiting newly-added capacities and eliminating obsolete capacities, most of areas in China witnessed a slowdown in supply growth.

Despite the overall growth in cement industry, regional markets demonstrated different development dynamics during the reporting period. While East and Central China witnessed surging cement prices due to power restriction in the first half of 2011, cement prices were stable or on the upside in South and North China due to steady demand growth and a drop in newly-added production capacity. In Northwest China, except in certain areas where the swarming release of production capacity led to a drop in prices, prices in other regions maintained relatively high benefiting from growing demand.

### Business Review

#### Improving segment results benefiting from regional rotation effect

Benefiting from the booming market, the Company's production capacity in West China was brought into full play with stable profitability during the reporting period. Meanwhile, cement price rises in East and Central China resulted in significantly higher profitability of the Company in the regions. During the reporting period, turnover of the cement segment was RMB8,740.28 million, representing an increase of 66.14% as compared with the corresponding period of last year; and segment results amounted to RMB1,745.99 million, representing an increase of 89.00% as compared with the corresponding period of last year.

#### Speeding up industrial chain extension and optimising organisational structure for better industrial layout

During the reporting period, the Company proactively extended its industrial chains for the cement segment based on its strengthened principal cement development, aiming at a diversification centering on its principal business. While taking efforts in exploring concrete business, the Company extended to concrete aggregate and other sectors. To uplift the technology level and competitiveness of its concrete business, the Company acquired Suzhou Concrete Cement, the only concrete scientific research institute in China. During the reporting period, the Company continued its organisational restructuring for this segment, advancing the merger of Ningxia Building Materials by Saima Industry. As of the date of this report, the merger was conditionally approved by the Merger and Restructuring Review Committee for Listed Companies of China Securities Regulatory Commission. During the reporting period, 4 production lines of the Company were completed and commenced operation with newly-added production capacity of 5.50 million tonnes, the Company's controlled production capacity reached to 76.00 million tonnes. Currently, the Company has 14 production lines under construction which will contribute an additional production capacity of 23.20 million tonnes upon completion, including 9 production lines with newly-added production capacity of 15.00 million tonnes which are expected to commence operation at the end of 2011. To ensure effective implementation of the capacity expansion strategy, the subsidiaries Tianshan Cement and Qilianshan Co. embarked on re-financing on the A share market.

#### Promoting low-carbon and clean production to develop the eco-efficient economy

The Company proactively promoted energy saving and emission reduction to facilitate environmental improvement and enhance the economic efficiency. During the reporting period, the pure low-temperature and waste heat power generation projects for 2 cement production lines were completed and put into operation with an newly-added installed capacity of waste heat power generators of 10.5MW. 9 waste heat power generation projects were under construction with a designed capacity of 48.5MW. During the reporting period, the accumulated installed capacity of the waste heat power generation of cement production lines of the Company was 186MW with an accumulated power generation of 420.55 million KWh, thereby reducing the emission of

377,400 tonnes of carbon dioxide. During the reporting period, a new clinker production line of the Company with a capacity of 2,500 tpd by utilising carbide slag to replace limestone was set up in Fukang, Xinjiang. Upon completion and putting into production of the new clinker line, the Company's 4 cement production lines utilising carbide slag are estimated to consume a total of 2.35 million tonnes of industrial wastes such as carbide waste each year. When compared to cement production by utilisation of limestone, the annual carbon dioxide emission would be reduced by 1.70 million tonnes.

## HIGH-TECH MATERIALS

### Industry Review

The development of new material industries maintained a fast growth during the reporting period. The glass fiber industry witnessed steady growths both in production and sales volumes as world economy gradually picked up its recovering momentum. From January to June this year, a production volume of yarn amounted to 1.308 million tonnes in China, representing an increase of 16.7% as compared with the corresponding period of last year, together with the rebounding product selling prices. The polysilicon industry witnessed a fast expanding market as driven by the rapidly increasing global demand for photovoltaic solar cells. In the CNG cylinder industry, demand was on the rise on the back of the fast development of gas-fuelled automobiles at home and abroad as well as the guidance of related policies. The wind power industry in China is currently in a adjusting period, following its fast development in the previous years.

### Business Review

#### Stepping up industrial layout to secure the leading position in the industry

During the reporting period, the Company continued to increase investments in research and development of wind power blades, speed up the development of new products, continuously cut down production costs and increase production efficiency, thus maintaining its leading position in wind power blade technologies in China. To effectively extend the industrial chains, the Company started the preliminary work for construction of the mould production line for high performance composite blades with an annual capacity of 20 sets, which will effectively boost the Company's wind power blade industry upon its completion and putting into production.

During the reporting period, 2 production lines for solar-energy fused silica crucibles were completed by the Company with newly-added production capacity of 150,000 units per year. Thus, the manufacturing base layout for solar-energy fused silica crucibles covering Jiangxi, Jiangsu and Sichuan was taking shape basically.

In view of the recovering CNG cylinder market, the Company accelerated its capacity expansion paces. Upon completion of the technological renovation project with an annual capacity of 130,000 automobile gas cylinders expected to commence operation at the end of 2011, the total CNG cylinder annual production capacity will reach 280,000 units. In addition, the new type high-pressure gas cylinder production line with an annual capacity of 350,000 units is expected to commence construction before the fourth quarter this year.

### A rally in sales volume and product prices for glass fiber business in faster paces of product restructuring

During the reporting period, the Company's glass fiber business demonstrated improving average selling prices and gross margin of products, as favoured by the recovering international market. The Company enlarge its product mix adjustment, while seeking to upgrade product technical content and broaden the product usages. Meanwhile, the Company realigned its sales strategy for paralleled development of domestic and international markets, leading to a sound increase in market share.

## FINANCIAL REVIEW

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2011 RMB million (Unaudited)** | 2010 RMB million (Unaudited) (Restated) | Change % |
| Turnover | **22,315.77** | 18,261.71 | 22.20 |
| Cost of sales | **(17,245.82)** | (14,822.36) | 16.35 |
| Gross profit | **5,069.95** | 3,439.35 | 47.41 |
| Other gains | **159.47** | 281.34 | -43.32 |
| Selling and marketing expenses | **(640.13)** | (438.87) | 45.86 |
| Administrative expenses | **(1,566.97)** | (1,244.13) | 25.95 |
| Exchange loss | **(24.15)** | (51.34) | -52.96 |
| Other expenses | **(54.18)** | (12.74) | 325.27 |
| Operating profit | **2,943.99** | 1,973.61 | 49.17 |
| Interest income | **103.00** | 99.73 | 3.28 |
| Finance costs | **(691.65)** | (438.47) | 57.74 |
| Share of results of associates | **71.14** | 20.92 | 240.06 |
| Profit before tax | **2,426.48** | 1,655.79 | 46.55 |
| Income tax expense | **(479.25)** | (304.76) | 57.25 |
| Profit for the period | **1,947.23** | 1,351.03 | 44.13 |
| Profit for the period attributable to: | | | |
| Owners of the Company | **765.95** | 448.59 | 70.75 |
| Non-controlling interests | **1,181.28** | 902.44 | 30.90 |

## Operating Results

For the six months ended 30 June 2011, profit before tax of the Group was RMB2,426.48 million, representing an increase of 46.55% as compared with the corresponding period of last year. Profit attributable to owners of the Company was RMB765.95 million, representing an increase of 70.75% as compared with the corresponding period of last year. Earnings per share of the Company were RMB0.214.

## Consolidated Operating Results

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

### Turnover

Turnover of the Group for the six months ended 30 June 2011 was RMB22,315.77 million, representing an increase of 22.20% as compared with RMB18,261.71 million in the corresponding period of last year. The increase was mainly due to the significant increase in sales volume of the Company's cement segment and rising prices in certain regions, as well as the increases in both price and sales volume of glass fiber products with the market picking up. In particular, turnover of the cement equipment and engineering services segment, cement segment and high-tech materials segment increased by RMB233.43 million, RMB3,479.40 million and RMB632.82 million, respectively.

### Cost of sales

Cost of sales of the Group for the six months ended 30 June 2011 was RMB17,245.82 million, representing an increase of 16.35% as compared with RMB14,822.36 million in the corresponding period of last year. The increase was mainly due to the increase in turnover. In particular, the cost of sales of the cement segment and high-tech materials segment increased by RMB2,117.23 million and RMB529.18 million, respectively, while the cost of sales of the cement equipment and engineering services segment recorded a decrease of RMB42.24 million.

### Gross profit and gross margin

Gross profit of the Group for the six months ended 30 June 2011 was RMB5,069.95 million, representing an increase of 47.41% as compared with RMB3,439.35 million in the corresponding period of last year. In particular, gross profit of the cement equipment and engineering services segment, cement segment and high-tech materials segment increased by RMB275.67 million, RMB1,362.17 million and RMB103.64 million, respectively.

Gross margin of the Group increased by 3.89 percentage points from 18.83% in the corresponding period of last year to 22.72% for the six months ended 30 June 2011.

### Selling and marketing expenses

Selling and marketing expenses of the Group for the six months ended 30 June 2011 were RMB640.13 million, representing an increase of 45.86% as compared with RMB438.87 million in the corresponding period of last year. The increase was mainly due to the increase in sales volume of products. In particular, selling and marketing expenses of the cement equipment and engineering services segment, cement segment and high-tech materials segment increased by RMB11.19 million, RMB160.17 million and RMB29.90 million, respectively.

### Administrative expenses

Administrative expenses of the Group for the six months ended 30 June 2011 were RMB1,566.97 million, representing an increase of 25.95% as compared with RMB1,244.13 million in the corresponding period of last year. The increase was mainly due to a significant increase in maintenance cost of fixed assets as well as the increased labour cost, and an increase in expenses in research and development as a result of increased investment in research and development. In particular, administrative expenses of the cement equipment and engineering services segment and cement segment increased by RMB51.55 million and RMB319.99 million respectively, while administrative expenses of the high-tech materials segment recorded a decrease of RMB46.87 million.

### Operating profit and operating profit margin

Operating profit of the Group for the six months ended 30 June 2011 was RMB2,943.99 million, representing an increase of 49.17% as compared with RMB1,973.61 million in the corresponding period of last year. Operating profit margin of the Group increased by 2.38 percentage points from 10.81% in the corresponding period of last year to 13.19% for the six months ended 30 June 2011.

### Finance costs

Finance costs of the Group for the six months ended 30 June 2011 were RMB691.65 million, representing an increase of 57.74% as compared with RMB438.47 million in the corresponding period of last year. The increase was mainly due to the increase of financing and the rise in interest rate.

### Share of results of associates

Share of results of associates of the Group for the six months ended 30 June 2011 was RMB71.14 million, representing an increase of 240.06% as compared with RMB20.92 million in the corresponding period of last year. The increase was mainly due to addition of three associates as compared with the corresponding period of last year.

### Income tax expense

Income tax expense of the Group for the six months ended 30 June 2011 was RMB479.25 million, representing an increase of 57.25% as compared with RMB304.76 million in the corresponding period of last year. The increase was mainly due to the significant increase in profit before tax, especially the considerable increase in profit of certain subsidiaries without tax preferences.

### Profit attributable to owners of the Company

Profit attributable to owners of the Company for the six months ended 30 June 2011 was RMB765.95 million, representing an increase of 70.75% as compared with RMB448.59 million in the corresponding period of last year. The increase was mainly due to the growth in the Company's overall results, especially the surging results of subsidiaries in which the Company is substantially interested.

### Profit attributable to non-controlling interests

Profit attributable to non-controlling interests for the six months ended 30 June 2011 was RMB1,181.28 million, representing an increase of 30.90% as compared with RMB902.44 million in the corresponding period of last year.

## Segment Results

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

## Cement Equipment and Engineering Services

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2011** | 2010 | Change |
| | **RMB million** | RMB million | % |
| | **(Unaudited)** | (Unaudited) | |
| | | (Restated) | |
| Turnover | **11,621.61** | 11,388.18 | 2.05 |
| Cost of sales | **9,873.61** | 9,915.85 | -0.43 |
| Gross profit | **1,748.00** | 1,472.33 | 18.72 |
| Selling and marketing expenses | **86.34** | 75.15 | 14.89 |
| Administrative expenses | **630.97** | 579.42 | 8.90 |
| Segment results | **994.09** | 825.96 | 20.36 |

### Turnover

Turnover of the cement equipment and engineering services segment for the six months ended 30 June 2011 was RMB11,621.61 million, representing an increase of 2.05% as compared with RMB11,388.18 million in the corresponding period of last year.

### Cost of sales

Cost of sales of the cement equipment and engineering services segment for the six months ended 30 June 2011 was RMB9,873.61 million, representing a decrease of 0.43% as compared with RMB9,915.85 million in the corresponding period of last year.

### Gross profit and gross margin

Gross profit of the cement equipment and engineering services segment for the six months ended 30 June 2011 was RMB1,748.00 million, representing an increase of 18.72% as compared with RMB1,472.33 million in the corresponding period of last year. Gross margin of the cement equipment and engineering services segment increased by 2.11 percentage points from 12.93% in the corresponding period of last year to 15.04% for the six months ended 30 June 2011. The increase was mainly due to the Company's secured market competitiveness and effective cost control as a result of strengthened internal resource consolidation.

### Selling and marketing expenses

Selling and marketing expenses of the cement equipment and engineering services segment for the six months ended 30 June 2011 were RMB86.34 million, representing an increase of 14.89% as compared with RMB75.15 million in the corresponding period of last year.

### Administrative expenses

Administrative expenses of the cement equipment and engineering services segment for the six months ended 30 June 2011 were RMB630.97 million, representing an increase of 8.90% as compared with RMB579.42 million in the corresponding period of last year. The increase was mainly due to the significant increase in expenses in research and development, as well as the increased labour cost.

### Segment results

Based on the above, results of the cement equipment and engineering services segment for the six months ended 30 June 2011 were RMB994.09 million, representing an increase of 20.36% as compared with RMB825.96 million in the corresponding period of last year.

## Cement

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2011** | 2010 | Change |
| | **RMB million** | RMB million | % |
| | **(Unaudited)** | (Unaudited) | |
| | | (Restated) | |
| Turnover | **8,740.28** | 5,260.88 | 66.14 |
| Cost of sales | **6,004.35** | 3,887.12 | 54.47 |
| Gross profit | **2,735.93** | 1,373.76 | 99.16 |
| Selling and marketing expenses | **411.69** | 251.52 | 63.68 |
| Administrative expenses | **656.44** | 336.45 | 95.11 |
| Segment results | **1,745.99** | 923.82 | 89.00 |

### Turnover

Turnover of the cement segment for the six months ended 30 June 2011 was RMB8,740.28 million, representing an increase of 66.14% as compared with RMB5,260.88 million in the corresponding period of last year. The increase was mainly due to the significant increase in sales volume and rising prices in certain regions.

### Cost of sales

Cost of sales of the cement segment for the six months ended 30 June 2011 was RMB6,004.35 million, representing an increase of 54.47% as compared with RMB3,887.12 million in the corresponding period of last year. The increase was mainly due to the increase in sales volume.

### Gross profit and gross margin

Gross profit of the cement segment for the six months ended 30 June 2011 were RMB2,735.93 million, representing an increase of 99.16% as compared with RMB1,373.76 million in the corresponding period of last year. Gross margin of the cement segment increased by 5.19 percentage points from 26.11% in the corresponding period of last year to 31.30% for the six months ended 30 June 2011.

### Selling and marketing expenses

Selling and marketing expenses of the cement segment for the six months ended 30 June 2011 were RMB411.69 million, representing an increase of 63.68% as compared with RMB251.52 million in the corresponding period of last year. The increase was mainly due to the increase in packaging, labour and loading costs as a result of the increased sales volume.

### Administrative expenses

Administrative expenses of the cement segment for the six months ended 30 June 2011 were RMB656.44 million, representing an increase of 95.11% as compared with RMB336.45 million in the corresponding period of last year. The increase was mainly due to the increases in maintenance cost of fixed assets, and the increases in labour cost and amortisation as a result of the new production lines being put into operation.

### Segment results

Based on the above, results of the cement segment for the six months ended 30 June 2011 was RMB1,745.99 million, representing an increase of 89.00% as compared with RMB923.82 million in the corresponding period of last year.

## High-tech Materials

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2011** | 2010 | Change |
| | **RMB million** | RMB million | % |
| | **(Unaudited)** | (Unaudited) | |
| | | (Restated) | |
| Turnover | **3,091.40** | 2,458.58 | 25.74 |
| Cost of sales | **2,325.07** | 1,795.89 | 29.47 |
| Gross profit | **766.34** | 662.70 | 15.64 |
| Selling and marketing expenses | **142.10** | 112.20 | 26.65 |
| Administrative expenses | **256.07** | 302.94 | -15.47 |
| Segment results | **407.66** | 318.01 | 28.19 |

### Turnover

Turnover of the high-tech materials segment for the six months ended 30 June 2011 was RMB3,091.40 million, representing an increase of 25.74% as compared with RMB2,458.58 million in the corresponding period of last year. The increase was mainly due to the increases in both sales volume and rising prices of glass fiber products, solar-energy fused silica crucibles and CNG cylinders, respectively.

### Cost of sales

Cost of sales of the high-tech materials segment for the six months ended 30 June 2011 was RMB2,325.07 million, representing an increase of 29.47% as compared with RMB1,795.89 million in the corresponding period of last year.

### Gross profit and gross margin

Gross profit of the high-tech materials segment for the six months ended 30 June 2011 was RMB766.34 million, representing an increase of 15.64% as compared with RMB662.70 million in the corresponding period of last year. Gross margin of the high-tech materials segment decreased by 2.16 percentage points from 26.95% in the corresponding period of last year to 24.79% for the six months ended 30 June 2011. The decrease was mainly due to a noticeable drop in selling prices of wind power blades.

### Selling and marketing expenses

Selling and marketing expenses of the high-tech materials segment for the six months ended 30 June 2011 were RMB142.10 million, representing an increase of 26.65% as compared with RMB112.20 million in the corresponding period of last year. The increase was mainly due to the increases in transportation expenses and sales service charges as well as labour cost as a result of the increased sales volume.

### Administrative expenses

Administrative expenses of the high-tech materials segment for the six months ended 30 June 2011 were RMB256.07 million, representing a decrease of 15.47% as compared with RMB302.94 million in the corresponding period of last year. The decrease was mainly due to an impairment provision which was provided for certain assets during the corresponding period of last year. Excluding the said factor, administrative expenses would increase by 12.34% as compared with the corresponding period of last year, mainly due to the increases in labour costs and expenses in research and development.

### Segment results

Based on the above, results of the high-tech materials segment for the six months ended 30 June 2011 were RMB407.66 million, representing an increase of 28.19% as compared with RMB318.01 million in the corresponding period of last year.

## Liquidity and Capital Resources

Cash flows:

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2011 RMB million (Unaudited)** | 2010 RMB million (Unaudited) (Restated) | Change % |
| Net cash (used in) from operating activities | **(1,478.27)** | 306.91 | -581.66 |
| Net cash used in investing activities | **(3,120.15)** | (1,878.20) | 66.12 |
| Net cash from financing activities | **3,391.63** | 4,606.65 | -26.38 |
| Cash and cash equivalents at the end of the period | **12,067.40** | 13,138.68 | -8.15 |

### Net cash (used in) from operating activities

Net cash inflow from operating activities decreased from RMB306.91 million in the corresponding period of last year to net cash outflow in operating activities of RMB1,478.27 million for the six months ended 30 June 2011. The decrease was mainly due to an increase in advanced payment for procurement.

### Net cash used in investing activities

Net cash used in investing activities increased from RMB1,878.20 million in the corresponding period of last year to RMB3,120.15 million for the six months ended 30 June 2011. The increase was mainly due to the increase in restricted bank balance and the relatively higher cash inflow arising from the subsidiaries acquired by the Group in the corresponding period of last year.

### Net cash from financing activities

Net cash generated from financing activities decreased from RMB4,606.65 million in the corresponding period of last year to RMB3,391.63 million for the six months ended 30 June 2011, indicating a slower growth in financing scale.

## Working Capital

As at 30 June 2011, the Group's cash and cash equivalents amounted to RMB12,067.40 million (31 December 2010: RMB13,256.59 million). The current ratio (calculated by dividing the total current assets by the total current liabilities) of the Group as at 30 June 2011 increased to 100.49% (31 December 2010: 100.18%).

The Group monitors its capital status on the basis of the net debt ratio which is calculated as net debt divided by total equity. Net debt is calculated as the total borrowings (including current and non-current borrowings and bonds and notes payable as shown in the consolidated statement of financial position) less cash and cash equivalents. As at 30 June 2011, the net debt ratio of the Group was 65.78% (31 December 2010: 48.97%).

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

## Borrowings

As at 30 June 2011, the balance of the Group's borrowings amounted to RMB27,405.13 million.

| | **30 June 2011 RMB million (Unaudited)** | 31 December 2010 RMB million (Unaudited) (Restated) |
|---|---|---|
| Short-term borrowings and long-term borrowings due within one year | **10,629.31** | 8,178.19 |
| Short-term financing bills | **400.00** | 400.00 |
| Long-term borrowings, net of portions due within one year | **11,536.91** | 10,543.74 |
| Corporate bonds | **2,487.83** | 2,485.55 |
| Medium-term notes | **2,351.08** | 1,700.00 |
| Total borrowings | **27,405.13** | 23,307.48 |

## Pledge of Assets

The Group's property, plant and equipment, and prepaid lease payments with carrying values of RMB1,611.89 million and RMB175.27 million as at 30 June 2011 were pledged as security respectively (31 December 2010: RMB2,444.34 million and RMB253.24 million). As at 30 June 2011, the Group's investment properties with a carrying value of nil (31 December 2010: RMB54.34 million) was pledged as security.

## Contingent Liabilities

| | **30 June 2011 RMB million (Unaudited)** | 31 December 2010 RMB million (Unaudited) (Restated) |
|---|---|---|
| Pending lawsuits or arbitrations | **10.99** | – |
| Outstanding guarantees | **214.50** | 395.50 |
| Total | **225.49** | 395.50 |

## Material Investment

During the six months ended 30 June 2011, the Group did not make any material investment.

## Material Acquisitions and Disposals of Assets

During the six months ended 30 June 2011, the Group did not have any material acquisition or disposal of assets.

## Market Risks

The Group is exposed to various types of market risks in the ordinary course of business, including foreign exchange risks, interest rate risks and raw materials and energy price risks.

### Foreign Exchange Risks

The Group conducts its domestic business primarily in RMB, which is also its functional currency. However, overseas engineering projects and export of products are denominated in foreign currencies, primarily US dollar and Euro. Therefore, the Group bears the risks of exchange rate fluctuations to a certain extent. During the reporting period, the Group has actively mitigated the foreign exchange risks in respect of the fluctuation of RMB value by various measures, such as accelerating the settlement of foreign exchange, adjusting terms at the time of entering into contracts in response to the floating exchange rate to minimise the impact of foreign exchange losses on the Group's results.

### Interest Rate Risks

The Group is exposed to risks resulting from fluctuations in interest rates on our borrowings. The Group raises borrowings to support general corporate purposes, including capital expenditures and working capital requirements. The interest rate of the borrowings is subject to adjustment by its lenders in accordance with changes of the regulations of the People's Bank of China. During the reporting period, the Group fully utilised its overall strength to raise the bargaining power and lower the loan interest rate. Meanwhile, the Group improves its debts structure by broadening more financing sources and controlling financing costs through the issuance of medium-term notes.

### Raw Materials and Energy Price Risks

The cost effectiveness of the Group is relatively sensitive to the price fluctuations of steel, coal, electricity and natural gas, which are the main raw materials and energy of the Group. During the reporting period, the prices of steel, coal, electricity and natural gas have increased. Through advancing production process and optimising operating procedure, the Group reduced the consumption of raw materials and energy during the reporting period while focusing on procurement by tendering and strengthen control on procurement costs to mitigate the risks from the rising prices of raw materials and energy.

## REVIEW OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The Audit Committee has reviewed the Company's interim report. The Company's external auditor has reviewed the unaudited condensed consolidated financial information for the six months ended 30 June 2011.

## SHARE CAPITAL

The share capital structure of the Company as at 30 June 2011 was set out as follows:

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

## DIVIDEND

The Company has not proposed to declare or distribute any interim dividend for the six months ended 30 June 2011.

## DISCLOSURE OF INTERESTS

### Interests and Short Positions of Directors, Supervisors and the Chief Executive in Shares, Underlying Shares and Debentures of the Company

As at 30 June 2011, none of the Directors, Supervisors or the chief executive of the Company had an interest and short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), Chapter 571 of the laws of Hong Kong), which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO, or which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**").

### Interests and Short Positions of Substantial Shareholders and other persons in Shares and Underlying Shares

As at 30 June 2011, to the best knowledge of the Directors, Supervisors and the chief executive of the Company, the persons listed in the following table had interests and/or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of Part XV of the SFO:

| Name | Type of Shares | Nature of interests | Number of Shares interested | Percentage to the respective class of issued shares | Percentage to the total share capital |
|---|---|---|---|---|---|
| China National Materials Group Corporation Ltd. | Domestic Shares | N/A | 1,494,416,985 | 65.64% | 41.84% |
| China Cinda Asset Management Co., Ltd. | Domestic Shares | N/A | 319,788,108 | 14.05% | 8.96% |
| Taian Taishan Investment Co., Ltd. | Domestic Shares | N/A | 309,786,095 | 13.61% | 8.67% |
| Well Kent International Holdings Company Limited | Unlisted foreign shares | N/A | 130,793,218 | 100.00% | 3.66% |
| The National Council for Social Security Fund | H Shares | Long Position | 94,253,115 | 8.10% | 2.64% |
| Nomura Holdings, Inc. | H Shares | Long Position | 82,755,882 | 7.11% | 2.32% |
| Allianz SE | H Shares | Long Position | 69,582,000 | 5.98% | 1.95% |
| The Hamon Investment Group Pte Limited | H Shares | Long Position | 65,798,000 | 5.65% | 1.84% |

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

Save as disclosed above, to the best knowledge of the Directors, Supervisors and the chief executive of the Company, as at 30 June 2011, there was no other person with interests and/or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of Part XV of the SFO.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

For the six months ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

## EMPLOYEES AND REMUNERATION POLICY

The Company adopts position-based remuneration system for its employees, and their remuneration is determined according to the relative importance of the positions, the duties assumed in the positions and other factors. As at 30 June 2011, the Group had 51,120 employees.

## MATERIAL LEGAL AFFAIRS

During the reporting period, there were no material legal affairs for the Company.

In the first half of 2011, the Company continued to enhance the construction of an all-round risk management system, further improved its internal control and management capability in a bid to secure the continuous, rapid and stable development.

The focus of the construction of the comprehensive risk management system demonstrated the Company's initiative to enhance the study of development strategy and prevent any strategic risk during rapid development. The Company improved its management and control over operational risks by means of strengthening the management of finance, audit and legal affairs; the Company ensured the steady and healthy development of its overseas businesses by means of strengthening the risk management and control of overseas projects. Internal control has been gradually transforming into an all-round risk management mode, therefore the Company's capability of internal control was further improved. A comprehensive risk management system has been gradually established in the headquarters of the Company and various subsidiaries including Sinoma International, Sinoma Science & Technology, CTG and Qilianshan Co.. Through continuous improvement on the comprehensive risk management system, the Company aimed to realize constant progress of its management capability.

# Corporate Governance

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

## (1) IN COMPLIANCE WITH "CODE ON CORPORATE GOVERNANCE PRACTICES"

During the six months ended 30 June 2011, the Company has fully complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, without any deviation.

## (2) IN COMPLIANCE WITH "MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES"

The Company has adopted a set of model code prepared in accordance with the Model Code as set out in Appendix 10 of the Listing Rules. The provisions of the model code currently adopted by the Company are no less exacting than the required standards set out in the Model Code. The Company, having made specific enquiries of all the Directors and Supervisors, confirms that the Directors and Supervisors have strictly complied with the Model Code for the six months ended 30 June 2011.

## (3) AUDIT COMMITTEE

The Company has established the Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee is responsible for proposing to the Board regarding the appointment, reappointment and removal of external independent auditor, as well as monitoring its work. The Audit Committee consists of two independent non-executive Directors and one non-executive Director, namely, Mr. LU Zhengfei (the chairman of the Audit Committee, with professional qualification and experience in finance), Mr. WANG Shimin and Mr. LIU Zhijiang respectively. On 15 August 2011, the Audit Committee reviewed the interim financial report of the Company for the six months ended 30 June 2011 and voted for the same.

## (4) CONNECTED TRANSACTIONS MANAGEMENT

In order to standardise and strengthen the management of connected transactions, the Company has established the "China National Materials Company Limited Connected Transactions Management System". The Securities Department of the Board is responsible for the management of connected transactions. The Company has made sub-division as to the connected transaction caps that have already been disclosed, sub-divided each connected transaction to each subsidiary, and each subsidiary is responsible for the controlling of its sub-divided portion of connected transactions, in order to ensure that the company's connected transactions are carried out based on rules and system, that is, the total amount of the transactions do not exceed the annual caps approved by the Board or the general meeting. Pursuant to the provisions of the relevant system of the Company, the Company is required to comply with the reporting, announcements and independent shareholders' approval procedures (if applicable) under the Listing Rules before making any proposed new connected transaction.

# Unaudited Condensed Consolidated Income Statement

*For the six months ended 30 June 2011*

| | Notes | Six months ended 30 June **2011** RMB'000 (Unaudited) | 2010 RMB'000 (Unaudited) (Restated) |
|---|---|---|---|
| Turnover | 4 | **22,315,773** | 18,261,710 |
| Cost of sales | | **(17,245,816)** | (14,822,357) |
| **Gross profit** | | **5,069,957** | 3,439,353 |
| Interest income | | **102,996** | 99,726 |
| Other gains | | **159,469** | 281,343 |
| Selling and marketing expenses | | **(640,131)** | (438,865) |
| Administrative expenses | | **(1,566,965)** | (1,244,133) |
| Exchange loss | | **(24,154)** | (51,338) |
| Other expenses | | **(54,176)** | (12,742) |
| Finance costs | 5 | **(691,651)** | (438,470) |
| Share of results of associates | | **71,136** | 20,916 |
| **Profit before tax** | | **2,426,481** | 1,655,790 |
| Income tax expense | 6 | **(479,254)** | (304,757) |
| **Profit for the period** | 7 | **1,947,227** | 1,351,033 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | **765,945** | 448,591 |
| Non-controlling interests | | **1,181,282** | 902,442 |
| | | **1,947,227** | 1,351,033 |
| Earnings per share – basic and diluted (expressed in RMB per share) | 9 | **0.214** | 0.126 |

# Unaudited Condensed Consolidated Statement of Comprehensive Income

*For the six months ended 30 June 2011*

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| **Profit for the period** | **1,947,227** | 1,351,033 |
| **Other comprehensive income (expenses)** | | |
| Safety fund set aside | **25,496** | 18,945 |
| Exchange differences arising on translation | **12,833** | (14,409) |
| Gain (loss) on fair value changes of available-for-sale financial assets | **1,557,700** | (110,418) |
| Income tax relating to components of other comprehensive income (expenses) | **(389,417)** | 25,060 |
| **Other comprehensive income (expenses) for the period (net of tax)** | **1,206,612** | (80,822) |
| **Total comprehensive income for the period** | **3,153,839** | 1,270,211 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | **1,959,002** | 381,295 |
| Non-controlling interests | **1,194,837** | 888,916 |
| | **3,153,839** | 1,270,211 |

# Unaudited Condensed Consolidated Statement of Financial Position

*As at 30 June 2011*

| | Notes | 30 June 2011 RMB'000 (Unaudited) | 31 December 2010 RMB'000 (Unaudited) (Restated) | 1 January 2010 RMB'000 (Unaudited) (Restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 10 | **31,106,011** | 28,020,917 | 18,598,753 |
| Prepaid lease payments | 10 | **2,953,216** | 2,911,975 | 2,012,672 |
| Investment properties | 10 | **132,008** | 134,436 | 127,140 |
| Intangible assets | 10 | **639,290** | 619,620 | 151,717 |
| Mining rights | 10 | **438,025** | 440,015 | 146,476 |
| Interests in associates | | **1,216,156** | 1,151,969 | 777,120 |
| Available-for-sale financial assets | | **4,132,923** | 2,576,123 | 2,167,356 |
| Deposits paid for acquisition of subsidiaries | 11 | **–** | – | 632,770 |
| Trade and other receivables | 12 | **40,747** | 72,170 | 68,424 |
| Other non-current assets | | **174,204** | 193,760 | 132,852 |
| Deferred income tax assets | | **504,962** | 447,575 | 263,018 |
| | | **41,337,542** | 36,568,560 | 25,078,298 |
| **Current assets** | | | | |
| Inventories | | **6,461,162** | 5,361,260 | 4,544,186 |
| Trade and other receivables | 12 | **13,609,182** | 10,439,962 | 8,414,900 |
| Amounts due from customers for contract work | | **390,501** | 183,628 | 168,261 |
| Prepaid lease payments | 10 | **92,415** | 89,147 | 67,447 |
| Derivative financial instruments | | **4,811** | 34,464 | 13,550 |
| Other current assets | | **34,348** | 30,146 | 43,077 |
| Restricted bank balances | | **1,585,307** | 1,257,740 | 1,561,888 |
| Bank balances and cash | | **12,067,397** | 13,256,593 | 10,117,728 |
| | | **34,245,123** | 30,652,940 | 24,931,037 |
| **Current liabilities** | | | | |
| Trade and other payables | 13 | **22,312,497** | 20,953,413 | 19,646,126 |
| Dividend payable | | **138,112** | – | – |
| Amounts due to customers for contract work | | **318,975** | 440,889 | 405,084 |
| Derivative financial instruments | | **–** | – | 648 |
| Income tax liabilities | | **228,446** | 554,925 | 204,973 |
| Short-term financing bills | 14 | **400,000** | 400,000 | – |
| Borrowings | 15 | **10,629,310** | 8,178,189 | 5,469,633 |
| Early retirement and supplemental benefit obligations | 16 | **22,803** | 34,532 | 20,479 |
| Provision | | **27,780** | 35,104 | – |
| | | **34,077,923** | 30,597,052 | 25,746,943 |
| **Net current assets (liabilities)** | | **167,200** | 55,888 | (815,906) |
| **Total assets less current liabilities** | | **41,504,742** | 36,624,448 | 24,262,392 |

# Unaudited Condensed Consolidated Statement of Financial Position

*As at 30 June 2011*

| | Notes | 30 June 2011<br>RMB'000<br>(Unaudited) | 31 December 2010<br>RMB'000<br>(Unaudited)<br>(Restated) | 1 January 2010<br>RMB'000<br>(Unaudited)<br>(Restated) |
|---|---|---|---|---|
| **Non-current liabilities** | | | | |
| Trade and other payables | 13 | **1,896** | 1,197 | 1,438 |
| Derivative financial instruments | | **10,890** | 3,415 | 4,586 |
| Corporate bonds | 18 | **2,487,829** | 2,485,545 | 2,483,381 |
| Medium-term notes | 19 | **2,351,080** | 1,700,000 | – |
| Borrowings | 15 | **11,536,906** | 10,543,743 | 6,865,443 |
| Deferred income | | **295,945** | 283,274 | 334,299 |
| Deferred income tax liabilities | | **1,109,924** | 733,308 | 533,514 |
| Early retirement and supplemental benefit obligations | 16 | **345,228** | 317,908 | 142,693 |
| Provisions | | **47,499** | 31,874 | – |
| | | **18,187,197** | 16,100,264 | 10,365,354 |
| **NET ASSETS** | | **23,317,545** | 20,524,184 | 13,897,038 |
| **Capital and reserves** | | | | |
| Share capital | 20 | **3,571,464** | 3,571,464 | 3,571,464 |
| Reserves | 21 | **7,908,784** | 6,073,464 | 4,610,657 |
| Equity attributable to owners of the Company | | **11,480,248** | 9,644,928 | 8,182,121 |
| Non-controlling interests | | **11,837,297** | 10,879,256 | 5,714,917 |
| **TOTAL EQUITY** | | **23,317,545** | 20,524,184 | 13,897,038 |

# Unaudited Condensed Consolidated Statement of Changes in Equity

*For the six months ended 30 June 2011*

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Safety fund RMB'000 (Note (i)) | Foreign exchange reserve RMB'000 | Investment revaluation reserve RMB'000 | Other reserves RMB'000 (Note (ii)) | Merger reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Six months ended 30 June 2011 (Unaudited)** | | | | | | | | | | | | | |
| At 1 January 2011, as originally stated | **3,571,464** | **3,273,160** | **(942,833)** | **52,693** | **70,623** | **274** | **1,390,727** | **(89,332)** | **-** | **2,358,410** | **9,685,186** | **10,858,779** | **20,543,965** |
| Effect of adopting merger accounting for common control combination | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(21,767)** | **(42,353)** | **23,862** | **(40,258)** | **20,477** | **(19,781)** |
| At 1 January 2011, as restated | **3,571,464** | **3,273,160** | **(942,833)** | **52,693** | **70,623** | **274** | **1,390,727** | **(111,099)** | **(42,353)** | **2,382,272** | **9,644,928** | **10,879,256** | **20,524,184** |
| Profit for the period | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **765,945** | **765,945** | **1,181,282** | **1,947,227** |
| Other comprehensive income for the period | **-** | **-** | **-** | **-** | **15,765** | **8,040** | **1,169,252** | **-** | **-** | **-** | **1,193,057** | **13,555** | **1,206,612** |
| Total comprehensive income for the period | **-** | **-** | **-** | **-** | **15,765** | **8,040** | **1,169,252** | **-** | **-** | **765,945** | **1,959,002** | **1,194,837** | **3,153,839** |
| Dividends to non-controlling interests | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(441,448)** | **(441,448)** |
| Contributions received from non-controlling interests | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **25,560** | **-** | **-** | **25,560** | **198,876** | **224,436** |
| Acquisition of subsidiaries | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **7,325** | **7,325** |
| Capital reduction of a subsidiary | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(7,932)** | **(7,932)** |
| Transactions with non-controlling interests | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(6,383)** | **-** | **-** | **(6,383)** | **6,383** | **-** |
| Dividend recognised as distribution | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(142,859)** | **(142,859)** | **-** | **(142,859)** |
| At 30 June 2011 | **3,571,464** | **3,273,160** | **(942,833)** | **52,693** | **86,388** | **8,314** | **2,559,979** | **(91,922)** | **(42,353)** | **3,005,358** | **11,480,248** | **11,837,297** | **23,317,545** |
| **Six months ended 30 June 2010 (Unaudited and restated)** | | | | | | | | | | | | | |
| At 1 January 2010, as originally stated | 3,571,464 | 3,273,160 | (942,833) | 45,841 | 48,730 | 995 | 1,129,810 | (227,170) | – | 1,364,067 | 8,264,064 | 5,700,993 | 13,965,057 |
| Effect of adopting merger accounting for common control combination | – | – | – | – | – | – | – | (68,445) | (42,353) | 28,855 | (81,943) | 13,924 | (68,019) |
| At 1 January 2010, as restated | 3,571,464 | 3,273,160 | (942,833) | 45,841 | 48,730 | 995 | 1,129,810 | (295,615) | (42,353) | 1,392,922 | 8,182,121 | 5,714,917 | 13,897,038 |
| Profit for the period | – | – | – | – | – | – | – | – | – | 448,591 | 448,591 | 902,442 | 1,351,033 |
| Other comprehensive income (expenses) for the period | – | – | – | – | 12,483 | (7,314) | (72,465) | – | – | – | (67,296) | (13,526) | (80,822) |
| Total comprehensive income for the period | – | – | – | – | 12,483 | (7,314) | (72,465) | – | – | 448,591 | 381,295 | 888,916 | 1,270,211 |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | (128,711) | (128,711) |
| Contributions received from non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | 560,534 | 560,534 |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | 2,275,183 | 2,275,183 |
| Capital reduction of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | (9,000) | (9,000) |
| Transactions with non-controlling interests | – | – | – | – | – | – | – | (276,606) | – | – | (276,606) | 154,300 | (122,306) |
| Government contributions (Note 21) | – | – | – | – | – | – | – | 136,000 | – | – | 136,000 | – | 136,000 |
| Dividend recognised as distribution | – | – | – | – | – | – | – | – | – | (89,287) | (89,287) | – | (89,287) |
| At 30 June 2010 | 3,571,464 | 3,273,160 | (942,833) | 45,841 | 61,213 | (6,319) | 1,057,345 | (436,221) | (42,353) | 1,752,226 | 8,333,523 | 9,456,139 | 17,789,662 |

Notes:

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

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

# Unaudited Condensed Consolidated Statement of Cash Flows

*For the six months ended 30 June 2011*

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| **Cash flows (used in) from operating activities** | | |
| Cash (used in) generated from operations | **(595,436)** | 677,852 |
| Income tax paid | **(882,832)** | (370,938) |
| **NET CASH (USED IN) FROM OPERATING ACTIVITIES** | **(1,478,268)** | 306,914 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(2,677,831)** | (2,920,173) |
| Purchase of prepaid lease payments | **(110,942)** | (122,945) |
| Purchase of intangible assets | **(39,507)** | (13,552) |
| Purchase of mining rights | **(9,764)** | (62,332) |
| Purchase of available-for-sale financial assets | **(2,100)** | – |
| Deposit paid for acquisition of a subsidiary | **–** | (3,257) |
| Net cash inflow arising on acquisition of subsidiaries | **10,494** | 744,436 |
| Proceeds from disposals of property, plant and equipment | **87,031** | 114,355 |
| Proceeds from disposal of prepaid lease payments | **27,401** | – |
| Proceeds from disposal of mining rights | **4,813** | – |
| Proceeds from disposal of available-for-sale financial assets | **3,020** | – |
| Proceeds for net gain arising from foreign currency forward contracts | **–** | 27,937 |
| Proceeds for net gain arising from interest rate swap contract | **–** | 502 |
| Dividends received from available-for-sale financial assets | **2,832** | 7,213 |
| Dividends received from associates | **6,949** | 3,543 |
| (Increase) decrease in restricted bank balances | **(327,567)** | 240,581 |
| Interest received on bank deposits and loan receivables | **102,996** | 99,536 |
| (Increase) decrease in loan receivables | **(53,929)** | 5,957 |
| Payments for common control business combinations | **(144,047)** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(3,120,151)** | (1,878,199) |

# Unaudited Condensed Consolidated Statement of Cash Flows

*For the six months ended 30 June 2011*

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| **Cash flows from financing activities** | | |
| Proceeds from new borrowings | **8,832,259** | 6,652,483 |
| Gross proceeds from issuance of medium-term notes | **660,000** | 1,700,000 |
| Gross proceeds from issuance of short-term financing bills | **400,000** | – |
| Contributions received from non-controlling interests | **224,436** | 560,534 |
| Government contributions received | **–** | 136,000 |
| Government grants received | **125,573** | 117,349 |
| Repayments of borrowings | **(5,387,385)** | (3,799,714) |
| Repayment of short-term financing bills | **(400,000)** | – |
| Payments for acquisition of additional equity interests in subsidiaries | **–** | (122,306) |
| Capital reduction of a subsidiary | **(7,932)** | (9,000) |
| Dividends paid to non-controlling interests | **(398,381)** | (118,019) |
| Dividends paid | **(4,747)** | (2,971) |
| Interest paid | **(652,191)** | (507,706) |
| **NET CASH FROM FINANCING ACTIVITIES** | **3,391,632** | 4,606,650 |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | **(1,206,787)** | 3,035,365 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD** | **13,256,593** | 10,117,728 |
| Effect of foreign exchange rate changes | **17,591** | (14,409) |
| **CASH AND CASH EQUIVALENTS AT END OF THE PERIOD,** represented by bank balances and cash | **12,067,397** | 13,138,684 |

## 1. GENERAL INFORMATION

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

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

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

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in provision of cement equipment and engineering services, production and sales of cement and high-tech materials.

## 2. BASIS OF PREPARATION AND PRESENTATION

### 2.1 Basis of preparation

These unaudited condensed consolidated financial information have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The unaudited condensed consolidated financial information do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs").

### 2.2 Adoption of merger accounting

As disclosed in note 24, several business combinations under common control were effected during the current period. The unaudited condensed consolidated financial information incorporates the financial information of the combining entities as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

## 2. BASIS OF PREPARATION AND PRESENTATION (Continued)

### 2.2 Adoption of merger accounting (Continued)

The unaudited condensed consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the unaudited condensed consolidated financial information are represented as if the entities had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter. The impact on the consolidated reserves of the Group arising from the common control combination is disclosed in note 24 of this unaudited condensed consolidated financial information.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial information have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies adopted in the preparation of the unaudited condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

| | |
|---|---|
| HKFRSs (Amendments) | Improvement to HKFRSs issued in 2010 |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters |
| HKAS 24 (Revised) | Related Party Disclosures |
| HKAS 32 (Amendment) | Classification of Right Issues |
| Hong Kong (International Financial Reporting Interpretations Committee) ("HK(IFRIC)") – Interpretation ("Int") 14 (Amendment) | Prepayments of a Minimum Funding Requirement |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments |

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group has applied HKAS 24 Related Party Disclosures (as revised in 2009) in full for the first time in the current period. The application of HKAS 24 (as revised in 2009) has resulted in changes in related party disclosures on the following two aspects:

The Group is a government-related entity as defined in HKAS 24 (as revised in 2009). HKAS 24 (as revised in 2009) provides a partial exemption from the disclosure requirements for government-related entities whilst the previous version of HKAS 24 did not contain specific exemption for government-related entities. Under HKAS 24 (as revised in 2009), the Group has been exempted from making the disclosures required by paragraph 18 of HKAS 24 (as revised in 2009) in relation to related party transactions and outstanding balances (including commitments) with (a) the government that has control, joint control or significant influence over the Group and (b) other entities that are controlled, jointly controlled, significant influence by the same government. Rather, in respect of these transactions and balances, HKAS 24 (as revised in 2009) requires the Group to disclose (a) the nature and amount of each individually significant transactions, and (b) a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

In addition, HKAS 24 (as revised in 2009) has clarified and simplified the definition of a related party. The revised related party disclosures are included in note 28 to the unaudited condensed consolidated financial information.

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no effect on the amounts recognised or recorded in the unaudited condensed consolidated financial information for the current and prior periods. However, the comparative amounts for the related party disclosures set out in note 28 to the unaudited condensed consolidated financial information have been changed to reflect the application of HKAS 24 (as revised in 2009).

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

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

| | |
|---|---|
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adoption[1] |
| HKFRS 7 (Amendments) | Disclosures – Transfer of Financial Assets[1] |
| HKFRS 9 | Financial Instruments[4] |
| HKFRS 10 | Consolidated Financial Statements[4] |
| HKFRS 11 | Joint Arrangements[4] |
| HKFRS 12 | Disclosure of Interests in Other Entities[4] |
| HKFRS 13 | Fair Value Measurement[4] |
| HKAS 1 (Revised) | Presentation of Financial Statements[3] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[2] |
| HKAS 19 (as revised in 2011) | Employee Benefits[4] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[4] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[4] |

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2012.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2013.

These five new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for the year ending 31 December 2013.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangement: joint ventures and joint operations. The classification in HKFRS 11 is based on parties' rights and obligations under the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using equity method of accounting or proportionate accounting. The application of HKFRS 11 might result in changes in the classification of the Group's joint arrangements and their accounting treatments. Specifically, the Group's jointly controlled entities that are currently accounted for using proportionate consolidation will have to be accounted for using the equity method of accounting.

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

## 4. SEGMENT INFORMATION

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

Specifically, the Group's reportable segments under HKFRS 8 Operating Segments are as follow:

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

Information regarding the above segments is reported below.

## 4. SEGMENT INFORMATION (Continued)

### (a) Segment revenues and results

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

Six months ended 30 June 2011

| | Cement equipment and engineering services RMB'000 (Unaudited) | Cement RMB'000 (Unaudited) | High-tech materials RMB'000 (Unaudited) | Eliminations RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External sales | 10,489,900 | 8,740,281 | 3,085,592 | – | 22,315,773 |
| Inter-segment sales | 1,131,706 | – | 5,812 | (1,137,518) | – |
| Total | 11,621,606 | 8,740,281 | 3,091,404 | (1,137,518) | 22,315,773 |
| Segment results | 994,088 | 1,745,988 | 407,659 | (178,035) | 2,969,700 |
| Unallocated operating income and expenses | | | | | (25,700) |
| Interest income | | | | | 102,996 |
| Finance costs | | | | | (691,651) |
| Share of results of associates | | | | | 71,136 |
| Profit before tax | | | | | 2,426,481 |

## 4. SEGMENT INFORMATION (Continued)

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

Six months ended 30 June 2010

| | Cement equipment and engineering services RMB'000 (Unaudited) (Restated) | Cement RMB'000 (Unaudited) (Restated) | High-tech materials RMB'000 (Unaudited) (Restated) | Eliminations RMB'000 (Unaudited) | Total RMB'000 (Unaudited) (Restated) |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External sales | 10,542,248 | 5,260,879 | 2,458,583 | – | 18,261,710 |
| Inter-segment sales | 845,928 | – | – | (845,928) | – |
| Total | 11,388,176 | 5,260,879 | 2,458,583 | (845,928) | 18,261,710 |
| Segment results | 825,962 | 923,817 | 318,010 | (69,435) | 1,998,354 |
| Unallocated operating income and expenses | | | | | (24,736) |
| Interest income | | | | | 99,726 |
| Finance costs | | | | | (438,470) |
| Share of results of associates | | | | | 20,916 |
| Profit before tax | | | | | 1,655,790 |

Segment results represent the profit earned by each segment without allocation of directors' remuneration, interest income, certain other gains, finance costs, share of results of associates and other administrative expenses of head office. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

## 4. SEGMENT INFORMATION (Continued)

### (b) Segment assets

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

| | **30 June 2011 RMB'000 (Unaudited)** | 31 December 2010 RMB'000 (Unaudited) (Restated) | 1 January 2010 RMB'000 (Unaudited) (Restated) |
|---|---|---|---|
| Cement equipment and engineering services | **12,686,704** | 10,483,451 | 10,389,985 |
| Cement | **32,071,882** | 27,011,364 | 15,362,590 |
| High-tech materials | **12,425,494** | 11,529,081 | 9,846,553 |
| Total segment assets | **57,184,080** | 49,023,896 | 35,599,128 |
| Eliminations | **(1,472,584)** | (728,008) | (831,887) |
| Unallocated assets | **19,871,169** | 18,925,612 | 15,242,094 |
| Consolidated assets | **75,582,665** | 67,221,500 | 50,009,335 |

For the purpose of monitoring segment performances and allocating resources between segments, all assets are allocated to reportable segment other than interests in associates, deferred income tax assets, derivative financial instruments, restricted bank balances, bank balances and cash, and certain unallocated head office assets.

## 4. SEGMENT INFORMATION (Continued)

### (c) Other segment information

Six months ended 30 June 2011

| | Cement equipment and engineering services RMB'000 (Unaudited) | Cement RMB'000 (Unaudited) | High-tech materials RMB'000 (Unaudited) | Unallocated RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|---|---|---|---|---|---|
| **Amounts included in the measure of segment results:** | | | | | |
| Depreciation | **162,532** | **534,856** | **323,233** | **161** | **1,020,782** |
| Amortisation | **5,366** | **43,593** | **16,974** | **102** | **66,035** |
| **Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results:** | | | | | |
| Share of results of associates | **10,884** | **60,171** | **81** | **–** | **71,136** |

Six months ended 30 June 2010

| | Cement equipment and engineering services RMB'000 (Unaudited) (Restated) | Cement RMB'000 (Unaudited) (Restated) | High-tech materials RMB'000 (Unaudited) (Restated) | Unallocated RMB'000 (Unaudited) (Restated) | Total RMB'000 (Unaudited) (Restated) |
|---|---|---|---|---|---|
| **Amounts included in the measure of segment results:** | | | | | |
| Depreciation | 74,768 | 324,793 | 240,342 | 167 | 640,070 |
| Amortisation | 6,297 | 30,693 | 15,479 | 8 | 52,477 |
| **Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results:** | | | | | |
| Share of results of associates | 6,357 | 13,747 | 812 | – | 20,916 |

## 5. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Interest expenses | **702,882** | 451,358 |
| Less: Amounts capitalised as construction-in-progress | **(14,173)** | (15,652) |
| | **688,709** | 435,706 |
| Net foreign exchange (gains) losses on bank borrowings | **(2,470)** | 404 |
| Discount charges on bank acceptance notes | **5,412** | 2,360 |
| Total finance costs | **691,651** | 438,470 |

## 6. INCOME TAX EXPENSE

The Group has no operations in Hong Kong and is therefore not subject to the Hong Kong Profits Tax for both reporting periods.

Certain of the companies now comprising the Group are subject to the PRC enterprise income tax, which has been provided for based on the statutory income tax rates of 25% (2010: 25%) on the assessable income of each of these companies during the period as determined in accordance with the relevant PRC income tax rules and regulations except that certain subsidiaries and jointly controlled entities which are exempted from tax or taxed at preferential rates of 15% (2010: 15%).

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

## 6. INCOME TAX EXPENSE (Continued)

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

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Current income tax: | | |
| – PRC enterprise income tax | **544,202** | 312,076 |
| – Overseas taxation | **6,795** | 7,949 |
| – (Over) underprovision in previous years | **(1,555)** | 280 |
| | **549,442** | 320,305 |
| Deferred income tax | **(70,188)** | (15,548) |
| | **479,254** | 304,757 |

## 7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Depreciation and amortisation | | |
| – property, plant and equipment | **1,018,354** | 636,635 |
| – prepaid lease payments | **39,032** | 31,207 |
| – investment properties | **2,428** | 3,435 |
| – intangible assets | **20,062** | 14,656 |
| – mining rights | **6,941** | 6,614 |
| Impairment loss recognised in respect of trade and other receivables | **62,593** | 48,617 |
| Impairment loss recognised in respect of property, plant and equipment | **38,987** | 69,302 |
| Impairment loss recognised in respect of available-for-sale financial assets | **–** | 207 |
| Allowance for inventories (included in cost of sales) | **16,955** | 6,464 |
| Reversal of allowance for inventories (included in cost of sales) | **–** | (244) |
| Donations | **2,800** | 3,686 |
| Net gain on disposals of property, plant and equipment | **(10,256)** | (6,241) |
| Net gain arising from foreign currency forward contracts | **–** | (27,937) |
| Net gain arising from interest rate swap contract | **–** | (502) |
| Dividend income from available-for-sale financial assets | **(2,832)** | (7,213) |
| Income from liabilities forgiven | **(1,012)** | (295) |
| Government grants | **(92,815)** | (93,608) |

## 8. DIVIDENDS

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Audited) |
| 2010 final dividend of RMB0.04 per share recognised as distribution during the reporting period (2010: 2009 final dividend of RMB0.025 per share) | **142,859** | 89,287 |

No interim dividend was paid, declared or proposed during the six months ended 30 June 2011, nor has any dividend been proposed since the end of the interim reporting period (2010: Nil).

## 9. EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during each of the six months ended 30 June 2011 and 2010.

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Profit for the period attributable to owners of the Company (RMB'000) | **765,945** | 448,591 |
| Weighted average number of ordinary shares in issue ('000) | **3,571,464** | 3,571,464 |
| Basic earnings per share (RMB) | **0.214** | 0.126 |

### (b) Diluted

Diluted earnings per share was the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the periods ended 30 June 2011 and 2010.

## 10. CAPITAL EXPENDITURE

The movements of property, plant and equipment, prepaid lease payments, investment properties, intangible assets and mining rights are as follows:

| | Property, plant and equipment RMB'000 | Prepaid lease payments RMB'000 | Investment properties RMB'000 | Intangible assets RMB'000 | Mining rights RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Six months ended 30 June 2011 (Unaudited)** | | | | | | |
| Carrying values at 1 January 2011 (unaudited and restated) | **28,020,917** | **3,001,122** | **134,436** | **619,620** | **440,015** | **32,216,110** |
| Additions | **4,639,231** | **110,942** | **–** | **39,507** | **9,764** | **4,799,444** |
| Attributable to acquisition of subsidiaries | **10,175** | **–** | **–** | **225** | **–** | **10,400** |
| Disposals | **(506,971)** | **(27,401)** | **–** | **–** | **(4,813)** | **(539,185)** |
| Depreciation and amortisation charged for the period | **(1,018,354)** | **(39,032)** | **(2,428)** | **(20,062)** | **(6,941)** | **(1,086,817)** |
| Impairment loss recognised in the unaudited condensed consolidated income statement | **(38,987)** | **–** | **–** | **–** | **–** | **(38,987)** |
| Carrying values at 30 June 2011 | **31,106,011** | **3,045,631** | **132,008** | **639,290** | **438,025** | **35,360,965** |
| **Six months ended 30 June 2010 (Unaudited and restated)** | | | | | | |
| Carrying values at 1 January 2010 (unaudited and restated) | 18,598,753 | 2,080,119 | 127,140 | 151,717 | 146,476 | 21,104,205 |
| Additions | 3,179,113 | 122,945 | – | 411,470 | 62,332 | 3,775,860 |
| Attributable to acquisition of subsidiaries | 4,250,683 | 582,728 | 7,336 | 56,690 | 273,877 | 5,171,314 |
| Disposals | (108,203) | – | – | – | – | (108,203) |
| Depreciation and amortisation charged for the period | (636,635) | (31,207) | (3,435) | (14,656) | (6,614) | (692,547) |
| Impairment loss recognised in the unaudited condensed consolidated income statement | (69,302) | – | – | – | – | (69,302) |
| Carrying values at 30 June 2010 | 25,214,409 | 2,754,585 | 131,041 | 605,221 | 476,071 | 29,181,327 |

## 11. DEPOSITS PAID FOR ACQUISITION OF SUBSIDIARIES

(a) Balance as at 1 January 2010 of RMB332,770,000 represented the deposit paid by the Company for capital injection and acquisition of Gansu Qilianshan Building Materials Holdings Company Limited ("Qilianshan Holdings").

The capital injection and acquisition of Qilianshan Holdings had been completed on 23 April 2010. Details of the capital injection and acquisition are set out in Note 23(ii).

(b) Balance as at 1 January 2010 of RMB300,000,000 represented the deposit paid by Sinoma Cement Co., Ltd. ("Sinoma Cement"), a wholly-owned subsidiary of the Group, to acquire the 100% equity interests in Anhui Yingpu Jinlong Cement Co., Ltd. ("Anhui Yingpu") in accordance with the framework agreement signed in February 2008.

The acquisition of Anhui Yingpu had been completed on 11 February 2010. Details of the acquisition are set out in Note 23(iii).

## 12. TRADE AND OTHER RECEIVABLES

| | **30 June 2011** | 31 December 2010 | 1 January 2010 |
|---|---|---|---|
| | **RMB'000** | RMB'000 | RMB'000 |
| | **(Unaudited)** | (Unaudited) | (Unaudited) |
| | | (Restated) | (Restated) |
| **Trade receivables and retentions** | | | |
| Trade and bills receivables | **7,575,852** | 5,697,494 | 3,633,989 |
| Retentions | **84,572** | 97,893 | 145,821 |
| | **7,660,424** | 5,795,387 | 3,779,810 |
| Less: Impairment loss recognised | **(583,512)** | (549,032) | (466,178) |
| Trade receivables and retentions, net | **7,076,912** | 5,246,355 | 3,313,632 |

## 12. TRADE AND OTHER RECEIVABLES (Continued)

| | 30 June 2011 RMB'000 (Unaudited) | 31 December 2010 RMB'000 (Unaudited) (Restated) | 1 January 2010 RMB'000 (Unaudited) (Restated) |
|---|---|---|---|
| **Loan receivables, prepayments, deposits, staff advances and other receivables** | | | |
| Loan receivables | **38,104** | 92,115 | 96,942 |
| Prepayments to suppliers and subcontractors | **5,792,932** | 4,360,839 | 4,314,406 |
| Staff advances | **167,747** | 115,141 | 149,077 |
| Deposits | **158,349** | 106,026 | 90,087 |
| Other receivables | **572,101** | 723,668 | 651,386 |
| | **6,729,233** | 5,397,789 | 5,301,898 |
| Less: Impairment loss recognised | **(156,216)** | (132,012) | (132,206) |
| Loan receivables, prepayments, deposits, staff advances and other receivables, net | **6,573,017** | 5,265,777 | 5,169,692 |
| Total trade and other receivables | **13,649,929** | 10,512,132 | 8,483,324 |
| Less: Non-current portion | | | |
| Retentions | **(40,747)** | (72,170) | (68,424) |
| Current portion | **13,609,182** | 10,439,962 | 8,414,900 |

Refer to Note 28 for details of receivables from related parties.

## 12. TRADE AND OTHER RECEIVABLES (Continued)

Ageing analysis of the Group's trade receivables and retentions, net of impairment loss, presented based on the invoice date is as follows:

| | **30 June 2011<br>RMB'000<br>(Unaudited)** | 31 December 2010<br>RMB'000<br>(Unaudited)<br>(Restated) | 1 January 2010<br>RMB'000<br>(Unaudited)<br>(Restated) |
|---|---|---|---|
| Less than 6 months | **5,162,245** | 4,152,476 | 2,103,285 |
| 6 months to 1 year | **1,279,890** | 608,648 | 740,421 |
| 1 year to 2 years | **443,995** | 298,277 | 325,526 |
| 2 years to 3 years | **135,077** | 133,303 | 112,272 |
| Over 3 years | **55,705** | 53,651 | 32,128 |
| | **7,076,912** | 5,246,355 | 3,313,632 |

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

## 13. TRADE AND OTHER PAYABLES

| | **30 June 2011** | 31 December 2010 | 1 January 2010 |
|---|---|---|---|
| | **RMB'000** | RMB'000 | RMB'000 |
| | **(Unaudited)** | (Unaudited) | (Unaudited) |
| | | (Restated) | (Restated) |
| **Trade and bills payables** | **11,153,700** | 9,255,879 | 7,226,333 |
| **Deposits, advances, accruals and other payables** | | | |
| Prepayments from customers | **8,511,806** | 9,393,135 | 10,406,673 |
| Accrued payroll and welfare | **175,290** | 341,733 | 193,654 |
| Accrued social security costs | **194,087** | 247,610 | 201,741 |
| Other taxes | **244,165** | 270,661 | 152,023 |
| Accrued expenses | **205,811** | 221,180 | 169,210 |
| Deposits payable | **366,478** | 181,200 | 143,072 |
| Dividends payable to non-controlling interests by subsidiaries | **122,489** | 79,422 | 58,113 |
| Other payables | **1,340,567** | 963,790 | 1,096,745 |
| | **11,160,693** | 11,698,731 | 12,421,231 |
| Total trade and other payables | **22,314,393** | 20,954,610 | 19,647,564 |
| Less: Non-current portion | **(1,896)** | (1,197) | (1,438) |
| Current portion | **22,312,497** | 20,953,413 | 19,646,126 |

Refer to Note 28 for details of payables to related parties.

## 13. TRADE AND OTHER PAYABLES (Continued)

Ageing analysis of trade and bills payables presented based on the invoice date is as follows:

| | **30 June 2011** | 31 December 2010 | 1 January 2010 |
|---|---|---|---|
| | **RMB'000** | RMB'000 | RMB'000 |
| | **(Unaudited)** | (Unaudited) | (Unaudited) |
| | | (Restated) | (Restated) |
| Within 6 months | **7,109,434** | 4,849,906 | 4,294,871 |
| 6 months to 1 year | **2,623,732** | 2,462,521 | 1,951,479 |
| 1 year to 2 years | **1,028,868** | 1,634,333 | 789,146 |
| 2 years to 3 years | **247,071** | 147,806 | 100,405 |
| Over 3 years | **144,595** | 161,313 | 90,432 |
| | **11,153,700** | 9,255,879 | 7,226,333 |

## 14. SHORT-TERM FINANCING BILLS

| | **30 June 2011** | 31 December 2010 | 1 January 2010 |
|---|---|---|---|
| | **RMB'000** | RMB'000 | RMB'000 |
| | **(Unaudited)** | (Unaudited) | (Unaudited) |
| | | (Restated) | (Restated) |
| Short-term financing bills | **400,000** | 400,000 | – |

On 25 March 2011, Gansu Qilianshan Cement Group Co., Ltd. ("Qilianshan Co."), a non-wholly-owned subsidiary which acquired by the Group on 23 April 2010 as detailed in Note 23(ii), issued one-year short-term financing bills of face value at RMB400,000,000 in the PRC inter-bank bond market. The short-term financing bills bear a fixed interest rate of 5.10% per annum and the interest is payable on maturity of the bills.

On 21 January 2010, Qilianshan Co., issued one-year short-term financing bills of face value at RMB400,000,000 in the PRC inter-bank bond market. The short-term financing bills carried a fixed interest rate of 3.99% per annum and the principal together with the interest thereon were repaid on maturity of the bills during the current period.

## 15. BORROWINGS

| | **30 June 2011 RMB'000 (Unaudited)** | 31 December 2010 RMB'000 (Unaudited) (Restated) | 1 January 2010 RMB'000 (Unaudited) (Restated) |
|---|---|---|---|
| **Non-current** | | | |
| Long-term bank borrowings | | | |
| – Secured (Note a) | **2,243,796** | 1,237,746 | 1,335,977 |
| – Unsecured | **9,260,655** | 9,262,561 | 5,483,386 |
| | **11,504,451** | 10,500,307 | 6,819,363 |
| Other borrowings | | | |
| – Secured (Note a) | **2,000** | 2,000 | 2,000 |
| – Unsecured | **30,455** | 41,436 | 44,080 |
| | **32,455** | 43,436 | 46,080 |
| Total non-current borrowings | **11,536,906** | 10,543,743 | 6,865,443 |
| **Current** | | | |
| Current portion of long-term bank borrowings | | | |
| – Secured (Note a) | **43,000** | 39,416 | 320,878 |
| – Unsecured | **1,630,507** | 696,504 | 448,403 |
| | **1,673,507** | 735,920 | 769,281 |
| Short-term bank borrowings | | | |
| – Secured (Note a) | **737,291** | 403,170 | 522,360 |
| – Unsecured | **7,617,751** | 6,019,975 | 3,574,227 |
| | **8,355,042** | 6,423,145 | 4,096,587 |
| Other borrowings | | | |
| – Secured (Note a) | **92,663** | – | 1,000 |
| – Unsecured | **508,098** | 1,019,124 | 602,765 |
| | **600,761** | 1,019,124 | 603,765 |
| Total current borrowings | **10,629,310** | 8,178,189 | 5,469,633 |
| **Total borrowings** | **22,166,216** | 18,721,932 | 12,335,076 |

## 15. BORROWINGS (Continued)

Notes:

(a) Secured borrowings of the Group are secured by the Group's property, plant and equipment and prepaid lease payments with carrying values of approximately RMB1,611,893,000 and RMB175,267,000 as at 30 June 2011 (31 December 2010: RMB2,444,338,000 and RMB253,235,000 and 1 January 2010: RMB2,468,196,000 and RMB298,340,000) respectively. As at 31 December 2010, secured borrowings of the Group were also secured by the Group's investment properties with carrying values of approximately RMB54,340,000 (1 January 2010: RMB11,625,000).

(b) The movements of borrowings are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| At 1 January | **18,721,932** | 12,335,076 |
| Attributable to acquisition of subsidiaries | **–** | 1,994,430 |
| Amortisation of the difference between the initial amount and the maturity amount using the effective interest | **1,880** | 1,461 |
| Proceeds from new borrowings | **8,832,259** | 6,652,483 |
| Repayments of borrowings | **(5,387,385)** | (3,799,714) |
| Net foreign exchange (gains) losses on borrowings | **(2,470)** | 404 |
| At 30 June | **22,166,216** | 17,184,140 |

## 16. EARLY RETIREMENT AND SUPPLEMENTAL BENEFIT OBLIGATIONS

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

The amounts of early retirement and supplemental benefit obligations recognised in the unaudited condensed consolidated statement of financial position are as follows:

| | **30 June 2011** | 31 December 2010 | 1 January 2010 |
|---|---|---|---|
| | **RMB'000** | RMB'000 | RMB'000 |
| | **(Unaudited)** | (Unaudited) | (Unaudited) |
| | | (Restated) | (Restated) |
| Total liability in the unaudited condensed consolidated statement of financial position | **368,031** | 352,440 | 163,172 |
| Less: Current portion | **(22,803)** | (34,532) | (20,479) |
| | **345,228** | 317,908 | 142,693 |

## 16. EARLY RETIREMENT AND SUPPLEMENTAL BENEFIT OBLIGATIONS (Continued)

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

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| At 1 January | **352,440** | 163,172 |
| Attributable to acquisition of subsidiaries | **–** | 162,070 |
| Interest cost | **6,819** | 3,310 |
| Actuarial losses | **31,575** | 8,010 |
| Payments | **(22,803)** | (10,677) |
| At 30 June | **368,031** | 325,885 |

## 17. CASH-SETTLED SHARE-BASED PAYMENTS

The Group implemented a share appreciation rights scheme to motivate and award the senior management team and other key members of the Company. Under this share appreciation rights scheme, share appreciation rights are granted in units representing one H share. No share will be issued under the share appreciation rights scheme. Upon exercise of the share appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollars amount equal to the product of the number of share appreciation rights exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the applicable exchange rate between RMB and Hong Kong dollars at the date of the exercise. The Company recognises compensation expense of the share appreciation rights over the applicable vesting period.

The share appreciation rights scheme has been approved at the second extraordinary general shareholders meeting held on 22 October 2010. On 13 December 2010, 4,130,000 units of the share appreciation rights scheme were granted to sixteen senior officers, including five directors and eleven senior management members, at an exercise price of RMB5.17 per unit. On 22 December 2010, Mr. Zhou Yuxian, executive director, has resigned and his related right of 300,000 units of the share appreciation rights has been voided under the share appreciation right scheme. Under the terms of this grant, all share appreciation rights had a contractual life of seven years from the date of grant. A recipient of share appreciation rights may not exercise the rights in the first twenty four months after the date of grant. As at each of the second, third and fourth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed one-third, two-third and 100%, respectively, of the total share appreciation rights granted to such person. The total amounts paid in cash as a result of the Company's market price being higher that the exercise price of the share appreciation tights shall not exceed 40% of the salaries level of those guarantees accessed at the date of grant. The share appreciation rights which have not been exercised after the expiration of the term of the scheme shall lapse.

## 17. CASH-SETTLED SHARE-BASED PAYMENTS (Continued)

During the six months ended 30 June 2011, no share appreciation rights were granted, exercised or expired. As at 30 June 2011, the expiry date of the outstanding share appreciation rights is six years and five months.

For the six months ended 30 June 2011, the Group has recorded liabilities and expenses of approximately RMB1,896,000 (2010: nil) related to the share appreciation rights. The fair value of share appreciation rights is determined using the Black-Scholes pricing model with expected volatility of 50%, risk free rate of 3.14% and dividend yield of 1%. The share appreciation rights liability was recorded in accrued payroll and welfare in the trade and other payables and administrative expenses.

## 18. CORPORATE BONDS

| | **30 June 2011 RMB'000 (Unaudited)** | 31 December 2010 RMB'000 (Unaudited) (Restated) | 1 January 2010 RMB'000 (Unaudited) (Restated) |
|---|---|---|---|
| Corporate bonds, at amortised cost | **2,487,829** | 2,485,545 | 2,483,381 |

On 31 July 2009, the Company issued seven-year corporate bonds of face value of RMB2,500,000,000 in the PRC capital market. The corporate bonds bear a fixed interest rate of 5.40% per annum and the interest is paid annually.

The effective interest rate of the corporate bonds is 5.52% per annum.

## 19. MEDIUM-TERM NOTES

| | **30 June 2011 RMB'000 (Unaudited)** | 31 December 2010 RMB'000 (Unaudited) (Restated) | 1 January 2010 RMB'000 (Unaudited) (Restated) |
|---|---|---|---|
| Medium-term notes, at amortised cost | **2,351,080** | 1,700,000 | – |

On 10 March 2010, the Company issued the medium-term notes amounted to RMB1,700,000,000 with a term of five years. The medium-term notes bear a fixed interest rate of 4.48% per annum and the interest is paid annually.

The effective interest rate of the medium-term notes is 4.48% per annum.

On 21 April 2011, the Group issued the medium-term notes amounted to RMB660,000,000 with a term of five years. The medium-term notes bear a fixed interest rate of 6.16% per annum and the interest is paid annually.

The effective interest rate of the medium-term notes is 6.46% per annum.

## 20. SHARE CAPITAL

| | Non-listed domestic shares | | Non-listed foreign shares | | H Shares | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount |
| | '000 | RMB'000 | '000 | RMB'000 | '000 | RMB'000 | '000 | RMB'000 |
| Registered, issued and fully paid: | | | | | | | | |
| At 1 January 2010, 30 June 2010, 31 December 2010, 1 January 2011 and 30 June 2011 | 2,276,523 | 2,276,523 | 130,793 | 130,793 | 1,164,148 | 1,164,148 | 3,571,464 | 3,571,464 |

## 21. RESERVES

### Government contributions

During the six months ended 30 June 2010, national funds amounting to RMB136,000,000 are contributed by the PRC government to the Company through Sinoma Group. Such funds are used specifically for low temperature cogeneration project, residues utilisation project and carbide to cement production project.

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

## 22. CHANGES IN THE FAIR VALUE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

The changes in the fair value of the Group's available-for-sale financial assets are mainly due to the appreciation of the relevant A shares held by the Group.

## 23. BUSINESS COMBINATIONS OTHER THAN COMMON CONTROL COMBINATIONS

### (i) Shandong Shengxin Precious Metal Co., Ltd. ("Shandong Shengxin")

On 1 January 2011, the Group acquired 75% equity interests in Shandong Shengxin from certain independent third parties for an aggregate cash consideration of approximately RMB12,925,000. Shandong Shengxin is principally engaged in the production of glass fiber and was acquired with the objective of improving the supply of glass fiber. This acquisition has been accounted for using acquisition method.

Consideration transferred

| | RMB'000 |
|---|---|
| Cash | 12,925 |

Acquisition-related cost were insignificant and have been recognised as expense in the current period and included within the "administrative expenses" in the unaudited condensed consolidated income statement.

Assets acquired and liabilities recognised at the date of acquisition (determined on a provisional basis) are as follows:

| | RMB'000 |
|---|---|
| Plant and equipment | 10,175 |
| Intangible assets | 225 |
| Inventories | 2,125 |
| Trade and other receivables | 6,662 |
| Bank balances and cash | 23,419 |
| Trade and other payables | (14,855) |
| Income tax liabilities | (6,911) |
| Deferred income | (590) |
| | 20,250 |

| | RMB'000 |
|---|---|
| Consideration transferred | 12,925 |
| Plus: non-controlling interests (25% in Shandong Shengxin) | 7,325 |
| Less: net assets acquired | (20,250) |
| | – |

## 23. BUSINESS COMBINATIONS OTHER THAN COMMON CONTROL COMBINATIONS (Continued)

### (i) Shandong Shengxin (Continued)

The fair value of trade and other receivables at the date of acquisition amounted to RMB6,662,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB6,662,000 at the date of acquisition. No estimated uncollectible contractual cash flows were expected at the acquisition date.

The non-controlling interest in Shandong Shengxin recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Shandong Shengxin and amounted to RMB7,325,000.

Net cash inflow on acquisition of Shandong Shengxin

| | RMB'000 |
|---|---|
| Cash consideration paid | (12,925) |
| Cash and cash equivalents acquired | 23,419 |
| | 10,494 |

Shandong Shengxin contributed RMB8,303,000 and RMB2,178,000 to the Group's turnover and profit for the period respectively for the six months ended 30 June 2011.

## 23. BUSINESS COMBINATIONS OTHER THAN COMMON CONTROL COMBINATIONS (Continued)

### (ii) Qilianshan Holdings

On 27 December 2009, the Company entered into a capital injection and acquisition agreement with the State-owned Assets Supervision and Administrative Commission of Gansu Provincial Government ("Gansu Provincial SAC") and Qilianshan Holdings, whereby the Company had agreed to inject additional capital into Qilianshan Holdings amounted to RMB100,000,000, representing 15.33% of the enlarged registered share capital of Qilianshan Holdings. In addition, the Company also agreed to acquire 35.67% equity interests in Qilianshan Holdings from Gansu Provincial SAC for a consideration of approximately RMB232,770,000. Details of the capital injection and acquisition were set out in the Company's announcement dated 27 December 2009. Upon completion of the capital injection and acquisition on 23 April 2010, the Company holds 51% equity interests in Qilianshan Holdings.

Since 15 June 2009, the Company has 11.88% equity interests in Qilianshan Co., a non-wholly-owned subsidiary of Qilianshan Holdings, which was classified as an associate up to 23 April 2010. On 23 April 2010, the Company acquired 51% equity interests in Qilianshan Holdings and therefore Qilianshan Co. became a subsidiary of the Company thereafter.

This acquisition of Qilianshan Holdings has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition is RMB418,130,000.

#### Consideration transferred

| | RMB'000 |
|---|---|
| Consideration given for controlling interest satisfied by: | |
| Capital injection into Qilianshan Holdings by cash | 100,000 |
| Acquisition of equity interests by cash | 232,770 |
| | 332,770 |

Acquisition-related costs were borne by the vendor and have been excluded from the consideration transferred.

## 23. BUSINESS COMBINATIONS OTHER THAN COMMON CONTROL COMBINATIONS (Continued)

### (ii) Qilianshan Holdings (Continued)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | RMB'000 |
|---|---|
| Property, plant and equipment | 3,219,065 |
| Prepaid lease payments | 467,062 |
| Investment properties | 7,336 |
| Intangible assets | 55,909 |
| Mining rights | 114,788 |
| Available-for-sale financial assets | 51,735 |
| Other non-current assets | 34,853 |
| Deferred income tax assets | 47,069 |
| Inventories | 322,096 |
| Trade and other receivables | 800,849 |
| Other current assets | 1,647 |
| Restricted bank balances | 2,000 |
| Bank balances and cash | 1,144,284 |
| Trade and other payables | (910,288) |
| Income tax liabilities | (44,300) |
| Short-term financing bills | (400,000) |
| Borrowings | (1,894,430) |
| Early retirement and supplemental benefit obligations | (162,070) |
| Deferred income tax liabilities | (118,161) |
| | 2,739,444 |

The trade and other receivables acquired (which principally comprised trade receivables) with a fair value of RMB800,849,000 had gross contractual amounts of RMB802,477,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected is RMB1,628,000.

Goodwill of approximately RMB53,915,000 was included in the intangible assets of Qilianshan Holdings at the date of acquisition.

## 23. BUSINESS COMBINATIONS OTHER THAN COMMON CONTROL COMBINATIONS (Continued)

### (ii) Qilianshan Holdings (Continued)

Goodwill arising on acquisition:

| | RMB'000 |
|---|---|
| Consideration transferred | 332,770 |
| Plus: non-controlling interests (49% in Qilianshan Holdings) | 2,270,731 |
| Plus: fair value of previously held interest | 554,073 |
| Less: net assets acquired | (2,739,444) |
| Goodwill arising on acquisition | 418,130 |

Goodwill arose in the acquisition of Qilianshan Holdings because the consideration paid for the acquisition effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Qilianshan Holdings. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

The non-controlling interests in Qilianshan Holdings recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Qilianshan Holdings and amounted to RMB2,270,731,000.

Net cash inflow on acquisition of Qilianshan Holdings

| | RMB'000 |
|---|---|
| Cash consideration paid | (332,770) |
| Cash and cash equivalents acquired | 1,144,284 |
| | 811,514 |
| Deposit paid for acquisition in previous years | 332,770 |
| | 1,144,284 |

Qilianshan Holdings contributed RMB609,558,000 and RMB127,468,000 to the Group's turnover and profit for the period respectively for the six months ended 30 June 2010.

If the acquisition had been completed on 1 January 2010, the Group's turnover and the profit for the six months ended 30 June 2010 would have been RMB19,070,706,000 and RMB1,481,761,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

## 23. BUSINESS COMBINATIONS OTHER THAN COMMON CONTROL COMBINATIONS (Continued)

### (iii) Anhui Yingpu

On 11 February 2010, the Group acquired 100% equity interests in Anhui Yingpu from independent third parties for a consideration of approximately RMB740,117,000. This acquisition has been accounted for using acquisition method. The amount of gain on a bargain purchase arising as a result of the acquisition was RMB70,610,000.

Consideration transferred

| | RMB'000 |
|---|---|
| Cash | 704,217 |
| Other payable | 35,900 |
| Total | 740,117 |

Acquisition-related costs amounting to RMB8,063,000 have been excluded from the consideration transferred and have been recognised as an expense for the six months ended 30 June 2010, within the administrative expenses in the unaudited condensed consolidated income statement.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | RMB'000 |
|---|---|
| Property, plant and equipment | 1,028,592 |
| Prepaid lease payments | 115,666 |
| Intangible assets | 66 |
| Mining rights | 159,089 |
| Deferred income tax assets | 33,044 |
| Inventories | 39,870 |
| Trade and other receivables | 95,952 |
| Bank balances and cash | 1,825 |
| Trade and other payables | (524,959) |
| Income tax liabilities | (185) |
| Borrowings | (100,000) |
| Deferred income tax liabilities | (38,233) |
| Net assets acquired | 810,727 |

The fair value of trade and other receivables at the date of acquisition amounted to RMB95,952,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB95,952,000 at the date of acquisition. No estimated uncollectible contractual cash flows were expected at acquisition date.

## 23. BUSINESS COMBINATIONS OTHER THAN COMMON CONTROL COMBINATIONS (Continued)

### (iii) Anhui Yingpu (Continued)

Gain on a bargain purchase arising on acquisition:

| | RMB'000 |
|---|---|
| Consideration transferred | 740,117 |
| Less: net assets acquired | (810,727) |
| Gain on a bargain purchase arising on acquisition | (70,610) |

The gain on a bargain purchase is attributable to the ability of the Group in negotiating the agreed terms of the transaction with the vendor.

Net cash outflow on acquisition of Anhui Yingpu

| | RMB'000 |
|---|---|
| Cash consideration paid | (704,217) |
| Cash and cash equivalents acquired | 1,825 |
| | (702,392) |
| Deposit paid for acquisition in previous years | 300,000 |
| | (402,392) |

Anhui Yingpu contributed RMB221,815,000 and RMB867,000 to the Group's turnover and profit for the period respectively for the six months ended 30 June 2010.

If the acquisition had been completed on 1 January 2010, the Group's turnover and profit for the six months ended 30 June 2010 would have been RMB18,308,810,000 and RMB1,352,355,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

## 23. BUSINESS COMBINATIONS OTHER THAN COMMON CONTROL COMBINATIONS (Continued)

### (iv) Beijing Tiandi Orient Superhard Materials Co., Ltd. ("Beijing Tiandi")

On 1 February 2010, the Group acquired an additional 36% of the equity interests of the former associate, Beijing Tiandi, for a consideration of approximately RMB3,556,000. After the acquisition, the Group's interest held in Beijing Tiandi increased from 21% to 57%. The acquisition has been accounted for using acquisition method. The amount of gain on a bargain purchase arising as a result of the acquisition was RMB172,000.

Consideration transferred

| | RMB'000 |
|---|---|
| Consideration given for controlling interest satisfied by cash | 3,556 |

Acquisition-related cost were insignificant and have been excluded from the consideration transferred and have been recognised as an expense for the six months ended 30 June 2010, within the administrative expenses in the unaudited condensed consolidated income statement.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | RMB'000 |
|---|---|
| Property, plant and equipment | 3,026 |
| Intangible assets | 715 |
| Inventories | 6,656 |
| Trade and other receivables | 3,470 |
| Bank balances and cash | 6,100 |
| Trade and other payables | (9,613) |
| | 10,354 |

## 23. BUSINESS COMBINATIONS OTHER THAN COMMON CONTROL COMBINATIONS (Continued)

### (iv) Beijing Tiandi Orient Superhard Materials Co., Ltd. ("Beijing Tiandi") (Continued)

Gain on a bargain purchase arising on acquisition:

| | RMB'000 |
|---|---|
| Consideration transferred | 3,556 |
| Plus: non-controlling interests (43% in Beijing Tiandi) | 4,452 |
| Plus: fair value of previously held interest | 2,174 |
| Less: net assets acquired | (10,354) |
| Gain on a bargain purchase arising on acquisition | (172) |

The gain on a bargain purchase is attributable to the ability of the Group in negotiating the agreed terms of the transaction with the vendor.

The fair value of trade and other receivables at the date of acquisition amounted to RMB3,470,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB3,470,000 at the date of acquisition. No estimated uncollectible contractual cash flows were expected at the acquisition date.

The non-controlling interests in Beijing Tiandi recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Beijing Tiandi and amounted to RMB4,452,000.

Net cash inflow on acquisition of Beijing Tiandi

| | RMB'000 |
|---|---|
| Cash consideration paid | (3,556) |
| Cash and cash equivalents acquired | 6,100 |
| | 2,544 |

Beijing Tiandi contributed RMB5,984,000 and RMB40,000 to the Group's turnover and profit for the period respectively for the six months ended 30 June 2010.

If the acquisition had been completed on 1 January 2010, the Group's turnover and profit for the six months ended 30 June 2010 would have been RMB18,262,725,000 and RMB1,351,033,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

## 24. BUSINESS COMBINATIONS UNDER COMMON CONTROL

The Group adopts merger accounting for common control combinations in respect of the following transactions.

(i) On 12 January 2011, Sinoma Shangrao Machinery Co., Ltd. ("Sinoma Shangrao"), a wholly-owned subsidiary of the Company, entered into a share transfer agreement with Sinoma Group to acquire 100% equity interest of Sinoma Slipform Leasing (Shangrao) Co., Ltd. ("Shangrao Slipform") at a consideration of approximately RMB9,867,000. The acquisition has been completed on 17 January 2011.

(ii) On 12 January 2011, Sinoma Shangrao entered into a share transfer agreement with Sinoma Group to acquire 100% equity interest of Sinoma Equipment Maintenance (Shangrao) Co., Ltd. ("Shangro Maintenance") at a consideration of approximately RMB30,852,000. The acquisition has been completed on 17 January 2011.

(iii) On 28 January 2011, Sinoma Advanced Materials Co. Ltd., a non-wholly-owned subsidiary of the Company, entered into a share transfer agreement with Sinoma Group to acquire 100% equity interest of Shandong Research & Design Institute of Industrial Ceramics Co., Ltd. ("Shandong Industrial Ceramics") at a consideration of approximately RMB8,152,000. The acquisition has been completed on 15 February 2011.

(iv) On 22 February 2011, Sinoma Cement, a wholly-owned subsidiary of the Company, entered into a share transfer agreement with Sinoma Group to acquire 100% equity interest of Suzhou Concrete Cement Products Research & Design Institute Co., Ltd. ("Suzhou Concrete Cement Institute") at a consideration of approximately RMB95,176,000. The acquisition has been completed on 17 March 2011.

The parent company of Shangrao Slipform, Shangrao Maintenance, Shandong Industrial Ceramics and Suzhou Concrete Cement Institute (collectively named as the "Acquired Subsidiaries") is Sinoma Group and the aforesaid transactions are regarded as business combinations under common control.

No significant adjustments were made to the net assets and net results of the above entities as a result of the common control combination to achieve consistency of accounting policies.

## 24. BUSINESS COMBINATIONS UNDER COMMON CONTROL (Continued)

Statements of adjustments for business combinations under common control on the Group's financial position as at 31 December 2010 and 1 January 2010 and the results for the six months ended 30 June 2011 and 30 June 2010 are summarised as follows:

| | The Group (excluding the Acquired Subsidiaries) RMB'000 | Acquired Subsidiaries RMB'000 | Adjustment (Note) RMB'000 | The Group (including the Acquired Subsidiaries) RMB'000 |
|---|---|---|---|---|
| **Six months ended 30 June 2011** | | | | |
| Turnover | 22,179,662 | 136,111 | – | 22,315,773 |
| Profit before tax | 2,391,616 | 34,865 | – | 2,426,481 |
| Income tax expense | (467,476) | (11,778) | – | (479,254) |
| Profit for the period | 1,924,140 | 23,087 | – | 1,947,227 |
| **As at 30 June 2011** | | | | |
| Non-current assets | 41,226,119 | 111,423 | – | 41,337,542 |
| Current assets | 33,975,395 | 269,728 | – | 34,245,123 |
| Total assets | 75,201,514 | 381,151 | – | 75,582,665 |
| Current liabilities | 33,880,058 | 197,865 | – | 34,077,923 |
| Non-current liabilities | 18,163,462 | 23,735 | – | 18,187,197 |
| Total liabilities | 52,043,520 | 221,600 | – | 52,265,120 |
| **NET ASSETS** | 23,157,994 | 159,551 | – | 23,317,545 |
| **Capital and reserves** | | | | |
| Share capital | 3,571,464 | 101,694 | (101,694) | 3,571,464 |
| Reserves | 7,792,150 | 14,940 | 101,694 | 7,908,784 |
| Equity attributable to owners of the Company | 11,363,614 | 116,634 | – | 11,480,248 |
| Non-controlling interests | 11,794,380 | 42,917 | – | 11,837,297 |
| **TOTAL EQUITY** | 23,157,994 | 159,551 | – | 23,317,545 |

## 24. BUSINESS COMBINATIONS UNDER COMMON CONTROL (Continued)

| | The Group (excluding the Acquired Subsidiaries) RMB'000 | Acquired Subsidiaries RMB'000 | Adjustment (Note) RMB'000 | The Group (including the Acquired Subsidiaries) RMB'000 |
|---|---|---|---|---|
| **Six months ended 30 June 2010** | | | | |
| Turnover | 18,209,860 | 51,850 | – | 18,261,710 |
| Profit before tax | 1,653,667 | 2,123 | – | 1,655,790 |
| Income tax expense | (304,027) | (730) | – | (304,757) |
| Profit for the period | 1,349,640 | 1,393 | – | 1,351,033 |
| **As at 31 December 2010** | | | | |
| Non-current assets | 36,456,953 | 111,607 | – | 36,568,560 |
| Current assets | 30,457,110 | 195,830 | – | 30,652,940 |
| Total assets | 66,914,063 | 307,437 | – | 67,221,500 |
| Current liabilities | 30,292,211 | 160,794 | 144,047 | 30,597,052 |
| Non-current liabilities | 16,077,887 | 22,377 | – | 16,100,264 |
| Total liabilities | 46,370,098 | 183,171 | 144,047 | 46,697,316 |
| **NET ASSETS** | 20,543,965 | 124,266 | (144,047) | 20,524,184 |
| **Capital and reserves** | | | | |
| Share capital | 3,571,464 | 101,694 | (101,694) | 3,571,464 |
| Reserves | 6,113,722 | 2,095 | (42,353) | 6,073,464 |
| Equity attributable to owners of the Company | 9,685,186 | 103,789 | (144,047) | 9,644,928 |
| Non-controlling interests | 10,858,779 | 20,477 | – | 10,879,256 |
| **TOTAL EQUITY** | 20,543,965 | 124,266 | (144,047) | 20,524,184 |

## 24. BUSINESS COMBINATIONS UNDER COMMON CONTROL (Continued)

| | The Group (excluding the Acquired Subsidiaries) RMB'000 | Acquired Subsidiaries RMB'000 | Adjustment (Note) RMB'000 | The Group (including the Acquired Subsidiaries) RMB'000 |
|---|---|---|---|---|
| **As at 1 January 2010** | | | | |
| Non-current assets | 25,002,830 | 75,468 | – | 25,078,298 |
| Current assets | 24,757,413 | 173,624 | – | 24,931,037 |
| Total assets | 49,760,243 | 249,092 | – | 50,009,335 |
| Current liabilities | 25,453,750 | 149,146 | 144,047 | 25,746,943 |
| Non-current liabilities | 10,341,436 | 23,918 | – | 10,365,354 |
| Total liabilities | 35,795,186 | 173,064 | 144,047 | 36,112,297 |
| **NET ASSETS** | 13,965,057 | 76,028 | (144,047) | 13,897,038 |
| **Capital and reserves** | | | | |
| Share capital | 3,571,464 | 21,033 | (21,033) | 3,571,464 |
| Reserves | 4,692,600 | 41,071 | (123,014) | 4,610,657 |
| Equity attributable to owners of the Company | 8,264,064 | 62,104 | (144,047) | 8,182,121 |
| Non-controlling interests | 5,700,993 | 13,924 | – | 5,714,917 |
| **TOTAL EQUITY** | 13,965,057 | 76,028 | (144,047) | 13,897,038 |

Note: The adjustment represents elimination of the share capital of the Acquired Subsidiaries against their investment costs. The differences has been recorded in merger reserve as at 30 June 2011, 31 December 2010 and 1 January 2010.

## 24. BUSINESS COMBINATIONS UNDER COMMON CONTROL (Continued)

The effects of adopting merger accounting for common control combination on the Group's basic earnings per share for the six months ended 30 June 2011 and 2010:

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB** | RMB |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Reported figures before adjustments | **0.213** | 0.126 |
| Adjustments arising on common control combination | **0.001** | – |
| Restated figures after adjustments | **0.214** | 0.126 |

## 25. CONTINGENT LIABILITIES

| | **30 June 2011** | 31 December 2010 | 1 January 2010 |
|---|---|---|---|
| | **RMB'000** | RMB'000 | RMB'000 |
| | **(Unaudited)** | (Unaudited) | (Unaudited) |
| | | (Restated) | (Restated) |
| Pending lawsuits/arbitrations (Note a) | **10,990** | – | 68,168 |
| Outstanding guarantees (Note b) | **214,500** | 395,500 | 751,500 |
| | **225,490** | 395,500 | 819,668 |

Notes:

(a) The Group has been named in certain lawsuits and other legal proceedings arising in the ordinary course of business. No provision has been made for pending lawsuits/arbitrations for the year ended 1 January 2010 as the management believes in outflow of resources is not probable.

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

## 26. CAPITAL COMMITMENTS

| | **30 June 2011** | 31 December 2010 | 1 January 2010 |
|---|---|---|---|
| | **RMB'000** | RMB'000 | RMB'000 |
| | **(Unaudited)** | (Unaudited) | (Unaudited) |
| | | (Restated) | (Restated) |
| Capital expenditure authorised but not contracted for in respect of the acquisition of: | | | |
| – Property, plant and equipment | **63,243** | 3,262 | 956,909 |
| – Intangible assets | **20,822** | – | – |
| | **84,065** | 3,262 | 956,909 |
| Capital expenditure contracted for but not provided in respect of the acquisition of: | | | |
| – Property, plant and equipment | **1,297,519** | 1,100,167 | 972,634 |
| – Intangible assets | **49,129** | – | – |
| – Prepaid lease payments | **–** | 10,025 | – |
| | **1,346,648** | 1,110,192 | 972,634 |
| | **1,430,713** | 1,113,454 | 1,929,543 |

## 27. NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) During the six months ended 30 June 2011, the Group acquired property, plant and equipment amounting to approximately RMB1,961,400,000 which were included in trade and other payable as at 30 June 2011.

(b) During the six months ended 30 June 2011, the Group disposed property, plant and equipment amounting to approximately RMB430,196,000 which were included in trade and other receivables as at 30 June 2011.

(c) During the six months ended 30 June 2010, the Group acquired 51% equity interests in Qilianshan Holdings for a consideration of approximately RMB332,770,000 which had been paid in the year ended 31 December 2009 as a deposit.

(d) During the six months ended 30 June 2010, the Group acquired 100% equity interests in Anhui Yingpu for a consideration of approximately RMB740,117,000 of which RMB300,000,000 had been paid in the previous year as a deposit and RMB35,900,000 has been included in trade and other payables as at 30 June 2010.

(e) During the six months ended 30 June 2010, the Group acquired property, plant and equipment amounting to approximately RMB132,966,000 which were included in trade and other payables as at 30 June 2010.

(f) During the six months ended 30 June 2010, the Group acquired property, plant and equipment amounting to approximately RMB110,640,000 which were settled by bills receivable of the Group.

## 28. RELATED PARTY DISCLOSURES

Sinoma Group, the immediate parent of the Company, is owned and controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC Government. The State Council is the Company's ultimate controlling party, which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the "state-owned enterprises"). Neither Sinoma Group nor the State Council published financial statements available for public use.

In accordance with HKAS 24 (revised), the Group is exempted from disclosures of transactions with other stated-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government.

In addition to the related party information disclosed elsewhere in the unaudited condensed consolidated financial information, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, excluding other state-owned enterprises, during the six months ended 30 June 2011 and 2010 and balances as at 30 June 2011, 31 December 2010 and 1 January 2010 with related parties.

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

### (i) Transactions and balances with other state-owned enterprises

(a) The Group's transactions with other state-owned enterprises only accounted for less than 5% of the Group's revenue and cost of sales for the period ended 30 June 2011 and 2010. However, over 75% of the Group's interest expenses were incurred for borrowings from other state-owned enterprises.

(b) The balances with other state-owned enterprises and Sinoma Group and its fellow subsidiaries only accounted for less than 5% of the Group's trade and other receivables and trade and other payables as at 30 June 2011, 31 December 2010 and 1 January 2010. However, over 95% of the Group's borrowings were obtained from and over 95% of the Group's cash and cash equivalents are maintained with other state-owned enterprises.

In addition, as at 30 June 2011, 31 December 2010 and 1 January 2010, less than 5% of the Group's borrowings were secured by the corporate guarantees executed by other state-owned enterprises and less than 5% of the outstanding guarantees provided by the Group were in favor of other state-owned enterprises.

## 28. RELATED PARTY DISCLOSURES (Continued)

### (ii) Significant transactions and balances with related parties other than other state-owned enterprises

(a) The Group has the following significant transactions with related parties other than other state-owned enterprises:

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| **Transactions with jointly controlled entities (after elimination of the Group's proportionate interest in those jointly controlled entities)** | | |
| Revenue | | |
| – Sales of goods or provision of services | **1,533** | 23,718 |
| – Interest income | **924** | 801 |
| Expenses | | |
| – Purchases of goods or services | **6,910** | 16,190 |
| **Transactions with associates** | | |
| Revenue | | |
| – Sales of goods or provision of services | **465** | – |
| Expenses | | |
| – Purchases of goods or services | **11,551** | 899 |
| **Transactions with non-controlling interests** | | |
| Revenue | | |
| – Sales of goods or provision of services | **75,524** | 26,668 |
| Expenses | | |
| – Purchases of goods or services | **751** | 5,850 |
| **Transactions with joint venture partners of jointly controlled entities** | | |
| Revenue | | |
| – Sales of goods or provision of services | **26,046** | 32,863 |
| Expenses | | |
| – Purchases of goods or services | **4,597** | 6,465 |

## 28. RELATED PARTY DISCLOSURES (Continued)

### (ii) Significant transactions and balances with related parties other than other state-owned enterprises (Continued)

(b) Balances with related parties other than other state-owned enterprises

| | **30 June 2011 RMB'000 (Unaudited)** | 31 December 2010 RMB'000 (Unaudited) (Restated) | 1 January 2010 RMB'000 (Unaudited) (Restated) |
|---|---|---|---|
| **Trade and other receivables** | | | |
| Trade receivable due from | | | |
| – Jointly controlled entities | **3,705** | 25,812 | 9,070 |
| – Non-controlling interests | **35,396** | 15,879 | 17,163 |
| – Joint venture partners of jointly controlled entities | **–** | 6,447 | 5,653 |
| – Less: Impairment loss recognised | **(1,549)** | (3,876) | (2,532) |
| | **37,552** | 44,262 | 29,354 |
| Other receivables due from | | | |
| – Jointly controlled entities | **30,024** | 40,724 | 30,024 |
| – Non-controlling interests | **2,248** | 22,301 | 32,805 |
| – Less: Impairment loss recognised | **(126)** | (674) | (1,460) |
| | **32,146** | 62,351 | 61,369 |
| | **69,698** | 106,613 | 90,723 |

## 28. RELATED PARTY DISCLOSURES (Continued)

### (ii) Significant transactions and balances with related parties other than other state-owned enterprises (Continued)

(b) Balances with related parties other than other state-owned enterprises (Continued)

| | **30 June 2011 RMB'000 (Unaudited)** | 31 December 2010 RMB'000 (Unaudited) (Restated) | 1 January 2010 RMB'000 (Unaudited) (Restated) |
|---|---|---|---|
| **Trade and other payables** | | | |
| Trade payables due to | | | |
| – Jointly controlled entities | **9,148** | 9,241 | 7,309 |
| – Associates | **8,577** | 15,682 | 5,630 |
| – Non-controlling interests | **6,459** | 5,262 | 6,435 |
| – Joint venture partners of jointly controlled entities | **–** | 4,563 | 5,989 |
| | **24,184** | 34,748 | 25,363 |
| Other payables due to | | | |
| – Non-controlling interests | **17,000** | 50,865 | 59,136 |

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

## 28. RELATED PARTY DISCLOSURES (Continued)

### (ii) Key management compensation

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Short-term benefits | **3,956** | 3,433 |
| Post-employment benefits | **218** | 175 |
| | **4,174** | 3,608 |

The remuneration of the key management is determined by the remuneration committee and having regard to the performance of individuals and market trends.

## 29. COMPARATIVES

Certain comparative figures have been restated to reflect the adoption of merger accounting and conform with the current period's presentation.

# Definitions

| | |
|---|---|
| "Audit Committee" | the audit committee of the Board |
| "BBMG" | BBMG Group Co., Ltd. (北京金隅集團有限責任公司), one of the promoters of the Company |
| "Board" | the board of Directors of the Company |
| "Cinda" | China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司), one of the promoters of the Company |
| "Company", "we" or "us" | China National Materials Company Limited (中國中材股份有限公司), a joint stock limited company incorporated on 31 July 2007 under the laws of the PRC |
| "CTG" | Taishan Fiberglass Inc. (泰山玻璃纖維有限公司), a wholly-owned subsidiary of the Company |
| "Director(s)" | the director(s) of the Company |
| "Domestic Shares" | ordinary shares of RMB1.00 each in the share capital of the Company, which are subscribed for and credited as fully paid up in RMB |
| "Group" | the Company and its subsidiaries |
| "H Share Registrar" | Computershare Hong Kong Investor Services Limited |
| "H Shares" | overseas listed foreign shares of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Hong Kong Stock Exchange and traded in Hong Kong dollars |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange |
| "Main Board" | the main board of the Hong Kong Stock Exchange |
| "Ningxia Building Materials" | Ningxia Building Materials Group Company Limited (寧夏建材集團有限責任公司), a wholly-owned subsidiary of the Company |
| "Nomination Committee" | the nomination committee of the Board |

| | |
|---|---|
| "PRC" or "China" | the People's Republic of China, which for the purposes of this interim report only (unless otherwise indicated) excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "Qilianshan Co." | Gansu Qilianshan Cement Group Company Limited (甘肅祁連山水泥集團股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (Stock code: 600720), a subsidiary of the Company |
| "Qilianshan Holdings" | Gansu Qilianshan Building Materials Holdings Company Limited (甘肅祁連山建材控股有限公司), a subsidiary of the Company |
| "Remuneration Committee" | the remuneration committee of the Board |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Saima Industry" | Ningxia Saima Industry Co., Ltd. (寧夏賽馬實業股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (Stock code: 600449), a subsidiary of the Company |
| "Shandong Industrial Ceramics" | Shandong Research & Design Institute of Industrial Ceramics Co., Ltd. (山東工業陶瓷研究設計院有限公司), a subsidiary of the Company upon completion of its acquisition on 15 February 2011 by the Company from the Parent |
| "Shangrao Maintenance" | Sinoma Equipment Maintenance (Shangrao) Co., Ltd. (中材上饒設備維修有限公司), a wholly-owned subsidiary of the Company upon completion of its acquisition on 17 January 2011 by the Company from the Parent |
| "Shangrao Slipform" | Sinoma Slipform Leasing (Shangrao) Co., Ltd. (中材上饒滑模租賃有限公司), a wholly-owned subsidiary of the Company upon completion of its acquisition on 17 January 2011 by the Company from the Parent |
| "Sinoma Advanced Materials" | Sinoma Advanced Materials Co., Ltd. (中材高新材料股份有限公司), a subsidiary of the Company |
| "Sinoma Cement" | Sinoma Cement Co., Ltd. (中材水泥有限責任公司), a wholly-owned subsidiary of the Company |
| "Sinoma Environmental" | Henan Sinoma Environmental Protection Co., Ltd. (河南中材環保有限公司), a wholly-owned subsidiary of the Company |
| "Sinoma Group" or "Parent" | China National Materials Group Corporation Ltd. (中國中材集團有限公司), the controlling shareholder and one of the promoters of the Company |
| "Sinoma Hanghuo" | Sinoma Hanghuo Science Park Development Co., Ltd. (中材恒和科技園開發有限公司), a wholly-owned subsidiary of the Company |

| | |
|---|---|
| "Sinoma International" | Sinoma International Engineering Co., Ltd. (中國中材國際工程股份有限公司) , the shares of which are listed on the Shanghai Stock Exchange (Stock code: 600970), a subsidiary of the Company |
| "Sinoma Jinjing" | Sinoma Jinjing Fiberglass Co., Ltd. (中材金晶玻纖有限公司), a subsidiary of the Company |
| "Sinoma Mining" | Sinoma Mining Construction Co., Ltd. (中材礦山建設有限公司), a wholly-owned subsidiary of the Company |
| "Sinoma Science & Technology" | Sinoma Science & Technology Co., Ltd. (中材科技股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (Stock code: 002080), a subsidiary of the Company |
| "Sinoma Shangrao" | Sinoma Shangrao Machinery Co., Ltd. (上饒中材機械有限公司), a wholly-owned subsidiary of the Company |
| "Strategy Committee" | the strategy committee of the Board |
| "Substantial Shareholder(s)" | has the meaning ascribed to it under the Listing Rules |
| "Supervisor(s)" | the supervisor(s) of the Company |
| "Suzhou Concrete Cement Institute" | Suzhou Concrete Cement Products Research & Design Institute Co., Ltd. (蘇州混凝土水泥製品研究院有限公司), a wholly-owned subsidiary of the Company upon completion of its acquisition on 17 March 2011 by the Company from the Parent |
| "Taishan Investment" | Taian Taishan Investment Co., Ltd. (泰安市泰山投資有限公司), one of the domestic shareholders of the Company |
| "Tianshan Cement" | Xinjiang Tianshan Cement Co., Ltd. (新疆天山水泥股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (Stock code: 000877), a subsidiary of the Company |
| "Tianshan Group" | Xinjiang Tianshan Building Materials (Group) Company Limited (新疆天山建材(集團)有限責任公司), a subsidiary of the Parent and one of the promoters of the Company |
| "Well Kent" | Well Kent International Holdings Company Limited (華建國際集團有限公司), one of the promoters of the Company |
| "Xiamen Standard Sand" | Xiamen ISO Standard Sand Co., Ltd. (廈門艾思歐標準砂有限公司), a subsidiary of the Company |
| "Zibo Hi-Tech" | Zibo New & Hi-Tech Venture Capital Co., Ltd. (淄博高新技術風險投資股份有限公司), one of the promoters of the Company |

China National Materials
Company Limited