CNBM

China National Building Material Company Limited*

(Stock Code: 3323)

Annual Report 2007

*For identification only

Financial and Business Highlights

	As at 31 December	
	2007	2006
	(RMB in millions)	
Bank balances and cash	**3,151**	1,549
Total assets	**29,880**	13,990
Equity attributable to equity holders of the Company	**7,386**	4,207

	For the year ended 31 December	
	2007	2006
	(RMB in millions)	
Revenue	**10,514**	6,452
Profit after taxation (including loss from share conversion)	**1,149**	489
Profit after taxation (excluding loss from share conversion)	**1,149**	743
Profit attributable to equity holders of the Company (including loss from share conversion)	**912**	298
Profit attributable to equity holders of the Company (excluding loss from share conversion)	**912**	551
Cash flows from operating activities	**697**	542
Sales volume		
Cement sold by China United (in thousand tonnes)	**13,781**	9,178
Clinker sold by China United (in thousand tonnes)	**6,718**	3,299
Cement sold by South Cement (in thousand tonnes)	**3,063**	
Clinker sold by South Cement (in thousand tonnes)	**2,240**	
Gypsum boards (in million m^2)	**303**	247
Revenue from engineering service (RMB in millions)	**2,109**	1,282
Glass fiber yarn (in thousand tonnes)	**419**	288
Unit selling price		
Cement sold by China United (RMB per tonne)	**190.3**	185.8
Clinker sold by China United (RMB per tonne)	**158.1**	154.1
Cement sold by South Cement (RMB per tonne)	**203.5**	
Clinker sold by South Cement (RMB per tonne)	**187.7**	
Gypsum board		
— BNBM (RMB per m^2)	**6.29**	6.59
— Taihe (RMB per m^2)	**4.15**	4.05

Analysis of ratios		
Gross profit margin and net profit margin		
Gross profit margin	**19.0%**	20.1%
Net profit margin (including loss from share conversion)	**8.7%**	4.6%
Net profit margin (excluding loss from share conversion)	**8.7%**	8.5%
Growth rate		
Revenue	**63.0%**	36.5%
Profit attributable to equity holders of the Company	**206.0%**	(15.1%)
Profit attributable to equity holders (excluding loss from share conversion)	**65.6%**	56.9%
Others		
Return on capital (including loss from share conversion)	**12.4%**	7.1%
Return on capital (excluding loss from share conversion)	**12.4%**	13.1%
Earnings per share — basic (including loss from share conversion)	**0.43**	0.16
Earnings per share — basic (excluding loss from share conversion)	**0.43**	0.29

Contents

Company Profile

With Parent, BNBMG, CNBM Trading, Cinda and Building Materials Academy as Promoters, the Company was converted into a joint stock limited company on 28 March 2005. The Company's H shares under the initial public offer were listed on the Stock Exchange on 23 March 2006 (Stock Code: 3323) and approximately 150 million H shares were placed on 9 August 2007.

The Group is mainly engaged in cement, lightweight building materials, glass fiber and FRP products and engineering services businesses. As regards the current market positions (in terms of the production capacity in 2007), the Group is:

- the largest cement producer in the Huaihai Economic Zone of the PRC;
- the largest cement producer in the Southeast Economic Zone of the PRC;
- the largest gypsum board producer in the PRC;
- the largest manufacturer of 1.5 MW-level rotor blade in the PRC;
- the largest glass fiber producer in Asia through China Fiberglass, an associate of the Company;
- an international engineering firm that provides float glass production lines and NSP cement production lines design and/or EPC services in the PRC, designed and/or constructed over 50% of the float glass production lines sold in the PRC.

Corporate Information

DIRECTORS:

Executive Directors

Song Zhiping *(Chairman)*
Cao Jianglin *(President)*
Li Yimin *(Vice President)*
Peng Shou *(Vice President)*

Non-executive Directors

Cui Lijun
Huang Anzhong
Zuo Fenggao

Independent Non-executive Directors

Zhang Renwei
Zhou Daojiong
Chi Haibin
Lau Ko Yuen, Tom

AUDIT COMMITTEE:

Chi Haibin *(Chairman)*
Zhou Daojiong
Cui Lijun

REMUNERATION COMMITTEE:

Zhang Renwei *(Chairman)*
Zhou Daojiong
Song Zhiping

SUPERVISORS:

Shen Anqin *(Chairman)*
Zhou Guoping
Bao Wenchun
Cui Shuhong *(Staff Representative Supervisor)*
Zhang Zhaomin *(Independent Supervisor)*
Liu Chijin *(Independent Supervisor)*

Corporate Information

Secretary of the Board:	Chang Zhangli
Joint Company Secretaries:	Chang Zhangli Lo Yee Har Susan (FCS, FCIS)
Authorized Representatives:	Song Zhiping Chang Zhangli
Alternate Authorized Representative:	Lo Yee Har Susan (FCS, FCIS)
Qualified Accountant:	Pei Hongyan (ACCA)
Registered address:	No. A-11 Sanlihe Road Haidian District, Beijing PRC
Principal Place of Business in the PRC:	17th Floor China National Building Material Plaza No. A-11 Sanlihe Road Haidian District, Beijing the PRC
Postal code:	100037
Place of Business in Hong Kong:	Level 28 Three Pacific Place 1 Queen's Road East Hong Kong
Principal Bankers:	China Construction Bank, Beijing Branch Bank of Communications, Beijing Branch Shanghai Pudong Development Bank, Beijing Branch
PRC Legal Adviser:	Jingtian & Gongcheng Law Office 15th Floor, Union Plaza 20 Chaoyangmenwai Dajie Beijing PRC
Hong Kong Legal Adviser:	Slaughter and May 47th Floor, Jardine House One Connaught Place Central Hong Kong

Corporate Information

International Auditors:	Deloitte Touche Tohmatsu 35/F, One Pacific Place 88 Queensway Hong Kong
Domestic Auditors:	Shine Wing Certified Public Accountants Company Limited 10th Floor, Block A, Fu Hua Mansion No.8 Chaoyangmen Beidajie Beijing PRC
H Share Registrar in Hong Kong:	Tricor Investor Services Limited 26/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Compliance Adviser:	Anglo Chinese Corporate Finance, Limited 40th Floor, Two Exchange Square 8 Connaught Place Central Hong Kong
Stock Code:	3323

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below:

"Aobao Chemical"	山東奧寶化工集團有限公司 (Shandong Aobao Chemical Group Company Limited)
"Anxia Cement"	山東安廈水泥集團有限公司 (Shandong Anxia Cement Group Co., Ltd)
"Beijing Huachen"	北京華辰世紀投資有限公司 (Beijing Huachen Century Investment Company Limited)
"Beijing Chemical"	北京化二股份有限公司 (Beijing Chemical Company Limited)
"Bengbu Triumph"	蚌埠凱盛工程技術有限公司 (China Triumph Bengbu Engineering and Technology Company Limited)
"BNBM"	北新集團建材股份有限公司 (Beijing New Building Material Company Limited)
"BNBMG"	北新建材(集團)有限公司 (Beijing New Building Material (Group) Company Limited)
"BNBM Homes"	北新房屋有限公司 (BNBM Homes Company Limited)
"BNBM Plastic"	北新建塑有限公司 (BNBM Building Plastic Company Limited)
"Board"	the board of directors of the Company
"Building Materials Academy"	中國建築材料科學研究總院 (China Building Materials Academy)
"Chenlong Decoration"	北京北新晨龍裝飾工程有限公司 (Beijing Haidian Chenlong Decoration Company Limited)
"China Composites"	中國複合材料集團有限公司 (China Composites Group Corporation Limited)
"China Fiberglass"	中國玻纖股份有限公司 (China Fiberglass Company Limited)
"China Triumph"	中國建材國際工程有限公司 (China Triumph International Engineering Company Limited)
"China United"	中國聯合水泥集團有限公司 (China United Cement Group Corporation Limited)
"Cinda"	中國信達資產管理公司 (China Cinda Asset Management Corporation)
"CNBM Investment"	北新物流有限公司 (BND Co., Limited), currently known as 中建材投資有限公司 (CNBM Investment Company Limited)
"CNBM Trading"	中建材集團進出口公司 (China National Building Material Import and Export Company)
"Company" or "CNBM"	中國建材股份有限公司 (China National Building Material Company Limited)
"Company Law"	the Company Law of the PRC
"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules
"CSRC"	China Securities Regulatory Commission
"Daye Jianfeng"	湖北大冶尖峰水泥有限公司 (Hubei Daye Jianfeng Cement Company Limited)
"Dezhou Daba"	德州晶華集團大壩有限公司 (Dezhou Jinghua Group Daba Company Limited)

"Domestic Shares"	the domestic shares in the share capital of the Company
"EPC"	turn-key project services that include engineering, procurement and construction
"FRP"	fiberglass reinforced plastics
"Fuyang China United"	阜陽中聯水泥有限公司 (Fuyang China United Cement Company Limited)
"Group", "we" and "us"	the Company and, except where the context otherwise requires, all its subsidiaries
"H Shares"	the overseas listed foreign shares in the share capital of the Company
"Hengzhijiu Trade"	山東恒之久商貿有限公司 (Shandong Hengzhijiu Commercial Trade Company Limited)
"Huaihai China United"	淮海中聯水泥有限公司 (Huaihai China United Cement Company Limited)
"Huaihai Economic Zone"	the Huaihai Economic Zone is an area of approximately 178,100 square kilometers covering 20 municipalities (地級市) located in southern Shandong, northern Jiangsu, eastern Henan and northern Anhui
"Henan Xichuan"	河南省淅川水泥有限公司 (Henan Xichuan Cement Company Limited)
"Hunan Nanfang"	湖南南方水泥有限公司 (Hunan Nanfang Cement Company Limited)
"Hunan SASAC"	State Owned Assets Supervision and Administration Commission of People's Government of Hunan Province
"Hushan Group"	浙江虎山集團有限公司 (Zhejiang Hushan Group Company Limited)
"IFRS"	International Financial Reporting Standards
"Independent Third Party(ies)"	person(s) or company(ies) which is (are) independent of the directors, supervisors, promoters, controlling shareholder, substantial shareholder and the chief executive (such terms as defined in the Listing Rules) of the Company or any of its subsidiaries or an associate of any of them
"Jianfeng Group"	浙江尖峰集團股份有限公司 (Zhejiang Jianfeng Group Company Limited)
"Jiangxi Wannianqing"	江西萬年青水泥股份有限公司 (Jiangxi Wannianqing Cement Company Limited)
"Jushi Group"	巨石集團有限公司 (Jushi Group Company Limited)
"Lianyungang China United"	連雲港中聯水泥有限公司 (Lianyungang China United Cement Company Limited)
"Liberty Group"	麗寶第集團公司 (Liberty Group Company)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time
"Lunan China United"	魯南中聯水泥有限公司 (Lunan China United Cement Company Limited)
"Meishan Zhongsheng"	長興煤山眾盛建材有限公司 (Changxing Meishan Zhongsheng Construction Materials Company Limited)
"MSCI"	Morgan Stanley Capital International

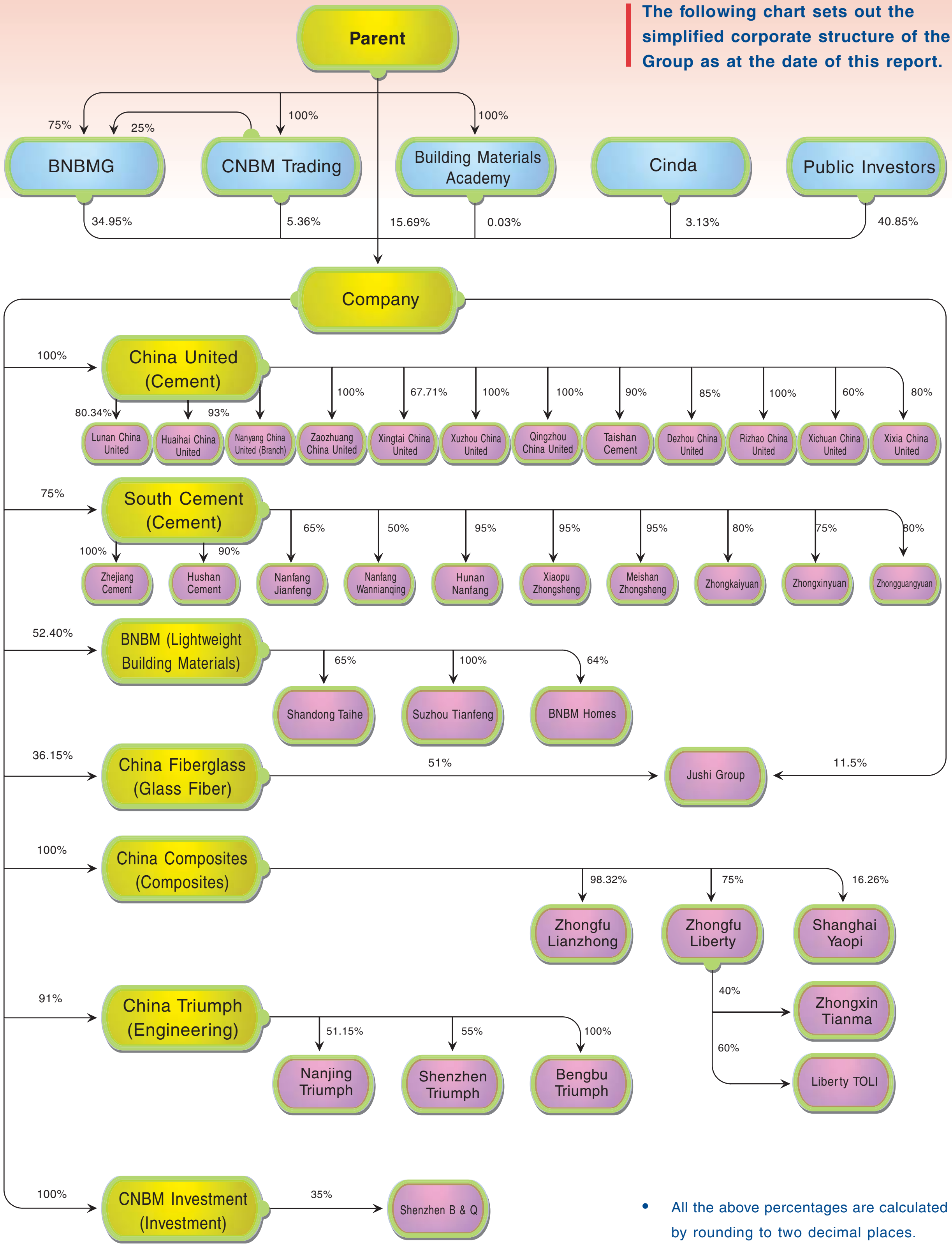
Definitions

"Nanfang Jianfeng"	浙江南方尖峰水泥有限公司 (Zhejiang Nanfang Jianfeng Cement Company Limited)
"Nanfang Wannianqing"	南方萬年青水泥有限公司 (Nanfang Wannianqing Cement Company Limited)
"Nanjing Triumph"	南京凱盛水泥技術工程有限公司 (China Triumph Nanjing Cement Technological Engineering Company Limited)
"Nanyang China United"	中國聯合水泥有限責任公司南陽分公司 (China United Nanyang Company)
"NDRC"	National Development Reform Commission of the People's Republic of China
"NPC"	the National People's Congress of the People's Republic of China
"NSP"	new suspension preheater dry process
"Parent"	中國建築材料集團公司 (China National Building Material Group Corporation)
"Parent Group"	collectively, Parent and its subsidiaries (excluding the Group)
"PRC"	People's Republic of China
"Promoters"	the initial promoters of the Company, being Parent, BNBMG, Cinda, the Building Materials Academy and CNBM Trading
"Qingdao China United"	青島中聯水泥有限公司 (Qingdao China United Cement Company Limited)
"Qingzhou China United"	青州中聯水泥有限公司 (Qingzhou China United Cement Company Limited)
"RMB"or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"Reporting Period"	the period from 1 January 2007 to 31 December 2007
"Rizhao Port"	日照港股份有限公司 (Rizhao Port Company Limited)
"Rizhao Gangyuan"	日照市港源水泥有限公司 (Rizhao Gangyuan Cement Company Limited)
"Shanghai Yaopi"	上海耀華皮爾金頓玻璃股份有限公司 (Shanghai Yaohua Pilkington Glass Co., Ltd.)
"Share(s)"	ordinary shares of the Company with a nominal value of RMB1.00 each, comprising both Domestic Shares and H Shares
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen B&Q"	深圳百安居裝飾建材有限公司 (Shenzhen B&Q Decoration & Building Materials Company Limited)
"Shenzhen Triumph"	深圳市凱盛科技工程有限公司 (CTIEC Shenzhen Scieno-tech Engineering Company Limited)
"South Cement"	南方水泥有限公司 (South Cement Company Limited)
"Southeast Economic Zone"	the Southeast Economic Zone is situated in the southeast region of the PRC which includes but not limited to Shanghai, Zhejiang, Jiangsu and Hunan

"State", "state", "PRC Government" or "PRC government"	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
"State Council"	the State Council of the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisors"	the members of the supervisory committee of the Company
"Taihe"	山東泰和東新股份有限公司 (Shandong Taihe Dongxin Company Limited), currently known as 泰山石膏股份有限公司 (Taishan Gypsum Company Limited)
"Taishan Cement"	泰山水泥集團有限公司 (Taishan Cement Group Company Limited)
"Tianfeng"	蘇州天豐新型建材有限責任公司 (Suzhou Tianfeng New Building Material Company Limited), currently known as 蘇州北新礦棉板有限公司(BNBM Suzhou Mineral Fiber Ceiling Company Limited)
"Tianma Group"	常州天馬集團有限公司 (Changzhou Tianma Group Company Limited)
"Weifang Aotai"	濰坊奧泰石膏有限公司 (Weifang Aotai Gypsum Company Limited)
"Xiaopu Zhongsheng"	長興小浦眾盛水泥有限公司 (Changxing Xiaopu Zhongsheng Cement Company Limited)
"Xingtai China United"	邢台中聯水泥有限公司 (Xingtai China United Cement Company Limited)
"Xixia China United"	西峽中聯水泥有限公司 (Xixia China United Cement Company Limited)
"Xuzhou China United"	徐州中聯水泥有限公司 (Xuzhou China United Cement Company Limited)
"Zaozhuang China United"	棗莊中聯水泥有限公司 (Zaozhuang China United Cement Company Limited)
"Zhejiang Bangda"	浙江邦達投資有限公司 (Zhejiang Bangda Investment Company Limited)
"Zhejiang Cement"	浙江水泥有限公司 (Zhejiang Cement Company Limited)
"Zhejiang Jianfeng"	浙江尖峰水泥有限公司 (Zhejiang Jianfeng Cement Company Limited)
"Zhongfei Investment"	中非建材投資發展有限公司 (Zhongfei Building Material Investment Company Limited)
"Zhongfu Lianzhong"	連雲港中複連眾複合材料集團有限公司 (Lianyungang Zhongfu Lianzhong Composite Material Group Company Limited)
"Zhongfu Liberty"	常州中複麗寶第複合材料有限公司 (Changzhou China Composites Liberty Company Limited)
"Zhongguangyuan"	安徽中廣源水泥有限公司 (Anhui Zhongguangyuan Cement Company Limited)
"Zhongkaiyuan"	浙江中開源水泥有限公司 (Zhejiang Zhongkaiyuan Cement Company Limited)
"Zhongxinyuan"	浙江中新源水泥有限公司 (Zhejiang Zhongxinyuan Cement Company Limited)
"Zhongxin Tianma"	常州中新天馬玻璃纖維製品有限公司 (Changzhou China Composites Tianma Fiberglass Products Company Limited)

Shareholding Structure of the Group

The following chart sets out the simplified corporate structure of the Group as at the date of this report.



- All the above percentages are calculated by rounding to two decimal places.

Financial Highlights

The Group's financial results highlights for the year 2007 and 2006 are as follows:

	For the year ended 31 December	
	2007	2006
	(RMB in thousands)	
Revenue	**10,514,411**	6,451,830
Gross profit	**1,995,086**	1,297,228
Loss from share conversion of a subsidiary	**0**	202,624(1)
Loss from share conversion of an associate	**0**	72,383(2)
Profit after taxation	**1,148,733**	489,160(3)
Profit attributable to equity holders of the Company	**912,446**	298,146(4)
Distribution made to the equity holders of the Company	**67,123**	80,382
Earnings per share — basic (RMB)(5)	**0.43**	0.16(6)

Note:

(1) represents the loss incurred from the consideration offered by the Company for the share conversion of BNBM.

(2) represents the loss incurred from the consideration offered by the Company for the share conversion of China Fiberglass and the loss incurred from the consideration offered by China Composites for the share conversion of Shanghai Yaopi.

(3) If the losses from the share conversion of BNBM, China Fiberglass and Shanghai Yaopi have not been taken into account, the Company's profit after taxation for the year ended 31 December 2006 would be RMB743,257,000.

(4) If the losses from the share conversion of BNBM, China Fiberglass and Shanghai Yaopi have not been taken into account, profit attributable to equity holders of the Company for the year ended 31 December 2006 would be RMB550,932,000.

(5) The calculations of basic earnings per share are based on the profit attributable to equity holders of the Company of each period and on the weighted average number of 1,921,550,959 shares for 2006 and 2,123,042,345 shares for 2007.

(6) If the losses from the share conversion of BNBM, China Fiberglass and Shanghai Yaopi have not been taken into account, the Company's basic earnings per share for the year ended 31 December 2006 would be RMB0.29.

Financial Highlights

	As at 31 December	
	2007	2006
	(RMB in thousands)	
Total assets	**29,879,987**	13,990,314
Total liabilities	**20,127,009**	8,276,060
Net assets	**9,752,978**	5,714,254
Minority interests	**2,367,403**	1,507,224
Equity attributable to equity holders of the Company	**7,385,575**	4,207,030
Net assets per share — weighted (RMB)(1)	**3.48**	2.19
Debt to assets ratio(2)	**44.8%**	43.2%
Net debts/equity ratio(3)	**104.9%**	78.7%

Note:

(1) The calculations of weighted average net assets per share are based on the equity attributable to equity holders of the Company of each period and on the weighted average number of 1,921,550,959 shares for 2006 and 2,123,042,345 shares for 2007.

(2) Debt to assets ratio = total borrowings/total assets x 100%

(3) Net debt/equity ratio = (total borrowings - bank balances and cash)/(minority interests + equity attributable to equity holders of the Company) x 100%

The major operating data of each segment of the Group for 2006 and 2007 are set out below:

CEMENT SEGMENT

China United

	For the year ended 31 December	
	2007	2006
Production volume-cement (in thousand tonnes)	**13,675.6**	9,511.0
Production volume-clinker (in thousand tonnes)	**15,635.5**	9,942.8
Sales volume-cement (in thousand tonnes)	**13,780.7**	9,178.5
Sales volume-clinker (in thousand tonnes)	**6,717.9**	3,298.7
Average selling price-cement (RMB per tonne)	**190.3**	185.8
Average selling price-clinker (RMB per tonne)	**158.1**	154.1

South Cement

	For the year ended 31 December
	2007
Production volume-cement (in thousand tonnes)	**2,987.6**
Production volume-clinker (in thousand tonnes)	**3,841.4**
Sales volume-cement (in thousand tonnes)	**3,063.2**
Sales volume-clinker (in thousand tonnes)	**2,240.3**
Average selling price-cement (RMB per tonne)	**203.5**
Average selling price-clinker (RMB per tonne)	**187.7**

Business Highlights

LIGHTWEIGHT BUILDING MATERIALS SEGMENT

	For the year ended 31 December	
	2007	2006
Gypsum boards - BNBM		
Production volume (in million m^2)	**64.5**	56.5
Sales volume (in million m^2)	**59.6**	56.1
Average selling price (RMB per m^2)	**6.29**	6.59
Gypsum boards - Taihe		
Production volume (in million m^2)	**241.6**	189.6
Sales volume (in million m^2)	**243.4**	191.0
Average selling price (RMB per m^2)	**4.15**	4.05
Acoustical ceiling panels - BNBM		
Production volume (in million m^2)	**6.1**	6.1
Sales volume (in million m^2)	**6.9**	5.8
Average selling price (RMB per m^2)	**17.03**	17.08
Acoustical ceiling panels- Tianfeng		
Production volume (in million m^2)	**3.7**	7.9
Sales volume (in million m^2)	**3.5**	7.8
Average selling price (RMB per m^2)	**7.56**	7.14
Lightweight metal frames		
Production volume (in thousand tonnes)	**35.1**	29.0
Sales volume (in thousand tonnes)	**38.2**	30.3
Average selling price (RMB per tonne)	**5,838.0**	5,596.6

GLASS FIBER AND FRP PRODUCTS SEGMENT

	For the year ended 31 December	
	2007	2006
FRP Products		
Production volume (in thousand tonnes)	**13.0**	11.1
Sales volume (in thousand tonnes)	**16.1**	13.8
Average selling price (RMB per tonne)	**16,688.0**	16,713.9
Glass Fiber Mats		
Production volume (in million m^2)	**79.7**	44.4
Sales volume (in million m^2)	**77.4**	45.2
Average selling price (RMB per m^2)	**0.96**	1.03
Rotor blade		
Production volume (in blade)	**1,012.0**	87.0
Sales volume (in blade)	**933.0**	68.0
Average selling price (RMB per blade)	**452,118.0**	428,339.0

To Shareholders,

Since its listing in March 2006, the Company has made progress in areas such as capital management, project implementation, operation and management, securing investors' recognition of its development strategies, management team, corporate culture and sound growth. The Board and management of the Company also placed an increased emphasis on communication with investors and information disclosure, actively fulfilled each commitment to investors and endeavored to assure a steady increase in shareholders' return, thus building up a good image in the capital markets. Due to the support of our shareholders, the Company recorded rapidly growing operating results. The Company was included in the MSCI index in 2007 and the HSCEI index in early 2008.

SONG ZHIPING
Chairman
Executive Director

Chairman's Statement

On behalf of the Board, I am pleased to present the Company's 2007 Annual Report and its results for the year to all shareholders.

The year 2007 witnessed the Company's continued growth. The Company vigorously pursued consolidation and restructuring of its principal operations and rapidly improved corporate strengths through share placements and the issuance of a short-term debenture with a maturity of 10 years, capitalising on its edge in the capital markets to advance its operations. By accelerating the consolidation and restructuring of its cement business and based on the improved capacity in the Huaihai Economic Zone, the Company co-operated with partners to quickly establish South Cement. This was how the Company expanded, gained influence and strengthened competitiveness in the cement business sector in the Southeast Economic Zone. Thanks to continuous improvements and streamlining of its shareholding structure, our business segments improved assets and liabilities structure, operation efficiency, financing capability and contractual capacity, and thus enhanced our profitability. I would like to take this opportunity to express my heartfelt gratitude on behalf of the Board and the staff of the Company to all shareholders for their trust and support.

In our cement business segment, the Company made great strides in consolidation and restructuring in 2007. New projects were implemented as scheduled, with progress in management improvement and a new breakthrough in growth. While securing and expanding our market share and leading position in the Huaihai Economic Zone and its surrounding areas, the Company entered into a new region, the Southeast Economic Zone, to boost its cement business which became headline news in the industry. In our lightweight building materials segment, the Company headed landmark projects for the Olympics, and won the tender for various key engineering projects to facilitate continuous growth in sales of principal products. Meanwhile, the Company proactively expedited the implementation of nationwide gypsum board projects, and steadily bolstered its strategic stronghold on gypsum board bases. In our FRP product business segment, competitiveness and operating profit were greatly improved by strengthening business management, reducing management and operating costs and mastering core technology. The fast growing production capacity for rotor blades has been translated into steady and desirable earnings. In our glass fiber business segment, China Fiberglass was able to achieve steady and fast growth by overcoming the adverse impact arising from factors affecting raw materials and exchange rate. Its large alkali-free direct-melt furnace and chopped stranded mat production line were put into production successively. Another alkali-free direct-melt furnace production line for glass fiber with an annual capacity of 140,000 tonnes which is currently under construction is expected to further raise our production capacity. As a result, its competitiveness was improved significantly. As for our engineering service business segment, the Company leveraged its proven technology and services to secure market share in this segment and also improved international recognition and competitiveness by strengthening international and domestic market development and developing core technical strengths.

Chairman's Statement

The Board and I are pleased with the Group's consolidated sales revenue of RMB10,514.4 million for the year 2007, representing an increase of 63.0% over the year 2006 under IFRS. Profit attributable to equity holders of the Company amounted to RMB912.4 million, representing an increase of 206.0% over 2006. Profit attributable to equity holders of the Company before share conversion losses increased 65.6% as compared to the year 2006.

Looking ahead, the PRC's building materials industry is set to continue marching towards a better and more progressive direction in the coming year, backed by the steady and fast growth momentum of the PRC economy. The NDRC has specified three growth priorities in the building materials industry in 2008: (1) emphasis on technological progress and proprietary innovation, by expediting industrial restructuring and speeding up the substitution of obsolete productivity methods with advanced productivity methods; (2) focus on energy saving and emission reduction, by putting efforts in promoting recycling while striving for healthy and fast growth; and (3) speeding up product upgrading, and saving energy and resources. As the leading player in China's building materials industry, the Company will continue to promote capital operation, accelerate consolidation and restructuring, enhance corporate governance, strengthen management improvement and integration and ensure safe production and continue its environmental protection work.

In our cement business segment, the Company will boost consolidation and restructuring projects by capitalising on its leading position in industry restructuring and seizing opportunities based on its established growth strategy. It will steadily promote management integration, strengthen corporate synergy and strive to enhance profitability. In our lightweight building materials business segment, the Company will accelerate project implementation and perfect the management of project implementation. The Company will continue to strengthen branding to enlarge market share of its gypsum board products and brand influence. In our FRP product business segment, the Company will take opportunities to develop the rotor blade business and promote the new production line construction for capacity expansion. In our glass fiber business segment, the Company will enhance principal operations, complete the construction of the alkali-free direct-melt furnace production line for glass fiber with an annual production capacity of 140,000 tonnes to consolidate its leading position in the glass fiber business. As for our engineering service business segment, the Company will keep on leveraging technical strengths to accelerate the commercialization of technological methods. While rooting itself in the high-end glass engineering market and expanding the cement technology market share, the Company aims to proactively develop the market for energy conservation technology and emission reduction methods to develop new profit engines.

In 2008, the Company will continue to be committed to improving results and maximizing corporate value, with excellent results in light of its established growth strategy to repay shareholders and the public for their support and confidence.

Song Zhiping
Chairman

Beijing, the PRC
17 April 2008

CAO JIANGLIN
President
Executive Director

BUSINESS OVERVIEW

The business segments and the major operating entities of each business segment for the Group as at the date of this report are summarised as follows:

Business segments	Major products and services	Major operating entities	Direct and indirect equity interests held by the Company
Cement	NSP cement	China United South Cement	100.00% 75.00%
Lightweight building materials	Dry wall and ceiling system	BNBM	52.40%
Glass fiber and FRP products	Glass fiber Rotor blades	China Fiberglass China Composites	36.15% 100.00%
Engineering services	Design and engineering EPC services: Float glass production lines and NSP cement production lines	China Triumph	91.00%

CEMENT SEGMENT

Review of the cement industry of PRC in 2007

According to the NDRC, the total output of cement in the PRC amounted to 1,360 million tonnes in 2007, an increase of 9.9% over last year. Of the total amount, large scale NSP cement accounted for approximately 55%, up 5 percentage points from the end of last year. The price of cement grew steadily.

In 2007, the government implemented initiatives to encourage industrial restructuring, including policies to curb expansion of underperforming cement plants and promote consolidation of the industry. At the beginning of 2007, the NDRC published the Notice on Phasing Out Outdated Cement Production Methods (《關於做好淘汰落後水泥生產能力有關工作的通知》), which set out a quantitative index schedule and allocated responsibility for the phase-out. Underperforming production lines with capacities of about 87 million tonnes were demolished in 2007. Mechanical shaft kilns were completely phased out in Zhejiang, Beijing and Shanghai.

The NDRC identified a list of 60 key large scale cement enterprises which were granted governmental support in 2007. China United, a subsidiary of the Company, was listed as one of the 12 pivotal enterprises nationwide. Those enterprises enjoy priority in project investment, reorganisation and merger, project approval, land use and bank credit granted by the government. In 2007, conglomerates acquired smaller peers by market-based acquisition. With accelerated consolidation, the industry became more concentrated. The top ten cement groups accounted for 23% of China's annual cement output in 2007, up 3 percentage points from the end of last year.

Review of the Group's cement business in 2007

Breakthrough in consolidation and restructuring

In 2007, China United, a subsidiary of the Company, and its subsidiaries successfully acquired 90% equity interest in Taishan Cement and 100% equity interest in Rizhao Gangyuan. These acquisitions expanded our cement business capacity in the Huaihai Economic Zone dramatically. This further consolidated our market share and presence in the Huaihai Economic Zone and its surrounding region, strengthening our leading position in the regional market.

On 17 August 2007, the Company entered into an investment agreement with Zhejiang Bangda, Jiangxi Wannianqing, Hunan SASAC, Jianfeng Group and Beijing Huachen to establish South Cement, in which the Company holds 75% equity interest. South Cement was formally incorporated on 5 September 2007. South Cement's markets covers one city and four provinces including Shanghai, Zhejiang, Jiangsu, Jiangxi and Hunan. By the end of 2007, South Cement had successfully acquired 100% equity interest in Zhejiang Cement, 90% equity interest in Hushan Group, 95% equity interest in Xiaopu Zhongsheng, 95% equity interest in Meishan Zhongsheng, 80% equity interest in Zhongkaiyuan Cement, 75% equity interest in Zhongxinyuan Cement and 80% equity interest in Zhongguangyuan Cement. The Company established Nanfang Jianfeng, Nanfang Wannianqing and Hunan Nanfang respectively with Jianfeng Group, Jiangxi Wannianqing and Hunan SASAC. The consolidation and restructuring proceeded smoothly.

CEMENT SEGMENT *(CONTINUED)*

Steady progress of project construction

Three clinker production lines including Phase II of Nanyang China United (daily capacity: 6,000 tonnes), Phase II of Zaozhuang China United (daily capacity: 2,500 tonnes), Phase I of Qingzhou China United (daily capacity: 6,000 tonnes), two cement grinding stations including Qingdao China United and Xixia China United, and the residual heat power generation project of Huaihai China United have been successfully completed, whilst the residual heat power generation projects for other cement production lines are under construction. Phase II grinding stations of Lianyungang China United and Fuyang China United, Zaozhuang China United (Linyi) grinding station and the technological improvement project for the clinker production line (daily capacity: 3,700 tonnes) belonging to Huaihai China United will commence construction soon.

NSP clinker production line of Qingzhou China United Cement Company Limited with a daily capacity of 6,000 tonnes

Progress in management improvement

In 2007, China United strengthened and promoted centralized bidding and procurement, and sharing of information among subsidiaries, thus considerably controlling procurement price and circumventing the impact on production cost arising from price hikes in raw materials and fuel. The Company also strengthened product price control. Meanwhile, with stricter controls on price, the market price was stabilized and enhanced. Since 1 April 2007, all brands owned by subsidiaries of China United were integrated under the umbrella of "CUCC" ("China United"), winning recognition and praise from consumers, which helped realize brand integration.

Integration of South Cement in the Southeast Economic Zone also saw initial progress. Taking Zhejiang as an example, the newly established regional price coordination mechanism facilitated price increases in regions where cement was undersold and improved profitability. Initial centralized material procurement had recorded considerable results. The Company exploited centralized advantages and controlled subsidiaries' financing costs to cut down the financial costs.

LIGHTWEIGHT BUILDING MATERIALS SEGMENT

Review of the lightweight building materials industry in 2007

As part of the "11th Five-year Plan", the PRC is engaging efforts to build up an emphasis on conservation and create an environment-friendly society for sustainable development. The new environmentally-friendly lightweight building materials products will witness faster expansion in view of industry restructuring, and a greater emphasis on energy saving and emission reduction.

Review of the Group's lightweight building materials business in 2007

Strengthen marketing promotion to improve marketing efforts

In 2007, BNBM, a subsidiary of the Company, placed a greater emphasis on marketing major landmark projects, leveraging the opportunities provided by Beijing Olympic project construction and urbanised construction nationwide. The Company successively won the bid to participate in projects such as the construction of the new CCTV station and Phase III of China World Trade Center, the highest building in Beijing. Our principal products were applied in several prominent landmark projects which enhanced its brand reputation and its market influence, and thus achieved sustainable increases in sales of principal products.

With substantial increases in production and sales volume, Taihe made a breakthrough in sales of mid-range gypsum boards.

Steadily expediting the construction of industrial bases countrywide to facilitate expansion

The Company expedited the nationwide expansion plans through proliferating projects for "Dragon" brand gypsum boards and "Taishan" brand gypsum boards.

GLASS FIBER AND FRP PRODUCTS SEGMENT

Review of the PRC glass fiber and FPR industries in 2007

FRP product business

According to China Composites Industry Association, in 2007, trends involving the technology in the FPR market veered towards high-end development and intensive capital use and the development of a number of new products.

GLASS FIBER AND FRP PRODUCTS SEGMENT *(CONTINUED)*

Glass fiber industry

According to China FRP Industry Association, 2007 saw strong growth in the PRC FRP industry. The PRC has recorded a total FRP production volume of 1,600,000 tonnes, ranking the top among the global FRP producers. Due to further sector concentration, the direct-melt furnace capacity of the three major glass fiber manufacturers which is led by China Fiberglass accounted for 72.03% of that of the industry.

Review of the Group's glass fiber and FRP product business in 2007

FRP product business

The year 2007 witnessed rapid expansion in our principal business, coupled with significant increase in capacity, output and operating profit. China Composites, a subsidiary of the Company, strengthened its operation and management to cut down costs and strengthened its core technology, which greatly sharpened its competitive edge. Currently, China Composites has become the largest manufacturer in the PRC with the capacity to produce 1.5MW rotor blades.

As at 31 December 2007, China Composites has produced 1,012 rotor blades of 1.5MW, 933 of which have been delivered and put in operation.


Installation of rotor blades produced by the Company in power generation station

GLASS FIBER AND FRP PRODUCTS SEGMENT *(CONTINUED)*

Glass fiber business

In 2007, an alkali-free glass fiber direct-melt furnace production line with a capacity of 120,000 tonnes per annum in Tongxiang, an alkali-free glass fiber direct-melt furnace production line with a capacity of 40,000 tonnes per annum in Chengdu and a 10,000-tonne chopped strand mat production line in South Africa owned by China Fiberglass, the associate of the Company were put into operation in tandem. Meanwhile, it has also commenced construction of an alkali-free glass fiber direct-melt furnace production line with a capacity of 140,000 tonnes per annum in Tongxiang. China Fiberglass further improved its profitability through optimizing product mix in addition to expanding capacity, overcoming adverse influences from energy price-hikes, RMB appreciation and the lower export rebate rate through promoting revenue growth, cost saving and consumption reduction in accordance with our global marketing strategy.

Spinning workshop of China Fiberglass

ENGINEERING SERVICES SEGMENT

Review of the engineering service business in 2007

According to cement industry data, in 2007, the international cement projects contracted by the PRC accounted for over 30% of global market share. In addition to developing countries, Chinese contractors have extended their presence to developed countries in Europe and America.

ENGINEERING SERVICES SEGMENT *(CONTINUED)*

Review of the Group's engineering service segment business in 2007

Continued exploration of international markets and development of international brand reputation and competitiveness

In 2007, China Triumph, a subsidiary of the Company, gained over 50% of the domestic middle to high-end glass engineering market share and its cement project business grew, strengthening its leading position in the domestic engineering technology market for building materials. Meanwhile, it entered into a number of contracts on glass and cement projects in India, Vietnam, Turkey and Mongolia, contracting approximately 90% of glass production lines in the international market designed and established with the PRC technology. Apart from South-east Asia, our business has expanded to include markets such as the Commonwealth of Independent State(CIS) and Middle East. In particular, the 6000t/d cement EP project of Nghi Son Cement Company is the largest and the most advanced cement EPC project with the highest contractual amount undertaken in Vietnam by the PRC building materials industry so far. China Triumph made a significant breakthrough in the export of high-end floating glass technology and equipment while NSP technology and equipment export also saw noticeable growth.

Strengthening proprietary innovations to foster and enhance core advantages

In 2007, China Triumph strengthened proprietary innovations focused on energy conservation and consumption reduction methods, by developing relevant technology and products, thus resulting in breakthroughs in research and development.

FINANCIAL REVIEW

Establishment of South Cement

The Group established South Cement in September 2007. The operating results of South Cement were incorporated in the Group's financial results for the year ended 31 December 2007, with no comparative figures for the year ended 31 December 2006. For the year ended 31 December 2007, 9 subsidiaries were included in the consolidated financial statements of South Cement. The following table sets out the revenue, cost of sales, gross profit and operating results of South Cement for the year ended 31 December 2007 and their respective contribution to the Group:

	South Cement	
	RMB in millions	*Percentage*
Revenue	1,036.9	9.9
Cost of Sales	911.2	10.7
Gross profit	125.7	6.3
Operating Profit	106.3	6.7

In addition to the reasons stated below, changes in the operating results of the Group for the year ended 31 December 2007 as compared with the year ended 31 December 2006, were also attributable to the inclusion of results of South Cement.

FINANCIAL REVIEW *(CONTINUED)*

For the year ended 31 December 2007, our consolidated revenue increased by 63.0% to RMB10,514.4 million (RMB6,451.8 million in 2006). Our profit attributable to equity holders of the Company increased by 206.0% from RMB298.1 million in 2006 to RMB912.4 million in 2007. The data of 2006 included the loss from consideration paid for the share conversions of BNBM, China Fiberglass and Shanghai Yaopi, of which RMB202.6 million was derived from the consideration paid by the Company for the share conversion of BNBM, RMB61.2 million was derived from the consideration paid by the Company for the share conversion of China Fiberglass and RMB11.2 million arose from the consideration paid by China Composites for the share conversion of Shanghai Yaopi. Excluding the loss from share conversions of BNBM, China Fiberglass and Shanghai Yaopi, profit attributable to equity holders of the Company increased by 65.6% from RMB550.9 million in 2006.

Revenue

Our revenue for the year 2007 amounted to RMB10,514.4 million, representing an increase of 63.0% from RMB6,451.8 million in 2006, primarily due to an increase of RMB1,500.9 million in revenue from China United, an increase of RMB826.7 million in revenue from our engineering services segment, an increase of RMB414.6 million in revenue from our glass fiber and FRP products segment and an increase of RMB213.1 million in revenue from our lightweight building materials segment.

Cost of sales

Our consolidated cost of sales in 2007 amounted to RMB8,519.3 million, representing an increase of 65.3% from RMB5,154.6 million in 2006, primarily due to an increase of RMB1,227.8 million in cost of sales from China United, an increase of RMB690.6 million in cost of sales from our engineering services segment, an increase of RMB319.4 million in cost of sales from our glass fiber and FRP products segment and an increase of RMB171.5 million in cost of sales from our lightweight building materials segment.

Other income

Other income increased by 77.8% to RMB748.5 million in 2007 from RMB421.0 million in 2006, primarily due to a 123.0% increase in VAT refund to RMB271.3 million for the year 2007 (RMB121.6 million in 2006), a 78.6% increase in local government grants for the year 2007 to RMB205.8 million (RMB115.2 million in 2006), a 2,355.2% increase in net profits arising from the disposal of investment held for trading for the year 2007 to RMB95.0 million (RMB3.9 million in 2006) and a 9,395.7% increase in the fair value of investment held for trading for the year 2007 to RMB61.7 million (RMB0.7 million in 2006).

Selling and distribution costs

Selling and distribution costs increased by 46.5% to RMB524.3 million in 2007 from RMB358.0 million in 2006, primarily due to an increase of RMB36.0 million in loading fees, an increase of RMB31.3 million in transportation costs as a result of our rising sales volume, an increase of RMB24.6 million in packaging fees and an increase of RMB6.9 million in warehousing fees.

FINANCIAL REVIEW *(CONTINUED)*

Administrative and other expenses

Administrative and other expenses increased by 49.3% to RMB622.8 million in 2007 from RMB417.2 million in 2006, primarily due to an increase of RMB36.0 million in salary, an increase of RMB36.1 million in provision for bad debts, an increase of RMB17.0 million in labour insurance, an increase of RMB14.1 million in tax (including stamp tax, property tax and land use tax), an increase of RMB13.1 million in consultancy fees and an increase of RMB12.1 million in amortization of intangible assets.

Finance costs

Finance costs increased by 105.3% to RMB451.8 million in 2007 from RMB220.1 million in 2006, primarily due to our issuance of domestic corporate bonds on 9 April 2007 with a total amount of RMB1 billion and a bond maturity of ten years and our increased short-term borrowings which were required to support the increase in the business volume in each of our four business segments.

Share of profit of associates

Our share of profit of associates increased by 155.0% to RMB230.8 million in 2007 from RMB90.5 million in 2006, primarily due to increases in the profits of our associate China Fiberglass and inclusion of our new associate Jushi Group. The increase in China Fiberglass's net profit was mainly attributable to the commencement of operation of new production line and increases in sales volume and operating profit.

Income tax expense

Income tax expense increased by 353.0% to RMB226.8 million in 2007 from RMB50.1 million in 2006, primarily due to the increase in profit before taxation, partially offset by the increase in tax rebate for utilization of industrial waste in the cement and lightweight building materials segments.

Minority interests

Minority interests increased by 23.7% to RMB236.3 million in 2007 from RMB191.0 million in 2006, primarily due to the increase in operating profit in each of our business segments.

Profit attributable to equity holders of the Company

As a result of the share conversion of BNBM, China Fiberglass and Shanghai Yaopi, profit attributable to the equity holders of the Company increased by 206.0% to RMB912.4 million in 2007 from RMB298.1 million in 2006. Our net profit margin increased to 8.7% in 2007 from 4.6% in 2006. Excluding the losses from the share conversion of BNBM, China Fiberglass and Shanghai Yaopi, profit attributable to the equity holders of the Company would increase by 65.6% to RMB912.4 million in 2007 from RMB550.9 million in 2006 and our net profit margin would increase to 8.7% in 2007 from 8.5% in 2006.

FINANCIAL REVIEW *(CONTINUED)*

China United

Acquisition and addition of new production lines

A 6000t/d clinker production line in Qingzhou China United commenced production in May 2007. The acquisition of Taishan Cement and Rizhao China United was completed on 30 June 2007 and 31 October 2007 respectively. The operating results of the three companies mentioned above have been included in the financial results for the year ended 31 December 2007 but were not included in the financial results for the year ended 31 December 2006. The following table sets out the revenue, cost of sales, gross profit, operating results of the above three companies and the share of relevant items in China United for the year ended 31 December 2007.

	Qingzhou China United		**Taishan Cement**		**Rizhao China United**	
	RMB in millions	*Percentage*	*RMB in millions*	*Percentage*	*RMB in millions*	*Percentage*
Revenue	291.6	7.8	253.1	6.8	78.3	2.1
Cost of sales	221.4	7.6	202.7	6.9	67.4	2.3
Gross profit	70.2	9.0	50.4	6.5	10.8	1.4
Operating profit	66.8	9.8	59.2	8.7	8.5	1.3

In addition, China United, a subsidiary of the Group, completed acquisition of Xuzhou China United on 30 June 2006, of which only the operating results for six months from 1 July 2006 to 31 December 2006 were included for the year ended 31 December 2006. The following table sets out the revenue, cost of sales, gross profit and operating profit of Xuzhou China United in 2006 and 2007.

	Xuzhou China United As at 31 December *RMB in millions*	
	2007	2006
Revenue	**710.8**	341.0
Cost of sales	**560.8**	260.2
Gross profit	**150.0**	80.8
Operating profit	**213.0**	29.2

Save for the reasons stated below, changes in the operating results of China United for the year ended 31 December 2007 as compared with the year ended 31 December 2006 were also due to the inclusion of results of the abovementioned new subsidiaries and newly operational subsidiaries.

FINANCIAL REVIEW *(CONTINUED)*

China United *(Continued)*

Revenue

Revenue for China United increased by 67.7% to RMB3,716.4 million for the year ended 31 December 2007 from RMB2,215.5 million for the year ended 31 December 2006, mainly attributable to an increase of sales volume resulting from Zaozhuang China United and Nanyang China United commencing operation this year, together with a slight increase in the average selling price of cement products.

Cost of sales

Cost of sales of China United increased by 71.7% to RMB2,940.1 million for the year ended 31 December 2007 from RMB1,712.3 million for the year ended 31 December 2006, mainly attributable to the increased sales volume of cement from Zaozhuang China United and Nanyang China United which commenced operation during the reporting period, and also due to an increase in cost of sales resulting from rising coal prices and electricity tariffs, as well as increased procurement costs due to increased costs in transporting main raw materials.

Gross profit and gross profit margin

Gross profit of China United increased by 54.2% to RMB776.3 million for the year ended 31 December 2007 from RMB503.2 million for the year ended 31 December 2006. Gross profit margin of China United decreased from 22.7% for the year ended 31 December 2006 to 20.9% for the year ended 31 December 2007, mainly resulting from the increased procurement costs for main raw materials due to increased transportation expenses as well as the increase of cost of sales caused by a hike in coal price and electricity tariffs which was partially offset by higher selling prices.

Operating profit

Operating profit for China United increased by 73.2% to RMB679.5 million for the year ended 31 December 2007 from RMB392.4 million for the year ended 31 December 2006. Operating profit margin for the segment increased to 18.3% for the year ended 31 December 2007 from 17.7% for the year ended 31 December 2006, primarily due to the refund of value added tax in the PRC and the increase in other income including government grants, as partially offset by declined gross profit margin.

FINANCIAL REVIEW *(CONTINUED)*

Lightweight Building Materials Segment

Revenue

Revenue for our lightweight building materials segment increased by 7.8% to RMB2,957.4 million for the year ended 31 December 2007 from RMB2,744.3 million for the year ended 31 December 2006. It is mainly due to an increase in Taihe's revenue and the increase in sales volumes attributable to most of our other principal businesses, and partially offset by the decline in revenue from CNBM Investment. The RMB105.0 million decrease in revenue from CNBM Investment was due to a decline in business export tax refund policies in the PRC.

The table below sets out the revenue for the three major products of the Group's dry wall and ceiling systems respectively for year 2006 and 2007:

	As at 31 December		
	2007	2006	Change
	(RMB in millions)		*(%)*
Gypsum boards	**1,385.1**	1,144.1	21.1
Acoustical ceiling panels	**143.7**	155.2	-7.4
Lightweight metal frames	**222.8**	169.8	31.2
Total	**1,751.6**	1,469.1	19.2

Cost of sales

Cost of sales for our lightweight building materials segment increased by 7.5% to RMB2,445.4 million for year ended 31 December 2007 from RMB2,273.9 million for the year ended 31 December 2006. It was mainly due to an increase in Taihe's costs of sales and an increase in sales volume attributable to most of our other businesses, and partially offset by the decline in CNBM Investment's cost of sales amounting to RMB78.7 million, which is attributable to a decrease in export business.

The table below sets out the cost of sales for the three major products of the Group's dry wall and ceiling systems respectively for year 2006 and 2007:

	As at 31 December		
	2007	2006	Change
	(RMB in millions)		*(%)*
Gypsum boards	**1,017.3**	848.2	19.9
Acoustical ceiling panels	**119.1**	130.8	-9.0
Lightweight metal frames	**175.2**	130.5	34.3
Total	**1,311.6**	1,109.5	18.2

FINANCIAL REVIEW *(CONTINUED)*

Lightweight Building Materials Segment *(Continued)*

Gross profit and gross profit margin

Gross profit for our lightweight building materials segment increased by 8.8% to RMB512.0 million for the year 2007 from RMB470.4 million for the year 2006.

The table below sets out the gross profit for the three major products of the Group's dry wall and ceiling systems respectively for year 2006 and 2007:

	As at 31 December		
	2007	2006	Change
	(RMB in millions)		*(%)*
Gypsum boards	**367.8**	295.9	24.3
Acoustical ceiling panels	**24.6**	24.4	0.7
Lightweight metal frames	**47.6**	39.3	21.1
Total	**440.0**	359.6	22.3

Gross profit margin for our lightweight building materials segment increased to 17.3% for year 2007 from 17.1% for year 2006, primarily attributable to the increased proportion of revenue from gypsum boards (a product with a higher gross profit margin than that of other products in our lightweight building materials segment), and the fact that the increased production of such three principal products decreased average fixed cost.

Operating profit

Operating profit for our lightweight building materials segment increased by 35.4% to RMB426.2 million for year 2007 from RMB314.7 million for year 2006. Operating profit margin of the segment increased from 11.5% for year 2006 to 14.4% for year 2007, which was principally due to a growth of gross profit margin and further value added VAT refunds from increased sales of products eligible for such refunds.

Glass Fiber and FRP Products Segment

As China Fiberglass is our associate but not our subsidiary, operating results of China Fiberglass are not consolidated with ours and are not included in the results of our glass fiber and FRP products segment. Unless otherwise indicated, any reference to results of the segment has excluded those of China Fiberglass.

FINANCIAL REVIEW *(CONTINUED)*

Glass Fiber and FRP Products Segment *(Continued)*

Revenue

Revenue for our glass fiber and FRP products segment increased by 112.8% to RMB782.0 million for year 2007 from RMB367.4 million for year 2006. This was primarily due to an increase of RMB384.9 million in revenue from FRP pipes and tanks business and rotor blade, in addition, revenue of glass fiber mats represented an increase of RMB27.7 million and revenue of shipping business represented an increase of RMB6.8 million, although this was partially offset by a revenue decrease of RMB3.6 million in plastic floor products business.

Cost of sales

The cost of sales for our glass fiber and FRP products segment increased by 123.0% to RMB579.0 million for year 2007 from RMB259.6 million for year 2006. This was primarily due to an increase of RMB297.6 million in cost of sales from FRP pipes and tanks business and rotor blade, cost of sales of glass fiber mats represented an increase of RMB19.0 million, in addition, cost of sales of shipping business represented an increase of RMB3.0 million, which was partially offset by a cost decrease of RMB0.2 million in plastic floor products business. FRP pipes and tanks business had a significant cost increase which was attributable to the considerable price increase in raw materials such as glass fiber and liner resins.

Gross profit and gross profit margin

Gross profit for our glass fiber and FRP products segment increased by 88.4% to RMB203.0 million for year 2007 from RMB107.8 million for year 2006. Gross profit margin for our glass fiber and FRP products segment decreased to 26.0% for year 2007 from 29.3% for year 2006. This is mainly attributable to a decline in gross profit margin derived from our FRP pipes and tanks business due to the considerable price increase in raw materials such as glass fiber and liner resins.

Operating profit

Operating profit for our glass fiber and FRP products segment increased by 53.7% to RMB105.4 million for year 2007 from RMB68.6 million for year 2006. The operating profit margin for the segment decreased to 13.5% for year 2007 from 18.7% for year 2006, primarily due to a decrease in the gross profit margin and governmental grant.

FINANCIAL REVIEW *(CONTINUED)*

Engineering Services Segment

Revenue

Revenue for our engineering services segment increased by 64.5% to RMB2,108.5 million for year 2007 from RMB1,281.9 million for year 2006, primarily due to an increase in contractual amounts in 2007. For year 2007, the Group's contractual amounts increased by 58.9% over 2006.

Cost of sales

Cost of sales for our engineering services segment increased by 65.6% to RMB1,742.7 million for year 2007 from RMB1,052.1 million for year 2006, primarily due to an increase in contractual amounts in 2007.

Gross profit and gross profit margin

Gross profit for our engineering services segment increased by 59.2% to RMB365.8 million for year 2007 from RMB229.8 million for year 2006, primarily due to an increase in contractual amounts in 2007. Gross profit margin for our engineering services segment decreased to 17.4% for year 2007 from 17.9% for year 2006, mainly attributable to the increase in the price of raw materials.

Operating profit

Operating profit for our engineering services segment increased by 58.5% to RMB269.3 million for year 2007 from RMB169.9 million for year 2006, and operating margin for the segment decreased to 12.8% for year 2007 from 13.3% for year 2006, primarily due to its decreased gross profit margin.

Liquidity and Financial Resources

As at 31 December 2007, the Group had aggregate unused banking facilities of approximately RMB5,988.0 million.

The table below sets out our borrowings as at the dates indicated:

	As at 31 December	
	2007	2006
	(RMB in millions)	
Bank loans	**12,352.3**	5,971.6
Other borrowings from non-financial institutions	**1,029.0**	76.6
	13,381.3	6,048.2

FINANCIAL REVIEW *(CONTINUED)*

Liquidity and Financial Resources *(Continued)*

The table below sets out the maturities of the Group's borrowings as at the dates indicated:

	As at 31 December	
	2007	2006
	(RMB in millions)	
Borrowings are repayable as follows:		
within one year or on demand	**8,663.6**	3,595.7
between one and two years	**1,743.7**	515.2
between two and three years	**914.0**	887.8
between three and five years (inclusive of both years)	**900.5**	888.0
over five years	**1,159.5**	161.5
Total	**13,381.3**	6,048.2

As at 31 December 2007, bank loans in the amount of RMB968.1 million were secured by assets of the Group with a total carrying value of RMB2,637.4 million.

As at 31 December 2007 and 31 December 2006, we had a debt-to-asset ratio, calculated by dividing our consolidated borrowings by our total consolidated assets, of 44.8% and 43.2%, respectively. The increase in this ratio was mainly due to increasing bank credit of the Group and the new issue of corporate bonds during the period to meet the need for growing working capital and to finance the expansion of business (including capital investment and acquisition). The Group has taken measures to decrease its financial leverage and liability level while concentrating on availability of operating funds, adopting a prudent policy in its capital investment and implementing unified control on capital expenses.

Exchange Risks

Almost all of the Group's businesses were operated in RMB. The Group is not exposed to any significant exchange risks.

FINANCIAL REVIEW *(CONTINUED)*

Contingent Liabilities

Certain contingent liabilities were incurred resulting from the Group's provision of guarantee to banks in respect of bank credits used by an independent third party. The highest un-discounted values of the underlying payment resulting from such guarantee are set out as follows:

	As at 31 December	
	2007	2006
	(RMB in millions)	
Used by connected parties before acquisition for subsidiaries guarantee to banks, in respect of bank credits	**597.4**	—
Guarantee to banks, in respect of bank credits used by an independent third party	**920.3**	—
Total	**1,517.7**	—

Capital Commitments

The following table sets out our capital commitments as at the dates indicated:

	As at 31 December	
	2007	2006
	(RMB in millions)	
Capital expenditure of the Company in respect of acquisition of property, plant and equipment contracted for but no provisions have been made	**1,028.8**	280.0
Capital expenditure of the Company in respect of acquisition of land use right (contracted for but no provisions have been made)	**—**	13.6
Capital expenditure of the Company in respect of equity acquisition contracted for but no provisions have been made	**2,300.5**	—

FINANCIAL REVIEW *(CONTINUED)*

Capital Expenditures

The following table sets out our capital expenditures for the year ended 31 December 2007 by segment:

	For the year ended 31 December 2007	
	(RMB in millions)	*% of total*
Cement	**1,438.9**	**68.8**
Among: China United	**856.8**	**41.0**
South Cement	**582.1**	**27.8**
Lightweight building materials	**437.4**	**20.9**
Glass fiber and FRP products	**168.2**	**8.0**
Engineering Services	**47.4**	**2.3**
Total	**2,091.9**	**100**

Bank Balances and Cash

Our bank balances and cash were RMB3,150.6 million as at 31 December 2007 and RMB1,549.1 million as at 31 December 2006.

Cash Flow from Operating Activities

For year 2007, our net cash inflow generated from operating activities was RMB697.0 million. Such net cash inflow was primarily due to RMB1,865.1 million of cash flow from operating activities before the change in working capital, primarily offset by a RMB976.3 million increase in trade receivables and other receivables, a RMB261.7 million decrease in trade payables and other payables and a RMB279.3 million increase in inventories.

Cash Flow from Investing Activities

For year 2007, our net cash outflow from investing activities was RMB5,489.5 million, which was primarily due to expenditure of RMB1,965.6 million for acquisition of subsidiaries, the purchase of property, plant and equipment mainly used for the cement and lightweight building materials segments amounting to RMB1,298.4 million in total and a RMB1,037.7 million increase in deposits paid.

Cash Flow from Financing Activities

For year 2007, we had a net cash inflow from financing activities amounting to RMB6,394.4 million, primarily attributable to a total of RMB13,168.2 million in new borrowings, partially offset by RMB8,706.6 million for repayment of borrowings. Moreover, the Group raised net proceeds of RMB2,351.1 million from an H share placement.

The Company has complied with the "Code of Corporate Governance Practices" (the "Code") as set out in Appendix 14 of Listing Rules during the period from 1 January 2007 to 31 December 2007, standardized its operation and promoted the continuous improvement of corporate governance. Under the guidance of the regulatory documentation such as the Listing Rules, articles of association of the Company, the "Working Rules of the Audit Committee" and "Working Rules of the Remuneration Committee", an efficient checks and balances mechanism has been achieved within the Company through coordination among the general meetings, the Board and its related special board committees, the Supervisory Committee and the management led by the president . The internal management and operation of the Company was also further standardized with a view to enhancing its intrinsic value. The Company is committed to optimization of its management system and framework for sustainable development and controlling operating risks to improve its performance in the interest of its shareholders.

1. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has adopted a set of code no less exacting than the standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code") as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the Model Code during the period from 1 January 2007 to 31 December 2007.

2. THE BOARD

During 2007, the Board of the Company held 11 board meetings to consider and determine significant events including corporate strategy and material acquisition and merger. All directors attended the meetings in person or by proxy. The management is responsible for the implementation of strategies and the administration work related to daily operations.

The members of the Company's Board and the attendance of directors at Board meetings during the year are as follows:

Position	**Name**	**Attendance rate** *(%)*
Executive Director	Song Zhiping	100
Executive Director	Cao Jianglin	100
Executive Director	Li Yimin	100
Executive Director	Peng Shou	100
Non-executive Director	Cui Lijun	100
Non-executive Director	Huang Anzhong	100 (18.2 of which by proxy)
Non-executive Director	Zuo Fenggao	100 (18.2 of which by proxy)
Independent Non-executive Director	Zhang Renwei	100
Independent Non-executive Director	Zhou Daojiong	100
Independent Non-executive Director	Chi Haibin	100
Independent Non-executive Director	Lau Ko Yuen, Tom	100

Save as disclosed herein, there is no finance, business, family relationship(s) or any other material connection between our directors, including between the chairman and the chief executive.

3. OPERATION OF THE BOARD

The Company's Board is elected by shareholders at general meeting and reports to general meeting. The Board is the highest decision-making authority during the adjournment of general meeting. The primary responsibilities of the Board are to provide strategic guidance to the Company, exercise effective supervision over the management, ensure that the Company's interests are protected and report to the shareholders. The Board makes decisions on certain significant matters, including business plans and investment proposals; the proposed annual preliminary and final financial budget; the debt and financial policies and proposals for increases or reductions of the Company's registered share capital and the issue of corporate debentures; interim and annual financial reports; interim and annual profit distribution plan and proposal for provision of indemnity for losses; significant matters involving material acquisition or disposal proposals of the Company and plans for the merger, division or dissolution of the Company; the establishment of the Company's internal management structure; and the appointment or removal of the members of the executive levels of the Company and determination of their remuneration. The directors are elected in strict compliance with the procedures for election and appointment of directors provided for in the Company's articles of association. The directors are able to attend board meetings and perform their duties as directors earnestly and diligently in order to make important decisions for the Company, supervise the members of the executive levels of the Company and communicate with shareholders. After the Board makes decisions, the implementation of specific matters shall be completed by the management of the Company and the management shall be required to report such implementation to the Board.

The Company has established a system of independent directors. There are four independent non-executive directors in the Board, which is in compliance with the minimum number of independent non-executive directors required under the Listing Rules. The Company has received a confirmation of independence from each of the four independent non-executive directors pursuant to Rule 3.13 of the Listing Rules, and considers the four independent non-executive directors to be independent of the Company, its substantial shareholders and connected persons and fully complies with the requirements concerning independent non-executive directors under the Listing Rules. Mr. Chi Haibin and Mr. Zhou Daojiong, independent non-executive directors of the Company, have appropriate accounting and financial expertise as required under Rule 3.10 of the Listing Rules. Please refer to the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this report for biography of Mr Chi Haibin and Mr. Zhou Daojiong. The four independent non-executive directors do not hold other positions in the Company. They protect the interests of minority shareholders independently and objectively, and provide checks and balances in the decision-making of the Board according to the Articles of Association of the Company and requirements of the relevant laws and regulations. The Board has also established an Audit Committee and a Remuneration Committee. The main responsibility of these committees is to provide support to the Board in decision-making and make recommendations for the improvement of the corporate governance level of the Company.

4. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Song Zhiping is the Chairman of the Company and Mr. Cao Jianglin is the President of the Company. Pursuant to the Company's articles of association, the primary duties and responsibilities of the Chairman are chairing the general meetings and convening and holding board meetings, checking the implementation of board resolutions, signing the securities issued by the Company, and other duties and powers authorized by the Company's articles of association and the Board. The major responsibilities of the President are taking charge of production, operation and management matters, organizing the implementation of board resolutions, organizing the implementation of annual business plans and investment proposals of the Company, formulating plans for the establishment of the Company's internal management structure, formulating plans for the establishment of the Company's branches, devising the basic management system of the Company, reviewing basic rules and regulations of the Company, proposing the appointment or removal of the Vice President and the Financial Controller of the Company, appointing or removing management members apart from those that should be appointed or removed by the Board, and performing other duties and powers authorized by the articles of association of the Company and the Board of Directors.

5. TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

Pursuant to the Company's articles of association, directors including the non-executive directors shall be elected by the general meeting and serve a term of three years. Upon the expiry of their term of office, the directors may be re-elected and reappointed.

6. REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises three directors, including two independent non-executive directors, namely Mr. Zhang Renwei who is the chairman of the committee and Mr. Zhou Daojiong, and an executive director, Mr. Song Zhiping, as required under the Code. Since 1 January 2007, there have been no changes to the members of the committee. The "Working Rules of the Remuneration Committee" specifies the responsibilities and duties of the committee.

The main responsibilities of the Remuneration Committee of the Company are the determination and review of specific remuneration and performance of the directors and senior management, mainly based on the remuneration and performance management policy and structure for directors and senior management as formulated by the Board. The Remuneration Committee held one meeting in 2007, at which all of the members of the Remuneration Committee were present.

A summary of the work completed by the Remuneration Committee of the Company in 2007 is as follows:

The first session of the Remuneration Committee of the Board considered and approved the remuneration policy of the senior management for 2007 and the policy of directors' and supervisors' fees at its second meeting.

6. REMUNERATION COMMITTEE *(CONTINUED)*

The Remuneration Committee also makes recommendations to the Board in respect of the remuneration of directors, supervisors and senior management. Remuneration of directors, supervisors and senior management is submitted for the consideration and approval of the Board. After the approval of the Board, remuneration of the directors and supervisors is submitted for approval of the general meeting. Annual remuneration of senior management comprises four components including basic salary, performance-based salary, special award and share appreciation rights. Basic salary is determined by taking responsibility, capability, market rates into consideration. Performance-based salary is determined on the basis of assessment of economic responsibility. Special award is granted to those who has made prominent contributions to the Company's results or in certain aspects. The share appreciation rights are implemented according to the Company's "Share Appreciation Rights Proposal".

7. NOMINATION OF DIRECTORS

Pursuant to the Company's articles of association, election and replacement of directors shall be proposed to the general meeting for consideration. Shareholders holding 5% or more of the Company's shares carrying voting rights are entitled to make such proposal and request the Board to authorize the Chairman to consolidate a list of the director candidates nominated by the shareholders who are entitled to make a proposal. As authorized by the Board, the Chairman shall consolidate a list of the director candidates and order the Secretariat of the Board together with the relevant departments to prepare the relevant procedural documents, including but not limited to invitations for directors, confirmation letters, biographies of candidates and letters of resignations.

The Secretariat of the Board is responsible for requesting the Chairman and/or the shareholders entitled to make a proposal to issue invitations of directors to the director candidates. The director candidates will sign the confirmation letters. At the same time, resigning directors are required to sign resignation letters. Pursuant to the Company's articles of association, the Company is required to issue a written notice of the general meeting to shareholders in writing 45 days in advance and send a circular to shareholders. Pursuant to Rule 13.51(2) of the Listing Rules, the list, biography and emoluments of the director candidates must be set out in the circular to shareholders to facilitate the making of discretionary voting by shareholders. The election of new directors must be approved by more than half of the total shares carrying voting rights held by the shareholders or the independent shareholders' representative at the general meeting.

During the year, no board meetings were held to discuss new directors' election.

The Company has not established a Nomination Committee.

8. AUDITORS' REMUNERATION

At the 2006 annual general meeting of the Company held on 15 June 2007, Shine Wing Certified Public Accountants and Deloitte Touche Tohmatsu were reappointed as the Company's PRC and international external auditors respectively. During the year, the Company paid an aggregate of RMB6.85 million to the aforementioned auditors as fees for their professional audit services.

During the reporting period, the above two auditors did not provide other significant non-audit services to the Company other than financial auditing service.

9. AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive directors, namely Chi Haibin (the Chairman of the committee) and Zhou Daojiong and one non-executive director, namely Cui Lijun. Among them, Chi Haibin and Zhou Daojiong possess professional qualifications or accounting or related financial management experience. Under the "Working Rules of the Audit Committee", the chairman of the Committee must be an independent non-executive director and all resolutions of the Committee must be approved by the independent non-executive directors.

The principal duties of the Audit Committee include reviewing the Company's financial reporting procedures, internal controls and risk management.

During the reporting period, the Audit Committee held two regular meetings. The recommendations of the Audit Committee have been presented to the Board and acted upon (if applicable). The members of the Audit Committee and their rate of attendance of meetings are as follows:

Position	Name	Attendance rate *(%)*
Chairman	Chi Haibin	100
Member	Zhou Daojiong	100
Member	Cui Lijun	100

During the reporting period, the Audit Committee issued its opinion in respect of the performance of its responsibilities relating to, amongst others, the interim and annual results and the review of the internal control system and the performance of the other responsibilities set out in the Code relating to the financial report for 2006 and the interim financial report for 2007.

During the reporting period, the Audit Committee has operated in accordance with Appendix 14 to the Listing Rules, including reviewing the Group's financial reports and results for the year ended 31 December 2007.

During the reporting period, the directors of the Company has acknowledged their responsibility for preparing the accounts. The Board has carried out systemic analysis and review on the financial and operational risks of the Group and their prevention, as well as the compliance control during the interim and year end. This analysis emphasized certain weak areas or imperfections and a proposal for the improvement of these areas by the management of the Company has been made. The reporting responsibilities of external auditors are set out in the Independent Auditor's Report of the annual report.

10. SHAREHOLDERS AND GENERAL MEETINGS

To ensure that all shareholders of the Company enjoy equal rights and exercise their rights effectively, the Company convenes a general meeting every year pursuant to its articles of association or holds extraordinary general meetings when there are matters subject to the consideration of shareholders. At the 2006 annual general meeting of the Company held on 15 June 2007, 7 ordinary resolutions and 2 special resolutions relating to authorizing the Board to issue the Company's shares and the amendment of the Company's articles of association were passed and approved. At the first extraordinary general meeting held on 28 February 2007, the resolutions relating to the issue of domestic corporate bonds and authorizing the board of directors to deal with all matters in connection with the issuance of Domestic Corporate Bonds. At the second extraordinary general meeting held on 31 December 2007, the resolution relating to new framework agreements and the annual caps with the Parent Group was passed and approved.

11. SUPERVISORS AND THE SUPERVISORY COMMITTEE

The Supervisory Committee of the Company reports to the general meeting. Its members comprise three shareholder's representatives and one supervisor elected by the employees' representatives and two independent supervisors. The supervisors have discharged their duties conscientiously in accordance with the provisions of the Company's articles of association, attended all board meetings consistently, and submitted the Supervisory Committee Report and presented certain recommendations. In line with the spirit of accountability to all shareholders, the Supervisory Committee monitored the financial affairs of the Company and the performance of duties and responsibilities by the directors, president and other senior management personnel of the Company to ensure that they have performed their duties. The Supervisory Committee has participated actively in major matters of the Company including production, operation and investment projects and made constructive recommendations.

12. INTERNAL CONTROL

In order to comply with relevant regulatory requirements of the Company's listing place, strengthen its internal control management and ensure healthy and effective internal control, the Company has formulated a series of internal management systems covering financial management, investment management, audit management, etc. The Board considered and approved the Code for Securities Transactions of China National Building Material Company Limited and the Information Disclosure System of China National Building Material Company Limited and the Investor Management Measures of China National Building Material Company Limited on 4 January 2007.

During the reporting period, in accordance with Code C.2.1, Directors also reviewed the effectiveness of the internal control system of the Company and its subsidiaries, which covered financial control, operation control, compliance control and risk management function control.

Directors' Report

The Board of the Company hereby presents its report together with the audited financial statements of the Group for the year ended 31 December 2007 to its shareholders.

PRINCIPAL BUSINESS

The Group is a holding company and its subsidiaries are mainly engaged in the cement, lightweight building materials, glass fiber, glass steel products and engineering services businesses. Particulars of the Group's businesses are set out in Note 7, Note 21 and Note 22 to the Group's consolidated financial statements respectively.

RESULTS

The results of the Group for the year are set out in the consolidated income statements in this annual report.

DIVIDENDS

The Board recommends the distribution of a final dividend of RMB0.033 per share (pre-tax) for the period from 1 January 2007 to 31 December 2007 (2006: RMB0.0324 (pre-tax) per share), representing a total amount of RMB72,880,104 (pre-tax).

The proposed final dividend is subject to approval at the annual general meeting to be held on Monday, 30 June 2008. Shareholders whose names appear on the registers of members on Monday, 30 June 2008 will be eligible for the final dividend. The registers of members of the Company will be closed from Saturday, 31 May 2008 to Monday, 30 June 2008 (both inclusive), during such period no share transfer will be registered. In order to qualify for the final dividend mentioned above, holders of H shares whose transfers have not been registered shall deposit the instrument(s) of transfer and the relevant share certificate(s) at Tricor Investor Services Limited, the Company's H Share Registrar, not later than 4: 30 p.m. on Friday, 30 May 2008 to facilitate the share transfer registration.

PROPERTY, PLANT AND EQUIPMENT

The Group owns property, plant and equipment of approximately RMB13,005,097. Details of the movements in property, plant and equipment of the Group during the year are set out in Note 16 to the consolidated financial statements.

SUBSIDIARIES AND ASSOCIATES

Details of each of the principal subsidiaries and associates of the Company are set out in Notes 21 and 22 to the consolidated financial statements, respectively.

CAPITALISED INTERESTS

Details of capitalised interests of the Company during the year are set out in Note 9 to the consolidated financial statements.

Share Capital Structure (as at 31 December 2007)

	Number of Shares	Approximate percentage of issued share capital
Domestic Shares	1,306,404,813	59.15%
H Shares	902,083,187	40.85%
	2,208,488,000	100%

Substantial Shareholders (as at 31 December 2007)

Name of shareholders	Class of shares	Number of shares held	Percentage of total share capital *(%)*
Parent	Domestic Shares	346,498,205	15.69
BNBMG	Domestic Shares	771,776,923	34.95
CNBM Trading	Domestic Shares	118,304,112	5.36
Cinda	Domestic Shares	69,216,154	3.13
Building Materials Academy	Domestic Shares	609,419	0.03
Public Investors	H Shares	902,083,187	40.85
Total share capital		2,208,488,000	100

Note: All the above percentages are calculated by rounding to two decimal places.

DISCLOSURE OF INTERESTS

1. Substantial Shareholders and persons who have an interest or short position discloseable under divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO")

As at 31 December 2007, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the persons (other than the directors and supervisors of the Company) who have interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO are as follows:

Name	Class of shares	Number of shares held	Percentage in the relevant class of share capital[2, 5] (%)	Percentage in total share capital[2, 5] (%)
Parent[1]	Domestic Shares	1,237,188,659[3]	94.70	56.02
BNBMG[1]	Domestic Shares	771,776,923[3]	59.08	34.95
CNBM Trading[1]	Domestic Shares	118,304,112[3]	9.06	5.36
Cinda	Domestic Shares	69,216,154[3]	5.30	3.13
JPMorgan Chase & Co.	H Shares	250,824,156[3]	27.80	11.36
		110,124,156[4]	12.21	4.99
Atlantis Investment Management Ltd	H Shares	68,950,000[3]	7.64	3.12
Halbis Capital Management (Hong Kong) Limited	H Shares	61,946,000[3]	6.87	2.80
Baring Assets Management Limited	H Shares	46,094,000[3]	5.11	2.09
Northern Trust Fiduciary Services (Ireland) Limited	H Shares	45,998,000[3]	5.10	2.08
T. Rowe Price Associates, Inc. And Its Affiliates	H Shares	45,204,000[3]	5.01	2.05

DISCLOSURE OF INTERESTS *(CONTINUED)*

1. Substantial Shareholders and persons who have an interest or short position discloseable under divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") *(Continued)*

Notes:

1 *Of these 1,237,188,659 shares, 346,498,205 shares are directly held by Parent, the remaining 890,690,454 shares are deemed corporate interest indirectly held through BNBMG, CNBM Trading and Building Materials Academy. CNBM Trading and Building Materials Academy are wholly owned subsidiaries of Parent. BNBMG is a subsidiary of Parent which directly and indirectly holds 100% equity interest in BNBMG, of which 75% was directly held and 25% was indirectly held through CNBM Trading. Under the SFO, Parent is deemed to own the shares directly held by BNBMG (771,776,923 shares), CNBM Trading (118,304,112 shares) and Building Materials Academy (609,419 shares).*

2 *As at 31 December 2007, the Company's total issued share capital comprises 2,208,488,000 shares, including 1,306,404,813 Domestic Shares and 902,083,187 H Shares.*

3 *Long position.*

4 *Lending pool.*

5 *All the above percentages are calculated by rounding to two decimal places.*

Save as disclosed above, as at 31 December 2007, the Company has not been notified by any persons who have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

2. Interests and Short Positions of Directors and Supervisors

As at 31 December 2007, as far as the Company is aware, none of the directors nor supervisors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the directors or supervisors to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for less than 30% of the Group's total sales amount.

During the year, the five largest suppliers of the Group accounted for less than 30% of the Group's total purchase amount.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Except for the Placing mentioned in the section headed "Material Transactions — Placing of New H Shares" on page 66 of this report, during the year ended 31 December 2007, neither the Company nor any of its subsidiaries purchased or redeemed any listed securities of the Company ("securities" shall have the meaning as defined in the Listing Rules).

TAXATION REDUCTION OF HOLDERS OF LISTED SECURITIES

For the year ended 31 December 2007, holders of the Company's securities shall not be entitled to any taxation reduction by virtue of their legal status of the PRC.

MINIMUM PUBLIC FLOAT

Based on the information that is publicly available to the Company and so far as the directors are aware, as at 31 December 2007, the Company has maintained a public float that was in excess of 25% and has complied with the requirements of the Listing Rules.

RESERVES

Movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity of this annual report.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2007, the Group had approximately 22,653 employees.

The remuneration package of the Company's employees includes salary, bonuses and allowances. In accordance with relevant national and local labour and social welfare laws and regulations, the Group is required to pay on behalf of employees, a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and housing reserve fund. The Company's remuneration policy for its staff is performance based, taking into account duties and responsibilities while bonus is linked to the overall economic efficiency of the Company.

The Company endeavours to provide training to its employees. On-job training and continuous training plans include management skills and technical training, overseas communication plans and other courses. The Company also encourages employees to improve themselves by offering scholarships.

SHARE APPRECIATION RIGHTS PLAN

In order to provide additional incentives to the Group's senior management and to enhance the alignment between the performance of the Group's senior management and shareholder value, on 28 February 2006, the Company adopted a long-term incentive plan of share appreciation rights (the "Plan") for the Group's senior management officers, senior experts and specialist who make important contributions to the Group.

Under the Plan, a share appreciation right ("SA Right") represents the right to receive a cash payment equal to the appreciation, if any, in the fair market value of a H Share from the date of the grant of the right to the date of exercise.

SA Rights will be granted in units with each unit representing one H Share. All SA Rights will have an exercise period of six years from the date of grant. An individual may not exercise his or her SA Rights during the first two years after the date of grant. After two and three years of the date of grant, the total number of SA Rights exercised by an individual may not in aggregate exceed one-third and two-thirds, respectively, of the total SA Rights granted to the individual. After four years of the date of granted, the SA Rights will be fully vested.

On 18 September 2006, the Company granted 5,880,000 units of SA Rights at exercise price of HK$3.5 each unit to the senior management of the Company as follows:

	Units of SA Rights granted
Directors and a supervisor of the Company	2,680,000
Other senior management	3,200,000
	5,880,000

As the SA Rights vest at different amounts until the grantee have completed a specified period of service, the Company recognised the services received and a liability of RMB2,877,000 (2006: RMB1,156,000), being the estimated compensation paid for service rendered by the grantee during the year.

According to Guo Zi Fa Fen Pei [2006] No.8, "Trial Method for Share Incentive Scheme of State-controlled Listing Company", the compensation should not exceed 40% of personal total salary and bonus.

DIRECTORS AND SUPERVISORS (AS AT THE DATE OF THIS REPORT)

Executive Directors:

Song Zhiping	(appointed on 10 March 2005)
Cao Jianglin	(appointed on 10 March 2005)
Li Yimin	(appointed on 27 January 2006)
Peng Shou	(appointed on 20 June 2006)

Non-executive Directors:

Cui Lijun	(appointed on 10 March 2005)
Huang Anzhong	(appointed on 10 March 2005)
Zuo Fenggao	(appointed on 10 March 2005)

Independent Non-executive Directors:

Zhang Renwei	(appointed on 10 March 2005)
Zhou Daojiong	(appointed on 12 May 2005)
Chi Haibin	(appointed on 12 May 2005)
Lau Ko Yuen, Tom	(appointed on 27 January 2006)

Supervisors:

Shen Anqin	(appointed on 10 March 2005)
Zhou Guoping	(appointed on 10 March 2005)
Bao Wenchun	(appointed on 12 May 2005)
Cui Shuhong	(appointed on 10 May 2005)
Zhang Zhaomin	(appointed on 12 May 2005)
Liu Chijin	(appointed on 12 May 2005)

DIRECTORS'AND SUPERVISORS' SERVICE CONTRACTS

As of the date of this report, each of the directors and supervisors has entered into a service contract with the Company for a term of a maximum of three years, which was expired on 28 March,2008. The Company proposed to re-elect directors and supervisors at the forthcoming annual general meeting. Service contracts will be entered into with new directors and supervisors for a term of a maximum of three years. There is no unexpired service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) in respect of any director proposed to be re-elected.

DIRECTORS'AND SUPERVISORS' INTERESTS IN CONTRACTS

As at the date of this report, during the year and at any time during the period from the end of the year to the date of the report, except for the relevant service contracts, none of the directors and supervisors had a material interest, directly or indirectly, in any contracts of significance to the Company, any of its holding companies or subsidiaries.

DIRECTORS'AND SUPERVISORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' and supervisors' remuneration and the five highest paid individuals of the Company during the year are set out in Note 11 to the consolidated financial statements.

BOARD OF DIRECTORS AND SPECIAL COMMITTEES UNDER BOARD OF DIRECTORS

As at the reporting date, the Board of the Company comprised 11 directors, whose biographies are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this report.

The Board of the Company established two special committees, namely, the Audit Committee and Remuneration Committee, details of which are set out in the section headed "Corporate Governance Report" herein.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, there were no changes in the compositions of the directors, supervisors and senior management of the Company.

Since the Board of Directors and Supervisory Committee were expired on 28 March 2008, in the meeting of the Board and Supervisory Committee convened on 17 April 2008, the Board and Supervisory Committee proposed to the General Meeting to re-elect new Board and Supervisory Committee.

All members of the Board will seek for re-election as directors of the Company while Mr. Bao Wenchun and Mr. Zhang Zhaomin have notified the Company that they will retire as Supervisors and not seek re-election at the upcoming annual general meeting.

A notice of the annual general meeting and a circular containing, amongst others, details of the re-election of the new Board and Supervisory Committee, will be sent to our Shareholders separately.

MANAGEMENT CONTRACTS

Except for the service contracts of the management of the Company, no contracts were entered into between the Company and any individuals, companies or legal corporations, for the management of all or any material part of the Company's business.

CONNECTED TRANSACTIONS

Non-Exempt Continuing Connected Transactions

Except for the transaction with BNBM Homes which is an indirectly non-wholly owned subsidiary of the Company, the remaining connected transactions, which are also related party transactions, are included in note 40 to the consolidated financial statements in accordance with International Accounting Standard 24 "Related Party Disclosure". The transactions with BNBM Homes are regarded as connected transactions pursuant to Chapter 14A of the Listing Rules and the transactions were eliminated in preparing the consolidated financial statements.

During the year, the Company entered into continuing connected transactions under the definition of "continuing connected transaction" in Chapter 14A of the Listing Rules, in relation to which the Stock Exchange granted to the Company a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules on 6 March 2006:

Transactions with Parent Group

Parent has a direct equity interest of 15.69% and total direct and indirect equity interest of 56.02% in the Company immediately upon the completion of placing on 9 August 2007. It is a controlling shareholder and a promoter of the Company. Each of Parent and its subsidiaries therefore constitutes a connected person of the Company under the Listing Rules.

1. Master Mineral Supply Agreement

   On 28 February 2006, the Company entered into a Master Mineral Supply Agreement with Parent, for a term of three years commencing from 1 January 2005, whereby Parent agreed to supply, or procure its subsidiaries to supply, to the Company limestone and clay for the production of clinker and other cement products. Parent shall supply to the Company limestone and clay from its quarries at the market price, namely, the price at which the same type of mineral is provided to independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

   For the year ended 31 December 2007, the Group's expenditure for limestone and clay supplied by Parent Group was approximately RMB64.7 million.

   It was expired on 31 December 2007 and a new agreement was signed on 2 November 2007, which was effective from 1 January 2008.

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Parent Group *(Continued)*

2. Master Mutual Provision of Production Supplies and Support Services Agreement

On 28 February 2006, the Company entered into a Master Mutual Provision of Production Supplies and Support Services Agreement with Parent for a term of three years commencing from 1 January 2005, pursuant to which:

(a) Parent agreed to provide, or procure its subsidiaries to provide, the following production supplies and support services to the Company:

- Production supplies: oriented strand board, cement ancillary grind mill, plastic pipes and other similar raw materials for the Group's production; spare parts and other materials for the projects undertaken by the Group's engineering segment; other similar supplies; and

- Support services: transportation and loading services; equipment repair, design and installation services; equipment and vehicles leasing; water, electricity and steam; property management services; other similar services;

(b) the Company agreed to provide, or procure its subsidiaries to provide the following production supplies and support services to Parent:

- Production Supplies: clinker, cement, lightweight building materials and other building materials; prefabricated houses; other similar supplies; and

- Support services: transportation and loading services; mining equipment leasing; water, electricity and steam; other similar services.

The production supplies and support services pursuant to the Master Mutual Provision of Production Supplies and Support Services Agreement shall be provided at:

(a) the government-prescribed price;

(b) if there is no government-prescribed price but there is a government-guided price, the government-guided price applies;

(c) if there is neither a government-prescribed price nor a government-guided price, then the market price applies. For the purpose of the Master Mutual Provision of Production Supplies and Support Services Agreement, the term "market price" is defined as the price at which the same type of production supplies or support services is provided by Independent Third Parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC; and

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Parent Group *(Continued)*

2. Master Mutual Provision of Production Supplies and Support Services Agreement *(Continued)*

   (d) if none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the relevant production supplies or support services, which shall be the reasonable costs incurred in providing the same plus a profit margin of not more than 5% of such costs. For the purpose of the Master Mutual Provision of Production Supplies and Support Services Agreement, the term "reasonable costs" is defined as the costs confirmed by both parties after arm's length negotiations and permitted by the accounting systems of the PRC.

   The prices for electricity, water and steam are currently prescribed by the government.

   For the year ended 31 December 2007, the Group's expenditure for the production supplies and support services provided by Parent Group was approximately RMB69.1 million.

   For the year ended 31 December 2007, the Group's revenue from the production supplies and support services provided to Parent Group was approximately RMB132.8 million.

   It was expired on 31 December 2007 and a new agreement was signed on 2 November 2007, which was effective from 1 January 2008.

3. Master Supply of Equipment Agreement

   On 28 February 2006, the Company entered into a Master Supply of Equipment Agreement with Parent for a term of three years commencing from 1 January 2005, whereby Parent agreed to supply, or procure its subsidiaries to supply, equipment to the Company for the construction of our production lines. The equipment provided pursuant to the Master Supply of Equipment Agreement shall be at the market price, namely, the price at which the same type of equipment is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

   For the year ended 31 December 2007, the Group's expenditure for equipment supplied by Parent Group was approximately RMB49.3 million.

   It was expired on 31 December 2007 and a new agreement was signed on 2 November 2007, which was effective from 1 January 2008.

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Parent Group *(Continued)*

4. Master Mutual Provision of Engineering Services Agreement

On 28 February 2006, the Company entered into a Master Mutual Provision of Engineering Services Agreement with Parent for a term of three years commencing from 1 January 2005, pursuant to which:

(a) Parent agreed to provide, or procure its subsidiaries to provide, the Company with engineering design, construction and supervisory services; and

(b) the Company agreed to provide, or procure its subsidiaries to provide, Parent Group with engineering services.

The prices of all contracts for engineering services to be provided pursuant to the Master Mutual Provision of Engineering Services Agreement shall be in accordance with the state-guided price. If there is no state-guided price, then according to market price. Where contracts are to be tendered, the price for the provision of engineering services shall be set according to the procedures adopted by the tender supervisory and administrative bureau in the locality of the construction project, which should be maintained at a level reasonably close to the lowest market price. For the purpose of the Master Mutual Provision of Engineering Services Agreement, the term "state-guided price" shall mean the price which the contracting parties may agree, which is within the price range set in accordance with the applicable laws and regulations of the PRC; and the term "market price" shall mean either the price at which the same type of engineering design, construction and supervisory services are provided by independent third parties in the same area, in the vicinity or in the PRC in the ordinary course of their businesses on normal commercial terms or the price at which the same type of engineering design, construction and supervisory services are provided to independent third parties in the PRC on normal commercial terms.

For the year ended 31 December 2007, the Group's expenditure for engineering services supplied by Parent Group was approximately RMB18.4 million.

It was expired on 31 December 2007 and a new agreement was signed on 2 November 2007, which was effective from 1 January 2008.

For the year ended 31 December 2007, the Group's revenue for engineering services provided to Parent Group was approximately RMB0 million.

It was expired on 31 December 2007 and no new agreements were signed.

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with BNBM Homes

BNBM Homes is an indirect non-wholly-owned subsidiary of the Company. BNBMG, a controlling shareholder and promoter of the Company, has an 11% equity interest in BNBM Homes. BNBM Homes therefore constitutes a connected person of the Company under the Listing Rules.

5. Master Provision of Production Supplies and Support Services Agreement

   On 28 February 2006, the Company entered into a Master Provision of Production Supplies and Support Services Agreement with BNBM Homes for a term of three years commencing from 1 January 2005, pursuant to which BNBM agreed to provide to BNBM Homes the following:

   - Production supplies: gypsum board, rock wool, lightweight metal frame and other raw materials for the construction of prefabricated houses; and

   - Support services: transportation and loading services, water, electricity and steam.

   The production supplies and support services pursuant to the Master Mutual Provision of Production Supplies and Support Services Agreement shall be provided at:

   (a) the government-prescribed price;

   (b) if there is no government-prescribed price but there is a government-guided price, the government-guided price applies;

   (c) if there is neither a government-prescribed price nor a government-guided price, then the market price applies. For the purpose of the Master Provision of Production Supplies and Support Services Agreement, the term "market price" is defined as the price at which the same type of production supplies or support services is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC; and

   (d) if none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the relevant production supplies or support services, which shall be the reasonable costs incurred in providing the same plus a profit margin of not more than 5% of such costs. For the purpose of the Master Provision of Production Supplies and Support Services Agreement, the term "reasonable costs" is defined as the costs confirmed by both parties after arm's length negotiations and permitted by the accounting systems of the PRC.

   For the year ended 31 December 2007, BNBM's revenue from the production supplies and support services provided to BNBM Homes was approximately RMB1.5 million.

   It was expired on 31 December 2007 and a new agreement was signed on 2 November 2007, which was effective from 1 January 2008.

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with BNBM Homes *(Continued)*

6. Master Engineering Services Agreement

On 28 February 2006, the Company's subsidiary Chenlong Decoration entered into a Master Engineering Services Agreement with BNBM Homes for a term of three years commencing from 1 January 2005, whereby Chenlong Decoration agreed to provide engineering design, construction and supervisory services to BNBM Homes.

The prices of all contracts for engineering design, construction and supervisory services to be provided pursuant to the Master Engineering Services Agreement shall be in accordance with the state-guided price. If there is no state-guided price, then according to market price.

For the purpose of the Master Engineering Services Agreement, the term "state-guided price" shall mean the price which the contracting parties may agree, which is within the price range set in accordance with the applicable laws and regulations of the PRC; and the term "market price" shall mean either the price at which the same type of engineering design, construction and supervisory services are provided by independent third parties in the same area, in the vicinity or in the PRC in the ordinary course of their businesses upon normal commercial terms or the price at which the same type of engineering design, construction and supervisory services are provided to independent third parties in the PRC upon normal commercial terms.

Where contracts are to be tendered, the price for the provision of engineering design, construction and supervisory services shall be set according to the procedures adopted by the tender supervisory and administrative bureau in the locality of the construction project. The tender price should be maintained at a level reasonably close to the lowest market price.

For the year ended 31 December 2007, Chenlong Decoration's revenue from the engineering services provided to BNBM Homes was approximately RMB0 million.

It was expired on 31 December 2007 and no new agreements were signed.

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Beijing Chemical

Beijing Chemical has a 45% equity interest in BNBM Plastic, an indirect non-wholly-owned subsidiary of the Company. It is a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

7. Supply of Raw Material Agreement

   On 28 February 2006, BNBM Plastic and Beijing Chemical entered into a Supply of Raw Material Agreement for a term of three years commencing from 1 January 2005, pursuant to which Beijing Chemical agreed to provide PVC to BNBM Plastic for the production of plastic products.

   The raw materials pursuant to the Supply of Raw Material Agreement shall be provided at market price. The term "market price" means the price at which the same type of raw material is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

   For the year ended 31 December 2007, BNBM Plastic's expenditure for the raw materials supplied by Beijing Chemical was approximately RMB0 million.

   It was expired on 31 December 2007 and no new agreements were signed.

Transactions with Liberty Group

Liberty Group has a 20% equity interest in Zhongfu Liberty, an indirect non-wholly-owned subsidiary of the Company. It is a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

8. Supply of Technical Consultation Services Agreements

   On 2 March 2006, each of China Composites and Zhongfu Liberty entered into a Supply of Technical Consultation Services Agreement for the provision of technical consultation services to Liberty Group for a term of three years commencing from 1 January 2005.

   The technical consultation services pursuant to the Supply of Technical Consultation Services Agreements shall be provided at market price. The term "market price" means the price at which the same type of service is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

   For the year ended 31 December 2007, the Group's revenue from the technical consultation services provided to Liberty Group was approximately RMB3.0 million.

   It was expired on 31 December 2007 and a new agreement was signed on 2 November 2007, which was effective from 1 January 2008.

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Tianma Group

Tianma Group has a 35% equity interest in Zhongxin Tianma, an indirect non-wholly-owned subsidiary of the Company. It is a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

9. Supply of Raw Material Agreement

On 2 March 2006, Zhongxin Tianma and Tianma Group entered into a Supply of Raw Material Agreement for a term of three years commencing from 1 January 2005, pursuant to which Tianma Group agreed to provide raw materials to Zhongxin Tianma for the production of glass fiber products.

The raw materials pursuant to the Supply of Raw Material Agreement shall be provided at market price, namely, the price at which the same type of raw material is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2007, Zhongxin Tianma's expenditure for raw materials supplied by Tianma Group was approximately RMB14.3 million.

It was expired on 31 December 2007 and a new agreement was signed on 2 November 2007, which was effective from 1 January 2008.

10. Service Agreement

On 2 March 2006, Zhongxin Tianma and Tianma Group entered into a Service Agreement for a term of three years commencing from 1 January 2005, pursuant to which Tianma Group agreed to provide electricity and water to Zhongxin Tianma.

The utilities pursuant to the Service Agreement shall be provided at:

(a) the government-prescribed price;

(b) if there is no government-prescribed price but there is a government-guided price, the government-guided price applies;

(c) if there is neither a government-prescribed price nor a government-guided price, then the market price applies. For the purpose of the Service Agreement, the term "market price "is defined as the price at which the same type of utilities is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC; and

(d) if none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the relevant utilities, which shall be the reasonable costs incurred in providing the same plus a profit margin of not more than 5% of such costs. For the purpose of the Service Agreement, the term "reasonable costs" is defined as the costs confirmed by both parties after arm's length negotiations and permitted by the accounting systems of the PRC.

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Tianma Group *(Continued)*

10. Service Agreementt *(Continued)*

    The prices for electricity and water are currently prescribed by the government.

    For the year ended 31 December 2007, Zhongxin Tianma's expenditure for utilities provided by Tianma Group was approximately RMB3.8 million.

    It was expired on 31 December 2007 and a new agreement was signed on 2 November 2007, which was effective from 1 January 2008.

Transactions with Jushi Group

Jushi Group is a 51% owned subsidiary of China Fiberglass, which has a 20% equity interest in BND Co., Limited, an indirect non-wholly owned subsidiary of the Company. Jushi Group is an associate of a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

11. Supply of Raw Material Agreement

    On 2 March 2006, the Company entered into a Supply of Raw Material Agreement with Jushi Group for a term of three years commencing from 1 January 2005, pursuant to which Jushi Group agreed to provide the Company with raw materials for the production of glass fiber products.

    The raw materials pursuant to the Supply of Raw Material Agreement shall be provided at market price. The term "market price" means the price at which the same type of raw material is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

    For the year ended 31 December 2007, the Group's expenditure for raw materials supplied by Jushi Group was approximately RMB17.1 million.

    It was expired on 31 December 2007 and a new agreement was signed on 2 November 2007, which was effective from 1 January 2008.

CONNECTED TRANSACTIONS *(Continued)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Aobao Chemical

Aobao Chemical has a 25% equity interest in Weifang Aotai, an indirect non-wholly-owned subsidiary of the Company. It is a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

12. Supply of Raw Material Agreement

On 2 March 2006, Weifang Aotai and Aobao Chemical entered into a Supply of Raw Material Agreement for a term of three years commencing from 1 January 2005, pursuant to which Aobao Chemical agreed to supply Weifang Aotai with raw materials for the production of gypsum.

The raw materials pursuant to the Supply of Raw Material Agreement shall be provided at market price. The term "market price" means the price at which the same type of raw material is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2007, Weifang Aotai's expenditure for raw materials supplied by Aobao Chemical was approximately RMB0 million.

It was expired on 31 December 2007 and a new agreement was signed on 2 November 2007, which was effective from 1 January 2008.

Transactions with Hengzhijiu Trade

Hengzhijiu Trade has a 29% equity interest in Hengjiu Concrete, an indirect non-wholly-owned subsidiary of the Company. It is a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

13. Supply of Raw Material Agreement

On 2 March 2006, Lunan China United and Hengzhijiu Trade entered into a Supply of Raw Material Agreement for a term of three years commencing from 1 January 2005, pursuant to which Hengzhijiu Trade agreed to provide coal to Lunan China United for the production of cement.

The coal pursuant to the Supply of Raw Material Agreement shall be provided at market price. The term "market price" means the price at which the same type of coal is provided independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2007, Lunan China United's expenditure for coal supplied by Hengzhijiu Trade was approximately RMB9.0 million.

It was expired on 31 December 2007 and a new agreement was signed on 2 November 2007, which was effective from 1 January 2008.

CONNECTED TRANSACTIONS *(Continued)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Hengzhijiu Trade *(Continued)*

14. Supply of Product Agreement

On 2 March 2006, Lunan China United and Hengzhijiu Trade entered into a Supply of Product Agreement for a term of three years commencing from 1 January 2005, pursuant to which Lunan China United agreed to provide cement to Hengzhijiu Trade for use in connection with its business.

The cement pursuant to the Supply of Product Agreement shall be provided at market price. The term "market price" means the price at which the same type of cement is provided independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2007, Lunan China United's revenue from cement supplied to Hengzhijiu Trade was approximately RMB37.2 million.

It was expired on 31 December 2007 and a new agreement was signed on 2 November 2007, which was effective from 1 January 2008.

Besides, details of the continuing connected transaction were set out in the prospectus of the Company dated 13 March 2006 (the "Prospectus") and the 2005 Annual Report of the Company dated 21 April 2006.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors.

Revision of the 2007 cap of certain continuing connected transactions with Parent Group

Details of the revision of the 2007 cap of certain continuing connected transactions with Parent Group have been disclosed in the relevant announcements dated 18 April 2007 and 18 June 2007 and the circular dated 30 April 2007 issued by the Company.

On 16 April 2007, Parent Group acquired 100% equity interest in Anxia Cement. Subsequent to the acquisition, Anxia Cement became a subsidiary of Parent and is therefore a connected person of the Company. As such, transactions between Anxia Cement and Zaozhuang China United, a subsidiary of the Company constitute continuing connected transactions of the Company. The value of these transactions were taken into account when calculating the value of the continuing connected transactions in 2007. As approved in the annual general meeting held on 15 June 2007, the 2007 cap of continuing connected transactions increased from RMB110 million to RMB131.3 million.

CONNECTED TRANSACTIONS *(Continued)*

Framework Agreements with Parent Group and so forth regarding certain continuing connected transactions

Details of the New Framework Agreements entered into between the Company and Parent Group, BNBM Homes, Liberty Group, Tianma Group, Shuichan Group, Jushi Group, Aobao Chemical, Hengzhijiu Trade, BNS, Huafu Property, Xixiaguanhe and Xixia Logistics regarding the non-exempt continuing connected transactions for the period from 1 January 2008 to 31 December 2010 and the proposed annual caps have been disclosed in the relevant announcement dated 2 November 2007 and the circular dated 15 November 2007 issued by the Company. The New Framework Agreements and the proposed annual caps have been approved by the extraordinary general meeting of the Company held on 31 December 2007.

Non-Exempt Connected Transactions

During 2007 and up to the date of this report, the Company has entered into the following non-exempt connected transactions:

Capital increase in Jushi Group

Details of the subscription for 11.5% of the enlarged registered capital of Jushi Group by the Company are disclosed in the relevant announcement dated 5 January 2007, the circular dated 25 January 2007, 2006 Annual Report and 2007 Interim Report issued by the Company. As at the date of this report, the said transaction has been completed.

Acquisition of the equity interest in China Composites

Details of the acquisition of 23% equity interest in China Composites by the Company are disclosed in the relevant announcement dated 18 April 2007, 2006 Annual Report and 2007 Interim Report issued by the Company. As at the date of this report, the consideration for the equity acquisition has been paid and the change in the business registration record completed.

Capital increase in China Fiberglass

Details of the subscription of China Fiberglass' shares by the Company as a consideration for the transfer of the equity interest in Jushi Group held by the Company to China Fiberglass are disclosed in the relevant announcement dated 27 August 2007 and the circular dated 28 December 2007 issued by the Company. As at the date of this report, the said transaction has not been completed.

Acquisition of the equity interest in Hushan Group

Details of the acquisition of 90% equity interest in Hushan Group by South Cement, a subsidiary of the Company, are disclosed in the relevant announcement dated 26 September 2007 and the circular dated 16 October 2007 issued by the Company. As at the date of this report, the change in the business registration record has been completed, but the consideration for the equity acquisition has not been paid.

CONNECTED TRANSACTIONS *(Continued)*

Non-Exempt Connected Transactions *(Continued)*

Acquisition of the equity interest in CNBM Investment

Details of the acquisition of 100% equity interest in CNBM Investment by the Company are disclosed in the relevant announcement dated 7 December 2007 and the circular dated 28 December 2007 issued by the Company. As at the date of this report, the change in the business registration record has been completed, but the consideration for the equity acquisition has not been paid.

Acquisition of Dezhou Daba's assets

Details of the acquisition of Dezhou Daba's cement assets by the Company have been disclosed in the relevant announcement dated 30 January 2008 and the circular dated 19 February 2008 issued by the Company. As at the date of this report, the consideration for the acquisition has not been settled.

The Company has complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company had reviewed these connected transactions and have considered the procedures performed by the auditors of the Company in reviewing them and confirmed that the connected transactions have been conducted:

(a) in the ordinary and usual course of business of the Company;

(b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

NON-COMPETITION AGREEMENT

As at the date of this annual report, Parent confirmed that it has complied and will comply with the Non-Competition Agreement dated 28 February 2006 entered into with the Company. Pursuant to this agreement, Parent has agreed not to, and to procure its subsidiaries (excluding the Group) not to compete with the Group in its core businesses.

Parent has notified the Company of a business opportunity to be a party to the formation of a new company with Jianfeng Group for the purpose of developing regional cement business. As this business opportunity was at a preliminary stage, the directors who are independent of Parent Group, decided not to take up this business opportunity at this stage and notified Parent accordingly.

None of the directors of the Company is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As of 31 December 2007, the Group had not placed any designated deposits with any financial institution in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

PRE-EMPTIVE RIGHTS

Under the articles of association of the Company and the laws of the PRC, there are no provisions about pre-emptive rights that require the Company to offer new shares to its existing shareholders in proportion to their shareholdings.

AUDITORS

The Company has appointed Deloitte Touche Tohmatsu and Shine Wing Certified Public Accountants as international and PRC auditors of the Company for the year ended 31 December 2007, respectively. Deloitte Touche Tohmatsu has audited the financial statements prepared under the IFRS. Since it commenced preparations for the listing, the Company has been employing Deloitte Touche Tohmatsu and Shine Wing Certified Public Accountants as its auditors. At the meeting of the first Board on 17 April 2008, the proposal for granting of authorisation to the Board for the appointment of the PRC auditors and the International auditors of 2008 was passed and approved to be put forward at the annual general meeting for consideration.

By order of the Board
Song Zhiping
Chairman

Beijing, the PRC
17 April 2008

Report of the Supervisory Committee

The supervisory committee of China National Building Material Company Limited ("Supervisory Committee") has performed its supervisory duties and carried out supervision on the Company's operation and financial standing and the fulfilment of responsibilities by senior management during 2007 with reference to the Company Law of the PRC, relevant laws and regulations in Hong Kong and the Articles of Association of the Company, for the propose of safeguarding the interests of the Company and its shareholders.

During the year, the Supervisory Committee attended Board meetings, and performed due diligence on supervision and review of convening procedures of Board meetings, resolution matters, performance of resolutions passed in general meetings by the Board of Directors, fulfilment of duties by senior management, as well as the establishment, improvement and abidance of internal control systems of the Company in accordance with relevant laws and regulations. The Supervisory Committee is of the opinion that, all members of the Board of Directors and senior management of the Company have worked in compliance with relevant laws, regulations, code on practices and the Articles of Association of the Company. They have also discharged their duties with honesty and diligence, implemented resolutions passed and with authority which was granted by general meetings and acted in accordance with relevant laws, regulations and provisions. The Company has further improved its corporate governance structure and internal management framework. It has established an internal control system which is continuously reviewed and improved.

The Supervisory Committee has reviewed and approved the Report of the Board of Directors which is proposed to submitted at the annual general meeting to be held in June 2008, and considers that the report reflects the Company's current position. During 2007, all members of the Board and senior management of the Company have performed their duties, and dedicated themselves to making significant contributions to the development of the Company.

The Supervisory Committee has carefully reviewed financial statements, profit distribution plans, the annual report and unqualified auditor's report prepared by the international auditors and domestic auditors of the Company and other relevant information for the year 2007. The Supervisory Committee is of the opinion that, the financial statements of the Company reflect an objective, true and fair view of the Company's financial state and operating results. The Supervisory Committee has approved the audited financial statements prepared by the auditors and the 2007 profit distribution plan of the Company.

Having attended Board meetings of the Company, reviewed the Company's financial standing and examining the directors' and senior management's performance of their duties, the Supervisory Committee did not find any breach of laws, regulations, the Articles of Association of the Company or other rules, or any prejudice against the interests of the Company or its shareholders.

The Supervisory Committee is satisfied with the business activities and results of the Company for 2007, and is confident in the Company's prospects. During 2008, the Supervisory Committee will continue to ensure that the interests of shareholders are safeguarded in strict compliance with the Articles of Association of the Company.

Shen Anqin
Chairman of the Supervisory Committee

Beijing, the PRC
17 April 2008

I. MATERIAL LITIGATION AND ARBITRATION

During the reporting period, the Group was not involved in any litigation and arbitration which might have a significant impact on the Group's production and operation, nor was any of the directors, supervisors and senior management of the Group involved in any material litigation or arbitration.

II. MATERIAL TRANSACTIONS

1. Issue of domestic corporate bonds

The Company has issued domestic corporate bonds amounting to RMB1,000,000,000 with a bond maturity of ten years (the "Bond Issue"). The Company had disclosed the details of the Bond Issue in the relevant announcement dated 4 January 2007, the circular dated 12 January 2007, the 2006 Annual Report and 2007 Interim Report. As at the date of this report, the issue of bonds has been completed.

2. Capital increase in Daye Jianfeng

On 16 April 2007, the Company entered into an investment agreement to subscribe for 40% of the enlarged registered capital of Daye Jianfeng for a consideration of RMB60,000,000. The Company had disclosed the details of the subscription of 40% equity interest of the enlarged registered capital of Daye Jianfeng in the relevant announcement dated 16 April 2007, the 2006 Annual Report and 2007 Interim Report. As at the date of this report, the capital increase has been completed.

3. Acquisition of Taishan Cement

On 16 April 2007, China United entered into an equity transfer agreement with Xinwen Mining Group Company Limited to acquire 80% equity interest in Taishan Cement after its equity consolidation for a cash consideration of RMB307,180,000.

China United entered into a Supplemental Equity Transfer Agreement with Xinwen Mining Group Company Limited and Shandong Xinkuang Investment Holdings Group Company Limited (山東新礦投資控股集團有限公司) on 28 June 2007 in relation to the acquisition of an additional 10% equity interest in Taishan Cement upon completion of the Taishan Equity Consolidation. Upon completion of the Supplemental Taishan Equity Transfer Agreement, China United held 90% equity interest in Taishan Cement. The cash consideration of the interest to be acquired by China United increased from RMB307,180,000 to RMB345,570,000. The difference represented the additional amount paid by China United in consideration of the additional 10% equity interest in Taishan Cement acquired by China United.

The Company has disclosed the information regarding the acquisition of Taishan Cement in the relevant announcements dated 18 April 2007 and 28 June 2007, the circulars dated 30 April 2007 and 13 July 2007, the 2006 Annual Report and the 2007 Interim Report issued by the Company.

II. MATERIAL TRANSACTIONS *(CONTINUED)*

4. Placing of New H Shares

On 9 August 2007, the Company entered into a placing agreement with Morgan Stanley & Co. International plc, in relation to the placing of an aggregate of 149,749,187 H shares of RMB1.00 each in the share capital of the Company at a gross price of HK$17.80 per Placing Share and a net price of HK$17.76 per Placing Share. The Placing Shares represented approximately 19.90% of the existing issued H share capital of the Company and approximately 16.60% of the issued H share capital of the Company as enlarged by the issue of the New Shares. The net proceeds of the Placing of the New Shares were approximately HK$2,657,000,000 after deducting the commission and expenses of the Placing.

Details of the Placing of the New H Shares were disclosed in the relevant announcement dated 9 August 2007 and 2007 Interim Report issued by the Company.

5. Establishment of South Cement

On 17 August, 2007, the Company, Zhejiang Bangda Investment, Jiangxi Wannianqing, Hunan SASAC, Jianfeng Group and Beijing Huachen entered into the Capital Contribution Agreement with a view to establishing South Cement which will become the flagship company of the Group for developing the Group's cement business in the South East Region. The registered capital of South Cement is RMB3.5 billion. Upon completion of the capital contribution (as described in the announcement of the Company dated 17 August 2007), South Cement is held as to 75% by the Company, 12.5% by Zhejiang Bangda Investment, 4% by Jiangxi Wannianqing, 3% by Hunan SASAC, 3% by Jianfeng Group and 2.5% by Beijing Huachen.

Details of establishing South Cement were disclosed in the relevant announcement dated 17 August 2007 and the circular dated 16 October 2007 and 2007 Interim Report issued by the Company.

6. Cooperation with Jiangxi Wannianqing

On 17 August, 2007, the Company and Jiangxi Wannianqing entered into the Cooperation Agreement under which both parties agreed to invest, through South Cement, in Nanfang Wannianqing and inject certain cement operations and assets into Nanfang Wannianqing. On 26 September, 2007, South Cement entered into a Capital Contribution Agreement with Jiangxi Wannianqing in relation to the establishment of Nanfang Wannianqing. Each of South Cement and Jiangxi Wannianqing agreed to contribute RMB500 million by cash installments, each representing 50% of the total registered capital of Nanfang Wannianqing.

Details of the cooperation with Jiangxi Wannianqing were disclosed in the relevant announcements dated 17 August 2007 and 26 September 2007 and the circular dated 16 October 2007 and 2007 Interim Report issued by the Company.

II. MATERIAL TRANSACTIONS *(CONTINUED)*

7. Cooperation with Jianfeng Group and Zhejiang Jianfeng

On 17 August, 2007, the Company, Jianfeng Group and Zhejiang Jianfeng entered into the Jianfeng Cooperation Agreement under which they agreed to invest, through South Cement, in Nanfang Jianfeng and inject certain cement operations and assets of Zhejiang Jianfeng into Nanfang Jianfeng. South Cement and Zhejiang Jianfeng agree to contribute by installments RMB260 million in cash and RMB140 million in cash and land use rights, representing 65% and 35% of the total registered capital of Nanfang Jianfeng, respectively.

Details of the cooperation with Jianfeng Group and Zhejiang Jianfeng were disclosed in the relevant announcement dated 17 August 2007 and the circular dated 16 October 2007 and 2007 Interim Report issued by the Company.

8. Acquisition of equity interest in Zhejiang Cement

Details of the acquisition of 100% equity interest in Zhejiang Cement by South Cement, a subsidiary of the Company, were disclosed in the announcement of the Company dated 26 September 2007 and the circular dated 16 October 2007. As at the date of this report, the change in the business registration record has been completed, but the consideration for the equity acquisition has not been paid in full.

9. Establishment of Zhongfei Investment

On 15 January, 2008, the Company and the China-Africa Development Fund（中非發展基金有限公司）entered into the Investment Agreement with a view to the establishment of Zhongfei Investment as a manufacturer and seller of cement and other building material products in Africa. The registered capital of Zhongfei Investment is RMB1 billion. Upon completion of the capital contribution Zhongfei Investment was held as to 60% by the Company and 40% by China-Africa Development Fund.

Details of the establishment of Zhongfei Investment were disclosed in the relevant announcement dated 15 January 2008 and the circular dated 4 February 2008 issued by the Company. Zhongfei Investment is still in the process of being established.

II. MATERIAL TRANSACTIONS *(CONTINUED)*

10. Special Mandate for Placing of New H Shares

Pursuant to the Board Meeting convened on 30 January 2008 and the EGM and the Domestic and H Shareholders Class Meetings convened on 27 March 2008, a Special Mandate to issue not more than 300 million H Shares by way of a Proposed Placing was considered and approved. The Company intends to use the proceeds from the Proposed Placing for acquisitions of clinker and cement production lines and waste residual heat power generation projects, as well as the acquisition of equity interests in cement-related corporations. The excess proceeds will be used for general working capital purposes, repaying bank loans and potential future investments and acquisitions of the Group.

Details of the Special Mandate for the placing of New H Shares were disclosed in the relevant announcements dated 30 January 2008 and 27 March 2008 and the circular dated 11 February 2008 issued by the Company.

11. Issue of Short-term Debenture in the PRC

On 8 April 2008, the Board considered and approved the proposed issuance of a Short-Term Debenture ("Issue of Debenture") with a principal amount of not more than RMB2.5 billion and a maturity of not more than 1 year at the 9th meeting of the first session of the Board. The Issue of Debenture is subject to approval from the shareholders of the Company and from the People's Bank of China. Details of the Issue of Debenture were disclosed in the relevant announcement dated 8 April 2008 and circular dated 15 April 2008 issued by the Company. As at the date of this report, the Issue of Debenture has not been completed.

Biographical Details of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Song Zhiping, aged 51, is an executive Director and chairman of the Board. He has been the chairman of Parent since October 2005. Mr. Song joined the Group since May 1997 and has over 25 years of business and management experience in China's building materials industry. He served as the president of Parent from March 2002 to October 2005 and the chairman of China United from March 2003 to April 2005. He also served as the vice president of general affairs and the vice president of Parent from December 1998 to March 2002 and from October 1995 to December 1998, respectively. From May 1997 to May 2002, Mr. Song served as the chairman of BNBM. Apart from serving as the chairman and the secretary of the Party Committee of BNBMG since January 1996 and June 1996, respectively, Mr. Song served several positions in BNBMG (both prior to and after its conversion) from 1987 to 2002, including deputy director and director of the factory, and president. Mr. Song received a master's degree in engineering from Wuhan Industrial University (now Wuhan University of Technology) in July 1995 and a doctor's degree in management from Huazhong University of Science and Technology in June 2002. Mr. Song is qualified as a senior engineer and is currently a member of National MBA Education Supervisory Committee (NMESC)(全國工商管理碩士教育指導委員會). He is also the vice president of China Building Materials Industry Association (中國建築材料聯合會), the vice president of the Third Session of China Logistics Alliance Network(第三屆中國物流與採購聯合會)and the president of the China Capital Entrepreneurs' Club(首都企業家俱樂部). Mr. Song received a number of awards for his management and entrepreneurial skills from 1993 to 2003, including 500 Chinese Enterprise' s Pioneers(中國500名企業創業者), National Outstanding Young Entrepreneur(全國優秀青年企業家), the Eighth Session of National Outstanding Entrepreneur "Golden Globe Awards"(第八屆全國優秀企業家金球獎), Management Elite Award(管理人物精英獎)and Chinese Entrepreneur for the year of 2003(2003年度中國創業企業家). In 2007, Mr. Song was elected as one of the Top Ten Merger and Acquisition Businessmen in PRC(中國十大併購人物) and was awarded the Yuan Baohua Enterprise Management Gold Award(袁寶華企業管理金獎) in March 2008.

Cao Jianglin, aged 41, is an executive Director and president of the Company. Mr. Cao joined the Group since April 1992 and has over 15 years of business and management experience in the building materials industry. Mr. Cao has been the chairman of the board of directors of BND and BNS Company Limited(北新科技發展有限公司) since March 2002, the chairman of China Fiberglass since June 2002, the director of Parent since October 2005 and the chairman of BNBM since October 2004. From April 1998 to October 2005, Mr. Cao served in a number of positions in Parent and the Group, including president of BND from December 2000 to April 2004, general manager of China Fiberglass from June 2002 to March 2005, assistant to the president and vice president of Parent from April 2002 to October 2005, assistant to the president, vice president and president of BNBMG from April 1998 to March 2005, and general manager of China National Building Material & Equipment Import and Export Zhujiang Corporation(中國建築材料及設備進出口珠江公司)from April 1998 to March 2002. Mr. Cao received a bachelor's degree in economics from Shanghai University of Finance and Economics in July 1990 and an MBA degree from Tsinghua University in January 2004. Mr. Cao was elected as the Vice President of China Building Materials Industry Association (中國建築材料聯合會), he was a member of Central Enterprises Youth Federation(中央企業青年聯合會委員), chairman of the Listed Companies Association of Beijing(北京市上市公司協會), a member of the Sixth Session of Committee of Shenzhen Youth Federation(深圳市青年聯合會第六屆委員會), president of Shenzhen Building Material Association(深圳市建材行業協會) and vice president of China Logistics Alliance Network(中國物流與採購聯合會).

DIRECTORS *(CONTINUED)*

Executive Directors *(Continued)*

Li Yimin, aged 54, is an executive Director. Mr. Li joined the Group since May 1997 and has over 20 years of business and management experience in China's building materials industry. Mr. Li served as the chief engineer of Parent from December 2003 to March 2005, the chairman of BNBM from April 2002 to February 2004, and the general manager of BNBM from May 1997 to April 2002. From January 1996 to December 2003, Mr. Li served successively as the vice president, vice chairman and president of BNBMG. He also served as the deputy head of BNBMG (prior to its conversion from Beijing New Building Materials Factory) from September 1985 to January 1996. Mr. Li graduated from electro-mechanical engineering from Shanghai Tongji University in August 1978 and received a master's degree in engineering from Wuhan Industrial University (now Wuhan University of Technology) in 1995. He is qualified as a senior engineer at professor level and was awarded a special grant of the government approved by the State Council.

Peng Shou, aged 47, is an executive Director. Mr. Peng joined the Group in June 2001 and has over 20 years of business and management experience in China's building materials industry. He is an expert in inorganic materials research and development, engineering design and consulting. Mr. Peng has served as the chairman of China Triumph since September 2004 and the general manager of China Triumph since May 2002. He also served as the deputy general manager of China Triumph from June 2001 to May 2002. Mr. Peng received a bachelor's degree in engineering from Wuhan Building Material Industrial Institute (now Wuhan University of Technology) in December 1982 and a master's degree in management from Wuhan Industrial University (now Wuhan University of Technology) in January 2002. He is qualified as a senior engineer at professor level and was awarded a special grant of the government approved by the State Council. Since July 2003, Mr. Peng is the deputy chairman of general affairs of the fourth general committee of the China Building and Industrial Glass Committee.

Non-Executive Directors

Cui Lijun, aged 47, is a non-executive Director of the Company. Ms. Cui joined the Group since September 1998 and has over 20 years of business and management experience in China's building materials industry. Ms. Cui has served as a director of BNBM since June 2003. Since August 1997, she has served successively as the financial manager of BNBMG and financial manager of BNBM. She is currently the president and deputy chairwoman of BNBMG. Ms. Cui graduated in the investment management from the Graduate School of Chinese Academy of Social Sciences in November 1998.

Huang Anzhong, aged 44, is a non-executive Director of the Company. Mr. Huang joined the Group since March 2003 and has over 20 years of business and management experience in China's building materials industry. Mr. Huang served as the vice president of CNBM Equipment from April 1996 to November 2000, and the president of CNBM Equipment from November 2000 to February 2005. Mr. Huang graduated with a bachelor's degree in engineering from Nanjing Institute of Chemical Technology in July 1985 and graduated in the business management from the Graduate School of Chinese Academy of Social Sciences in November 1998. He received an EMBA degree from Xiamen University in June 2005. He is currently a senior economist.

Zuo Fenggao, aged 52, is a non-executive Director. Mr. Zuo joined the Group in March 2005 and has over 16 years' experience in business and management. Mr. Zuo has served as the head of Cinda, Beijing representative office since May 2004. Mr. Zuo also served as the deputy head of Cinda, Beijing representative office from September 1999 to May 2004, the head of the Beijing Xisi sub-branch of China Construction Bank from January 1997 to September 1999, the general manager of the mortgage department in China Construction Bank, Beijing branch and the deputy head of the Beijing Qianmen Sub-branch of China Construction Bank from June 1989 to January 1997. Mr. Zuo graduated in monetary and banking from the Faculty of Finance and Economics of the Graduate School of Chinese Academy of Social Sciences in July 1998. He is currently an economist.

DIRECTORS *(CONTINUED)*

Independent Non-executive Directors

Zhang Renwei, aged 67, is an independent non-executive Director of the Company. Mr. Zhang joined the Group since March 2005 and has over 40 years of business and management experience in China's building materials industry. Mr. Zhang has served as an independent non-executive director of Shanghai Yaopi since June 2003, the president of China Building Materials Industry Association since February 2001 and the chairman of China Silicate Academy since January 2000. He also served as the director and secretary-general of State Bureau of Building Materials Industry from January 1994 to February 2001 and the deputy director of the same bureau from July 1985 to January 1994. Mr. Zhang graduated in silicate studies from East China Institute of Chemical Technology) (now known as East China University of Technology) in 1963. He is qualified as a senior engineer at professor level.

Zhou Daojiong, aged 74, is an independent non-executive Director of the Company. Mr. Zhou has served as an independent non-executive director of Harbin Power Equipment Company Limited（哈爾濱動力設備股份有限公司）, a company listed on the Stock Exchange, since June 2003 and has accumulated experience in the review and establishment of internal controls, risk management measures and corporate governance of publicly listed companies. Mr. Zhou joined the Group since May 2005 and has over 50 years' experience in macro-economic management and finance. From March 1998 to March 2003, Mr. Zhou served as a member of the standing committee and the finance and economic committee of the 9th NPC. He also served as the audit commissioner of the State Council from March 1998 to August 2000. His primary responsibilities in the NPC and the State Council include monitoring corporate accounting and budgets, examining and supervising financial budgets of the PRC, participated in enacting PRC legislation on securities and futures development and supervising the implementation of such legislation. From March 1995 to June 1997, Mr. Zhou served as the chairman of CSRC. His primary responsibilities in CSRC include regulating the securities market of the PRC, participated in drafting securities law, reviewing financial statements of listing applicants and listed companies to ensure compliance with the relevant securities law and corporate governance requirements, and monitoring the trading activities of listed companies. From December 1984 to August 2000, Mr. Zhou served a number of key positions in China Construction Bank, including the secretary-general, the president and the chairman of the supervisory committee of China Construction Bank. He also served as the vice president of National Development Bank and the deputy director of the securities committee of the State Council. Before December 1984, Mr. Zhou served as the department head of the finance department, and the secretary-general of, Anhui provincial government. Mr. Zhou is currently the chairman of China Society of Urban Economy（中國城市經濟學會會長）, the chairman of PECC China Finance Committee（中國金融委員會）chairman of Taoxing Zhi Fund of China（中國陶行知基金會）and China Investment Development and Promotion Association（中國投資發展促進會）, the honorary chairman of China Investment Association（中國投資學會）, and the consultant of the China Capital Entrepreneurs' Club（首都企業家俱樂部）. Mr. Zhou is also qualified as a senior economist. Mr. Zhou is experienced in financial management, risk management measures and corporate governance of publicly listed companies.

DIRECTORS *(CONTINUED)*

Independent Non-executive Directors *(Continued)*

Chi Haibin, aged 76, is an independent non-executive Director of the Company. Mr. Chi joined the Group since May 2005 and has an in-depth knowledge of the PRC accounting standards. Mr. Chi has been the chairman of China Accounting Association(中國會計學會) since 1996 and served as the vice chairman of the Chinese Institute of Certified Public Accountants(中國註冊會計師協會) from June 1996 to November 2004. The primary responsibilities of Mr. Chi, as the chairman of China Accounting Association and the vice chairman of the Chinese Institute of Certified Public Accountants, include providing proposals to the relevant supervision authorities on the accounting and finance rules and regulations in the PRC, studying and researching on the internal accounting standards, formulating rules and code of practice for PRC certified public accountants, and monitoring the implementation of such rules and code of practice in the PRC. Mr. Chi is qualified as a senior economist and has about 50 years' experience in macro-economic management. Mr. Chi joined the Ministry of Finance in 1954, and served in a number of significant positions therein from December 1954 to April 1993, including the deputy supervisor and deputy director of the economic construction division and the deputy head of the Ministry of Finance. From April 1993 to March 2003, Mr. Chi was also appointed as a member of the Standing Committee and the deputy supervisor of the finance and economic committee of the 8th NPC and a member of the standing committee and the finance and economic committee of the 9th NPC. His primary responsibilities in the Ministry of Finance and the NPC include monitoring corporate accounting and budgets, examining and supervising financial budgets of the PRC, participated in enacting PRC legislation on economics and supervising the implementation of such legislation. Mr. Chi has served as an independent non-executive director of Fengfan Co., Ltd. (風帆股份有限公司), a company listed on the Shanghai Stock Exchange, since April 2004 and has accumulated experience in the review and establishment of internal controls, risk management measures and corporate governance of publicly listed companies.

Lau Ko Yuen, Tom, aged 56, is an independent non-executive Director of the Company. Mr. Lau joined the Group in January 2006. He is a deputy chairman and managing director of PYI Corporation Limited, and a deputy chairman of Paul Y. Engineering Group Limited. Mr. Lau has over 30 years of international corporate management experience within the construction industry.

SUPERVISORS

Shen Anqin, aged 58, is the Chairman of the Supervisory Committee of Company. Mr. Shen has accumulated over 15 years' experience in supervisory roles and management position since he joined the Group in July 1999. Mr Shen has been the vice president of Parent since August 1998 and the chief accountant of Parent since September 2003. From September 1990 to August 1998, Mr. Shen served successively as the deputy head of the comprehensive development and economic and finance division, the head of economic and finance division, and the deputy director of finance and state-owned assets supervision division, of the State Bureau of Building Materials Industry. Mr. Shen received a bachelor's degree in engineering from Xi Bei Electric Engineering School (now Xi Dian University) in April 1982. He is qualified as a senior accountant.

Zhou Guoping, aged 48, is a Supervisor of the Company. Ms. Zhou joined the Group since July 1999 and has over 13 years' experience in supervisory roles and management positions. Ms. Zhou has been the assistant to the president of Parent since October 2003 and the financial manager of Parent since April 2002. From March 1992 to April 2002, Ms. Zhou served successively as the deputy head of planning division in integrated planning department, assistant to the manager of integrated planning department, assistant to the manager of planning and finance department, and deputy manager and manager of planning and finance division and deputy manager of financial management division of Parent. Ms. Zhou received a bachelor's degree in engineering from Wuhan Building Materials Technology Institute (now Wuhan University of Technology) in July 1982 and a master's degree in Senior Management in Business Administration from Xiamen University in 22 December 2006. She is qualified as a senior engineer.

SUPERVISORS *(CONTINUED)*

Bao Wenchun, aged 54, is a Supervisor of the Company. Mr. Bao joined the Group since May 1997 and has over 12 years' experience in supervisory roles and management positions. Mr. Bao has been the executive deputy general manager of BNBMG since September 2004, the director of BNBMG since April 2002 and the secretary-general of BNBMG since August 2004. From May 1997 to September 2004, Mr. Bao served successively as a deputy general manager, general manager and chairman of the board of directors of BNBM. Mr. Bao also served as the manager of finance department of BNBMG from January 1996 to August 1997 and the deputy chief of the finance department of BNBMG (prior to its conversion from Beijing New Building Materials Factory) from February 1993 to January 1996. Mr. Bao graduated from accounting department of Beijing Chemical Engineering Administration Cadre Institute in July 1987. He is qualified as an accountant.

Cui Shuhong, aged 40, is a Supervisor of the Company. Ms. Cui joined the Group since October 2001 and has over 12 years' experience in supervisory roles and management positions. Ms. Cui has been the general manager of the administration and human resources department of the Company since April 2005. She served as the deputy director of the general manager office of Parent from April 2002 to April 2005, and the deputy manager of human resources office and deputy director of general manager office of BNBM from October 2001 to April 2002. She also served as the deputy director of the general manager's office of BNBMG from August 1997 to October 2001. Ms. Cui received a bachelor's degree in economics from Beijing Economics Institute in July 1990. She is qualified as a senior economist.

Zhang Zhaomin, aged 70, is an independent Supervisor of the Company. Mr. Zhang is also an expert advisor of Beijing Dongfang Petrochemical Company Limited (北京市東方石油化工有限公司). He joined the Group since May 2005 and has over 30 years' experience in supervisory roles and management positions. He served successively as a member of the preparation committee for converting the debts of Beijing Beihua Group Company's Ethylene Factory (北京市北化集團公司乙烯系列廠) into equity from 2001 to 2002, deputy chief of integration group of listing working committee of Sinopec (Group) Company (中石化集團公司) 1999 to 2001 and the secretary of the board of directors of Sinopec Beijing Yanhua Petrochemical Co., Ltd. from 1997 to 2000. Mr. Zhang also served successively as the deputy chief economic and chief of planning division of Beijing Yanshan Petrochemical Company Limited (北京市燕山石油化工股份有限公司) from 1988 to 1993, its chief economist from 1993 to 1997 and its deputy general manager from July 1997 to December 1999. From 1983 to 1988, Mr. Zhang served as assistant to head of the factory and chief economist of Dongfanghong Oil Refinery of Beijing Yanshan Petrochemical Company (東方紅煉油廠). He is qualified as a senior economist.

Liu Chijin, aged 45, is an independent Supervisor of the Company. Mr. Liu joined the Group since May 2005 and has over 20 years' experience in supervisory roles and management positions. He has been the chairman and the president of Pan-Pacific Management Research Center (泛太平洋管理研究中心) since 2002 and the general manager and chairman of Beijing Pan-Pacific Management Training Company Limited (北京泛太平洋管理培訓有限公司) since 2004. Mr. Liu also served as the vice president of Nokia (China) Investment Company Limited from 1999 to 2001, senior vice president of Ericsson (China) Limited and head of Ericsson China Institute from 1997 to 1999, senior consultant of McKinsey & Company in 1996 and vice president of Dover Corporation in the United States from 1993 to 1995. From 1985 to 1988, Mr. Liu served as an assistant professor of the Shandong Building Material Institute. He is currently the deputy director of the China Capital Entrepreneurs' Club (北京首都企業家俱樂部), the chairman of Beijing Alumni Association of Harvard Business School, joint director of the EMBA project of the Management School of Xiamen University. Mr. Liu received a master's degree in physics from the University of Memphis in 1990, and an MBA degree from Harvard Business School in 1997.

SENIOR MANAGEMENT

Li Yimin, aged 54, is a vice president of the Company. Please refer to the section headed "Executive Directors" for his biographical details.

Peng Shou, aged 47, is a vice president of the Company. Please refer to the section headed "Executive Directors" for his biographical details.

Cui Xingtai, aged 46, is a vice president of the Company. Mr. Cui joined the Group since June 1999 and has over 21 years of business and management experience in China's building materials industry. He has served as the secretary of the Party Committee of China United since August 2004 and the chairman of China United since April 2005. Mr. Cui served as the vice chairman of China United from August 2004 to April 2005, deputy chief engineer of Parent from November 2003 to March 2005, chief engineer of China United from July 1999 to August 2004, and deputy general manager of China United from April 2002 to August 2004. From June 1997 to January 1999, Mr. Cui served as the head of Shandong Lunan Cement Factory. Mr. Cui received a bachelor's degree in engineering from Wuhan Industry University (now Wuhan University of Technology) in July 1984 and graduated in enterprise management from the Graduate School of the Chinese Academy of Social Sciences in July 1998. Further, he was granted the master's degree in business administration for senior management by Tsinghua University. He is qualified as a senior engineer. Mr. Cui has been the vice president of China Cement Association since December 2007.

Zhang Dingjin, aged 50, is a vice president of the Company. Mr. Zhang joined the Group since August 1999 and has over 20 years of business and management experience in China's building materials industry. He has served as the chairman of China Composites since September 2004 and the general manager of China Composites since January 2003. He also served as the general manager of China Inorganic Materials Science and Technology Enterprise (Group) Company from March 2002 to January 2003, deputy general manager of China Inorganic Materials Science and Technology Enterprise (Group) Company from January 2001 to March 2002 and the general manager of Beijing Pennvasia Glass Company Limited from August 1999 to September 2001. From February 1997 to August 1999, Mr. Zhang served as the deputy dean of Shandong Industrial Ceramics Research and Design Institute. Mr. Zhang received a bachelor's degree in engineering from Anshan Institute of Iron and Steel in August 1982 and an EMBA degree from Xiamen University in June 2005. He is qualified as a senior engineer at professor level and was awarded a special grant of the government approved by the State Council.

Chang Zhangli, aged 37, is a vice president of the Company. Mr. Chang joined the Group in August 1997 and has over eight years' experience in handling domestic listing-related matters for the Group, the Company's Global Offering and listing of its shares on the Stock Exchange. From August 1997 to March 2005, Mr. Chang served in a number of key positions in BNBM, including the deputy manager and manager of the securities division of BNBM, the manager of the management and corporate planning division of BNBM, the secretary to the board of directors and the deputy general manager of BNBM. During this period, in addition to performing his general corporate duties for BNBM, Mr. Chang was responsible for handling all legal matters related to BNBM and was actively involved in the reorganization and acquisitions of BNBM and its various subsidiaries. Mr. Chang graduated with a bachelor's degree in engineering from Wuhan Industrial University (now Wuhan University of Technology) in July 1994, and received an MBA degree from Tsinghua University in June 2005. Currently, Mr. Chang is the general manager of the legal division of the Company and he is also a member of Central Enterprises Youth Federation(中央企業青年聯合會委員) the deputy secretary of the Listed Companies Association of Beijing(北京市上市公司協會).

Chen Xuean, aged 43, is the chief financial officer of the Company. Mr. Chen joined the Group since March 2005 and has over 19 years' experience in finance. Mr. Chen served as the head of the Central Department of Statistics and Evaluation Division of the Ministry of Finance from June 2000 to January 2004. He also served as the head of the Monitoring Department of Statistics and Evaluation Division of the Ministry of Finance, the deputy chief of Assets Inspection and Verification Department of Statistics and Evaluation Division of the Ministry of Finance, and the deputy head of finance department of general office of SASAC from August 1995. Mr. Chen received a master's degree in management from Beijing Institute of Technology in November 1999. He is currently a senior accountant.

QUALIFIED ACCOUNTANT

Pei Hongyan, aged 34, is the qualified accountant of the Company. She joined the Group in May 2001 and has over six years' experience in accounting. She served as a senior accountant of the finance division of Parent from November 2003 to April 2005 and an assistant to the general manager of the finance division of Parent from November 2002 to April 2005. She also served as a director of Kunming Cement Inc. from March 2002 to December 2004 and the chief financial officer of China Composites from May 2001 to October 2004. Ms. Pei received a master's degree in management from Dongbei University of Finance and Economics in 1999, and is a member of the Association of Chartered Certified Accountants. She is also a non-practising member of the Chinese Institute of Certified Public Accountants. Ms. Pei works on a full time basis for the Company.

JOINT COMPANY SECRETARIES

Chang Zhangli, aged 37, is the joint company secretary of the Company. Please refer to the section headed "Senior Management" for the biographical details.

Lo Yee Har Susan, aged 49, is the joint company secretary of the Company. Ms. Lo is a director of Corporate Services Department of Tricor Services Limited and a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Ms. Lo has over 20 years of experience in the company secretarial area. She has served in a number of companies listed on the Stock Exchange. Apart from the Company, she is currently the company secretary or the joint company secretary of four companies listed on the Stock Exchange.

CONFIRMATION OF THE INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the annual confirmation letter issued by each of the independent non-executive directors in respect of their independence in accordance with Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive directors are independent.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF
CHINA NATIONAL BUILDING MATERIAL COMPANY LIMITED
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China National Building Material Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 78 to 166 which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR's RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
17 April 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
Revenue	6	**10,514,411**	6,451,830
Cost of sales		**(8,519,325)**	(5,154,602)
Gross profit		**1,995,086**	1,297,228
Investment and other income	8	**748,493**	421,018
Selling and distribution costs		**(524,269)**	(357,954)
Administrative expenses		**(595,055)**	(407,819)
Other expenses		**(27,723)**	(9,374)
Share of profit of associates		**230,795**	90,502
Finance costs	9	**(451,801)**	(220,072)
Loss arising from share conversion schemes	10	**—**	(275,007)
Profit on disposal of subsidiaries		**—**	704
Profit before tax	12	**1,375,526**	539,226
Income tax expense	13	**(226,793)**	(50,066)
Profit for the year		**1,148,733**	489,160
Attributable to:			
Equity holders of the Company		**912,446**	298,146
Minority interests		**236,287**	191,014
		1,148,733	489,160
Dividends			
— paid	14	**67,123**	80,382
— proposed	14	**72,880**	67,123
Earnings per share - basic *(RMB)*	15	**0.43**	0.16

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	16	**13,005,097**	7,063,105
Investment properties	18	**316,340**	281,006
Goodwill	19	**1,130,556**	253,907
Intangible assets	20	**358,079**	32,781
Interests in associates	22	**1,794,292**	854,404
Available-for-sale investments	23	**107,298**	52,897
Deposits	24	**1,037,660**	72,209
Prepaid lease payments	17	**1,535,901**	408,122
Deferred tax assets	32	**158,598**	34,885
		19,443,821	9,053,316
Current assets			
Inventories	25	**1,519,293**	834,020
Trade and other receivables	26	**4,480,418**	1,955,539
Held-for-trading investments	23	**209,652**	18,500
Amounts due from related parties	27	**389,411**	154,554
Pledged bank deposits	29	**686,779**	425,262
Cash and cash equivalents	29	**3,150,613**	1,549,123
		10,436,166	4,936,998
Current liabilities			
Trade and other payables	30	**4,799,588**	2,068,536
Amounts due to related parties	27	**1,401,121**	75,376
Borrowings — due within one year	31	**8,663,614**	3,595,734
Obligations under finance leases	33	**18,222**	—
Income tax payable		**120,829**	43,437
Financial guarantee contracts — due within one year	34	**16,926**	—
Dividend payable to minority shareholders		**30,910**	—
		15,051,210	5,783,083
Net current liabilities		**(4,615,044)**	(846,085)
Total assets less current liabilities		**14,828,777**	8,207,231

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current liabilities			
Borrowings — due after one year	31	**4,717,660**	2,452,510
Deferred income		**27,014**	4,001
Obligations under finance leases	33	**35,966**	—
Financial guarantee contracts			
— due after one year	34	**21,659**	—
Deferred tax liabilities	32	**273,500**	36,466
		5,075,799	2,492,977
Net assets		**9,752,978**	5,714,254
Capital and reserves			
Share capital	35	**2,208,488**	2,071,700
Reserves/shareholders' equity		**5,177,087**	2,135,330
Equity attributable to equity holders of the Company		**7,385,575**	4,207,030
Minority interests		**2,367,403**	1,507,224
Total equity		**9,752,978**	5,714,254

The consolidated financial statements on pages 78 to 166 were approved by the board of directors on 17 April 2008 and are signed in its behalf of:

Song Zhiping
DIRECTOR

Cao Jianglin
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

	Attributable to equity holders of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Statutory surplus reserve fund RMB'000 (Note 36 a)	Statutory public welfare fund RMB'000 (Note 36 b)	Exchange reserve RMB'000	Retained earnings/ shareholder's equity RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006	1,387,760	350	387,401	28,719	28,719	(1,082)	280,371	2,112,238	1,314,695	3,426,933
Exchange differences arising on translation of foreign operations directly recognised in equity	—	—	—	—	—	2,815	—	2,815	—	2,815
Profit for the year	—	—	—	—	—	—	298,146	298,146	191,014	489,160
Total recognised income and expenses	—	—	—	—	—	2,815	298,146	300,961	191,014	491,975
Shareholders' contributions	—	—	119,712	—	—	—	—	119,712	560	120,272
Issue of shares	683,940	1,258,210	—	—	—	—	—	1,942,150	—	1,942,150
Issue share expenses	—	(188,054)	—	—	—	—	—	(188,054)	—	(188,054)
Dividends	—	—	—	—	—	—	(80,382)	(80,382)	—	(80,382)
Dividends paid to the minority shareholders by subsidiaries	—	—	—	—	—	—	—	—	(32,839)	(32,839)
Increase in minority interests as a result of a share conversion scheme of a subsidiary *(Note 10)*	—	—	—	—	—	—	—	—	115,243	115,243
Decrease in minority interests as a result of disposal of subsidiary	—	—	—	—	—	—	—	—	(1,940)	(1,940)
Contributions from minority shareholders	—	—	—	—	—	—	—	—	16,145	16,145
Forfeiture of dividends from minority shareholders of a subsidiary	—	—	405	—	—	—	—	405	529	934
Decrease in minority interests as a result of increase in interests in subsidiaries	—	—	—	—	—	—	—	—	(96,183)	(96,183)
Movements in statutory reserves	—	—	—	101,012	(28,719)	—	(72,293)	—	—	—
At 31 December 2006	2,071,700	1,070,506	507,518	129,731	—	1,733	425,842	4,207,030	1,507,224	5,714,254
Exchange differences arising on translation of foreign operation	—	—	—	—	—	(470)	—	(470)	—	(470)
Profit for the year	—	—	—	—	—	—	912,446	912,446	236,287	1,148,733
Total recognised income and expenses	—	—	—	—	—	(470)	912,446	911,976	236,287	1,148,263

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

	Attributable to equity holders of the Company									
	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserves *RMB'000*	Statutory surplus reserve fund *RMB'000* *(Note 36 a)*	Statutory public welfare fund *RMB'000* *(Note 36 b)*	Exchange reserve *RMB'000*	Retained earnings/ shareholder's equity *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
Issue of shares	136,788	2,214,339	—	—	—	—	—	2,351,127	—	2,351,127
Issue share expenses	—	(17,435)	—	—	—	—	—	(17,435)	—	(17,435)
Dividends	—	—	—	—	—	—	(67,123)	(67,123)	—	(67,123)
Dividends paid to the minority shareholders by subsidiaries	—	—	—	—	—	—	—	—	(82,752)	(82,752)
Increase in minority interests as a result of acquisition of subsidiaries *(Note 37)*	—	—	—	—	—	—	—	—	314,127	314,127
Contributions from minority shareholders	—	—	—	—	—	—	—	—	548,999	548,999
Decrease in minority interests as a result of increase in interests in subsidiaries	—	—	—	—	—	—	—	—	(156,482)	(156,482)
Movements in statutory reserves	—	—	—	29,692	—	—	(29,692)	—	—	—
At 31 December 2007	2,208,488	3,267,410	507,518	159,423	—	1,263	1,241,473	7,385,575	2,367,403	9,752,978

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 *RMB'000*	2006 *RMB'000*
Operating activities		
Profit before tax	**1,375,526**	539,226
Adjustments for:		
Share of profit of associates	**(230,795)**	(90,502)
Finance costs	**451,801**	220,072
Loss arising from share conversion schemes	**—**	275,007
Profit on disposal of subsidiaries	**—**	(704)
Interest income	**(57,880)**	(105,268)
Dividend from available-for-sale investments	**(1,573)**	—
Impairment loss on investment in an associate	**1,124**	—
Impairment loss on intangible assets	**3,150**	—
Gain on disposal of investments in associates	**—**	(6,244)
Loss (gain) on disposal of property, plant and equipment and investment properties	**3,220**	(3,365)
Increase in fair value of held-for-trading investments	**(156,762)**	(4,521)
Deferred income released to income statement	**(209)**	(338)
Depreciation of property, plant and equipment and investment properties	**416,672**	288,529
Amortisation of intangible assets	**11,103**	5,374
Financial guarantee income	**(13,485)**	—
Prepaid lease payments released to income statement	**18,173**	8,825
Waiver of payables	**(256)**	(755)
Allowance for bad and doubtful debts	**49,983**	13,894
(Reversals) write-down of inventories	**(2,355)**	2,483
Staff cost arising from share appreciation rights	**2,877**	1,156
Discount on acquisition of additional interests in subsidiaries	**(5,168)**	—
Operating cash flows before movements in working capital	**1,865,146**	1,142,869
Increase in inventories	**(279,301)**	(81,513)
Increase in trade and other receivables	**(976,325)**	(391,369)
Increase (decrease) in held-for-trading investments	**(32,556)**	1,404
Increase in amounts due from related parties	**(162,137)**	(47,186)
Increase (decrease) in trade and other payables	**261,731**	(88,841)
Increase (decrease) in amounts due to related parties	**107,715**	(35,917)
Increase in deferred income	**23,222**	—
Cash generated from operations	**807,495**	499,447
Income tax paid	**(168,392)**	(61,398)
Interest received	**57,880**	103,809
Net cash generated from operating activities	**696,983**	541,858

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTE	**2007** **RMB'000**	2006 RMB'000
Investing activities			
Purchases of property, plant and equipment		**(1,298,431)**	(1,371,025)
Purchases of investment properties		**—**	(9,051)
Purchases of intangible assets		**(194,396)**	(3,974)
Proceeds on disposal of property, plant and equipment and investment properties		**24,909**	54,234
Acquisition of interests in associates		**(749,640)**	(25,513)
Dividend received from associates		**44,684**	73,654
Disposal of associates		**—**	17,009
Purchases of available-for-sale investments		**(3,401)**	(1,354)
Dividend received from available-for-sale investments		**1,573**	—
Deposits paid		**(1,037,660)**	(67,209)
Deposits refund		**5,000**	—
Payments for prepaid lease payments		**(326,508)**	(23,663)
Proceeds on disposal of prepaid lease payments		**—**	5,628
Payments for acquisition of subsidiaries, net of cash and cash equivalents acquired	37	**(1,965,550)**	(588,975)
Proceeds on disposal of subsidiaries		**—**	180
Payments for acquisition of additional interests in subsidiaries		**(159,405)**	(137,966)
Repayments from related parties		**105,038**	45,396
Proceeds from repayment of loans receivable		**110,000**	—
New loans receivable		**(342,668)**	(110,000)
Decrease (increase) in pledged bank deposits		**296,991**	(372,720)
Net cash used in investing activities		**(5,489,464)**	(2,515,349)
Interest paid		**(517,232)**	(269,261)
Issue of shares		**2,351,127**	1,942,150
Share issue expenses		**(17,435)**	(188,054)
Dividend paid to shareholders		**(67,123)**	(149,619)
Dividend paid to minority shareholders of subsidiaries		**(57,032)**	(32,839)
Contributions from minority shareholders		**408,999**	16,145
Repayments of borrowings		**(8,706,552)**	(6,037,038)
New borrowings raised		**13,168,213**	7,330,386
Repayments to related parties		**(168,524)**	(22,294)
Net cash generated from financing activities		**6,394,441**	2,589,576
Net increase in cash and cash equivalents		**1,601,960**	616,085
Effect of foreign exchange rate changes		**(470)**	458
Cash and cash equivalents, at beginning of year		**1,549,123**	932,580
Cash and cash equivalents, at end of the year		**3,150,613**	1,549,123

1. GENERAL

China National Building Material Company Limited (the "Company") was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 28 March 2005. On 23 March 2006, the Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company's immediate and ultimate holding company is China National Building Material Group Corporation ("Parent"), which is a state-owned enterprise established on 3 January 1984 under the laws of the PRC.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 21. Hereinafter, the Company and its subsidiaries are collectively referred to as the "Group".

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Company has applied, for the first time, the following new standard, amendment and interpretations ("new IFRSs") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are effective for the Company's financial year beginning on or after 1 January 2007.

IAS 1 (Amendment)	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economics
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The adoption of the new IFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(CONTINUED)*

At the date of authorisation of these consolidated financial statements, the following new standard, amendments and interpretations were in issue but not yet effective:

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
IFRS 3 (Revised)	Business Combinations[2]
IFRS 8	Operating Segments[1]
IFRIC 11	IFRS 2: Group and Treasury Share Transactions[3]
IFRIC 12	Service Concession Arrangements[4]
IFRIC 13	Customer Loyalty Programmes[5]
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 *Effective for annual periods beginning on or after 1 January 2009*
2 *Effective for annual periods beginning on or after 1 July 2009*
3 *Effective for annual periods beginning on or after 1 March 2007*
4 *Effective for annual periods beginning on or after 1 January 2008*
5 *Effective for annual periods beginning on or after 1 July 2008*

The adoption of IFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation

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

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Purchase of additional interests in subsidiaries

The cost of the purchase of additional interests in subsidiaries is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for these additional interests.

Goodwill is calculated as the difference between the consideration paid for the additional interests and corresponding portion of the carrying value of the net assets of the subsidiary acquired.

Discount on acquisition of additional interests in subsidiaries is recognised as income in the current period.

Impairment of goodwill arising from purchase of additional interest in subsidiaries will follow the same principles for goodwill arising from business combination.

Goodwill

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary or business, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments in associates *(Continued)*

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Revenue from engineering services performed in respect of construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below).

Other service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Construction in progress represents property, plant and equipment in the course of construction for production or its own use purposes. Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects including borrowing costs capitalised and less any recognised impairment loss, if any. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Prepaid lease payments

Upfront prepayments made for the land use rights and leasehold land are initially recognised on the consolidated balance sheet as prepaid lease payments and are expensed in the consolidated income statement on a straight line basis over the periods of the respective leases.

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at cost less depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of the investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leasing *(Continued)*

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised to the stage of completion of the contract activity at the balance sheet date, measured as the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion, under which condition the revenue cannot be recognised. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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

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

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

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in RMB, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies *(Continued)*

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in RMB, using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Government grants

Government grants, which take many forms including VAT refunds, are recognised as income when the conditions for the grants are met and there is a reasonable assurance that the grant will be received. Government grant relating to expense items are recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate and reported separately as other income. Where the grant relates to a depreciable asset, it is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Retirement benefits costs

Payments to defined contribution retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Cash-settled share-based payment transactions

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for share appreciation rights which are settled in cash.

The cost of share appreciation rights is measured initially at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments are granted. This fair value is expensed over the vesting period with recognition of a corresponding liability. The liability is remeasured at fair value at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible assets

Intangible assets included the acquired patents, trademarks and mining rights.

Patents have finite useful lives and are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives. Subsequent to initial recognition, patents are stated at cost less accumulated amortisation and any accumulated impairment losses.

Trademarks have indefinite useful lives and are carried at cost less any accumulated impairment losses.

Mining rights have finite useful lives and are measured initially at purchase cost and are amortised on a straight-line basis over the concession period. Subsequent to initial recognition, patents are stated at cost less accumulated amortisation and any accumulated impairment losses.

Gains or losses arising from derecognition of the intangible assets are measured at the difference between the net disposal proceeds and the carrying amount of the intangible assets and are recognised in the consolidated income statement when the intangible assets are derecognised.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated into individual cash-generating units, or otherwise they are allocated to the smallest group for which a reasonable and consistent allocation basis can be identified. An intangible asset with an indefinite useful life is tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provision of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group only include financial assets held for trading.

A financial asset is classified as held for trading if:

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

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Available-for-sale financial assets

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

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the interest revenue recognition policies above.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment, in accordance with relevant accounting policies. The recoverable amounts of property, plant and equipment have been determined based on value-in use calculations. These calculations and valuations require the use of judgment and estimates on future operating cash flows and discount rates adopted. As at 31 December 2007, the carrying value of property, plant and equipment is RMB13,005 million (2006: RMB7,063 million).

Allowance for inventories

During the year, the Group reversed allowance of inventory of RMB2,355,000 (2006: write-down of inventories of RMB2,483,000). The Group makes allowance for inventories based on assessment of the net realisable value of inventories. Allowance is applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories required the use of judgment and estimates on the conditions and usefulness of the inventories.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. As at 31 December 2007, the carrying amount of goodwill is RMB1.13 billion. Details of the recoverable amount calculation are disclosed in Note 19.

Allowance for bad and doubtful debts

The Group makes allowance for bad and doubtful debts of RMB49,983,000 (2006: RMB13,894,000) based on an assessment of the present value of the estimated future cash flow from trade and other receivables. Allowance on the estimated future cash flow is applied where events or changes in circumstances indicate that the part of or the whole balances may not be recoverable. The estimation of future cash flow from trade and other receivables requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the year in which such estimate has been changed.

5. FINANCIAL INSTRUMENTS

(a) Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 31, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Group review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(b) Categories of financial instruments

	2007 *RMB'000*	2006 *RMB'000*
Financial assets		
Financial assets at fair value through profit and loss:		
— Held-for-trading	**209,652**	18,500
Loans and receivables		
(Including cash and cash equivalents)		
— Pledged bank deposits	**686,779**	425,262
— Cash and cash equivalents	**3,150,613**	1,549,123
— Trade and other receivables	**3,239,324**	1,226,517
— Amounts due from related parties	**389,411**	154,554
— Investment deposits for acquisition of subsidiaries which would be repaid	**—**	5,000
	7,466,127	3,360,456
Available-for-sale financial assets	**107,298**	52,897
Financial liabilities		
Amortised cost		
— Trade and other payables	**4,288,383**	1,848,277
— Amounts due to related parties	**1,401,121**	75,376
— Borrowings	**13,381,274**	6,048,244
— Obligations under finance leases	**54,188**	—
— Dividend payable	**30,910**	—
	19,155,876	7,971,897
Financial guarantee contracts	**38,585**	—

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(c) Financial risk management objective and policies

The Group's major financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and other price risk. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) Foreign currency risk

The Group's functional currency is RMB in which most of the transactions are denominated. However, certain cash and cash equivalents and borrowings are denominated in foreign currencies. Foreign currencies are also used to collect the Group's revenue from overseas operations and to settle purchases of machinery and equipment suppliers and certain expenses.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		**Assets**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
United States Dollar ("USD")	**286,418**	96,331	**470,902**	82,315
European Dollar ("EUR")	**319,576**	26,999	**149,595**	60,121
Hong Kong Dollar ("HKD")	**2,257**	10,545	**13,161**	320,131
Others	**—**	—	**91**	29

The Group currently does not use derivative financial instruments to hedge its foreign currency risk and will consider hedging significant foreign currency exposure should the need arise.

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(d) Market risk *(Continued)*

(i) Foreign currency risk *(Continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a 6.44% increase and decrease in RMB against the relevant foreign currencies. 6.44% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 6.44% change in foreign currency rates. A negative number below indicates a decrease in profit where RMB strengthen 6.44% against the relevant currency. For a 6.44% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be positive.

Effect on profit after tax

	2007	2006
	RMB'000	*RMB'000*
USD	**(9,321)**	708
EUR	**8,589**	(1,674)
HKD	**(551)**	(15,642)
	(1,283)	(16,608)

The change in exchange rate does not affect other component of equity.

(ii) Interest rate risk

The Group is exposed to interest rate risks due to the fluctuation of the prevailing market interest rate on bank borrowings which carry at prevailing market interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The interest rate risk on bank balances is minimal as the fluctuation of the prevailing market interest rate is insignificant.

The Group cash flow interest rate risk is mainly concentrated on the fluctuation of the basic interest rate declared by People's Bank of China arising from the Group's long-term borrowings.

The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risks. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(d) Market risk *(Continued)*

(ii) Interest rate risk *(Continued)*

Sensitivity analysis

For variable-rate bank borrowings the analysis is prepared assuming the amount of liability outstanding at the balance sheet date, which amounted RMB9,068.67 million (2006: RMB4,050.15 million), was outstanding for the whole year. A 126 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 126 basis points higher and all other variables were held constant, the Group's net profit for the year ended 31 December 2007 would decrease by RMB95.42 million (2006: decrease by RMB46.30 million). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank borrowings. For a 126 basis points lower, there would be an equal and opposite impact on the profit, and the balances below would be negative.

The Company's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate bank borrowings.

(iii) Other price risk

The Group is exposed to equity price risk through its held-for-trading financial assets in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments operating in cement industry sector mainly quoted in the Shenzhen Stock Exchange. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Details of the held-for-trading financial assets are set out in Note 23.

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(d) Market risk *(Continued)*

(iii) Other price risk *(Continued)*

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date and may not be representative of the exposure for the year.

If equity price of held-for-trading investment had been 5% higher, the Group's net profit for the year ended 31 December 2007 would increase by RMB8.75 million (2006: increase by RMB0.84 million). This is mainly due to the changes in fair value of held-for-trading investments.

(e) Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a finance loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Company is arising from:

- the carrying amounts of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amounts of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in Note 39.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to cover overdue debts. The management also sets several policies to encourage the salespersons increasing the receivables gathering. In addition, the Group reviews the recoverable amounts of trade receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider the Group's credit risk is significantly reduced.

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

The credit risk on bills receivable is limited because the bills are guaranteed by banks for payments and the banks are either the state-owned banks or other creditworthy financial institutions in the PRC.

The Group has no significant concentration of credit risk. Trade receivables (including amounts due from related parties with trading nature) consist of a large number of customers, spread across diverse geographical areas.

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(f) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As at 31 December 2007, the Group has net current liabilities and capital commitments of RMB4,615 million and RMB3,329 million (Note 40), respectively. The Group is exposed to liquidity risk as a significant percentage of the Group's funding are sourced through short-term bank borrowings. The directors manage liquidity risk by monitoring the utilisation of borrowings, ensuring compliance with loan covenants and issuing new shares, domestic corporate bonds and debentures. In addition, the Group has obtained committed credit facilities from banks and is in negotiations to issue not exceeding 300 million new H shares and debentures of RMB2.5 billion (Note 45). As at 31 December 2007, the Group had unused banking facilities of approximately RMB4,898,000,000 (2006: RMB1,358,812,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Within one year	One year to two years	Two years to there years	There year to four years	Four years to five years	After five years	Total undis-counted cash flows	Carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2007									
Trade and other payables	—	4,284,362	1,448	1,875	698	—	—	4,288,383	4,288,383
Amounts due to related parties									
— interest-free	—	681,337	—	—	—	—	—	681,337	681,337
— variable rate	6.33	728,065	—	—	—	—	—	728,065	684,722
— fixed rate	6.03	37,176	—	—	—	—	—	37,176	35,062
Borrowings									
— fixed rate bank loans	6.59	3,284,142	79,564	73,507	59,520	35,611	—	3,532,344	3,283,664
— variable rate bank loans	6.33	6,147,953	1,899,188	962,492	659,568	234,578	169,172	10,072,951	9,068,667
— other borrowings from non-financial institutions	—	28,943	—	—	—	—	—	28,943	28,943
— long-term bonds	4.32	31,404	43,200	43,200	43,200	43,200	1,227,796	1,432,000	1,000,000
Obligations under finance leases	9.09	22,400	22,400	16,800	—	—	—	61,600	54,188
Dividend payable to minority shareholders	—	30,910	—	—	—	—	—	30,910	30,910
		15,276,692	2,045,800	1,097,874	762,986	313,389	1,396,968	20,893,709	19,155,876

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(f) Liquidity risk

	Weighted average effective interest rate	Within one year	One year to two years	Two years to there years	There year to four years	Four years to five years	After five years	Total undis-counted cash flows	Carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2006									
Trade and other payables	—	1,846,020	1,486	771	—	—	—	1,848,277	1,848,277
Amounts due to related parties									
— interest-free	—	42,591	—	—	—	—	—	42,591	42,591
— fixed rate	6.03	34,762	—	—	—	—	—	34,762	32,785
Borrowings									
— fixed rate bank loans	5.62	1,704,197	219,452	72,430	13,654	51,062	—	2,060,795	1,921,429
— variable rate bank loans	5.97	2,163,518	580,787	784,244	383,040	544,315	171,115	4,627,019	4,050,150
— other borrowings from non-financial institutions	—	76,665	—	—	—	—	—	76,665	76,665
		5,867,753	801,725	857,445	396,694	595,377	171,115	8,690,109	7,971,897

Note: The trade and other payables with maturity above one year represent retention payables generated by engineering services.

The contractual expiry periods of financial guarantees are as follows:

	2007		2006	
	RMB'000	***Expiry periods***	*RMB'000*	*Expiry periods*
Guarantees given to banks in respect of banking facilities utilized by:				
— former related parties	**597,360**	**{2009-2018}**	—	
— the third parties	**920,290**	**{2009-2011}**	—	
	1,517,650		—	

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(g) Fair value of financial instruments

The fair value of investments held for trading are determined with reference to quoted market prices.

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

6. REVENUE

	2007 *RMB'000*	2006 *RMB'000*
Sales of goods	**8,632,411**	5,406,585
Provision of engineering services	**1,868,485**	981,313
Rendering of other services	**13,515**	63,932
	10,514,411	6,451,830

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into four operating divisions - lightweight building materials, cement, engineering services and glass fiber and Fiberglass-Reinforced Plastics ("FRP") products. These activities are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Lightweight building materials	— Production and sale of lightweight building materials
Cement	— Production and sale of cement
Engineering services	— Provision of engineering services to glass and cement manufacturers and equipment procurement
Glass fiber and FRP products	— Production and sale of glass fiber and FRP products

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments *(Continued)*

Segment information about these businesses is presented below:

Year ended 31 December 2007

	Lightweight building materials *RMB'000*	Cement *RMB'000*	Engineering services *RMB'000*	Glass fiber and FRP products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue						
External sales	2,957,406	4,753,274	2,021,737	781,994	—	10,514,411
Inter-segment sales *(Note)*	—	—	86,796	—	(86,796)	—
	2,957,406	4,753,274	2,108,533	781,994	(86,796)	10,514,411
Segment results	277,450	759,327	263,616	101,783	12,266	1,414,442
Unallocated other income						245,452
Unallocated other expenses						(9,897)
Unallocated administrative expenses						(53,465)
Share of profit of associates	10,683	(18)	1,085	219,045	—	230,795
Finance costs						(451,801)
Profit before tax						1,375,526
Income tax expense						(226,793)
Profit for the year						1,148,733
OTHER INFORMATION						
Capital expenditure:						
— Property, plant and equipment	201,165	1,084,454	19,023	168,230	—	1,472,872
— Prepaid lease payments	236,265	160,023	28,373	—	—	424,661
— Intangible assets	—	194,396	—	—	—	194,396
— Unallocated						46
	437,430	1,438,873	47,396	168,230	—	2,091,975
— Acquisition of subsidiaries						
— Allocated	—	5,806,478	—	—	—	5,806,478
— Unallocated						30,200
	—	5,806,478	—	—	—	5,836,678

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Year ended 31 December 2007 *(Continued)*

	Lightweight building materials *RMB'000*	Cement *RMB'000*	Engineering services *RMB'000*	Glass fiber and FRP products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Depreciation and amortisation						
— Property, plant and equipment	85,771	289,088	6,039	26,502	—	407,400
— Intangible assets	2,739	7,441	311	612	—	11,103
— Unallocated						9,272
	88,510	296,529	6,350	27,114	—	427,775
Prepaid lease payments released to income statement	5,929	10,873	137	1,234	—	18,173
Impairment loss on intangible assets	3,150	—	—	—	—	3,150
Impairment loss on investment in an associate	1,124	—	—	—	—	1,124
Allowance for bad and doubtful debts	28,356	5,916	8,729	6,982	—	49,983
(Reversals of) write-down of inventories	(2,490)	—	—	135	—	(2,355)
BALANCE SHEET						
ASSETS						
Segment assets	4,071,893	16,836,969	1,548,617	1,198,669	—	23,656,148
Interests in associates	248,096	209,459	17,941	1,318,796	—	1,794,292
Unallocated assets						4,429,547
Total consolidated assets						29,879,987
LIABILITIES						
Segment liabilities	718,723	2,832,749	836,386	348,843	—	4,736,701
Unallocated liabilities						15,390,308
Total consolidated liabilities						20,127,009

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Year ended 31 December 2006

	Lightweight building materials *RMB'000*	Cement *RMB'000*	Engineering services *RMB'000*	Glass fiber and FRP products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
INCOME STATEMENT						
Revenue						
External sales	2,744,338	2,215,483	1,124,613	367,396	—	6,451,830
Inter-segment sales *(Note)*	—	—	157,266	—	(157,266)	—
	2,744,338	2,215,483	1,281,879	367,396	(157,266)	6,451,830
Segment results	244,340	382,592	167,501	66,876	(13,915)	847,394
Unallocated other income						139,569
Unallocated administrative expenses						(43,160)
Share of profit of associates	30,233	—	1,937	58,332	—	90,502
Finance costs						(220,072)
Loss arising from share conversion schemes						(275,007)
Profit before tax						539,226
Income tax expense						(50,066)
Profit for the year						489,160
OTHER INFORMATION						
Capital expenditure:						
— Property, plant and equipment	260,036	1,060,149	29,433	96,197	—	1,445,815
— Prepaid lease payments	10,965	12,698	—	—	—	23,663
— Intangible assets	826	40	3,108	—	—	3,974
— Unallocated						13,227
	271,827	1,072,887	32,541	96,197	—	1,486,679
— Acquisition of subsidiaries	—	1,275,034	—	—	—	1,275,034

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Year ended 31 December 2006 *(Continued)*

	Lightweight building materials RMB'000	Cement RMB'000	Engineering services RMB'000	Glass fiber and FRP products RMB'000	Eliminations RMB'000	Total RMB'000
Depreciation and amortisation						
— Property, plant and equipment	92,744	167,118	3,122	17,131	—	280,115
— Intangible assets	2,118	2,590	27	639	—	5,374
— Unallocated						8,414
	94,862	169,708	3,149	17,770	—	293,903
Prepaid lease payments released to income statement	3,161	4,820	137	707	—	8,825
Allowance for bad and doubtful debts	2,082	4,490	4,036	3,286	—	13,894
Write-down of inventories	2,340	—	—	143	—	2,483
ASSETS AND LIABILITIES						
ASSETS						
Segment assets	3,547,971	5,738,960	702,822	660,639	—	10,650,392
Interests in associates	242,057	—	16,855	595,492	—	854,404
Unallocated assets						2,485,518
Total consolidated assets						13,990,314
LIABILITIES						
Segment liabilities	598,430	875,415	434,342	194,704	—	2,102,891
Unallocated liabilities						6,173,169
Total consolidated liabilities						8,276,060

Note: The inter-segment sales were carried out with reference to market prices.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Geographical segments

The Group's revenue from the following geographical markets, based on the locations of customers:

	Revenue from external customers	
	2007	2006
	RMB'000	*RMB'000*
PRC	**8,306,206**	5,337,449
European countries	**690,338**	183,819
Middle East	**643,938**	22,056
Southeast Asia	**497,838**	601,830
Oceania	**212,754**	144,263
Others	**163,337**	162,413
	10,514,411	6,451,830

More than 90% of the Group's operations and assets are located in the PRC for the year ended 31 December 2007 and 2006.

8. INVESTMENT AND OTHER INCOME

	2007	2006
	RMB'000	*RMB'000*
Investment income:		
Interest on bank deposits	**50,687**	41,710
Interest arising from global offering of the Company's shares	**—**	56,701
Interest on loans receivable	**7,193**	6,857
Total interest income	**57,880**	105,268
Dividend from available-for-sale investments	**1,573**	153
	59,453	105,421
Government subsidies:		
VAT refunds *(Note a)*	**271,308**	121,649
Government grants *(Note b)*	**205,808**	115,220
Interest subsidy	**—**	6,100
	477,116	242,969
Technical and other service income	**8,179**	32,180

8. INVESTMENT AND OTHER INCOME *(CONTINUED)*

	2007	2006
	RMB'000	*RMB'000*
Net rental income from:		
Investment properties *(Note 18)*	**22,683**	23,383
Equipments	**420**	2,180
	23,103	25,563
Waiver of payables	**256**	755
Increase in fair value of held-for-trading investments	**156,762**	4,521
Gain on disposal of investments in associates	**—**	6,244
Financial guarantee income	**13,485**	—
Gain on disposal of property, plant and equipment	**—**	3,365
Discount on acquisition of additional interests in subsidiaries	**5,168**	—
Others	**4,971**	—
	748,493	421,018

Notes:

(a) *The State Council of the PRC issued a "Notice Encouraging Comprehensive Utilisation of Natural Resources" (the "Notice") in 1996 to encourage and support enterprises, through incentive policies, to comprehensively utilise nature resources. Pursuant to the Notice, the Ministry of Finance and the State Administration of Taxation of the PRC enacted several regulations providing incentives in form of VAT refund for certain environmentally friendly products, including products that utilise industrial waste as part of their raw materials. Under the Notice and such regulations, the Group is entitled to receive immediate or future refund on any paid VAT with respect to any eligible products as income after it receives approvals from the relevant government authorities.*

(b) *Government grants are awarded to the Group by the local government agencies as incentives primarily to encourage the development of the Group and the contribution to the local economic development.*

9. FINANCE COSTS

	2007	2006
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable		
— wholly repayable within five years	**477,799**	263,529
— not wholly repayable within five years	**39,433**	5,732
	517,232	269,261
Less: interest capitalised to construction in progress	**(65,431)**	(49,189)
	451,801	220,072

Borrowing costs capitalised for the year ended 31 December 2007 arose on the general borrowing pool and were calculated by applying a capitalisation rate of 5.9% (2006: 5.9%) per annum to expenditure on the qualifying assets.

10. LOSS ARISING FROM SHARE CONVERSION SCHEMES

For the year ended 31 December 2006, the financial effect from the share conversion schemes carried out by the subsidiary and associates of the Company was summarised as follows:

	Decrease in share of net assets in the subsidiary and associates *RMB'000*	Capital contribution by the Parent *RMB'000*	Loss arising from share conversion schemes *RMB'000*
Subsidiary			
Beijing New Building Material Company Limited ("BNBM") *(Note a)*	115,243	87,381	202,624
Associates			
Shanghai Yaohua Pilkington Glass Co., Ltd. ("Shanghai Yaopi") *(Note b)*	11,210	—	11,210
China Fiberglass Company Limited ("China Fiberglass") *(Note c)*	31,131	30,042	61,173
	157,584	117,423	275,007

Notes:

(a) On 16 June 2006, the shareholders of BNBM, a subsidiary of the Company, approved a share conversion scheme. Pursuant to the approved share conversion scheme, each shareholder of BNBM, other than the Company, received two non-tradable shares and cash of RMB3.83 from the Company for every ten tradable shares they held in BNBM in exchange for their permission to transfer the non-tradable shares held by the Company into tradable shares. The amount payable by the Company under the approved share conversion scheme of approximately RMB87,381,000 was borne by the Parent. The number of non-tradable shares transferred by the Company amounted to 45,630,000 shares and the Company's equity interests in BNBM were diluted from 60.33% to 52.40%. The approved share conversion scheme was completed on 29 June 2006.

(b) On 21 December 2005, the shareholders of Shanghai Yaopi, an associate of the Company, approved a share conversion scheme. Pursuant to the approved share conversion scheme, each shareholder of Shanghai Yaopi, other than the Company and other holders of non-tradable shares (collectively "Shanghai Yaopi Offerors"), received seven non-tradable shares from the Company for every twenty tradable shares they held in Shanghai Yaopi in exchange for their permission to transfer the non-tradable shares held by the Shanghai Yaopi Offerors into tradable shares. The number of non-tradable shares transferred by the Company amounted to 4,101,569 shares and the Company's equity interests in Shanghai Yaopi were diluted from 16.83% to 16.26%. The approved share conversion scheme was completed on 8 February 2006.

(c) On 7 August 2006, the shareholders of China Fiberglass, an associate of the Group, approved a share conversion scheme. Pursuant to the approved share conversion scheme, each shareholder of China Fiberglass, other than the Company and two other shareholders of China Fiberglass (collectively the "CF Offerors"), received two non-tradable shares and cash of RMB3.5 from the CF Offerors for every ten tradable shares they held in China Fiberglass in exchange for the permission to transfer the non-tradable shares held by the CF Offerors into tradable shares. The amount payable by the Company under the approved share conversion scheme of approximately RMB30,042,000 were borne by the Parent. The number of non-tradable shares transferred by the Company amounted to 17,166,912 shares and the Company's equity interests in China Fiberglass were diluted from 40.17% to 36.15%. The approved share conversion scheme was completed on 17 August 2006.

There is no such share conversion scheme carried out during the current year.

11. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

(1) Directors' and supervisors' emoluments

Details of emoluments of directors and supervisors for the year ended 31 December 2007 and 31 December 2006 are as follows:

Year ended 31 December 2007

	Fees *RMB'000*	Salaries, allowances and benefits-in-kinds *RMB'000*	Discretionary bonuses *RMB'000*	Retirement plan contributions *RMB'000*	Share appreciation rights *RMB'000*	Total *RMB'000*
Executive directors						
Mr. Song Zhiping	—	—	—	—	—	—
Mr. Cao Jianglin	—	661	1,698	21	480	2,860
Mr. Li Yimin	—	325	375	21	240	961
Mr. Peng Shou	—	325	1,318	11	300	1,954
Non-executive directors						
Ms. Cui Lijun	—	206	—	—	—	206
Mr. Huang Anzhong	—	170	—	—	—	170
Mr. Zuo Fenggao	—	—	—	—	—	—
Independent non-executive directors						
Mr. Zhang Renwei	—	425	—	—	—	425
Mr. Zhou Daojiong	—	400	—	—	—	400
Mr. Chi Haibin	—	400	—	—	—	400
Mr. Lau Ko Yuen, Tom	—	300	—	—	—	300
Supervisors						
Mr. Shen Anqin	—	85	—	—	—	85
Ms. Zhou Guoping	—	165	—	—	—	165
Mr. Bao Wenchun	—	116	—	—	—	116
Ms. Cui Shuhong	—	139	97	20	71	327
Mr. Zhang Zhaomin	—	160	—	—	—	160
Mr. Liu Chijin	—	160	—	—	—	160
	—	4,037	3,488	73	1,091	8,689

11. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS *(CONTINUED)*

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

Year ended 31 December 2006

	Fees	Salaries, allowances and benefits-in-kinds	Discretionary bonuses	Retirement plan contributions	Share appreciation rights	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Mr. Song Zhiping	—	—	—	—	177	177
Mr. Cao Jianglin	—	99	—	11	157	267
Mr. Li Yimin	—	271	—	19	81	371
Mr. Peng Shou	—	83	394	5	81	563
Non-executive directors						
Ms. Cui Lijun	—	36	—	—	—	36
Mr. Huang Anzhong	—	—	—	—	—	—
Mr. Zuo Fenggao	—	—	—	—	—	—
Mr. Guo Chaomin	—	—	—	—	—	—
Independent non-executive directors						
Mr. Zhang Renwei	—	—	—	—	—	—
Mr. Zhou Daojiong	—	—	—	—	—	—
Mr. Chi Haibin	—	—	—	—	—	—
Mr. Lau Ko Yuen, Tom	—	—	—	—	—	—
Supervisors						
Mr. Shen Anqin	—	—	—	—	—	—
Ms. Zhou Guoping	—	—	—	—	—	—
Mr. Bao Wenchun	—	36	—	—	—	36
Ms. Cui Shuhong	—	119	—	19	31	169
Mr. Zhang Zhaomin	—	—	—	—	—	—
Mr. Liu Chijin	—	—	—	—	—	—
	—	644	394	54	527	1,619

11. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS *(CONTINUED)*

(2) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2006: one) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2006: four) individuals were as follows:

	2007	2006
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**1,055**	805
Share appreciation rights	**768**	161
Discretionary bonuses	**1,776**	1,996
Retirement plan contributions	**64**	69
	3,663	3,031

Their emoluments paid by the Group are within the following bands:

	Number of the five highest paid individuals	
	2007	2006
Nil - HK$1,000,000 (equivalent to RMB936,400)	**—**	4
HK$1,000,001 - HK$1,500,000 (equivalent to RMB1,404,600)	**3**	—

No emoluments were paid by the Group to the directors, supervisors nor the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office, and none of the directors and supervisors has waived any emoluments for both years.

12. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	2007	2006
	RMB'000	*RMB'000*
Depreciation of:		
— property, plant and equipment	**408,363**	280,786
— investment properties	**8,309**	7,743
	416,672	288,529
Amortisation of intangible assets (included in cost of sales)	**11,103**	5,374
Total depreciation and amortisation	**427,775**	293,903
Impairment loss on investment in an associate	**1,124**	—
Impairment loss on intangible assets	**3,150**	—
Cost of inventories recognised as expenses	**6,822,407**	3,716,536
Prepaid lease payments released to income statement	**18,173**	8,825
Auditors' remuneration	**5,800**	4,808
Staff costs including directors' remunerations:		
Salaries, bonus and other allowances	**417,956**	353,057
Share appreciation rights	**2,877**	1,156
Retirement plan contributions	**76,589**	31,556
Total staff cost	**497,422**	385,769
Allowance for bad and doubtful debts	**49,983**	13,894
(Reversals of) write-down of inventories	**(2,355)**	2,483
Operating lease rentals	**14,186**	8,994
Loss (gain) on disposal of property, plant and equipment and investment properties	**3,220**	(3,365)

13. INCOME TAX EXPENSE

	2007 RMB'000	2006 RMB'000
Current income tax	**221,662**	78,739
Deferred income tax *(Note 32)*	**5,131**	(28,673)
	226,793	50,066

PRC income tax is calculated at 33% of the estimated assessable profit of the Group as determined in accordance with relevant tax rules and regulations in the PRC for both years, except for certain subsidiaries of the Company, which are exempted or taxed at preferential rates of 15% entitled by the subsidiaries in accordance with relevant tax rules and regulations in the PRC or approvals obtained by the tax bureaus in the PRC.

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by order No. 63 of the President of the People's Republic of China which will be effective from 1 January 2008. The New Law will impose a single income tax rate of 25% for both domestic and foreign invested enterprises. The existing Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (the "FIE and FE tax laws") and Provisional Regulations of the PRC on Enterprise Income Tax (collectively referred to as the "existing tax laws") will be abolished simultaneously. The Company's subsidiaries in PRC applied tax rate under the existing tax laws to provide for current tax. The deferred taxation in 2007 has been adjusted to reflect the tax rate that is expected to apply to the respective periods when the temporary difference is reversed.

The total charge for the year can be reconciled to the profit before tax as follows:

	2007 RMB'000	2006 RMB'000
Profit before tax	**1,375,526**	539,226
Tax at domestic income tax rate of 33% (2006: 33%)	**453,924**	177,945
Tax effect of:		
Share of profit of associates	**(76,162)**	(29,866)
Expenses that are not deductible	**46,913**	34,640
Tax effect of tax losses not recognised	**24,715**	11,563
Utilisation of tax losses not previously recognised	**(8,836)**	(8,127)
Income tax credits granted to subsidiaries on utilisation of industrial waste *(Note a)*	**(80,934)**	(31,091)
Income tax credits granted to subsidiaries on acquisition of certain qualified equipment *(Note b)*	**(52,969)**	(50,537)
Effect of different tax rates of subsidiaries	**(80,818)**	(54,461)
Effect of deferred tax balances due to the change in income tax rate from 33% to 25%	**960**	—
	226,793	50,066

13. INCOME TAX EXPENSE *(CONTINUED)*

Notes:

(a) Pursuant to the relevant tax rules and regulations, tax credits were granted to certain subsidiaries of the Company on utilisation of industrial waste as part of the raw materials. The credits are allowed as a deduction of current PRC income tax expenses upon relevant conditions were fulfilled and relevant tax approval was obtained from the relevant tax bureau.

(b) Pursuant to the relevant tax rules and regulations, certain subsidiaries of the Company can claim PRC income tax credits on 40% of the acquisition cost of certain qualified equipment manufactured in the PRC, to the extent of the PRC income tax expense for the current year in excess of that for the previous year. Such PRC income tax credits are allowed as a deduction of current income tax expenses upon relevant conditions were fulfilled and relevant tax approval was obtained from the relevant tax bureau.

14. DIVIDENDS

	2007 ***RMB'000***	2006 *RMB'000*
Dividends paid	**67,123**	80,382
Proposed final dividend - RMB0.033 (2006: RMB0.0324) per share	**72,880**	67,123

The final dividend of RMB0.033 per share has been proposed by the board of directors and is subject to approval of the shareholders of the Company in the forthcoming annual general meeting.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 ***RMB'000***	2006 *RMB'000*
Earnings for the purpose of basic earnings per share	**912,446**	298,146

	2007 **'000**	2006 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,123,042**	1,921,551

No diluted earnings per share have been presented as the Group did not have any dilutive potential ordinary shares outstanding during both years.

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Total RMB'000
COST					
At 1 January 2006	1,185,446	1,583,347	2,994,235	104,656	5,867,684
Additions	1,345,966	46,770	35,564	21,691	1,449,991
Acquired on acquisition of subsidiaries	3,833	507,410	636,677	17,469	1,165,389
Transfer from construction in progress	(841,583)	374,849	440,634	26,100	—
Transfer to construction in progress	22,158	—	(32,857)	—	(10,699)
Disposals	—	(43,569)	(23,933)	(5,648)	(73,150)
Disposal of a subsidiary	—	—	(1,651)	(8)	(1,659)
Transfer to investment properties *(Note 18)*	—	(11,054)	—	—	(11,054)
At 31 December 2006	1,715,820	2,457,753	4,048,669	164,260	8,386,502
Additions	1,233,625	71,057	143,928	24,308	1,472,918
Acquired on acquisition of subsidiaries	503,731	1,973,325	2,378,953	63,000	4,919,009
Transfer from construction in progress	(2,027,997)	696,213	1,311,141	20,643	—
Transfer to construction in progress for reconstruction	22,625	(1,060)	(160,534)	—	(138,969)
Disposals	—	(12,381)	(6,850)	(10,937)	(30,168)
Transfer to investment properties *(Note 18)*	—	(20,494)	—	—	(20,494)
At 31 December 2007	1,447,804	5,164,413	7,715,307	261,274	14,588,798
DEPRECIATION AND IMPAIRMENT					
At 1 January 2006	—	248,983	798,729	27,879	1,075,591
Provided for the year	—	58,180	203,931	18,675	280,786
Eliminated on transfer to construction in progress for reconstruction	—	—	(10,699)	—	(10,699)
Eliminated on disposals	—	(2,821)	(15,932)	(3,528)	(22,281)
At 31 December 2006	—	304,342	976,029	43,026	1,323,397
Provided for the year	—	91,077	295,271	22,015	408,363
Eliminated on transfer to construction in progress for reconstruction	—	(181)	(138,788)	—	(138,969)
Eliminated on disposals	—	(190)	(1,898)	(4,559)	(6,647)
Eliminated on transfer to investment properties *(Note 18)*	—	(2,443)	—	—	(2,443)
At 31 December 2007	—	392,605	1,130,614	60,482	1,583,701
CARRYING VALUES					
At 31 December 2007	1,447,804	4,771,808	6,584,693	200,792	13,005,097
At 31 December 2006	1,715,820	2,153,411	3,072,640	121,234	7,063,105

16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

The carrying value amount of land and buildings shown above comprises leasehold interests in land situated in the PRC under medium term leases.

As at 31 December 2007, the carrying value of plant and machinery includes an amount of RMB57,851,000 (2006: Nil) in respect of assets held under finance leases.

At the balance sheet date, the carrying amount of the Group's property, plant and equipment pledged to secure the bank loans granted to the Group is analysed as follows:

	2007	2006
	RMB'000	*RMB'000*
Land and buildings	**281,533**	388,317
Plant and machinery	**731,138**	668,069
Total	**1,012,671**	1,056,386

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, as follows:

Land and buildings	2.38%
Plant and machinery	5.28% to 9.50%
Motor vehicles	9.50%

At 31 December 2007, land and buildings with carrying value of RMB646,201,000 (2006: RMB368,342,000) are still in the process of applying the title certificates.

17. PREPAID LEASE PAYMENTS

	2007 RMB'000	2006 RMB'000
CARRYING AMOUNT		
At beginning of the year	**420,400**	313,317
Additions	**424,661**	23,663
Acquisition of subsidiaries (*Note* 37)	**742,314**	97,873
Released to income statement	**(18,173)**	(8,825)
Disposal	**—**	(5,628)
At end of the year	**1,569,202**	420,400

Analysis of the carrying amount of prepaid lease payments is as follows:

	2007 RMB'000	2006 RMB'000
The carrying amount of prepaid lease payments is analysed as follows:		
Non-current portion	**1,535,901**	408,122
Current portion included in other receivables, deposits and prepayments in Note 26	**33,301**	12,278
	1,569,202	420,400

The amount represents the prepaid lease payments situated in the PRC for a period of 37 - 50 years.

As at 31 December 2007, prepaid lease payments with carrying value of RMB63,299,000 (2006:94,055,000) are still in the process of applying the title certificates.

As at 31 December 2007, the Group has pledged prepaid lease payments with a carrying value of approximately RMB406,368,000 (2006: RMB109,930,000) to secure bank loans granted to the Group.

18. INVESTMENT PROPERTIES

	2007	2006
	RMB'000	*RMB'000*
COST		
At beginning of the year	**301,784**	281,679
Additions	**—**	9,051
Acquisition of subsidiaries (Note 37)	**30,200**	—
Disposals	**(5,859)**	—
Transfer from property, plant and equipment (Note 16)	**20,494**	11,054
At end of the year	**346,619**	301,784
DEPRECIATION		
At beginning of the year	**20,778**	13,035
Provided for the year	**8,309**	7,743
Eliminated on disposals	**(1,251)**	—
Transfer from property, plant and equipment (Note 16)	**2,443**	—
At end of the year	**30,279**	20,778
CARRYING VALUES		
At end of the year	**316,340**	281,006

The cost of investment properties is depreciated over their estimated useful lives at an estimated rate of 2.38% (2006: 2.38%) per annum.

As at 31 December 2007, the Group has pledged investment properties with a carrying value of approximately RMB242,681,000 (2006: Nil) to secure bank loans granted to the Group.

The fair value of the Group's investment properties as at 31 December 2007 was RMB388,960,000 (2006: RMB347,388,000). The fair value has been arrived at on the basis of a valuation carried out at that date by independent local valuers, who are not connected with the Group. The valuation was arrived at by making reference to comparable sales transactions as available in the related market.

The property rental income earned by the Group during the year from its investment properties, all of which are leased out under operating leases, amounted to RMB36,292,000 (2006: RMB35,828,000). Direct operating expenses arising on the investment properties amounted to RMB13,609,000 (2006: RMB12,445,000).

19. GOODWILL

	2007 *RMB'000*	2006 *RMB'000*
CARRYING VALUE		
At beginning of the year	**253,907**	56,202
Arising from acquisition of:		
— subsidiaries *(Note 37)*	**870,788**	155,922
— additional interest in a subsidiary	**5,861**	41,783
At end of the year	**1,130,556**	253,907

Goodwill is allocated to the cash generating units ("CGUs") that are expected to benefit from the business combination. The carrying amount of goodwill had been allocated as follows:

	2007 *RMB'000*	2006 *RMB'000*
Lightweight building materials	**81,616**	79,654
Cement	**1,046,674**	174,191
Engineering services	**62**	62
Glass fiber and FRP products	**2,204**	—
	1,130,556	253,907

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumption for the value in use calculations of the above CGUs are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the most recent financial budgets of 5 years and extrapolates cash flows for the following five years with growth rate of 5% assuming the existing level of sales and production remaining the same and a discount rate of 11% per annum.

20. INTANGIBLE ASSETS

	Mining rights *RMB'000*	Patents and trademarks *RMB'000*	Total *RMB'000*
COST			
At 1 January 2006	—	26,817	26,817
Additions	—	3,974	3,974
Acquisition of subsidiaries	11,772	—	11,772
At 31 December 2006	11,772	30,791	42,563
Additions	194,396	—	194,396
Acquisition of subsidiaries *(Note 37)*	145,104	51	145,155
At 31 December 2007	351,272	30,842	382,114
AMORTISATION AND IMPAIRMENT			
At 1 January 200	—	4,408	4,408
Provided for the year	2,590	2,784	5,374
At 31 December 2006	2,590	7,192	9,782
Provided for the year	7,438	3,665	11,103
Impairment loss recognised	—	3,150	3,150
At 31 December 2007	10,028	14,007	24,035
CARRYING VALUES			
At 31 December 2007	341,244	16,835	358,079
At 31 December 2006	9,182	23,599	32,781

Trademarks have indefinite useful lives. Patents included above have finite useful lives, over which the assets are amortised. The amortisation rates of patents are ranging from 5% to 10% per annum. Mining rights are amortised over its concession period from 2 years to 16 years.

The directors of the Company reviewed the carrying amount of intangible assets. Impairment loss of RMB3,150,000 was recognised in the consolidated income statement.

21. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2007 and 31 December 2006, which are established and operated in the PRC, are as follows:

Name of subsidiary	Nominal value of paid-in capital (*Note i*)	Attributable equity interest to the Company Direct 2007 %	Direct 2006 %	Indirect 2007 %	Indirect 2006 %	Principal activities
BNBM (*Note ii*)	RMB575,150,000	**52.40**	52.40	**—**	—	Production and sale of lightweight building materials
Shangdong Taihe Dongxin Company Limited	RMB155,625,000	**—**		**34.06** (*Note vii*)	34.06	Production and sale of FRP products
China United Cement Company Limited ("China United") (*Note iii*)	RMB2,000,000,000	**100.00**	100.00	**—**	—	Production and sale of cement
Lunan China United Cement Company Limited	RMB200,000,000	**—**	—	**80.34**	80.34	Production and sale of cement
Huaihai China United Cement Company Limited ("Huaihai") (*Note iv*)	RMB223,820,000	**—**	—	**93.00**	88.79	Production and sale of cement
Qingzhou China United Cement Company Limited	RMB200,000,000	**—**	—	**100.00**	100.00	Production and sale of cement
South Cement Company Limited ("South Cement")	RMB2,250,000,000	**84.44** (*Note viii*)	—	**—**	—	Production and sale of cement
Zhejiang Cement Company Limited	RMB627,730,000	**—**	—	**81.41**	—	Production and sale of cement
Zhejiang Hushan Group Company Limited	RMB100,000,000	**—**	—	**73.27**	—	Production and sale of cement
China Composites Group Corporation Limited ("China Composites") (*Note v*)	RMB350,000,000	**100.00**	77.00	**—**	—	Production and sale of FRP products

21. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

Name of subsidiary	Nominal value of paid-in capital *(Note i)*	Attributable equity interest to the Company Direct 2007 %	Direct 2006 %	Indirect 2007 %	Indirect 2006 %	Principal activities
Lianyungang Zhongfu Lianzhong Composite Material Group Company Limited	RMB166,579,600	**—**	—	**98.32**	72.77	Production and sale of FRP products
Changzhou China Composites Liberty Company Limited	RMB160,000,000	**—**	—	**75.00**	61.60	Production and sale of PVC tiles
Changzhou China Composites Tianma Fiberglass Products Company Limited ("Zhongxin Tianma")	USD11,885,000	**—**	—	**40.00** *(Note vi)*	30.80	Production and sale of glass fiber mats
China Triumph International Engineering Company Limited ("China Triumph")	RMB220,000,000	**91.00**	91.00	**—**	—	Provision of engineering services
CTIEC Shenzhen Triumph Scienotech Engineering Company Limited	RMB5,000,000	**—**	—	**50.05**	50.05	Provision of engineering services
China Triumph Nanjing Cement Technological and Engineering Company Limited	RMB15,640,000	**—**	—	**46.55** *(Note vii)*	46.55	Provision of engineering services
CTIEC BengBu Triumph Scienotech Engineering Company Limited	RMB30,000,000	**—**		**91.00**	91.00	Provision of engineering services

21. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

Notes:

(i) The paid-in capital of BNBM is ordinary share capital and paid-in capital of the rest of the companies is registered capital.

(ii) BNBM is a joint stock company listed on the Shenzhen Stock Exchange.

(iii) On 7 November 2007 and 21 December 2007, the Company injected additional share capital of RMB400,000,000 and RMB324,420,000 into China United as registered capital.

(iv) On 30 June 2007, the registered share capital of Huaihai was increased from RMB139,820,000 to RMB223,820,0000. The additional registered capital was contributed by China United.

(v) On 16 April 2007, the Company acquired 23% additional equity interests in China Composites and China Composites has become the wholly-owned subsidiary of the Company. On 5 September 2007, the Company injected additional share capital of RMB150,000,000 into China Composites as registered capital.

(vi) China Composites is entitled to nominate two directors to the five-member board of directors of Zhongxin Tianma in accordance with the joint venture agreement of Zhongxin Tianma. Pursuant to the agreement dated 29 January 2004 entered into between China Composites and Changzhou Tianma Group Company Limited ("Changzhou Tianma"), which holds 35% equity interests in Zhongxin Tianma, Changzhou Tianma assigned Zhongxin Tianma the voting rights of the two directors nominated by Changzhou Tianma. Consequently, Zhongxin Tianma has been controlled by China Composites since year 2004 and has been accounted for as a subsidiary since then.

(vii) The entity is considered to be controlled by the Company because it is a subsidiary of another Company's subsidiary.

(viii) On 5 September 2007, the Company injected share capital of RMB1,900,000,000 to establish the South Cement. On 31 December 2007, the other five shareholders of South Cement injected share capital of RMB350,000,000.

(ix) The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(x) None of the subsidiaries had issued any debt securities at the end of the both years.

22. INTERESTS IN ASSOCIATES

	2007	2006
	RMB'000	*RMB'000*
Cost of investment in associates		
— listed in the PRC	**156,728**	156,728
— unlisted	**921,557**	170,010
Share of post-acquisition profit, net of dividend received	**716,007**	527,666
	1,794,292	854,404
Fair value of listed investments	**6,039,739**	1,638,184

22. INTERESTS IN ASSOCIATES *(CONTINUED)*

As at 31 December 2007, the cost of investment in associates included goodwill of associates of approximately RMB52,918,000 (2006: RMB6,444,000).

As at 31 December 2007 and 31 December 206, the Group had interests in the following principal incorporated associates established in the PRC:

Name of associate	Nominal value of registered capital	Attributable equity interest to the Group 2007 %	2006 %	Principal activities
China Fiberglass *(Note i)*	RMB427,392,000	36.15	36.15	Production of glass fiber
Yaopi *(Note ii)*	RMB731,250,082	16.26	16.26	Production of float glass
Jushi Group Company Limited *(Note iii)*	USD151,208,000	11.50	—	Production of glass fiber
Nanfang Wannianqing Cement Company Limited ("Nanfang Wannianqing") *(Note iv)*	RMB400,000,000	50.00	—	Production of cement
Zhongfu Shenying Carbon Fiber Company Limited	RMB136,360,000	45.00	—	Production carbon fiber
Hubei Daye Jianfeng Cement Company Limited	RMB150,000,000	40.00	—	Production of cement

Notes:

(i) *China Fiberglass is a joint stock company listed on the Shanghai Stock Exchange.*

(ii) *Yaopi is a joint stock company listed on the Shanghai Stock Exchange. Although the Group holds less than 20% of the voting power in Yaopi, the Group has exercised significant influence to govern the financial and operating policies by virtue of having two directors out of the eight-member board of Yaopi.*

(iii) *Jushi Group Company Limited was acquired by the Group in January 2007 and regarded as an associate of the Company as it is the subsidiary of China Fiberglass.*

(iv) *Nanfang Wannianqing was invested by the Company in October 2007 and regarded as an associate of the Group as another shareholder of Nanfang Wannianqing obtains majority of the representation of its board of directors and effectively the power to govern its operating financial and operating policies. The Group exercises significant influence over it.*

22. INTERESTS IN ASSOCIATES *(CONTINUED)*

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

Summarised unaudited financial information prepared in accordance with IFRSs in respect of the Group's associates is set out below.

	2007	2006
	RMB'000	*RMB'000*
Revenue	**6,901,609**	5,316,824
Profit for the year	**902,061**	394,500
Group's share of associates' profit for the year	**230,795**	90,502
Total assets	**16,956,677**	12,114,138
Total liabilities	**(9,630,993)**	(7,411,028)
Net assets attributable to the equity holders of the associates	**4,567,036**	3,541,118
Group's share of associates' net assets	**1,741,374**	847,960

23. INVESTMENTS

	2007 RMB'000	2006 RMB'000
Available-for-sale investments		
Unlisted equity shares, at cost (Note)	**107,298**	52,897
Held-for-trading investments at market values		
Quoted investment funds	**1,712**	250
Quoted listed equity shares	**207,940**	18,250
	209,652	18,500

Note: The available-for-sale investments are accounted for at cost less accumulated impairment losses as such investments do not have a quoted market price in an active market and the range of reasonable fair value estimated is so significant that the directors are of the opinion that their fair value cannot be reliably measured.

24. DEPOSITS

	2007 RMB'000	2006 RMB'000
Investment deposits for acquisition of subsidiaries	**747,270**	5,000
Investment deposits for acquisition of interests in associates	**40,000**	—
Deposits paid to acquire property, plant and equipment	**177,498**	67,209
Deposits paid in respect of prepaid lease payment	**72,892**	—
	1,037,660	72,209

25. INVENTORIES

	2007 RMB'000	2006 RMB'000
Raw materials	**735,243**	335,353
Work-in-progress	**296,985**	150,963
Finished goods	**480,754**	339,059
Consumables	**6,311**	8,645
	1,519,293	834,020

26. TRADE AND OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables, net of allowance for bad and doubtful debts *(Note a)*	**1,884,962**	798,978
Bills receivable *(Note b)*	**543,948**	111,681
Amounts due from customers for contract work *(Note 28)*	**231,831**	142,914
Loans receivable *(Note e)*	**342,668**	110,000
Other receivables, deposits and prepayments	**1,477,009**	791,966
	4,480,418	1,955,539

Notes:

(a) *The Group normally allowed an average of credit period of 60-180 days to its trade customers.*

Ageing analysis of trade receivables is as follows:

	2007 RMB'000	2006 RMB'000
Within two months	**1,305,600**	361,452
More than two months but within one year	**354,485**	269,854
Between one and two years	**158,338**	116,618
Between two and three years	**48,921**	35,965
Over three years	**17,618**	15,089
	1,884,962	798,978

(b) *The bills receivable are aged within six months.*

26. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Notes: (Continued)

(c) Included in the Group's trade receivable balances are debtors with a carrying amount of RMB256,835,000 (2006: RMB274,410,000) which are past due at the reporting date for which the Group has not provided impairment loss as there has not been a significant change in credit quality. According to specific analysis, the Group believes the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

As at 31 December 2007, the retention receivables of RMB18,052,000 (2006: RMB2,552,000) and receivables within contractual payment term of RMB 23,900,000 (2006: Nil) with ageing between one and two years are not past due.

Ageing of trade receivables which are past due but not impaired:

	2007 RMB'000	2006 RMB'000
More than two months but within one year	**73,910**	109,290
Between one and two years	**116,386**	114,066
Between two and three years	**48,921**	35,965
Over three years	**17,618**	15,089
	256,835	274,410

(d) Movement in the allowance for bad and doubtful debts

	2007 RMB'000	2006 RMB'000
Balance at beginning of the year	**48,393**	30,165
Additions from acquisition of subsidiaries	**4,376**	4,334
Allowance recognised on receivables	**49,983**	13,894
Balance at end of the year	**102,752**	48,393

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted to the report date.

(e) The amounts are carried interests at interest rates of 6.25%-12% per annum and repayable within one year. Loan receivable of RMB50,000,000 is due from a minority shareholder of a subsidiary and is secured by its equity interest in that subsidiary. The remaining balance is due from independent parties and is unsecured.

(f) As at 31 December 2007, the Group has pledged bills receivable of approximately RMB288,910,000 (2006: the Group has pledged bills receivable of approximately RMB63,228,000) to secure bank loans granted to the Group.

27. AMOUNTS DUE FROM AND TO RELATED PARTIES

	2007	2006
	RMB'000	*RMB'000*
Amounts due from related parties		
Trading in nature:		
Fellow subsidiaries	**279,066**	134,082
Associates	**26,460**	17,004
Minority shareholders of subsidiaries	**11,165**	3,468
	316,691	154,554
Non-trading in nature:		
Associates	**72,720**	—
	389,411	154,554
Amounts due to related parties		
Trading in nature:		
Fellow subsidiaries	**130,917**	30,690
Associates	**10,183**	4,322
Immediate holding company	**1,676**	—
Minority shareholders of subsidiaries	**2,829**	2,878
	145,605	37,890
Non-trading in nature:		
Fellow subsidiaries	**—**	2,206
Minority shareholders of subsidiaries	**1,255,516**	35,280
	1,255,516	37,486
	1,401,121	75,376

All amounts are unsecured and repayable on demand. The trading nature portion of amounts due from or due to related parties is aged within one year.

As at 31 December 2007, amounts due from related parties of RMB 60,000,000 (2006: Nil) carry the variable loan interest rate stipulated by the bank for the corresponding period, which range from 5.67%-6.57% per annum. The remaining balances of amounts due from related parties are interest-free.

As at 31 December 2007, amounts due to related parties of RMB35,062,000 (2006: RMB32,785,000) carry fixed interest at rate of 6.03% (2006: 6.03%) per annum and RMB684,722,000 (2006:Nil) carry the variable interests stipulated by the bank for the corresponding period, which range from 6.84%-7.47% per annum. The remaining balances of amounts due to related parties are interest-free.

28. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2007	2006
	RMB'000	*RMB'000*
Contracts in progress at balance sheet date:		
Analysed for reporting purposes as:		
Contract costs incurred plus recognised profits less recognised losses to date	**2,806,526**	1,928,588
Less: progress billings	**(2,670,932)**	(1,785,674)
	135,594	142,914
Amounts due from contract customers included in trade and other receivables	**233,201**	142,914
Amounts due to contract customers included in trade and other payables	**(97,607)**	—
	135,594	142,914

As at 31 December 2007, advances received from customers for contract work amounted to RMB99,087,000 (2006: RMB27,037,000) are included in other payables. The retention receivables included in trade receivables, net of allowance for bad and doubtful debts, as set out in Note 26, amount to RMB46,879,000 (2006: RMB44,920,000).

29. CASH AND CASH EQUIVALENTS / PLEDGED BANK DEPOSITS

Bank balances and cash denominated in non-functional currencies of the relevant Group entities are as follows:

	2007	2006
	RMB'000	*RMB'000*
USD	**21,486**	13,751
EUR	**36,819**	30,892
HKD	**10,959**	319,555
Others	**91**	29
	69,355	364,227

As at 31 December 2007, the Group pledged RMB686,779,000 (2006: RMB425,262,000), which is denominated in RMB, to bankers of the Group to secure the bank borrowings due within one year and the short-term banking facilities granted to the Group. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Bank balances and pledged bank deposits carry interest at market rates which range from 1.80% to 4.14% (2006: 1.80% to 2.52%) per annum.

30. TRADE AND OTHER PAYABLES

An analysis of trade payables is as follows:

	2007 RMB'000	2006 RMB'000
Within two months	**1,376,942**	534,105
More than two months but within one year	**860,455**	357,829
Between one and two years	**171,656**	91,121
Between two and three years	**58,690**	15,789
Over three years	**33,514**	8,328
Trade payables	**2,501,257**	1,007,172
Bills payable	**628,444**	351,606
Provision for share appreciation rights (Note 44)	**4,033**	1,156
Amounts due to customers for contract work (Note 28)	**99,087**	—
Other payables	**1,566,767**	708,602
	4,799,588	2,068,536

Bills payable are aged within six months.

31. BORROWINGS

	2007 RMB'000	2006 RMB'000
Bank loans		
— Secured	**968,126**	766,839
— Unsecured	**11,384,205**	5,204,740
	12,352,331	5,971,579
Bonds (note)	**1,000,000**	—
Other borrowings from non-financial institutions	**28,943**	76,665
	13,381,274	6,048,244
Analysed for reporting purposes:		
Non-current	**4,717,660**	2,452,510
Current	**8,663,614**	3,595,734
	13,381,274	6,048,244

Note: On 9 April 2007, the Company issued domestic corporate bonds with an aggregate principal amount of RMB1 billion with the maturity of 10 years and a coupon rate of 4.32% per annum. The repayment of the bonds is guaranteed by a bank in the PRC.

31. BORROWINGS *(CONTINUED)*

The exposure of the fixed rate and variable rate bank loans and the contractual maturity dates are as follows:

	2007	2006
	RMB'000	*RMB'000*
Fixed rate bank loans repayable		
Within one year	**3,066,164**	1,597,929
Between one and two years	**66,000**	200,500
Between two and three years	**64,000**	65,000
Between three and four years	**54,000**	10,000
Between four and five years	**33,500**	48,000
	3,283,664	1,921,429
Variable rate bank loans repayable		
Within one year	**5,568,507**	1,921,140
Between one and two years	**1,677,660**	314,700
Between two and three years	**850,000**	822,810
Between three and four years	**601,000**	325,000
Between four and five years	**212,000**	505,000
More than five years	**159,500**	161,500
	9,068,667	4,050,150

	2007	2006
Effective interest rate per annum:		
Fixed rate borrowings	**3.69% to 10.86%**	4.69% to 11.16%
Variable rate borrowings	**4.14% to 9.48%**	4.93% to 7.02%

Other borrowings are unsecured, non-interest bearing and repayable on demand.

As at 31 December 2007, bank loans of RMB407,000,000 (2006: Nil) were guaranteed by independent third parties.

The borrowings denominated in USD amounted to RMB3,550,000 (2006: RMB2,898,000). The remaining balance is denominated in functional currency.

32. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior year:

	Investment fair value adjustment	Fair value adjustments on properties	Fair value adjustments on intangible assets	Fair value adjustments on prepaid lease payment	Loss on partial disposal of a subsidiary and associates	Allowances on inventories and trade and other receivables	Impairment for properties	Tax losses	Financial guarantee contracts	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	—	—	—	—	—	6,850	—	—	—	—	6,850
Arising from acquisition of A subsidiary *(Note 37)*	—	(21,034)	—	(16,070)	—	—	—	—	—	—	(37,104)
Credit to the income statement *(Note 13)*	—	477	—	161	20,909	4,608	1,018	—	—	1,500	28,673
At 31 December 2006	—	(20,557)	—	(15,909)	20,909	11,458	1,018	—	—	1,500	(1,581)
Arising from acquisition of subsidiaries *(Note 37)*	—	(117,271)	(5,232)	(115,448)	—	5,880	66,681	44,159	13,326	(285)	(108,190)
Charge (credit) to the income statement *(Note 13)*	(9,907)	2,711	486	847	—	3,031	(191)	(2,403)	(3,371)	4,626	(4,171)
Effect of change in tax rate *(Note 13)*	—	—	—	—	—	(911)	(49)	—	—	—	(960)
At 31 December 2007	(9,907)	(135,117)	(4,746)	(130,510)	20,909	19,458	67,459	41,756	9,955	5,841	(114,902)

32. DEFERRED TAXATION *(CONTINUED)*

	2007	2006
	RMB'000	*RMB'000*
For presentation purpose:		
Deferred tax assets	**158,598**	34,885
Deferred tax liabilities	**(273,500)**	(36,466)
	(114,902)	(1,581)

At the balance sheet date, the Group has unused tax losses of RMB342,958,000 (2006: RMB127,817,000) available for offset against future profits, of which, RMB175,934,000 (2006: RMB127,817,000) were not recognised as deferred tax assets due to the unpredictability of future profits streams. The unused tax losses can be carried forward for five years from the year of the incurrence and an analysis of their expiry dates are as follows:

	2007	2006
	RMB'000	*RMB'000*
Unused tax losses expiring in:		
2007	**—**	6,027
2008	**2,706**	23,455
2009	**32,892**	32,892
2010	**73,282**	30,402
2011	**91,713**	35,041
2012	**142,365**	—
	342,958	127,817

33. OBLIGATIONS UNDER FINANCE LEASES

In a newly acquired subsidiary, certain of its fixtures and equipment are under finance leases. The average lease term is 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates at 9.09%. These leases have no terms of renewal or purchase options and escalation clauses. No arrangements have been entered into for contingent rental payment.

	Minimum lease payments		**Present value of minimum lease payments**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts payable under finance leases				
Within one year	**22,400**	—	**18,222**	—
In more than one year but not more than two years	**22,400**	—	**19,878**	—
In more than two years but not more than five years	**16,800**	—	**16,088**	—
	61,600	—	**54,188**	
Less: future finance charge	**(7,412)**	—	**N/A**	N/A
Present value of lease obligations	**54,188**	—	**54,188**	—
Less: Amount due for settlement with in 12 months (shown under current liabilities)			**(18,222)**	—
Amount due for settlement after 12 months			**35,966**	—

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

34. FINANCIAL GUARANTEE CONTRACTS

	2007	2006
	RMB	*RMB'*
Fair value of guarantee on the date of acquisition of subsidiaries *(Note 37)*	**52,070**	—
Less: Amount released to income statement *(Note 8)*	**(13,485)**	—
	38,585	—
For presentation purpose:		
Non-current liabilities	**16,926**	—
Current liabilities	**21,659**	—
	38,585	—

Newly acquired subsidiaries had guaranteed bank loans of RMB1,517,650,000 for former related parties and third parties. The fair value of the guarantees granted amounting to RMB52,070,000 is recognised as a liability and amortised over the guarantee period of one to ten years as set out in respective financial guarantee contracts.

35. SHARE CAPITAL

	Domestic Shares *(Note (a))*		**H Shares** *(Note (b))*		
	Number of shares	**Amount**	**Number of shares**	**Amount**	**Total capital**
		RMB'000		*RMB'000*	*RMB'000*
Registered shares of RMB1.0 each					
At 1 January 2006	1,387,760,000	1,387,760	—	—	1,387,760
Creation and issue of H Shares on global offering (note c)	—	—	683,940,000	683,940	683,940
Conversion of Domestic Shares into H Shares (note d)	(68,394,000)	(68,394)	68,394,000	68,394	—
At 31 December 2006	1,319,366,000	1,319,366	752,334,000	752,334	2,071,700
Issue of new H Shares (note e)	—	—	136,788,000	136,788	136,788
Conversion of Domestic Shares into H Shares (note e)	(12,961,000)	(12,961)	12,961,000	12,961	—
At 31 December 2007	1,306,405,000	1,306,405	902,083,000	902,083	2,208,488

35. SHARE CAPITAL *(CONTINUED)*

Notes:

(a) Domestic Shares are ordinary shares subscribed for and credited as fully paid up in Renminbi by PRC government and/or PRC incorporated entities only.

(b) H Shares are ordinary shares subscribed for and credited as fully paid up in Renminbi by persons other than PRC government and/or PRC incorporated entities only.

(c) On 22 March 2006, the Company created, issued and placed 594,740,000 H Shares of RMB1.00 each at HK$2.75 per share. The gross consideration received by the Company from the issue of these H Shares amounted to HK$1,635,535,000 (equivalent to approximately RMB1,688,854,000). On the same date, 59,474,000 Domestic Shares were converted into same number of H Shares.

(d) On 23 March 2006, as a result of the exercise of the over-allotment option by the coordinators of the global offering in connection with the listing of the Company's shares, the Company created, issued and placed 89,200,000 H Shares of RMB1.00 each at HK$2.75 per share. The gross consideration received by the Company from the issue of these H Shares amounted to HK$245,300,000 (equivalent to approximately RMB253,296,000). On the same date, 8,920,000 Domestic Shares were converted into same number of H Shares.

(e) On 17 August 2007, the Company issued and placed 136,788,000 H Shares of RMB1.00 each at HK$17.80 per share. The gross consideration received by the Company from the issue of these H Shares amounted to HK$2,436,385,000 (equivalent to approximately RMB2,351,127,000). The net proceeds were mainly used for the business development and acquisition of subsidiaries. On the same date, 12,961,000 Domestic Shares were converted into same number of H Shares.

Other than the specific requirements on the holders of the shares as set out in Notes (a) and (b), the shares mentioned in Notes (a) to (e) rank pari passu in all respects with each other.

36. RESERVES

(a) Statutory surplus reserve fund

According to relevant laws and regulations of the PRC, the Company and its subsidiaries established in the PRC are required to make an appropriation at the rate of 10 percent of the profit after tax of the respective company, prepared in accordance with PRC accounting standards, to the statutory surplus reserve fund until the balance has reached 50 percent of the registered capital of the respective company.

(b) Statutory public welfare fund

Prior to 1 January 2006, according to the PRC relevant laws and regulations, the Company and its subsidiaries established in the PRC are required to make an appropriation at the rate of 5 to 10 percent of the profit after tax of the respective company, prepared in the accordance with PRC accounting standards, to the statutory public welfare fund ("PWF"). The PWF will be utilised on capital items for employees' collection welfare, and unutilized PWF must be kept in cash. As a result of the amendments in the PRC relevant laws and regulations, the requirement of the appropriation to PWF was removed with effective from 1 January 2006. Accordingly, the PWF at 1 January 2006 amounting to RMB28,719,000 was transferred to statutory surplus reserve fund during the year.

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

In the year of 2007, the Group acquired 9 subsidiaries from independent third parties and acquired certain assets through acquisition of a subsidiary. The acquired subsidiary group is principally engaged in the production, storage and sale of cement.

These acquisitions have been accounted for using the purchase method.

Summary of net assets acquired in the transactions, and the goodwill arising, are as follows:

	2007			2006
	Acquirees' carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	Fair value *RMB'000*	Fair value *RMB'000*
Net assets acquired:				
Property, plant and equipment *(Note 16)*	**4,455,827**	**463,182**	4,919,009	1,165,389
Investment properties *(Note 18)*	**24,260**	**5,940**	30,200	—
Intangible assets *(Note 20)*	**124,226**	**20,929**	145,155	11,772
Interests in associates	**3,031**	**—**	3,031	—
Prepaid lease payments *(Note 17)*	**280,561**	**461,753**	742,314	97,873
Available-for-sale investments	**51,000**	**—**	51,000	—
Deferred tax assets *(Note 32)*	**129,761**	**—**	129,761	—
Inventories	**403,617**	**—**	403,617	37,816
Trade and other receivables	**1,344,846**	**—**	1,344,846	29,809
Amounts due from the related parties	**177,758**	**—**	177,758	—
Held-for-trading investments	**1,834**	**—**	1,834	—
Pledged bank deposits	**558,508**	**—**	558,508	—
Cash and cash equivalents	**255,583**	**—**	255,583	20,648
Trade and other payables	**(1,992,236)**	**—**	(1,992,236)	(349,892)
Income tax payable	**(24,122)**	**—**	(24,122)	(4,320)
Dividend payable to minority shareholders	**(5,190)**	**—**	(5,190)	—
Amounts due to the related parties	**(1,386,554)**	**—**	(1,386,554)	—
Borrowings	**(2,871,369)**	**—**	(2,871,369)	(518,290)
Financial guarantee contracts	**(52,070)**	**—**	(52,070)	—
Obligations under finance leases	**(54,188)**	**—**	(54,188)	—
Deferred tax liabilities *(Note 32)*	**—**	**(237,951)**	(237,951)	(37,104)
Net assets	**1,425,083**	**713,853**	2,138,936	453,701
Minority interests *(note)*			(314,127)	—
Goodwill *(Note 19)*			870,788	155,922
Total consideration			2,695,597	609,623

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

Note: About RMB119,660,000 of the aquirees' minority interests on the acquisition dates is included in above minority interests balance.

	2007	2006
	RMB'000	*RMB'000*
Total consideration satisfied by:		
Cash	**2,221,133**	609,623
Other payables	**474,464**	—
Total consideration	**2,695,597**	609,623
Net cash outflow arising on acquisition:		
Cash consideration paid	**(2,221,133)**	(609,623)
Less: Cash and cash equivalents acquired	**255,583**	20,648
	(1,965,550)	(588,975)

The goodwill arising on the acquisition of these cement companies is attributable to the benefit of expected revenue growth and future market development in Zhejiang province, Shandong province and Yangtze River Delta, the PRC and overseas and the synergies in consolidating the Group's cement operations. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Included in the profit for the year is RMB99,105,000 attributable to the additional business generated by these new acquired cement companies.

Had these business combinations been effected at 1 January 2007, the revenue of the Group would be RMB13,512,917,000, and profit for the year of the Group would be RMB789,063,000. The directors of the Group consider these 'pro-forma' an approximate measure of the performance of the combined group on an annualised basis and reference point for comparison in future periods.

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(a) On 31 August 2007, the Group acquired 100% of the equity interests of 浙江水泥有限公司 ("Zhejiang Cement") for consideration of RMB731,275,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement.

Net assets acquired in the transactions, and the goodwill arising, are as follows:

	2007		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	1,526,127	141,392	1,667,519
Intangible assets	50	—	50
Prepaid lease payments	73,693	209,643	283,336
Available-for-sale investments	51,000	—	51,000
Deferred tax assets	86,305	—	86,305
Inventories	79,859	—	79,859
Trade and other receivables	308,909	—	308,909
Amounts due from the related parties	83,540	—	83,540
Pledged bank deposits	66,189	—	66,189
Cash and cash equivalents	49,320	—	49,320
Trade and other payables	(696,293)	—	(696,293)
Amounts due to the related parties	(633,000)	—	(633,000)
Borrowings	(665,973)	—	(665,973)
Financial guarantee contracts	(36,080)	—	(36,080)
Deferred tax liabilities	—	(87,759)	(87,759)
Net assets	293,646	263,276	556,922
Minority interests *(note)*			(58,407)
Goodwill			232,760
Total consideration			731,275

Note: About RMB58,407,000 of the acquiree's minority interests on the acquisition date is included in above minority interests balance.

	2007 *RMB'000*
Total consideration satisfied by:	
Cash	**731,275**
Net cash outflow arising on acquisition:	
Cash consideration paid	**(731,275)**
Less: Cash and cash equivalents acquired	**49,320**
	(681,955)

Included in the profit for the year is RMB17,107,000 attributable to the additional business generated by Zhejiang Cement.

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(b) On 30 September 2007, the Group acquired 90% of the equity interests of 浙江虎山集團有限公司 ("Mountain Tiger Group") for consideration of RMB330,269,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement.

Net assets acquired in the transactions, and the goodwill arising, are as follows:

	2007		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	605,120	153,637	758,757
Investment properties	24,260	5,940	30,200
Interests in associates	3,031	—	3,031
Prepaid lease payments	80,303	81,923	162,226
Deferred tax assets	5,998	—	5,998
Inventories	131,138	—	131,138
Trade and other receivables	222,306	—	222,306
Held-for-trading investments	1,357	—	1,357
Amounts due from the related parties	23,156	—	23,156
Pledged bank deposits	291,897	—	291,897
Cash and cash equivalents	61,191	—	61,191
Trade and other payables	(289,315)	—	(289,315)
Amounts due to the related parties	(5,535)	—	(5,535)
Borrowings	(976,608)	—	(976,608)
Income tax payable	(3,516)	—	(3,516)
Dividend payable to minority shareholders	(5,190)	—	(5,190)
Financial guarantee contracts	(7,010)	—	(7,010)
Deferred tax liabilities	—	(60,375)	(60,375)
Net assets	162,583	181,125	343,708
Minority interests *(note)*			(91,130)
Goodwill			77,691
Total consideration			330,269

Note: About RMB60,326,000 of the acquiree's minority interests on the acquisition date is included in above minority interests balance.

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(b) On 30 September 2007, the Group acquired 90% of the equity interests of 浙江虎山集團有限公司 ("Mountain Tiger Group") for consideration of RMB330,269,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2007
	RMB'000
Total consideration satisfied by:	
Cash	**249,906**
Other payables	**80,363**
Total consideration	**330,269**
Net cash outflow arising on acquisition:	
Cash consideration paid	**(249,906)**
Less: Cash and cash equivalents acquired	**71,191**
	(178,715)

Included in the profit for the year is RMB23,198,000 attributable to the additional business generated by Mountain Tiger Group.

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(c) On 30 September 2007, the Group acquired 95% of the equity interests of 長興煤山眾盛水泥有限公司 ("MeiShan Zhongsheng") for consideration of RMB382,276,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement.

Net assets acquired in the transactions, and the goodwill arising, are as follows:

	2007		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	199,634	45,587	245,221
Prepaid lease payments	3,739	10,459	14,198
Inventories	16,617	—	16,617
Trade and other receivables	144,848	—	144,848
Cash and cash equivalents	10,469	—	10,469
Trade and other payables	(17,139)	—	(17,139)
Borrowings	(102,020)	—	(102,020)
Income tax payable	(10,641)	—	(10,641)
Deferred tax liabilities	—	(14,012)	(14,012)
Net assets	245,507	42,034	287,541
Minority interests			(14,377)
Goodwill			109,112
Total consideration			382,276

	2007 *RMB'000*
Total consideration satisfied by:	
Cash	**343,941**
Other payables	**38,335**
Total consideration	**382,276**
Net cash outflow arising on acquisition:	
Cash consideration paid	**(343,941)**
Less: Cash and cash equivalents acquired	**10,469**
	(333,472)

Included in the profit for the year is RMB6,283,000 attributable to the additional business generated by MeiShan Zhongsheng.

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(d) On 30 September 2007, the Group acquired 95% of the equity interests of 長興小浦眾盛水泥有限公司 ("Xiao Pu Zhong Sheng ") for consideration of RMB239,482,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement.

Net assets acquired in the transactions, and the goodwill arising, are as follows:

	2007		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	122,783	22,780	145,563
Prepaid lease payments	4,520	5,825	10,345
Inventories	8,352	—	8,352
Trade and other receivables	36,887	—	36,887
Cash and cash equivalents	5,936	—	5,936
Trade and other payables	(11,932)	—	(11,932)
Borrowings	(5,000)	—	(5,000)
Income tax payable	(7,676)	—	(7,676)
Deferred tax liabilities	—	(7,151)	(7,151)
Net assets	153,870	21,454	175,324
Minority interests			(8,766)
Goodwill			72,924
Total consideration			239,482

	2007 *RMB'000*
Total consideration satisfied by:	
Cash	**201,147**
Other payables	**38,335**
Total consideration	**239,482**
Net cash outflow arising on acquisition:	
Cash consideration paid	**(201,147)**
Less: Cash and cash equivalents acquired	**5,936**
	(195,211)

Included in the profit for the year is RMB6,008,000 attributable to the additional business generated by Xiao Pu Zhong Sheng.

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(e) On 31 October 2007, the Group acquired 80% of the equity interests of 浙江中開源水泥有限公司 ("Zhongkaiyuan") for consideration of RMB178,081,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement.

	2007		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	93,242	7,136	100,378
Intangible assets	30	—	30
Prepaid lease payments	4,397	12,057	16,454
Deferred tax assets	2,169	—	2,169
Inventories	7,657	—	7,657
Trade and other receivables	319,038	—	319,038
Held-for-trading investments	477	—	477
Pledged bank deposits	29,095	—	29,095
Cash and cash equivalents	11,636	—	11,636
Trade and other payables	(106,542)	—	(106,542)
Amounts due to the related parties	(77,498)	—	(77,498)
Borrowings	(138,500)	—	(138,500)
Financial guarantee contracts	(2,560)	—	(2,560)
Deferred tax liabilities	—	(4,798)	(4,798)
Net assets	142,641	14,395	157,036
Minority interests			(31,407)
Goodwill			52,452
Total consideration			178,081

	2007 *RMB'000*
Total consideration satisfied by:	
Cash	**102,361**
Other payables	**75,720**
Total consideration	**178,081**
Net cash outflow arising on acquisition:	
Cash consideration paid	**(102,361)**
Less: Cash and cash equivalents acquired	**11,636**
	(90,725)

Included in the profit for the year is RMB3,348,000 attributable to the additional business generated by Zhongkaiyuan.

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(f) On 31 October 2007, the Group acquired 75% of the equity interests of浙江中新源水泥有限公司 ("Zhongxinyuan") for consideration of RMB116,454,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement.

Net assets acquired in the transactions, and the goodwill arising, are as follows:

Net assets acquired in the transactions, and the goodwill arising, are as follows:

	2007		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	275,400	7,860	283,260
Prepaid lease payments	10,617	18,470	29,087
Deferred tax assets	6,972	—	6,972
Inventories	989	—	989
Trade and other receivables	167,672	—	167,672
Amounts due from the related parties	11,062	—	11,062
Pledged bank deposits	37,307	—	37,307
Cash and cash equivalents	80,526	—	80,526
Trade and other payables	(341,021)	—	(341,021)
Obligations under finance leases	(54,188)	—	(54,188)
Borrowings	(93,000)	—	(93,000)
Financial guarantee contracts	(2,560)	—	(2,560)
Deferred tax liabilities	—	(6,582)	(6,582)
Net assets	99,776	19,748	119,524
Minority interests			(29,881)
Goodwill			26,811
Total consideration			116,454

	2007 *RMB'000*
Total consideration satisfied by:	
Cash	**38,005**
Other payables	**78,449**
Total consideration	**116,454**
Net cash outflow arising on acquisition:	
Cash consideration paid	**(38,005)**
Less: Cash and cash equivalents acquired	**80,526**
	42,521

Included in the profit for the year is RMB9,372,000 attributable to the additional business generated by Zhongxinyuan.

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(g) On 30 September 2007, the Group acquired 85% of the equity interests of登城尖峰 ("Dengcheng Cement") for consideration of RMB149,428,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement.

Net assets acquired in the transactions, and the goodwill arising, are as follows:

		2007	
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	484,902	24,633	509,535
Intangible assets	48,308	—	48,308
Prepaid lease payments	55,148	24,387	79,535
Deferred tax assets	7,483	—	7,483
Inventories	55,182	—	55,182
Trade and other receivables	58,356	—	58,356
Pledged bank deposits	20,224	—	20,224
Cash and cash equivalents	8,912	—	8,912
Trade and other payables	(142,802)	—	(142,802)
Borrowings	(457,472)	—	(457,472)
Deferred tax liabilities	—	(12,255)	(12,255)
Net assets	138,241	36,765	175,006
Minority interests			(26,251)
Goodwill			673
Total consideration			149,428

	2007 *RMB'000*
Total consideration satisfied by:	
Cash	**149,428**
Net cash outflow arising on acquisition:	
Cash consideration paid	**(149,428)**
Less: Cash and cash equivalents acquired	**8,912**
	(140,516)

Included in the profit for the year is RMB1,015,000 attributable to the additional business generated by Dengcheng Cement.

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(h) On 1 July 2007, the Group acquired 90% of the equity interests of 泰山水泥集團有限責任公司 ("Taishan China United") for consideration of RMB251,965,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement.

Net assets acquired in the transactions, and the goodwill arising, are as follows:

	2007		
	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	RMB'000	*RMB'000*	*RMB'000*
Net assets acquired:			
Property, plant and equipment	805,099	55,003	860,102
Intangible assets	2,237	20,929	23,166
Prepaid lease payments	13,939	58,852	72,791
Deferred tax assets	18,212	—	18,212
Inventories	53,705	—	53,705
Trade and other receivables	50,190	—	50,190
Cash and cash equivalents	10,590	—	10,590
Trade and other payables	(195,361)	—	(195,361)
Amounts due to the related parties	(670,521)	—	(670,521)
Borrowings	(60,000)	—	(60,000)
Income tax payable	(2,289)	—	(2,289)
Deferred tax liabilities	—	(33,696)	(33,696)
Net assets	25,801	101,088	126,889
Minority interests			(15,014)
Goodwill			140,090
Total consideration			251,965

	2007
	RMB'000
Total consideration satisfied by:	
Cash	**197,200**
Other payables	**54,765**
Total consideration	**251,965**
Net cash outflow arising on acquisition:	
Cash consideration paid	**(197,200)**
Less: Cash and cash equivalents acquired	**10,590**
	(186,610)

Included in the profit for the year is RMB27,117,000 attributable to the additional business generated by Taishan China United.

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(i) On 31 October, 2007, the Group acquired 100% of the equity interests of 日照市港源水泥有限公司 ("Rizhao China United") for consideration of RMB164,500,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement.

Net assets acquired in the transactions, and the goodwill arising, are as follows:

	2007		
	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	RMB'000	*RMB'000*	*RMB'000*
Net assets acquired:			
Property, plant and equipment	326,700	5,154	331,854
Prepaid lease payments	2,413	40,137	42,550
Inventories	50,118	—	50,118
Deferred tax assets	2,622	—	2,622
Trade and other receivables	35,233	—	35,233
Pledged bank deposits	113,796	—	113,796
Cash and cash equivalents	2,732	—	2,732
Trade and other payables	(183,774)	—	(183,774)
Borrowings	(372,796)	—	(372,796)
Financial guarantee contracts	(3,860)	—	(3,860)
Deferred tax liabilities	—	(11,323)	(11,323)
Net assets	(26,816)	33,968	7,152
Minority interests			(927)
Goodwill			158,275
Total consideration			164,500

Note: About RMB927,000 of the acquiree's minority interests on the acquisition date is included in above minority interests balance.

	2007
	RMB'000
Total consideration satisfied by:	
Cash	**164,500**
Net cash outflow arising on acquisition:	
Cash consideration paid	**(164,500)**
Less: Cash and cash equivalents acquired	**2,732**
	(161,768)

Included in the profit for the year is RMB5,657,000 attributable to the additional business generated by Rizhao China United.

37. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(j) On 31 October 2007, the Group acquired certain assets through acquisition 80% of the equity interests of 安徽中廣源水泥有限公司("Zhongguangyuan") for consideration of RMB151,867,000 from independent third party.

The fair values of net assets acquired are as follows:

	2007 Fair value ***RMB'000***
Net assets acquired:	
Property, plant and equipment	**16,820**
Intangible assets	**73,601**
Prepaid lease payments	**31,792**
Trade and other receivables	**1,407**
Amounts due from the related parties	**60,000**
Cash and cash equivalents	**14,271**
Trade and other payables	**(8,057)**
Net assets	**189,834**
Minority interests	**(37,967)**
Total consideration	**151,867**
Net cash outflow arising on acquisition:	
Cash consideration paid	**(38,210)**
Less: Cash and cash equivalents acquired	**14,271**
	(23,939)

Zhongguangyuan is in the construction stage and no profit and loss incurred in 2007.

38. NON-CASH TRANSACTIONS

During the year, a minority shareholder of a subsidiary of the Group contributed property, plant and equipment and prepaid lease payment as the registered capital of the subsidiary with the fair value of RMB140 million.

39. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following undiscounted maximum amounts of potential future payments under guarantees:

	2007	2006
	RMB'000	*RMB'000*
Guarantees given to banks in respect of banking		
facilities utilised by former related parties	**597,360**	—
facilities utilised by independent third parties	**920,290**	—
	1,517,650	

40. COMMITMENTS

	2007	2006
	RMB'000	*RMB'000*
Capital expenditure of the Group contracted but not provided in the consolidated financial statements in respect of:		
— Acquisition of property, plant and equipment	**1,028,777**	280,044
— Acquisition of prepaid lease payments	**—**	13,591
— Acquisition of subsidiaries	**2,300,510**	—

41. OPERATING LEASE COMMITMENTS

Lessee

At the balance sheet date, the Group had outstanding commitments under non-cancelable operating leases, which fall due as follows:

	2007	2006
	RMB'000	*RMB'000*
Within one year	**12,889**	13,730
In the second to fifth year inclusive	**28,915**	32,448
Over five years	**109,044**	97,283
	150,848	143,461

Operating lease payments represent rentals payable by the Group for certain of its business premises. Leases are negotiated for an average term of fifteen (2006: sixteen) years and rentals are fixed for an average term of fifteen (2006: sixteen) years.

Lessor

At the balance sheet date, the Group has contracted with tenants for the following future minimum lease payments:

	2007	2006
	RMB'000	*RMB'000*
Within one year	**35,578**	42,642
In the second to fifth year inclusive	**136,428**	152,130
Over five years	**382,114**	436,336
	554,120	631,108

The Group did not have contingent rental arrangement with the tenants in both years. The rentals are fixed at the commencement of the respectively leases. The lease periods are ranging from two years to twenty years.

42. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The Group is controlled by Parent and has significant transactions and relationships with Parent and its subsidiaries ("Parent Group"). The Group also has entered into transactions with its associates, over which the Company can exercise significant influence.

(a) Transactions with Parent Group, associates of the Group and minority shareholders of the Company's subsidiaries

Apart from the amounts due from and to related companies as disclosed in Note 27, during the year, the Group had the following transactions with Parent and Parent Group, the associates of the Group and minority shareholders of the Group's subsidiaries:

	2007	2006
	RMB'000	*RMB'000*
Provision of production supplies to		
— Parent Group	**113,504**	75,343
— Associates	**32,718**	22,019
— Minority shareholders of subsidiaries	**39,762**	49,355
	185,984	146,717
Provision of support services to Parent Group	**9,730**	10,055
Provision of technical consultation services to minority shareholders of a subsidiary	**3,000**	4,000
	3,000	4,000
Rental income in respect of supply of equipment to Parent Group	**12,013**	8,367
Rental income received from an associate	**1,053**	12,436
Rendering of engineering services to Parent Group	**—**	600
Licensing of trademarks to Parent Group	**123**	128

42. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Transactions with Parent Group, associates of the Group and minority shareholders of the Company's subsidiaries *(Continued)*

Apart from the amounts due from and to related companies as disclosed in Note 27, during the year, the Group had the following transactions with Parent and Parent Group, the associates of the Group and minority shareholders of the Group's subsidiaries: *(Continued)*

	2007	2006
	RMB'000	*RMB'000*
Interest income received from minority shareholders of a subsidiary	**3,737**	—
Supply of raw materials by		
— Parent Group	**72,721**	77,935
— Associates	**17,135**	33,333
— Minority shareholders of subsidiaries	**25,162**	39,560
	115,018	150,828
Provision of production supplies by		
— Parent Group	**39,051**	24,575
— Associates	**79,441**	7,799
— Minority shareholders of subsidiaries	**2,077**	23,156
	120,569	55,530
Provision of support services by		
— Parent Group	**21,940**	26,329
— Minority shareholders of subsidiaries	**4,521**	3,839
	26,461	30,168
Rendering of engineering services by Parent Group	**18,378**	7,527
Supplying of equipment by Parent Group	**49,304**	36,244
Rental expenses paid to Parent Group	**630**	180

42. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Material transactions and balances with other state-owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (these enterprises other than Parent Group are hereinafter collectively referred to as "State-Owned Enterprises"). During the year, the Group had material transactions with some of these State-Owned Enterprises in its ordinary and usual course of business. In establishing its pricing strategies and approval process for its products and services, the Group does not differentiate whether the counter-party is a State-Owned Enterprise or not. In the opinion of the directors, all such transactions were conducted in the ordinary course of business and on normal commercial terms.

While the directors of the Company consider State-Owned Enterprises are independent third parties so far as the Group's business transactions with them are concerned, for the purpose of this report, the Group has identified the nature and quantified the amounts of its material transactions with State-Owned Enterprises during the year as follows:

(i) Material transactions

	2007	2006
	RMB'000	*RMB'000*
Sales	**281,699**	393,634
Purchases	**1,547,771**	1,039,599
Finance costs	**517,233**	269,261

42. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Material transactions and balances with other state-owned enterprises in the PRC *(Continued)*

(ii) Material balances

	2007	2006
	RMB'000	*RMB'000*
Trade and other receivables	**113,469**	41,100
Trade and other payables	**189,646**	64,389

In addition, the Group has entered into various transactions, including borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

(c) Remuneration to key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly and indirectly including directors and supervisors of the Group. The key management personnel compensations during the year are as follows:

	2007	2006
	RMB'000	*RMB'000*
Short-term benefits	**7,525**	1,038
Share-based payments	**1,091**	527
Post-employment benefits	**73**	54
	8,689	1,619

43. EMPLOYEE BENEFITS PLAN

The PRC employees of the Group are members of state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The contributions payable to the scheme by the Group at rate specified in the rules of the scheme included in staff costs are disclosed in Note 12.

44. SHARE APPRECIATION RIGHTS PLAN

In order to provide additional incentives to the Group's senior management and to enhance the alignment between the performance of the Group's senior management and shareholder value, on 28 February 2006, the Company adopted a long-term incentive plan of share appreciation rights (the "Plan") for the Group's senior management officers, senior experts and specialist who make important contributions to the Group.

Under the Plan, a share appreciation right ("SA Right") represents the right to receive a cash payment equal to the appreciation, if any, in the fair market value of a H Share from the date of the grant of the right to the date of exercise.

SA Rights will be granted in units with each unit representing one H Share. All SA Rights will have an exercise period of six years from the date of grant. An individual may not exercise his or her SA Rights during the first two years after the date of grant. After two and three years of the date of grant, the total number of SA Rights exercised by an individual may not in aggregate exceed one-third and two-thirds, respectively, of the total SA Rights granted to the individual. After four years of the date of granted, the SA Rights will be fully vested.

On 18 September 2006, the Company granted 5,880,000 units of SA Rights at exercise price of HK$3.5 each unit to the senior management of the Company as follows:

	Units of SA Rights granted
Directors and a supervisor of the Company	2,680,000
Other senior management	3,200,000
	5,880,000

As the SA Rights vest at different amounts until the grantee have completed a specified period of service, the Company recognised the services received and a liability of RMB2,877,000 (2006: RMB1,156,000), being the estimated compensation paid for service rendered by the grantee during the year.

According to Guo Zi Fa Fen Pei [2006] No.8, "Trial Method for Share Incentive Scheme of State-controlled Listing Company ", the compensation should not exceed 40% of personal total salary and bonus.

45. SUBSEQUENT EVENTS

Subsequent to 31 December 2007 and up to the date of this report, the Group entered into following material transactions:

a) On 15 January 2008, the Company entered into investment agreement with 中非發展基金有限公司 ("CADF"), an independent third party, in relation to the establishment of 中非建材投資發展有限公司 ("Zhongfei Investment"), as a manufacturer and seller of cement and other building material products in Africa. The Company and CADF will contribute RMB600 million and RMB400 million in cash, respectively. After the capital contributions, Zhongfei Investment will become a 60% owned subsidiary of the Company. CADF, established under the approval of the State Council of the PRC government on 14 March 2007 is used to provide support to African countries and the development of Chinese enterprises in Africa.

The above transaction has not been completed by the date of the report.

b) On 30 January 2008, 德州中聯大壩水泥有限公司 ("Dezhou China United"), a 85% owned subsidiary of China United, entered into the assets acquisition agreement with 德州晶華集團大壩有限公司 ("Dezhou Daba") to purchase the assets from Dezhou Daba and assume all rights and obligations in relation to the assets. Dezhou China United agreed to settle the consideration for the acquisition of the assets by assuming the assumed liabilities, which comprise bank loans of approximately RMB687.7 million and other liabilities of approximately RMB24.6 million and paying Dezhou Daba a cash consideration of RMB88.1 million. Dezhou Daba is a subsidiary of德州晶華集團有限公司, a minority shareholder of Dezhou China United.

c) On 30 January 2008, Xichuan China United Cement Company Limited ("Xichuan China United"), a 60% owned subsidiary of China United, and Henan Xichuan Cement Company Limited ("Henan Xichuan") entered into the asset acquisition agreement pursuant to which Xichuan China United agreed to purchase line of Henan Xichuan with a daily production capacity of 3,000 tonnes, which currently under construction, from the Henan Xichuan for a total consideration of approximately RMB107 million (subject to adjustments).

d) In addition, on 30 January 2008, China United has entered into the acquisition of 80% equity interest of Shandong Jinlucheng Company Limited ("Shandong Jinlucheng"), a manufacturer and seller of cement and related products in Shandong, the PRC, from Sun Jiancheng for a consideration of RMB132,000,000 after the reorganisation of Shandong Jinlucheng.

e) On 4 January 2008, South Cement entered into an agreement with an independent third party to subscribe 40% equity interest in 安徽三獅和德水泥有限公司, a manufacturer and seller of cement, at a cash consideration of RMB115 million.

The above transaction has not been completed by the date of the report.

f) On 7 January 2008, South Cement entered into an agreement with an independent third party to acquire 90% equity interest in 浙江申河水泥有限公司, a manufacturer and seller of cement, at a cash consideration RMB255 million.

45. SUBSEQUENT EVENTS *(CONTINUED)*

g) On 11 January 2008, South Cement entered into an agreement with an independent third party to acquire 100% equity interest in 浙江虎鷹水泥有限公司, a manufacturer and seller of cement, at a cash consideration RMB90 million.

The above transaction has not been completed by the date of the report.

h) On 28 January 2008, South Cement entered into an agreement with an independent third party to acquire 80% equity interest in 嘉興芽芽水泥有限公司, a manufacturer of clinker and cement and seller of cement, 75% equity interest in 桐鄉超石水泥有限公司, a manufacturer and seller of cement and new energy-saving wall materials, and 100% equity interest in 浙江兆山新星集團安吉水泥有限公司, a manufacturer and seller of cement products, clinker, as well as limestone mining, at a cash consideration of RMB173 million, RMB25 million, and RMB284 million, respectively.

The above transaction has not been completed by the date of the report.

i) The board of directors of the Company has passed a resolution and proposed to issue additional H Shares in the capital of the Company to professional, institutional and individual investors by way of private placement, which shall not exceed 300 million H Shares. The issue price shall be determined by reference to the prevailing market price of the H Shares at the time of entering into agreement for the issuance of the Placing Shares and all other relevant market considerations. On 27 March 2008, the extraordinary general meeting has approved the resolution of the board of directors.

The above transaction has not been completed by the date of the report.

j) On 8 April 2008, the board of directors of the Company resolved to convene the extraordinary general meeting to seek the proposed issue of the short-term debenture, which principal amount shall not be more than RMB2.5 billion, with maturity of no more than 1 year to financial institutions including banks in the PRC. The proceeds from the proposed issue of the short-term debenture will be used, as currently contemplated, as the Company's working capital so as to meet the Company's short term financial needs.

The above transactions have not been completed as at the date of this report.