China National Building Material Company Limited*

(Stock Code: 3323)

CNBM

Annual Report 2008

*For identification only

Financial and Business Highlights

	As at 31 December	
	2008	2007
	(RMB in millions)	
Bank balances and cash	**3,726**	3,151
Total assets	**58,904**	29,880
Equity attributable to equity holders of the Company	**8,830**	7,386

	For the year ended 31 December	
	2008	2007
	(RMB in millions)	
Revenue	**26,365**	10,514
Profit after taxation	**1,873**	1,149
Profit attributable to equity holders of the Company	**1,512**	912
Cash flows from operating activities	**4,588**	697
Sales volume		
Cement sold by China United *(in thousand tonnes)*	**23,180**	13,781
Clinker sold by China United *(in thousand tonnes)*	**9,101**	6,718
Cement sold by South Cement *(in thousand tonnes)*	**32,391**	3,063
Clinker sold by South Cement *(in thousand tonnes)*	**14,218**	2,240
Gypsum board *(in million m^2)*	**323**	303
Revenue from engineering service *(RMB in millions)*	**3,244**	2,109
Glass fiber yarn *(in thousand tonnes)*	**533**	419
Selling price		
Cement sold by China United *(RMB per tonne)*	**232.1**	190.3
Clinker sold by China United *(RMB per tonne)*	**211.0**	158.1
Cement sold by South Cement *(RMB per tonne)*	**230.6**	203.5
Clinker sold by South Cement *(RMB per tonne)*	**222.2**	187.7
Gypsum board		
— BNBM *(RMB per m^2)*	**6.80**	6.29
— Taishan Gypsum *(RMB per m^2)*	**4.81**	4.15
Growth rate		
Revenue	**150.8%**	63.0%
Profit attributable to equity holders of the Company	**65.7%**	65.6%
Others		
Return on capital	**17.1%**	12.4%
Earnings per share-basic	**0.68**	0.43

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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 and 300 million H shares were placed on 9 August 2007 and 5 February 2009 respectively.

The Group is mainly engaged in cement, lightweight building materials, glass fiber, composite materials and engineering services businesses. As regards the current market positions (in terms of the production capacity in 2008), 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 Asia;
- the largest producer of 1.5 MW-level rotor blade in the PRC;
- the largest glass fiber producer in the world 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
Li Decheng
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
Cui Shuhong *(Staff Representative Supervisor)*
Liu Zhiping *(Staff Representative Supervisor)*
Ma Zhongzhi *(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 (FCCA)
Registered Address:	No. A-11 Sanlihe Road Haidian District, Beijing The 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 Firm 15th Floor, Union Plaza 20 Chaoyangmenwai Avenue Beijing The PRC
Hong Kong Legal Adviser:	Slaughter and May 47th Floor, Jardine House One Connaught Place Central Hong Kong

Corporate Information

International Auditor:	UHY Vocation HK CPA Limited 3/F, Malaysia Building 50 Gloucester Road Wanchai Hong Kong
Domestic Auditor:	Vocation International Certified Public Accountants Co., Ltd. Room 208, Building B of Huatong Mansion No. 19, Chegongzhuang West Road Yi Haidian District, Beijing The PRC
H Share Registrar in Hong Kong:	Tricor Investor Services Limited 26/F, Tesbury Centre 28 Queen's Road East Wanchai 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)
"Beichuan China United"	北川中聯水泥有限公司(Beichuan China United Cement 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)
"BNS"	北新科技發展有限公司(BNS Company Limited)
"BNBM Suzhou"	蘇州北新礦棉板有限公司(BNBM Suzhou Mineral Fiber Ceiling 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)
"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"	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

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Definitions

"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules
"CSRC"	China Securities Regulatory Commission
"Dezhou China United"	德州中聯大壩水泥有限公司(Dezhou China United Daba Cement Company Limited)
"Dezhou Daba"	德州晶華集團大壩有限公司(Dezhou Jinghua Group Daba Company Limited)
"Dezhou Jinghua"	德州晶華集團有限公司(Dezhou Jinghua Group 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
"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
"Henan Ruifa"	河南瑞發水電設備有限公司(Henan Ruifa Hydropower Equipment Company Limited)
"Henan Xichuan"	河南省淅川水泥有限公司(Henan Xichuan Cement Company Limited)
"Hengjiu Concrete"	山東魯宏恒久混凝土工程有限公司(Shandong Luhong Hengjiu Concrete Company Limited)
"Hengzhijiu Trade"	山東恒之久商貿有限公司(Shandong Hengzhijiu Commercial Trade Company Limited)
"Huafu Property"	華府房地產開發有限公司(Huafu Property Development 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
"Hunan South Cement"	湖南南方水泥有限公司(Hunan South Cement 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

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Definitions

"Jushi Group"	巨石集團有限公司(Jushi Group 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)
"Nanfang Jianfeng"	浙江南方尖峰水泥有限公司(Zhejiang Nanfang Jianfeng 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
"North Cement"	北方水泥有限公司(North Cement Company Limited)
"North Region"	the north region of the PRC, including but not limited to Liaoning, Jilin, Heilongjiang and Inner Mongolia
"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"	the People's Republic of China
"Promoters"	the initial promoters of the Company, being Parent, BNBMG, Cinda, Building Materials Academy and CNBM Trading
"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 2008 to 31 December 2008
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council

Definitions

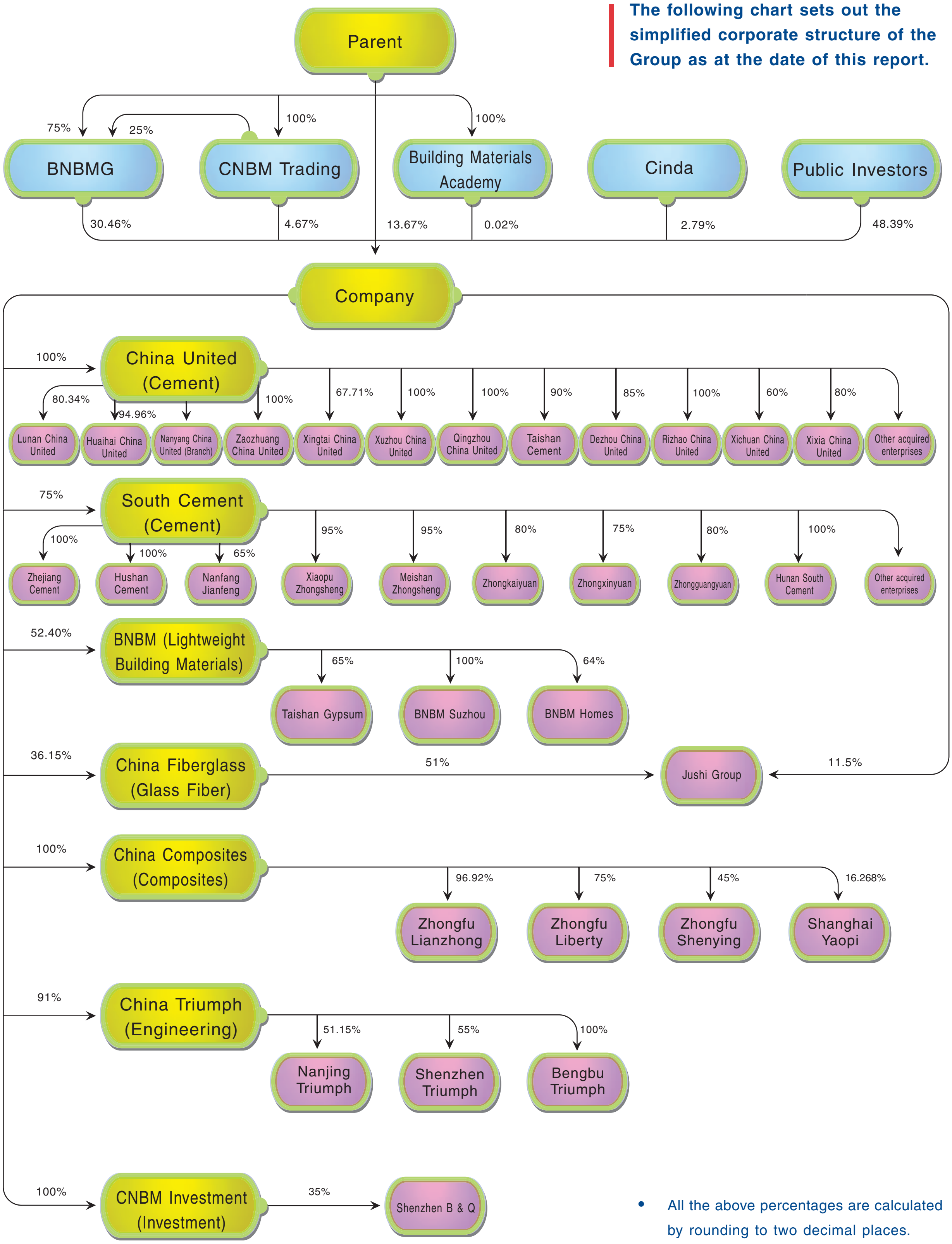
"Shanghai Yaopi"	上海耀華皮爾金頓玻璃股份有限公司(Shanghai Yaohua Pilkington Glass Co., Ltd.)
"Share(s)"	ordinary shares of the Company with a nominal value of RMB1.00 each, comprising both Domestic Shares and H Shares
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen B&Q"	深圳百安居裝飾建材有限公司(Shenzhen B&Q Decoration & 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, Jiangxi 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
"Taishan Cement"	泰山水泥集團有限公司(Taishan Cement Group Company Limited)
"Taishan Gypsum"	泰山石膏股份有限公司(Taishan Gypsum Company Limited)
"Tianma Group"	常州天馬集團有限公司(Changzhou Tianma Group Company Limited)
"Three Five Management Operation Mode"	Five N (operation mode), i.e. integration, modelization, institutionalization, processisation and digitalisation. Five C (management mode), i.e. marketing centralisation, procurement centralisation, financial centralisation, technical centralisation, investment decision-making centralization. Five I (five operation indices, key operation indices) , i.e. net profit, selling price and sales volume, cost, cash flow, gearing ratio
"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)

Definitions

"Xichuan China United"	淅川中聯水泥有限公司(Xichuan China United Cement Company Limited)
"Shuichan Group"	山東西港水產集團公司(Shandong Xigang Aquatic Group Company)
"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)
"Xixiaguanhe"	河南省西峽灌河水泥有限責任公司(Xixiaguanhe Company Limited)
"Xixia Logistics"	西峽中聯物流有限公司(Xixia Logistics 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 Cement"	浙江水泥有限公司(Zhejiang 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)
"Zhongfu Shenying"	中複神鷹碳纖維有限公司(Zhongfu Shenying Carbon Fiber Company Limited)
"Zhongfu Xigang"	威海中複西港船艇有限公司(Weihai China Composites Xigang Boat 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.

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Financial Highlights

The Group's financial results highlights for the year 2007 and 2008 are as follows:

	For the year ended 31 December	
	2008	2007
	(RMB in thousands)	
Revenue	**26,365,159**	10,514,411
Gross profit	**4,513,421**	1,995,086
Profit after taxation	**1,873,356**	1,148,733
Profit attributable to equity holders of the Company	**1,511,542**	912,446
Distribution made to the equity holders of the Company	**72,880**	67,123
Gains per share — basic *(RMB)*(1)	**0.68**	0.43

Note:

(1) *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 2,123,042,345 shares for 2007 and the weighted average number of 2,208,488,000 shares for 2008.*

	As at 31 December	
	2008	2007
	(RMB in thousands)	
Total assets	**58,904,191**	29,879,987
Total liabilities	**46,770,967**	20,127,009
Net assets	**12,133,224**	9,752,978
Minority interests	**3,302,874**	2,367,403
Equity attributable to equity holders of the Company	**8,830,350**	7,385,575
Net assets per share — weighted average *(RMB)*(1)	**4.00**	3.48
Debt to assets ratio(2)	**42.9%**	44.8%
Net debts/equity ratio(3)	**177.4%**	104.9%

Notes:

(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 2,123,042,345 shares for 2007 and the weighted average number of 2,208,488,000 shares for 2008.*

(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%*

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Business Highlights

The major operating data of each segment of the Group for 2007 and 2008 are set out below:

CEMENT SEGMENT

China United

	For the year ended 31 December	
	2008	2007
Production volume-cement (in thousand tonnes)	**23,109.3**	13,675.6
Production volume-clinker (in thousand tonnes)	**24,170.0**	15,635.5
Sales volume-cement (in thousand tonnes)	**23,180.0**	13,780.7
Sales volume-clinker (in thousand tonnes)	**9,100.7**	6,717.9
Unit selling price-cement (RMB per tonne)	**232.1**	190.3
Unit selling price-clinker (RMB per tonne)	**211.0**	158.1

South Cement

	For the year ended 31 December	
	2008	2007
Production volume-cement (in thousand tonnes)	**30,673.4**	2,987.6
Production volume-clinker (in thousand tonnes)	**32,808.3**	3,841.4
Sales volume-cement (in thousand tonnes)	**32,390.6**	3,063.2
Sales volume-clinker (in thousand tonnes)	**14,217.7**	2,240.3
Unit selling price-cement (RMB per tonne)	**230.6**	203.5
Unit selling price-clinker (RMB per tonne)	**222.2**	187.7

Business Highlights

LIGHTWEIGHT BUILDING MATERIALS SEGMENT

	For the year ended 31 December	
	2008	2007
Gypsum boards — BNBM		
Production volume *(in million m^2)*	**56.0**	64.5
Sales volume *(in million m^2)*	**60.5**	59.6
Average unit selling price *(RMB per m^2)*	**6.80**	6.29
Gypsum boards — Taishan Gypsum		
Production volume *(in million m^2)*	**269.0**	241.6
Sales volume *(in million m^2)*	**262.3**	243.4
Average unit selling price *(RMB per m^2)*	**4.81**	4.15
Acoustical ceiling panels — BNBM		
Production volume *(in million m^2)*	**6.4**	6.1
Sales volume *(in million m^2)*	**6.1**	6.9
Average unit selling price *(RMB per m^2)*	**17.99**	17.03
Acoustical ceiling panels — BNBM Suzhou		
Production volume *(in million m^2)*	**4.2**	3.7
Sales volume *(in million m^2)*	**4.6**	3.5
Average unit selling price *(RMB per m^2)*	**8.87**	7.56
Lightweight metal frames		
Production volume *(in thousand tonnes)*	**29.1**	35.1
Sales volume *(in thousand tonnes)*	**28.3**	38.2
Average unit selling price *(RMB per tonne)*	**6,974.1**	5,838.0

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Business Highlights

GLASS FIBER AND COMPOSITE MATERIALS SEGMENT

	For the year ended 31 December	
	2008	2007
FRP Products		
Production volume *(in thousand tonnes)*	**18.9**	13.0
Sales volume *(in thousand tonnes)*	**15.4**	16.1
Average unit selling price *(RMB per tonne)*	**17,982.0**	16,688.0
Glass Fiber Mats		
Production volume *(in million m²)*	**109.6**	79.7
Sales volume *(in million m²)*	**108.8**	77.4
Average unit selling price *(RMB per m²)*	**0.92**	0.96
Rotor blade		
Production volume *(in blade)*	**2,558.0**	1,012.0
Sales volume *(in blade)*	**2,378.0**	933.0
Average unit selling price *(RMB per blade)*	**451,215.0**	452,118.0

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Chairman's Statement

SONG ZHIPING
Chairman
Executive Director

To Shareholders,

2008 has left a distinctive mark on history. No effort was spared in overcoming the adversities arising from large-scale natural disasters and an international financial crisis that are rarely seen in history. In 2008, China's GDP increased by 9.0%, reflecting relatively fast growth, and resulting in more stable prices, optimised structure and improved livelihood for the people. The total investment in fixed assets grew year-on-year by 25.5%, up 0.7 percentage point from the same period last year. The national building material industry also witnessed a rapid increase in efficiency following an increasingly stable business landscape and improved industry structure. In 2008, with support from the Board and its shareholders, CNBM's management led its staff in overcoming difficulties such as a snow storm disaster, an earthquake and the financial crisis. The Company also steadily pressed ahead with consolidation and restructuring, carried out further management integration and took initiatives in capital operation. More efforts were made to regulate capital expenditure, project construction and production operation. The Company's healthy fundamentals, seamless operation and outstanding performance, would thus ensure stable, rapid and healthy development. I would like to express my heartfelt gratitude to investors who recognise CNBM's enterprise value and market position and thank shareholders for their lasting faith in the Company.

On behalf of the Board, I am pleased to present the Company's 2008 Annual Report and results to all shareholders.

Under IFRS, the Group's consolidated revenue amounted to RMB26,365.2 million for 2008, representing an increase of 150.8% over last year. Profit attributable to equity holders of the Company amounted to RMB1,511.5 million, representing an increase of 65.7% over 2007.

Chairman's Statement

In the cement business segment, the Company continued its consolidation and restructuring efforts during the year. By enlarging its market share in Huaihai and Southern China and improving management integration, continuous synergy has taken shape between enterprises in our core profit regions such as Shandong, Henan, Zhejiang, Shanghai, Jiangsu, Hunan and Jiangxi. Meanwhile, the Company has also made steady progress in terms of its residual heat power generation projects and cement grinding station projects, which reinforced the Group's edge in the regional cement business segment. In the lightweight building material business segment, gypsum board industrial layout has been basically completed. We further consolidated our leading position through establishing our marketing channels and brand building. Key breakthroughs were made in terms of project construction, business scale and industry position. CNBM has become the largest gypsum board producer in Asia. In the composite materials business segment, rotor blade industrial layout has been basically completed. Rotor blade bases in Lianyungang phase III, Shenyang, Jiuquan and Baotou have all commenced construction, targeting a capacity of 10,000 blades a year. Phase I of our 10,000-tonne carbon fiber project marked one of our breakthroughs in China and on the international technical arena when it commenced production. We have also actively expanded the production scale of our glass fiber business segment. Since China Fiberglass' glass fiber production line was put into production, it has become the largest fiber glass producer in the world. In the engineering service business segment, our cement engineering construction abilities have been enhanced rapidly and comprehensively.

Looking into the year ahead, we see opportunities accompanied by challenges. Though the financial crisis continues to spread, the RMB4 trillion stimulus package offered by the government has boosted domestic demand and has given rise to ample structural adjustments, consolidation, restructuring and management integration opportunities to large conglomerates in the building materials industry, such as CNBM.

In the cement business segment, on top of continued reinforcement of and improvement in regional consolidation and restructuring, the Company will further promote management integration and pragmatic management whilst further rationalizing its business layout to secure steady progress of our projects under construction. In the lightweight building materials business segment, we will increase the range of our principal products to enhance market share and further our expansion into potential markets. In the composite materials business segment, we aim to build the largest rotor blade production base in China and put more effort into developing new products and technical innovation. In the glass fiber business segment, we will intensify our marketing and consolidation efforts, explore new markets, readjust structure and improve profit margin. In the engineering service business segment, we will continue our efforts in consolidating our high-end glass engineering technology operations, competing for market share in the cement technology market and upgrading our core competitiveness.

2009 will be a year of management integration for CNBM. The Company will stand up to adversities with confidence and resolve and steadily foster capital operation and joint reorganization. With stronger management integration, our performance will be brought to a new level. Meanwhile, CNBM aims to spearhead industry restructuring, upgrading, technology innovation as well as energy conservation and emission reduction. We will present outstanding results to our shareholders and overseas investors.

Song Zhiping
Chairman

Beijing, the PRC
21 April 2009

CNBM

Management Discussion and Analysis

CAO JIANGLIN
President
Executive Director

BUSINESS OVERVIEW

The business segments and the major operating entities of each business segment for the Group as at 31 December 2008 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	100.00%
		South Cement	75.00%
Lightweight building materials	Dry wall and ceiling system	BNBM	52.40%
Glass fiber and composite materials	Rotor blades	China Composites	100.00%
	Glass fiber	China Fiberglass	36.15%
Engineering services	Design and engineering EPC services: Float glass production lines and NSP cement production lines	China Triumph	91.00%

CNBM

Management Discussion and Analysis

CEMENT SEGMENT

Review of the cement industry in the PRC in 2008

According to the NDRC, the total output of cement in the PRC amounted to approximately 1.39 billion tonnes in 2008, an increase of 5.2% over 2007. Amid the economic downturn, cement output maintained moderate growth while cement price increased over last year. By improving overall operation quality, the cement industry established a new profit record of RMB28 billion.

During the year, outdated production facilities were gradually phased out in the industry. The remarkable results achieved, of which NSP cement clinker accounted for 61%, can be attributed to industry restructuring. According to the preliminary analysis conducted by China Cement Association, outdated production facilities with over 60 million tonnes of capacity were eliminated in 2008, thus contributing to the enforcement of energy saving and emission reduction policies.

In 2008, production concentration increased rapidly through merger, restructuring, consolidation and resource allocation optimization, which boosted restructuring of the cement industry and greatly improved overall conditions within the industry. The core competitiveness of leading producers has significantly improved.

Review of the Group's cement business in 2008

Steady progress in consolidation and restructuring

In 2008, we pushed ahead with our consolidation and restructuring efforts in the Huaihai Economic Zone and the Southeast Economic Zone. By enlarging market share, continuous synergy has taken shape in our core profit regions including Shandong, Henan, Zhejiang, Shanghai, Jiangsu, Hunan and Jiangxi. By the end of 2008, the cement capacity of the Company was over 110 million tonnes.

Management Discussion and Analysis

CEMENT SEGMENT *(CONTINUED)*

Review of the Group's cement business in 2008 *(Continued)*

Seamless development of project construction

Phase III of Zaozhuang China United (daily capacity: 5,000 tonnes), Beichuan China United (daily capacity: 4,800 tonnes) and the technological improvement project for the clinker production line (daily capacity: 3,700 tonnes) belonging to Huaihai China United are under construction. The residual-heat power generation projects of Lunan China United, Nanyang China United, Xuzhou China United, Zaozhuang China United and Qingzhou China United have been completed and integrated into power grid. South Cement's cement product line and auxiliary residual-heat power generation projects were carried out smoothly and in an orderly manner, as scheduled. Deployment and construction of China United and South Cement's auxiliary grinding station projects are progressing actively.

Clinker production base of Zhejiang Cement with a daily capacity of 10,000 tonnes

Management Discussion and Analysis

CEMENT SEGMENT *(CONTINUED)*

Review of the Group's cement business in 2008 *(Continued)*

Remarkable effects of management integration

China United further expanded centralized procurement during the year. Centralized procurement methods controlled the increasing cost of raw materials and fuel to a certain extent. By implementing marketing management and marketing integration, China United achieved market synergy for its subsidiaries in the region, thus facilitating the recovery of price in Shandong and Xuzhou. It also established a regional market linkage mechanism. The cement product sales features assisted China United in enhancing regulate the cement market by controlling over clinker resources. China United further enforced the supervision of effective pricing strategies. All qualified controlling enterprises under China United were unified in accordance with a single brand strategy by the end of 2008. "CUCC" has become a famous brand in its region.

By actively putting forward the Three Five Management Operation Mode, South Cement upgraded overall management integration. In order to reach the aim of achieving marketing synergy and marketing integration, South Cement has formed a regional integrated sales and marketing platform, established the South Cement (Zhejiang) Market Management Committee and sales and marketing centers in Zhebei, Jiaxing, Sunan and Shanghai in 2008 to reinforce management integration. South Cement strengthened marketing synergy, centralised sales and marketing and procurement of raw materials and fuel, enforced "concurrence" strategy, adjusted cement prices and protected market order. South Cement successfully dealt with coal, electricity and transportation price hikes by transferring the cost pressure to promote the cement price increased three times during recovery in Zhejiang Province, thus resulting in an increase in corporate profit. Through centralisation of financial management and effective integration of financial resources, South Cement managed to support the capital needs of its subsidiaries. Centralising the decision-making process enabled the standardization of investment policies. Production and operation modes have been optimised through technical synergy and the support of advanced technology.

LIGHTWEIGHT BUILDING MATERIALS SEGMENT

Review of the lightweight building materials industry in the PRC in 2008

As requirements for construction quality become stricter, demand for green, environment friendly and multifunctional new building material will keep growing rapidly. In particular, gypsum board, which is a type of new lightweight board, is becoming commonly used in the global construction field. Use of gypsum boards will grow once government policy banning the use of reformed wall materials such as solid clay bricks is implemented in China.

CNBM

Management Discussion and Analysis

LIGHTWEIGHT BUILDING MATERIALS SEGMENT *(CONTINUED)*

Review of the Group's lightweight building materials business in 2008

Strengthening marketing channels and brand building, and strengthening efforts in marketing landmark projects

Following successful bids for Olympic projects in 2007, the Company's products, such as gypsum boards, lightweight metal frame systems, mineral wool board systems and "Dragon" brand paint were also used in the Shanghai Expo 2010 park project. The Company's "Dragon" brand products have also been widely used in landmark projects, key national projects, major hotels and high-rise buildings as well as civil servants housing in Shandong, Anhui and Shanxi. During 2008, "Dragon" brand gypsum board was honoured as a "Well-known Trademark in China" by State Administration of Industry and Commerce, and it is also the only "Double-Certificated" brand in the industry which has obtained national certification and judicial accreditation.

Remarkable breakthrough in project construction, scale of operation and industry position

In 2008, the construction of gypsum board production lines in Ninghai of Zhengjiang Province, Taicang of Jiangsu Province, Zhaoqing of Guangdong Province and Guang'an of Sichuan Province were completed in succession. The construction project of gypsum board production lines in Tieling of Liaoning Province, Wuhan of Hubei Province, Tongling of Anhui Province and Yanshi of Henan Province are progressing steadily. The construction of gypsum board industrial bases in China have basically been completed. By the end of 2008, the Group's gypsum board capacity amounted to 500 million square metres, making the Group the No. 1 gypsum board producer in Asia.

Taicang gypsum board production line of BNBM commenced operation on 5 November 2008 with an annual capacity of 30 million square metres.

Noticeable progress in technology innovation

BNBM has become a domestic leader in terms of independent research and development of gypsum board production line technology. All newly constructed gypsum board production lines have adopted environment friendly production technology for disulphuric gypsum. Accordingly, the Company has successfully mastered mainstream gypsum board production line technology. The Company possesses some of the world's most advanced gypsum board production technology.

Management Discussion and Analysis

GLASS FIBER AND COMPOSITE MATERIALS SEGMENT

Review of the glass fiber and composite materials industry in the PRC in 2008

Composite materials industry

According to the China Composites Industry Association, with the development of renewable energy, the rotor blade industry will witness huge potential for development. In 2008, more than 5 enterprises were engaged in the bulk production of rotor blades, with an output of approximately 6 million KW.

Glass fiber industry

According to the China Building Materials Association, output from the glass fiber industry maintained its rapid growth momentum in 2008, with six glass fiber enterprises including Jushi, Taishan, Chongqing, OCV, PPG and JM accounting for 84% of global glass fiber production capacity. Such domination of the glass fiber industry is expected to continue in the near future. In the second half of 2008, the effect of the global financial crisis caused prices to decline and export growth to slow down.

Review of the Group's glass fiber and composite materials segment in 2008

Composite materials business

In 2008, China Composites put considerable effort into the deployment of nationwide rotor blades industry bases. Following the construction of the Lianyungang wind power project, wind power parks in Shenyang, Jiuquan and Baotou also commenced construction. These projects are expected to commence production in tandem in 2009, providing blades to wind fields nearby. With the successful roll-out of various new type blades and successful development of the 2.0MW mould, China Composites is now equipped with its own core technology for the manufacture of blades, thus enhancing its competitiveness. Whilst developing its rotor blade technology, China Composites has also managed to gain market share in the traditional FRP products market, and has emerged as a leading provider of large field FRP containers in domestic key projects.

As at the end of 2008, China Composites had produced 2,558 pieces rotor blades, including 201 pieces of 2MW rotor blades.

Glass fiber business

Amid fierce market competition and grim macroeconomic conditions caused by the global financial crisis, China Fiberglass has managed to overcome the adverse effects of raw material and fuel price hikes, appreciating Renminbi and a lower tax refund rate. It achieved stable and rapid growth in its businesses by proactively expanding the production scale of its principal business and steadily implementing structural adjustments. In July 2008, China Fiberglass' capacity has reached 900,000 tonnes and became the world's largest glass fiber producer when it put its alkali-free glass fiber direct-melt furnace production line, with a capacity of 140,000 tonnes per annum into operation.

Management Discussion and Analysis

ENGINEERING SERVICES SEGMENT

Review of the Group's engineering service business in 2008

Expediting global expansion and further strengthening competitiveness

In 2008, confronted with various adverse factors, China Triumph ensured the full performance of external contracts by entering into certain arrangements. Leveraging upon its comprehensive advantages, it entered into a number of contracts relating to residual-heat power generation projects for its float glass as well as overseas EPC projects, technical service and foreign trade. As a driving force in the international cement engineering industry, China Triumph established its international brand by virtue of its high technology, high quality and adherence to the performance of its contracts. Accordingly, its cement engineering construction capabilities were enhanced rapidly.

Continuing technological progress and enhancing proprietary innovation

In 2008, China Triumph attached more importance to development of relevant technologies and products, and commercialization of research findings in relation to energy conservation and emission reduction as well as sustainable development. As a result, further progress was made in the research and development of relevant new technologies and products. China Glass New Materials Science and Technology Industry Park was constructed as scheduled. Upon completion of construction, it will become China's largest glass new materials industry cluster and its proprietary innovation achievements will be greatly enhanced.

FINANCIAL REVIEW

In 2008, our revenue increased by 150.8% to RMB26,365.2 million from RMB10,514.4 million in 2007. Our profit attributable to equity holders of the Company increased by 65.7% from RMB912.4 million in 2007 to RMB1,511.5 million in 2008.

Revenue

Our revenue for the year 2008 amounted to RMB26,365.2 million, representing an increase of 150.8% from RMB10,514.4 million in 2007, primarily due to an increase of RMB9,948.9 million in revenue from South Cement, an increase of RMB3,647.3 million in revenue from China United, an increase of RMB1,135.6 million in revenue from our engineering services segment, an increase of RMB767.7 million in revenue from our glass fiber and FRP products segment and an increase of RMB233.0 million in revenue from our lightweight building materials segment.

Cost of sales

Our cost of sales in 2008 amounted to RMB21,851.7 million, representing an increase of 156.5% from RMB8,519.3 million in 2007, primarily due to an increase of RMB8,834.0 million in cost of sales from South Cement, an increase of RMB2,870.1 million in cost of sales from China United, an increase of RMB785.3 million in cost of sales from our engineering services segment, an increase of RMB501.6 million in cost of sales from our glass fiber and FRP products segment and an increase of RMB217.6 million in cost of sales from our lightweight building materials segment.

Management Discussion and Analysis

FINANCIAL REVIEW *(CONTINUED)*

Other income

Other income increased by 72.3% to RMB1,186.6 million in 2008 from RMB688.5 million in 2007, primarily due to an increase in VAT refund of the Group to RMB484.0 million for the year 2008 from RMB271.3 million in 2007, an increase in government grants for the year 2008 to RMB475.8 million from RMB205.8 million in 2007, an increase in discount on acquisition of interests in subsidiaries for the year 2008 to RMB104.4 million from RMB5.2 million in 2007 and an increase in net rental income for the year 2008 to RMB57.0 million from RMB23.1 million in 2007, yet being partially offset by the decrease of RMB197.4 million in net gain from fair value of held-for-trading investments in 2008.

Selling and distribution costs

Selling and distribution costs increased by 68.6% to RMB884.0 million in 2008 from RMB524.3 million in 2007, primarily due to an increase of RMB124.3 million in transportation costs as a result of our rising sales volume, an increase of RMB119.3 million in packaging fees.

Administrative and other expenses

Administrative and other expenses increased by 131.5% to RMB1,436.8 million in 2008 from RMB620.7 million in 2007, primarily due to an increase of RMB107.4 million in salary, an increase of RMB104.3 million in depreciation cost, an increase of RMB67.0 million in tax (including stamp tax, property tax and land use tax), an increase of RMB31.9 million in emission fees, an increase of RMB31.6 million in amortization of intangible assets and an increase of RMB28.6 million in labour insurance.

Finance costs

Finance costs increased by 247.3% to RMB1,368.0 million in 2008 from RMB393.9 million in 2007, primarily due to the completion of our issuance of domestic short-term debenture on 28 July 2008 with a total amount of RMB2.4 billion with a maturity of one year 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 decreased by 32.7% to RMB155.3 million in 2008 from RMB230.8 million in 2007, primarily due to the decrease in the profits of our associate China Fiberglass. The decrease in China Fiberglass's net profit was mainly attributable to the decrease in fair value of held-for-trading investments.

Income tax expense

Income tax expense increased by 29.2% to RMB293.1 million in 2008 from RMB226.8 million in 2007, primarily due to the increase in profit before taxation.

Minority interests

Minority interests increased by 53.1% to RMB361.8 million in 2008 from RMB236.3 million in 2007, primarily due to the increase in operating profit in each of our business segments.

Management Discussion and Analysis

FINANCIAL REVIEW *(CONTINUED)*

Profit attributable to equity holders of the Company

Profit attributable to the equity holders of the Company increased by 65.7% to RMB1,511.5 million in 2008 from RMB912.4 million in 2007. Net profit margin decreased to 5.7% in 2008 from 8.7% in 2007.

South Cement

Acquisition

The Group established South Cement in September 2007. For the year ended 31 December 2007, 9 subsidiaries were included in the consolidated financial statements of South Cement, of which only the operating results for the four months from 1 September 2007 to 31 December 2007 were included for the year ended 31 December 2007. The following table sets out the revenue, cost of sales, gross profit and operating profit of the above nine corporations for the two periods.

	The above nine corporations as at 31 December *RMB in millions*	
	2008	2007
Revenue	**4,367.1**	1,036.9
Cost of sales	**3,944.0**	911.2
Gross profit	**423.1**	125.7
Operating profit	**378.5**	93.2

For the year ended 31 December 2008, 46 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 the 37 corporations newly included by South Cement in 2008 for the year ended 31 December 2008 and their respective contribution to South Cement:

	RMB in millions	Total percentage of the above thirty-seven corporations in South Cement
Revenue	**6,180.5**	56.3
Cost of sales	**5,499.8**	56.4
Gross profit	**680.7**	54.9
Operating profit	**671.9**	63.2

CNBM

Management Discussion and Analysis

FINANCIAL REVIEW *(CONTINUED)*

South Cement *(Continued)*

Acquisition *(Continued)*

In addition to the reasons stated below, changes in the operating results of South Cement of the Group for the year ended 31 December 2008 as compared with the year ended 31 December 2007, were also attributable to the inclusion of results of the newly acquired subsidiaries.

Revenue

For the year ended 31 December 2008, the revenue of South Cement increased by 959.5% from RMB1,036.9 million for the year ended 31 December 2007 to RMB10,985.8 million, primarily due to the increase of selling prices.

Cost of Sales

The cost of sales of South Cement for the year ended 31 December 2008 amounted to RMB9,745.2 million, representing an increase of 969.5% from RMB911.2 million for the year ended 31 December 2007, mainly resulting from the increase of cost of sales caused by a hike in coal price.

Gross profit and gross profit margin

Gross profit of South Cement increased by 887.0% to RMB1,240.6 million for the year ended 31 December 2008 from RMB125.7 million for the year ended 31 December 2007. Gross profit margin of South Cement decreased from 12.1% for the year ended 31 December 2007 to 11.3% for the year ended 31 December 2008, mainly resulting from the increase of cost of sales caused by a hike in coal price which was partially offset by higher selling prices.

Operating profit

Operating profit for South Cement increased by 1,039.4% to RMB1,062.4 million for the year ended 31 December 2008 from RMB93.2 million for the year ended 31 December 2007. Operating profit margin for the segment increased to 9.7% for the year ended 31 December 2008 from 9.0% for the year ended 31 December 2007, primarily due to the increase in other income including VAT refund and government grants as partially offset by declined gross profit margin.

China United

Acquisition and addition of new production lines

The acquisition by the Group's Dezhou China United, Qufu China United Company Limited (曲阜中聯水泥有限公司), Linyi China United Company Limited (臨沂中聯水泥有限公司), Rizhao Port China United Company Limited (日照中聯港口水泥有限公司), Xichuan China United, Wolong China United Cement Company Limited (臥龍中聯水泥有限公司) and Jiaxian China United Cement Company Limited (郟縣中聯水泥有限公司) were completed in 2008. A 1 million-tonne grinding station of Xixia China United commenced production on 1 February 2008. The operating results of the eight companies mentioned above have been included in the financial results for the year ended 31 December 2008 but were not included in the financial results for the year ended 31 December 2007. The following table sets out the revenue, cost of sales, gross profit and operating results of the above eight companies and the share of relevant items in China United for the year ended 31 December 2008.

CNBM

Management Discussion and Analysis

FINANCIAL REVIEW *(CONTINUED)*

China United *(Continued)*

Acquisition and addition of new production lines *(Continued)*

	RMB in millions	Total percentage of the above eight corporations in China United
Revenue	1,904.9	25.9
Cost of sales	1,535.4	26.4
Gross profit	369.5	23.8
Operating profit	294.0	23.4

In addition, a 6,000t/d clinker production line in Qingzhou China United commenced production in May 2007, of which only the operating results for the eight China United's months from 1 May 2007 to 31 December 2007 were included for the year ended 31 December 2007. The acquisition of Taishan Cement was completed on 30 June 2007, of which only the operating results for the six months from 1 July 2007 to 31 December 2007 were included for the year ended 31 December 2007. The acquisition of Rizhao China United was completed on 31 October 2007, of which only the operating results for the two months from 1 November 2007 to 31 December 2007 were included for the year ended 31 December 2007. The following table sets out the revenue, cost of sales, gross profit and operating profit of the above three corporations for the two periods.

	The above three corporations as at 31 December *RMB in millions*	
	2008	2007
Revenue	**1,503.6**	623.0
Cost of sales	**1,209.7**	491.6
Gross profit	**293.9**	131.4
Operating profit	**251.0**	134.6

Save for the reasons stated below, changes in the operating results of China United for the year ended 31 December 2008 as compared with the year ended 31 December 2007 were also due to the inclusion of results of the above mentioned new subsidiaries and newly operational subsidiaries.

Revenue

Revenue for China United increased by 98.1% to RMB7,363.7 million for the year ended 31 December 2008 from RMB3,716.4 million for the year ended 31 December 2007, mainly attributable to a slight increase in the average selling price of cement products.

Management Discussion and Analysis

FINANCIAL REVIEW *(CONTINUED)*

Cost of sales

Cost of sales of China United increased by 97.6% to RMB5,810.2 million for the year ended 31 December 2008 from RMB2,940.1 million for the year ended 31 December 2007, mainly attributable to an increase in cost of sales resulting from rising coal prices and electricity tariffs.

Gross profit and gross profit margin

Gross profit of China United increased by 100.1% to RMB1,553.5 million for the year ended 31 December 2008 from RMB776.3 million for the year ended 31 December 2007. Gross profit margin of China United increased from 20.9% for the year ended 31 December 2007 to 21.1% for the year ended 31 December 2008, mainly resulting from the increased selling price as partially offset by an increase of cost of sales caused by a hike in coal price and electricity tariffs.

Operating profit

Operating profit for China United increased by 86.0% to RMB1,258.4 million for the year ended 31 December 2008 from RMB676.4 million for the year ended 31 December 2007. Operating profit margin for the segment decreased to 17.1% for the year ended 31 December 2008 from 18.2% for the year ended 31 December 2007.

Lightweight Building Materials Segment

As the 80% equity interests in CNBM Investment's lightweight building materials segment were disposed to the Company on 1 January 2008, the operating results of CNBM Investment for the year ended 31 December 2008 and for the year ended 31 December 2007 were not included in the lightweight building materials segment.

Revenue

Revenue for our lightweight building materials segment increased by 10.9% to RMB2,365.7 million for year 2008 from RMB2,132.7 million for year 2007. It was mainly attributable to the increases in revenue for gypsum boards, our main product, due to the increase in their selling prices and sales volume.

The table below sets out the revenue for the three major products of the Group's dry wall and ceiling systems respectively for year 2007 and 2008:

	For the year ended 31 December		
	2008	2007	Change
	(RMB in millions)		*(%)*
Gypsum boards	**1,672.9**	1,385.1	20.8
Acoustical ceiling panels	**151.0**	143.7	5.1
Lightweight metal frames	**197.2**	222.8	(11.5)
Total	**2,021.1**	1,751.6	15.4

CNBM

Management Discussion and Analysis

FINANCIAL REVIEW *(CONTINUED)*

Lightweight Building Materials Segment *(Continued)*

Cost of sales

Cost of sales for our lightweight building materials segment increased by 12.7% to RMB1,924.0 million for year 2008 from RMB1,706.5 million for year 2007. It was mainly due to an increase in costs of sales arising from an increase in sales volume of gypsum boards, our main product.

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 2007 and 2008:

	For the year ended 31 December		
	2008	2007	Change
	(RMB in millions)		*(%)*
Gypsum boards	**1,294.2**	1,017.3	27.2
Acoustical ceiling panels	**138.1**	119.1	15.9
Lightweight metal frames	**162.6**	175.2	(7.2)
Total	**1,594.9**	1,311.6	21.6

Gross profit and gross profit margin

Gross profit for our lightweight building materials segment increased by 3.6% to RMB441.7 million for the year 2008 from RMB426.3 million for the year 2007.

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 2007 and 2008:

	For the year ended 31 December		
	2008	2007	Change
	(RMB in millions)		*(%)*
Gypsum boards	**378.7**	367.8	3.0
Acoustical ceiling panels	**12.9**	24.6	(47.7)
Lightweight metal frames	**34.6**	47.6	(27.2)
Total	**426.2**	440.0	(3.1)

Gross profit margin for our lightweight building materials segment decreased to 18.7% for year 2008 from 20.0% for year 2007, mainly attributable to a decline in gross profit margin because of the increase in the price of raw materials.

Operating profit

Operating profit for our lightweight building materials segment decreased by 8.7% to RMB243.5 million for year 2008 from RMB266.6 million for year 2007. Operating profit margin of the segment decreased from 12.5% for year 2007 to 10.3% for year 2008, which was principally due to a decline in gross profit margin.

Management Discussion and Analysis

FINANCIAL REVIEW *(CONTINUED)*

Glass Fiber and Composite Materials 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 composite materials segment. Unless otherwise indicated, any reference to results of the segment has excluded those of China Fiberglass.

Revenue

Revenue for our glass fiber and composite materials segment increased by 98.2% to RMB1,549.7 million for year 2008 from RMB782.0 million for year 2007. This was primarily due to an increase of RMB705.0 million in revenue from FRP pipes, tanks business and rotor blade, an increase of RMB25.4 million in revenue of glass fiber mats and an increase of RMB31.8 million in revenue of shipping business.

Cost of sales

The cost of sales for our glass fiber and composite materials segment increased by 86.6% to RMB1,080.6 million for year 2008 from RMB579.0 million for year 2007. This was primarily due to an increase of RMB445.8 million in cost of sales from FRP pipes and tanks business and rotor blade, an increase of RMB19.6 million in cost of sales of glass fiber mats and an increase of RMB28.2 million in cost of sales of shipping business.

Gross profit and gross profit margin

Gross profit for our glass fiber and composite materials segment increased by 131.1% to RMB469.1 million for year 2008 from RMB203.0 million for year 2007. Gross profit margin for our glass fiber and composite materials segment increased to 30.3% for year 2008 from 26.0% for year 2007. This was mainly attributable to an increase in gross profit margin derived from our rotor blades with the most significant contribution in revenue.

Operating profit

Operating profit for our glass fiber and composite materials segment increased by 178.3% to RMB285.8 million for year 2008 from RMB102.7 million for year 2007. The operating profit margin for the segment increased to 18.4% for year 2008 from 13.1% for year 2007, primarily due to an increase in the gross profit margin of such segment.

Engineering Services Segment

Revenue

Revenue for our engineering services segment increased by 53.9% to RMB3,244.1 million for year 2008 from RMB2,108.5 million for year 2007, primarily due to an increase in additional and ongoing EPC projects in 2008. For year 2008, the Group provided services pursuant to 45 EPC contracts as compared with 21 contracts in 2007.

Cost of sales

Cost of sales for our engineering services segment increased by 45.1% to RMB2,528.0 million for year 2008 from RMB1,742.7 million for year 2007, primarily due to an increase in additional and ongoing EPC projects in 2008.

Management Discussion and Analysis

FINANCIAL REVIEW *(CONTINUED)*

Engineering Services Segment *(Continued)*

Gross profit and gross profit margin

Gross profit for our engineering services segment increased by 95.7% to RMB716.1 million for year 2008 from RMB365.8 million for year 2007, primarily due to an increase in additional and ongoing EPC projects in 2008. Gross profit margin for our engineering services segment increased to 22.1% for year 2008 from 17.4% for year 2007, mainly attributable to the increase in the gross profit margin of overseas projects with significant contribution to revenue.

Operating profit

Operating profit for our engineering services segment increased by 111.0% to RMB557.9 million for year 2008 from RMB264.3 million for year 2007, and operating margin for the segment increased to 17.2% for year 2008 from 12.5% for year 2007, primarily due to its increased gross profit margin and a less significant increase in administrative and other expenses as compared with that of gross profit.

Liquidity and Financial Resources

As at 31 December 2008, the Group had aggregate unused banking facilities of approximately RMB27,318.6 million.

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

	As at 31 December	
	2008	2007
	(RMB in millions)	
Bank loans	**21,767.0**	12,352.3
Other borrowings from non-financial institutions	**3,480.8**	1,029.0
	25,247.8	13,381.3

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

	As at 31 December	
	2008	2007
	(RMB in millions)	
Borrowings are repayable as follows:		
within one year or on demand	**17,472.8**	8,663.6
between one and two years	**3,669.9**	1,743.7
between two and three years	**1,651.4**	914.0
between three and five years (inclusive of both years)	**1,229.7**	900.5
over five years	**1,224.0**	1,159.5
Total	**25,247.8**	13,381.3

Management Discussion and Analysis

FINANCIAL REVIEW *(CONTINUED)*

Liquidity and Financial Resources *(Continued)*

As at 31 December 2008, bank loans in the amount of RMB4,410.7 million were secured by assets of the Group with a total carrying value of RMB5,129.3 million.

As at 31 December 2008 and 31 December 2007, we had a debt-to-asset ratio, calculated by dividing our consolidated borrowings by our total consolidated assets, of 42.9% and 44.8%, respectively.

Exchange Risks

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

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	
	2008	2007
	(RMB in millions)	
Used by connected parties before acquisition for subsidiaries guarantee to banks, in respect of bank credits	**69.0**	597.4
Guarantee to banks, in respect of bank credits used by an independent third party	**259.3**	920.3
Total	**328.3**	1,517.7

Capital Commitments

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

	As at 31 December	
	2008	2007
	(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	**212.9**	1,028.8
Capital expenditure of the Company in respect of acquisition of land use right (contracted for but no provisions have been made)	**6.5**	—
Capital expenditure of the Company in respect of equity acquisition contracted for but no provisions have been made	**1,074.6**	2,300.5

Management Discussion and Analysis

FINANCIAL REVIEW *(CONTINUED)*

Capital Expenditures

The following table sets out our capital expenditures for the year ended 31 December 2008 by segment:

	For the year ended 31 December 2008	
	(RMB in millions)	*% of total*
Cement	3,461.8	70.9
Among: China United	1,189.3	24.4
South Cement	2,272.5	46.5
Lightweight building materials	1,029.0	21.1
Glass fiber and FRP products	206.4	4.2
Engineering Services	54.4	1.1
Others	133.9	2.7
Total	4,885.5	100

Bank Balances and Cash

Our bank balances and cash were RMB3,726.3 million as at 31 December 2008 and RMB3,150.6 million as at 31 December 2007.

Cash Flow from Operating Activities

For year 2008, our net cash inflow generated from operating activities was RMB4,587.5 million. Such net cash inflow was primarily due to RMB4,647.1 million of cash flow from operating activities before the change in working capital, primarily offset by a RMB499.7 million increase in trade receivables and other receivables and a RMB865.9 million increase in inventories.

Cash Flow from Investing Activities

For year 2008, our net cash outflow from investing activities was RMB10,644.4 million, which was primarily due to expenditure of RMB3,844.9 million for acquisition of subsidiaries, the purchase of property, plant and equipment mainly used for the cement and lightweight building materials segments amounting to RMB3,898.8 million in total and a RMB969.7 million increase in deposits paid.

Cash Flow from Financing Activities

For year 2008, we had a net cash inflow from financing activities amounting to RMB6,635.6 million, primarily attributable to a total of RMB34,019.8 million in new borrowings, partially offset by RMB25,976.4 million for repayment of borrowings.

Corporate Governance Report

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 2008 to 31 December 2008, 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.

I. 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, the Company confirms that each of the Directors has confirmed that they complied with the Model Code during the period from 1 January 2008 to 31 December 2008.

II. THE BOARD

During 2008, the Board of the Company held 9 board meetings to consider and determine significant events including corporate strategy and major acquisition and merger according to its terms of reference specified in the articles of association and authorizations granted by shareholders at general meetings. All directors attended the meetings in person or by proxy. The management is responsible for the implementation of strategies and 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
Non-executive Director	Zuo Fenggao	100 (22.2 of which by proxy)
Independent Non-executive Director	Zhang Renwei	100
Independent Non-executive Director	Zhou Daojiong	100 (11.1 of which by proxy)
Independent Non-executive Director	Chi Haibin	100
Independent Non-executive Director	Li Decheng	100
Independent Non-executive Director	Lau Ko Yuen, Tom	100

Note: Mr. Li Decheng was appointed as a director of the Company on 29 August 2008. He attended all the board meetings held by the Company pursuant to his appointment to the board.

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.

Corporate Governance Report

III. OPERATION OF THE BOARD

The Board of the Company 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; the Company's basic management system; 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 five 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 five independent non-executive directors pursuant to Rule 3.13 of the Listing Rules, and considers the five 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 Mr. Chi Haibin and Mr. Zhou Daojiong's biographies. The five 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.

IV. CHAIRMAN AND PRESIDENT

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.

V. 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.

VI. REMUNERATION COMMITTEE

The Board considered and approved the re-election of the members of the Remuneration Committee of the Company on 30 June 2008. The Remuneration Committee 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. The "Working Rules of the Remuneration Committee" specifies the responsibilities and duties of the committee.

The Remuneration Committee is responsible for determining the remuneration and reviewing the performance of the directors and senior management, based on the remuneration and performance management policies pertaining to directors and senior management which have been formulated by the Board.

The third meeting of the first session of the Remuneration Committee was held on 17 April 2008, at which the resolution of emoluments of members of the second Board and the Supervisory Committee, and remuneration of senior management personnel were considered and passed. All of the members of the Remuneration Committee were present.

The first meeting of the second session of the Remuneration Committee was held on 17 March 2009, at which the resolution of remuneration of senior management personnel for the year 2008 was considered and passed. All of the members of the Remuneration Committee were present.

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 at 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 and market rates into consideration. Performance-based salary is determined on the basis of assessment of economic responsibility. Special awards are granted to those who have 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".

Corporate Governance Report

VII. NOMINATION OF DIRECTORS

Pursuant to the Company's articles of association, the nomination of directors for election has to be considered at the Company's general meetings. Shareholders holding 5% or more of the shares of the Company which carries voting rights are entitled to make nominations and request for a consolidated list of such candidates to be provided by the Chairman, upon authorization from the Board. Once authorized by the Board, the Chairman is expected to consolidate a list of the candidates and instruct the Secretariat of the Board and 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 resignation.

The Secretariat of the Board is responsible for issuing requests to the Chairman and/or the shareholders entitled to make such nominations to nominate candidates. The candidates are then required to sign the confirmation letters while retiring 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 and a circular to shareholders 45 days in advance. Pursuant to Rule 13.51(2) of the Listing Rules, the list, biography and emoluments of the candidates must be set out in the circular to shareholders to facilitate voting by shareholders. The election of new directors must be approved by more than half of the total number of shareholders holding shares which carry voting rights or by representatives of the independent shareholders at the general meeting.

Mr. Song Zhiping, Mr. Cao Jianglin, Mr. Li Yimin, Mr. Peng Shou, Ms. Cui Lijun, Mr. Huang Anzhong, Mr. Zuo Fenggao, Mr. Zhang Renwei, Mr. Zhou Daojiong, Mr. Chi Haibin and Mr. Lau Ko Yuen, Tom were nominated as candidates to stand for re-election to the board of directors at the board meeting convened on 17 April 2008. Mr. Zhang Renwei, Mr. Zhou Daojiong, Mr. Chi Haibin and Mr. Lau Ko Yuen, Tom were elected as independent non-executive directors of the Company.

At the Board meeting held on 30 June 2008, Mr. Li Decheng was nominated for election as an independent non-executive director of the Company.

The Company has not established a Nomination Committee.

VIII. AUDITORS' REMUNERATION

Pursuant to the authorization granted to the Board at the annual general meeting convened on 30 June 2008, Deloitte Touche Tohmatsu was appointed to review the Company's financial results for the six months ended 30 June 2008. Deloitte Touche Tohmatsu was paid an aggregate of RMB5.9 million as fees for their professional audit services rendered during this period and for the financial year ended 31 December 2007.

During the reporting period, the Company's auditors did not provide other significant non-audit services apart from financial auditing services.

IX. AUDIT COMMITTEE

The Board considered and approved the members of the second Audit Committee of the Company on 30 June 2008. The Audit Committee comprises two independent non-executive directors, namely Mr. Chi Haibin (the Chairman of the committee) and Mr. Zhou Daojiong and one non-executive director, namely Ms. Cui Lijun. Among them, Mr. Chi Haibin and Mr. 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	(50 of which by proxy)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 2007 and the interim financial report for 2008.

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 2008.

During the reporting period, the directors of the Company have acknowledged their responsibility for preparing the accounts. The Board has carried out a systemic analysis and review of the financial and operational risks of the Group, as well as the compliance control during the interim and year end. This analysis highlighted 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.

Corporate Governance Report

X. 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 2007 annual general meeting of the Company held on 30 June 2008, 9 ordinary resolutions and 2 special resolutions relating to the amendment to the Company's articles of association and authorizing the Board to issue the Company's shares were approved and passed. At the extraordinary general meeting, the domestic shareholders' class meeting and the H shareholders' class meeting held on 27 March 2008, the resolutions relating to the issue of new H shares under a special mandate were passed. At the extraordinary general meeting held on 30 May 2008, resolutions relating to the issuance of the Company's short-term debenture and authorizing the Board to deal with all matters in connection with the issuance of the Company's short-term debenture were approved and passed. At the extraordinary general meeting held on 29 August 2008, resolutions relating to the appointment of Mr. Li Decheng as an independent non-executive director of the Company and the amendment to the articles of association of the Company to reflect the increase in the number of directors were approved.

XI. SUPERVISORS AND THE SUPERVISORY COMMITTEE

The Supervisory Committee of the Company reports to the general meeting. Its members comprise two shareholder's representatives and two supervisors 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 the 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 such as production, operation and investment projects and has made constructive recommendations.

XII. INTERNAL CONTROL

In order to strengthen the Company's internal control management and ensure healthy and effective internal controls have been put into place, 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. To comply with the amendments to the Listing Rules which came into effect on 1 January 2009, the Board considered and approved certain amendments to the Code for Securities Transactions of China National Building Material Company Limited on 21 April 2009.

In accordance with the provisions of section C.2.1 of the Code, the Directors also reviewed the effectiveness of the internal control system of the Company and its subsidiaries during the reporting period, covering matters such as 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 2008 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 6, Note 19 and Note 20 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 RMB0.045 per share (pre-tax) for the period from 1 January 2008 to 31 December 2008 (2007: RMB0.033 (pre-tax) per share), representing a total amount of RMB111,654,687.29 (pre-tax).

The proposed final dividend is subject to approval at the annual general meeting to be held on Friday, 26 June 2009. Shareholders whose names appear on the registers of members on Friday, 26 June 2009 will be eligible for the final dividend. The registers of members of the Company will be closed from Wednesday, 27 May 2009 to Friday, 26 June 2009 (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 Tuesday, 26 May 2009 to facilitate the share transfer registration.

PROPERTY, PLANT AND EQUIPMENT

The Group owns property, plant and equipment of approximately RMB26,900,840,000. Details of the movements in property, plant and equipment of the Group during the year are set out in Note 14 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 19 and 20 to the consolidated financial statements, respectively.

Directors' Report

CAPITALISED INTERESTS

Details of capitalised interests of the Company during the year are set out in Note 8 to the consolidated financial statements.

Share Capital Structure (as at 31 December 2008)

	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%

Share Capital Structure (as at the date of this report)

	Number of Shares	Approximate percentage of issued share capital
Domestic Shares	1,280,577,054	51.61%
H Shares	1,200,638,219	48.39%
	2,481,215,273	100%

Directors' Report

CAPITALISED INTERESTS *(CONTINUED)*

Substantial Shareholders (as at 31 December 2008)

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

Substantial Shareholders (as at the date of this report)

Name of shareholders	Class of shares	Number of shares held	Percentage of total share capital *(%)*
Parent	Domestic Shares	339,264,650	13.67
BNBMG	Domestic Shares	755,665,178	30.46
CNBM Trading	Domestic Shares	115,834,375	4.67
Cinda	Domestic Shares	69,216,154	2.79
Building Materials Academy	Domestic Shares	596,697	0.02
Public Investors	H Shares	1,200,638,219	48.39
Total share capital		2,481,215,273	100

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

CNBM

Directors' Report

DISCLOSURE OF INTERESTS

I. 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 2008, 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	188,547,451[3]	20.90	8.54
		120,702,243[4]	13.38	5.47
Atlantis Investment Management Ltd	H Shares	68,950,000[3]	7.64	3.12
Schroder Investment Management Limited	H Shares	61,144,000[3]	6.78	2.77
Baillie Gifford & Co	H Shares	54,286,000[3]	6.02	2.46
Callander Alex	H Shares	54,286,000[3]	6.02	2.46
Menzies Robin	H Shares	54,286,000[3]	6.02	2.46
Plowden Charles	H Shares	54,286,000[3]	6.02	2.46
Telfer Andrew	H Shares	54,286,000[3]	6.02	2.46
Warden Alison	H Shares	54,286,000[3]	6.02	2.46
Whitley Sarah	H Shares	54,286,000[3]	6.02	2.46
T. Rowe Price Associates, Inc. and its affiliates	H Shares	53,848,000[3]	5.97	2.44

DISCLOSURE OF INTERESTS *(CONTINUED)*

I. 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 2008, 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 2008, 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.

II. Interests and Short Positions of Directors and Supervisors

As at 31 December 2008, 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.

Directors' Report

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 LISTED SECURITIES

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any securities of the Company ("securities" shall have the meaning as defined in the Listing Rules).

TAX REDUCTION FOR HOLDERS OF LISTED SECURITIES

For the year ended 31 December 2008, holders of the Company's securities were not entitled to any tax reduction by virtue of their legal status in the PRC.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and so far as the directors are aware, as at the date hereof, at least 25% of the Company's total issued share capital is held by the public.

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 2008, the Group had approximately 39,090 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. Please refer to the section headed "Corporate Governance Report — Remuneration Committee" for the Company's remuneration policy for its senior management.

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 Rights") represents the right to receive a cash payment equal to the appreciation, if any, in the fair market value of one 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 grant, 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 (2007: RMB2,877,000), being the estimated compensation paid for services rendered by the grantee during the year.

According to Guo Zi Fa Fen Pei [2006] No. 8, "Trial Method for Share Incentive Schemes of State-controlled Listed Companies", such compensation should not exceed 40% of the relevant individual's total salary and bonus.

Directors' Report

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)
Li Decheng	(appointed on 29 August 2008)
Lau Ko Yuen, Tom	(appointed on 27 January 2006)

Supervisors:

Shen Anqin	(appointed on 10 March 2005)
Zhou Guoping	(appointed on 10 March 2005)
Cui Shuhong	(appointed on 10 May 2005)
Liu Zhiping	(appointed on 30 June 2008)
Ma Zhongzhi	(appointed on 30 June 2008)
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. 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 9 to the consolidated financial statements.

BOARD OF DIRECTORS AND SPECIAL COMMITTEES

As at the reporting date, the Board comprised 12 directors, whose biographies are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this report.

The Board 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, incumbent members of the Board and the Supervisory Committee were re-elected as the directors and supervisors of the Company at the annual general meeting held on 30 June 2008.

At the extraordinary general meeting held on 29 August 2008, Mr. Li Decheng was elected as an independent non-executive director of the Company for a term of approximately 3 years and is expected to stand for re-election at the same time as the incumbent members of the Board.

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 39 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 certain transactions which are defined as continuing connected transactions pursuant to Chapter 14A of the Listing Rules. The Stock Exchange has granted the Company a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules on 1 November 2007 in relation to these continuing connected transactions.

Directors' Report

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Parent Group

Parent has a direct equity interest of 13.67% and total direct and indirect equity interest of 48.82% in the Company as at the date of this report. 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 2 November 2007, the Company entered into a Master Mineral Supply Agreement with Parent, for a term of three years commencing from 1 January 2008, 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 2008, the Group's expenditure for limestone and clay supplied by Parent Group was approximately RMB72.9 million.

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

   On 2 November 2007, 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 2008, 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.

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)*

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

(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 2008, the Group's expenditure for the production supplies and support services provided by Parent Group was approximately RMB109.0 million.

For the year ended 31 December 2008, the Group's revenue from the production supplies and support services provided to Parent Group was approximately RMB87.5 million.

3. Master Supply of Equipment Agreement

On 2 November 2007, the Company entered into a Master Supply of Equipment Agreement with Parent for a term of three years commencing from 1 January 2008, 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 2008, the Group's expenditure for equipment supplied by Parent Group was approximately RMB25.9 million.

Directors' Report

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Parent Group *(Continued)*

4. Master Provision of Engineering Services Agreement

On 2 November 2007, the Company entered into a Master Provision of Engineering Services Agreement with Parent for a term of three years commencing from 1 January 2008, pursuant to which Parent agreed to provide, or procure its subsidiaries to provide, the Company with engineering design, construction and supervisory services; the prices of all contracts for engineering services to be provided pursuant to the Master 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 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 2008, the Group's expenditure for engineering services supplied by Parent Group was approximately RMB4.9 million.

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. Mutual Provision of Production Supplies and Support Services Agreement

On 2 November 2007, BNBM entered into a Mutual Provision of Production Supplies and Support Services Agreement with BNBM Homes for a term of three years commencing from 1 January 2008, pursuant to which,

(a) BNBM agreed to provide to BNBM Homes the followings:

- 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.

(b) BNBM Homes agreed to provide BNBM with the property sales and design services.

CNBM

Directors' Report

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with BNBM Homes *(Continued)*

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

The production supplies and support services pursuant to the 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 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

(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 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.

For the year ended 31 December 2008, BNBM's revenue from the production supplies and support services provided to BNBM Homes was approximately RMB1.0 million.

For the year ended 31 December 2008, BNBM Homes has not generated any income from production supplies and support services provided to BNBM.

Transactions with Liberty Group

Liberty Group has a 25% 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.

6. Provision of Technical Consultation Services Agreement

On 2 November 2007, China Composites entered into a Provision 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 2008.

The technical consultation services under the Provision of Technical Consultation Services Agreement 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 2008, China Composites has not generated any income from the technical consultation services provided to Liberty Group.

Directors' Report

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.

7. Master Production Supplies and Support Services Agreement

On 2 November 2007, the Company entered into a Master Production Supplies and Support Services Agreement with Tianma Group for a term of three years commencing from 1 January 2008, pursuant to which, Tianma Group agreed to provide the Company with products including fiber and wood glue and services including water, electricity and sewage treatment.

The production supplies and support services pursuant to the Master 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 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 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 2008, The Group's expenditure for production supplies and support services provided by Tianma Group was approximately RMB16.2 million.

Directors' Report

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Shuichan Group

Shuichan Group has a 49% equity interest in Zhongfu Xigang, a non-wholly-owned subsidiary of the Company. Xigang Shuichan is a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

8. Mutual Provision of Production Supplies and Support Services Agreement

On 2 November 2007, Zhongfu Xigang entered into a Mutual Provision of Production Supplies and Support Services Agreement with Shuichan Group for a term of three years commencing from 1 January 2008, pursuant to which,

(a) Zhongfu Xigang agreed to provide Shuichan Group with materials, equipment and support services.

(b) Shuichan Group agreed to provide Zhongfu Xigang with supply of electricity, water, materials, equipment and support services:

The production supplies and support services pursuant to the 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 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

(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 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 2008, Zhongfu Xigang's expenditure for production supplies and support services provided by Shuichan Group was approximately RMB0.8 million.

For the year ended 31 December 2008, Zhongfu Xigang's revenue from production supplies and support service provided to Shuichan Group was approximately RMB0.5 million.

Directors' Report

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.

9. Supply of Raw Material Agreement

    On 2 November 2007, Weifang Aotai and Aobao Chemical entered into a Supply of Raw Material Agreement for a term of three years commencing from 1 January 2008, pursuant to which Aobai 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 2008, Weifang Aotai has not incurred any expenditure for raw materials supplied by Aobao Chemical.

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.

10. Supply of Raw Material Agreement

    On 2 November 2007, Lunan China United and Hengzhijiu Trade entered into a Supply of Raw Material Agreement for a term of three years commencing from 1 January 2008, 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 2008, Lunan China United's expenditure for coal supplied by Hengzhijiu Trade was approximately RMB0.8 million.

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Hengzhijiu Trade *(Continued)*

11. Provision of Products Agreement

On 2 November 2007, Lunan China United and Hengzhijiu Trade entered into a Provision of Products Agreement for a term of three years commencing from 1 January 2008, 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 Provision of Products 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 2008, Lunan China United's revenue from cement supplied to Hengzhijiu Trade was approximately RMB18.3 million.

Transactions with Xixiaguanhe

As Xixiaguanhe is a 70% owned subsidiary of Henan Ruifa which in turn has a 20% equity interest in Xixia China United, Xixiaguanhe is an associate of a substantial shareholder of a subsidiary of the Company and therefore a connected person of the Company under the Listing Rules.

12. Provision of Production Supplies Agreement

On 2 November 2007, Xixia China United and Xixiaguanhe entered into a Provision of Production Supplies Agreement for a term of three years commencing from 1 January 2008, pursuant to which Xixiaguanhe agreed to provide slag powder to Xixia China United for the production of cement.

The slag powder pursuant to the Provision of Production Supplies Agreement shall be provided at market price. namely, the price at which the same type of slag powder 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 2008, Xixia China United's expenditure for slag powder provided by Xixiaguanhe was RMB7.3 million.

Directors' Report

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Xixia Logistics

As Xixia Logistics is a 70% owned subsidiary of Henan Ruifa which in turn holds a 20% equity interest in Xixia China United, Xixia Logistics is an associate of a substantial shareholder of a subsidiary of the Company and therefore a connected person of the Company under the Listing Rules.

13. Provision of Support Services Agreement

On 2 November 2007, Xixia China United and Xixia Logistics entered into a Provision of Support Services Agreement for a term of three years commencing from 1 January 2008, pursuant to which Xixia Logistics agreed to provide transportation service to Xixia China United.

The services pursuant to the Provision of 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 Provision of 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 Provision of 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 2008, Xixia China United has not incurred any expenditure for transportation service provided by Xixia Logistics.

Details of the above connected transactions were set out in the circular of the Company dated 15 November 2007.

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Continuing Connected Transactions *(Continued)*

Transactions with Jushi Group, BNS and Huafu Property

On 2 November 2007, the Company entered into a Master Supply of Raw Material Agreement with Jushi Group, pursuant to which the Company agreed to purchase raw materials from Jushi Group, BNBM entered into a Provision of Production Supplies Agreement with BNS, pursuant to which BNBM agreed to supply production supplies to BNS, and BNBM Homes entered into a Provision of Production Supplies Agreement with Huafu Property, pursuant to which BNBM Homes agreed to supply production supplies to Huafu Property, for a term of three years commencing from 1 January 2008. For the month ended 31 January 2008, the Company, BNBM and BNBM Homes did not incur any expenditure for the purchase of raw materials from Jushi Group and did not generate any revenue from production supplies from BNS and Huafu Property respectively.

Jushi Group, BNS and Huafu Property were associates of a connected person of the Company when the above agreements were entered into on 2 November 2007 as each of Jushi Group, BNS and Huafu Property was owned as to 51%, 95% and 30% respectively by China Fiberglass, which is a substantial shareholder of CNBM Investment (originally known as BND Co., Limited), a subsidiary of the Company.

On 7 December 2007 however, the Company entered into an Equity Transfer Agreement to acquire the 20% equity interest in CNBM Investment held by China Fiberglass, thus converting CNBM Investment into a wholly owned subsidiary of the Company. As a result, Jushi Group, BNS and Huafu Property are no longer considered connected persons of the Company and the transactions between these companies and members of the Group are no longer deemed as connected transactions under the Listing Rules upon completion of the equity transfer registration procedures on 31 January 2008.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors have 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.

Non-Exempt Connected Transactions

During 2008 and up to the date of this report, the Company has entered into the following non-exempt connected transactions:

1. Acquisition of Dezhou Daba's assets

On 30 January 2008, Dezhou China United, an indirect non-wholly owned subsidiary of the Company, entered into an asset acquisition agreement to acquire certain assets from Dezhou Daba for a consideration of RMB830 million. As Dezhou Daba is a subsidiary of Dezhou Jinghua which in turn is a substantial shareholder of Dezhou China United, it is an associate of a substantial shareholder of a subsidiary of the Company and therefore a connected person of the Company under the Listing Rules.

Further details regarding this transaction have been disclosed in the announcement and circular issued by the Company on 30 January 2008 and 19 February 2008 respectively.

Directors' Report

CONNECTED TRANSACTIONS *(CONTINUED)*

Non-Exempt Connected Transactions *(Continued)*

2. Acquisition of assets of Henan Xichuan

On 30 January 2008, Xichuan China United, an indirect non-wholly owned subsidiary of the Company, entered into an asset acquisition agreement to acquire certain assets from Henan Xichuan for a consideration of RMB107 million. As Henan Xichuan is a substantial shareholder of Xichuan China United, it is a connected person of the Company under the Listing Rules.

Further details regarding this transaction have been disclosed in the announcement issued by the Company on 30 January 2008.

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

The independent non-executive directors of the Company have 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 two business opportunities: (1) an opportunity to enter into an equity transfer agreement with the Zhejiang SASAC so as to acquire 100% equity interest in Leomax Group for the purpose of developing regional cement business; (2) an opportunity to enter into an equity transfer agreement with Inner Mongolia Power (Group) Co., Ltd. so as to acquire 85.13% equity interest in Inner Mongolia Wulan Cement Group Co., Ltd. for the purpose of developing regional cement business. As the above two business opportunities were at a preliminary stage, the directors who are independent of Parent Group (including but not limited to the independent non-executive Directors), decided not to take up these business opportunities 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.

Directors' Report

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As of 31 December 2008, 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

In accordance with the relevant notices issued by SASAC, Parent had been required to appoint Vocation International Certified Public Accountants Co. Ltd. to conduct a financial audit of the Group for the financial year ending 31 December 2008.

In the light of the above, the Company appointed Vocation International Certified Public Accountants Co. Ltd. as its auditors in the PRC in substitution of ShineWing Certified Public Accountants and UHY Vocation HK CPA Limited as its auditors in Hong Kong in substitution of Deloitte Touche Tohmatsu, for the financial year ended 31 December 2008, with effect from 1 September 2008.

UHY Vocation HK CPA Limited has audited the financial statements in compliance with the IFRS. A resolution for the reappointment of Vocation International Certified Public Accountants Co. Ltd. and UHY Vocation HK CPA Limited will be proposed at the forthcoming annual general meeting.

By order of the Board
Song Zhiping
Chairman

Beijing, the PRC
21 April 2009

CNBM

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 2008 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 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 duly reviewed and approved the Report of the Board of Directors proposed to be submitted to the annual general meeting, and considers that the report is in consistence with the circumstance of the Company. During 2008, all members of the Board and senior management of the Company have duly performed rights authorised by shareholders and responsibilities under laws, and dedicated themselves to make 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 2008. 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 2008 profit distribution plan of the Company.

Having attended Board meetings of the Company, reviewed the Company's financial standing and examined 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 2008, and is confident in the Company's prospects. During 2009, 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
21 April 2009

Significant Events

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. 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 establishing 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 16 January 2008 and the circular dated 4 February 2008 issued by the Company. Zhongfei Investment is still in the process of being established.

2. Issue of Short-Term Debenture in the PRC

The 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 was considered and approved at the EGM held on 30 May 2008. The Issue of Debenture was duly registered with National Association of Financial Market Institutional Investors on 16 July 2008. Pursuant to approval of the Issue of Debenture on 24 July 2008, the Company issued a short-term debenture in the principal amount of RMB2.4 billion with a maturity of 365 days during the period from 25 July 2008 to 28 July 2008.

Details of the Issue of Debenture were disclosed in the announcements dated 8 April 2008, 30 May 2008 and 28 July 2008, and circular dated 15 April 2008 issued by the Company. As at the date of this report, the Issue of Debenture has been completed.

3. Change in Auditors

On 12 August 2008, the Company published an announcement in relation to the change in auditors for the financial year ending 31 December 2008. Pursuant to the authorisation granted at the annual general meeting, the Board decided to appoint Deloitte Touche Tohmatsu to review the Company's financial results for the six months ended 30 June 2008.

However, due to the reasons described in the section headed "Director's Report-Auditors", the Company was required and has appointed Vocation International Certified Public Accountant Co., Ltd. as its auditor in the PRC and UHY Vocation HK CPA Limited as its auditor in Hong Kong, for the financial year ending 31 December 2008.

Details were disclosed in the announcement dated 12 August 2008 and the 2008 Interim Report.

Significant Events

II. MATERIAL TRANSACTIONS *(CONTINUED)*

4. Placing of New H Shares

On 5 February 2009, the Company entered into a placing agreement with Morgan Stanley & Co. International plc and China International Capital Corporation Hong Kong Securities Limited, in relation to the placing of an aggregate of 298,555,032 H Shares of RMB1.00 per Share in the share capital of the Company at a gross price of HK$7.85 per Placing Share and a net price of HK$7.69 per Placing Share. The Placing Shares represented approximately 33.1% of the existing issued H share capital of the Company and approximately 24.9% 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$2,093,898,229 after deducting the commission and expenses of the Placing.

Details of the Placing of the New H Shares were disclosed in the announcements dated 30 January 2008, 27 March 2008 and 5 February 2009, the circular dated 11 February 2008 and the 2008 Interim Report published by the Company. As at the date of this report, the Placing of New H Shares has been completed.

5. Establishment of North Cement

On 6 March 2009, the Company, Liaoyuan Jingang Cement Company Limited and Hony Capital Management (Tianjin) (Limited Partnership) entered into the Capital Contribution Agreement with a view to establishing North Cement which will become the flagship company of the Group for developing the Group's cement business in the North Region. Upon completion of the capital contribution, North Cement will have a registered capital of RMB1 billion and will be held as to 45% by the Company, as to 45% by Liaoyuan Jingang Cement Company Limited and as to 10% by Hony Capital Management (Tianjin) (Limited Partnership).

Details of the establishment of North Cement were disclosed in the announcement of the Company dated 6 March 2009.

Biographical Details of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Song Zhiping, aged 52, 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 30 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 42, is an executive Director and president of the Company. Mr. Cao joined the Group since April 1992 and has over 18 years of business and management experience in the building materials industry. Mr. Cao has been the chairman of the board of directors of BND Co., Limited (北新物流有限公司) 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 Co., Limited 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). He is a senior accountant.

Biographical Details of Directors, Supervisors and Senior Management

DIRECTORS *(CONTINUED)*

Executive Directors *(Continued)*

Li Yimin, aged 55, is an executive Director of the Company. 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 48, is an executive Director of the Company. 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 48, 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 45, 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.

Biographical Details of Directors, Supervisors and Senior Management

DIRECTORS *(CONTINUED)*

Non-Executive Directors *(Continued)*

Zuo Fenggao, aged 53, is a non-executive Director. Mr. Zuo joined the Group in March 2005 and has over 20 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.

Independent Non-executive Directors

Zhang Renwei, aged 68, 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 75, 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.

Biographical Details of Directors, Supervisors and Senior Management

DIRECTORS *(CONTINUED)*

Independent Non-executive Directors *(Continued)*

Chi Haibin, aged 77, 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.

Li Decheng, aged 63, is an independent non-executive Director of the Company. He holds a Bachelor's degree. Mr. Li has accumulated over 30 years of experience in the field of economic management. From 1978 to 1983, he was the staff member and deputy head for the Economic Committee of Jilin Province. He was the deputy chief and member of the Party Committee for Economic Committee of Jilin Province from September 1983 to January 1985, and served as the chief and secretary to the Party Committee for Economic Planning Committee of Jilin Province from January 1985 to June 1987. He also assumed positions including deputy chief (equivalent to head of department), chief and secretary, to the Party Committee for Economic System Reform Committee of Jilin Province from February 1988 to March 1992. He was a member of the Standing Committee, secretary to industry committee and general manager of Municipal Investment Management Company in Shenzhen from September 1993 to October 1994. From May 1995 to May 2000, he was a member of the Standing Committee and standing deputy city mayor of Shenzhen. He was the deputy secretary of the Standing Committee and standing deputy city mayor of Shenzhen from May 2000 to March 2002. He was a member of the Standing Committee, standing deputy city mayor, chairman as well as the secretary of Party Committee of the 3rd Shenzhen Committee of Chinese People's Political Consultative Conference ("CPPCC") from March 2002 to March 2004. From March 2004 to April 2008, he served as the chairman and the secretary to the Party Committee of the 4th Shenzhen Committee of CPPCC. He currently serves as the executive vice chairman and director of the China Enterprise Confederation, chairman of the Shenzhen Charity Committee and the member of 10th and 11th National Committee of CPPCC. He is a qualified engineer.

Lau Ko Yuen, **Tom**, aged 57, 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.

Biographical Details of Directors, Supervisors and Senior Management

SUPERVISORS

Shen Anqin, aged 59, is the Chairman of the Supervisory Committee of Company. Mr. Shen has accumulated over 18 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 the 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 49, is a Supervisor of the Company. Ms. Zhou joined the Group since July 1999 and has over 16 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 the Planning Division in the Integrated Planning Department, assistant to the manager of the Integrated Planning Department, assistant to the manager of Planning and Finance Department, and deputy manager and manager of the Planning and Finance Division and deputy manager of the 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.

Cui Shuhong, aged 41, is a Supervisor of the Company. Ms. Cui joined the Group since October 2001 and has over 15 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's Office of Parent from April 2002 to April 2005, and the deputy manager of the Human Resources Office and deputy director of General Manager's 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.

Liu Zhiping, aged 46, is a Supervisor of the Company. Mr. Liu had more than 20 years of experience in economic management and investment. Mr. Liu was the deputy head of Policy & Law department of National Foreign Currency Bureau from August 1988 to November 1993, and deputy head of Foreign Currency Management Office (外匯管理處) of National Foreign Currency Bureau (Hainan Branch) from November 1993 and November 1994. From November 1994 to May 2002, Mr. Liu also served as the General Manager of Foreign Currency Department (外匯業務部) in China Education Technology Trust Investment Company. From May 2002 to December 2003, Mr. Liu was Assistant to the General Manager of Zhongxin Group Financial Company. He was the General Manager of Strategic Development Department of Financial Company of HNA Group Co., Ltd. from January 2004 to July 2004, and deputy head of General Manager's office of China National Building Material Group Corporation from August 2004 and March 2005. Mr. Liu graduated from Jilin Financial College in July 1985 with a Bachelor's degree in economics, and was granted a Master's Degree in Banking and Currency in July 1998. He obtained a Doctor's Degree of Management from Huazhong Technical University in October 2000. Mr. Liu has joined the Group in March 2005 and served as the General Manager of the Company's Investment Development Department since March 2005. Mr. Liu is a senior economist and was titled an outstanding staff of National Foreign Currency Bureau in 1992.

Biographical Details of Directors, Supervisors and Senior Management

SUPERVISORS *(CONTINUED)*

Ma Zhongzhi, aged 64, is a Supervisor of the Company. Mr. Ma has more than 20 years of experience in administration and management covering banking and securities regulation. He served as a deputy branch manager of the People's Bank of China Shenyang Branch between June 1984 and November 1997, and deputy head of the headquarters of the People's Bank of China between November 1991 and September 1992. From September 1992 to November 1998, he served as deputy head and head of the office of CSRC. From June 1994 to November 1998, he took the position of member and chief secretary of the Party Committee of CSRC. He also served as audit commissioner of the State Council from November 1998 to June 2000, and Chairman of the Supervisory Committee for key State-owned enterprises of the State Council from June 2000 to April 2007. Since 18 March 2008, Mr. Ma has been an independent director of Standard Chartered Bank (China) Limited. Mr. Ma is a senior economist, and has been honoured as a national expert who has made outstanding contributions, by the People's Bank of China. Since January 1993, he has also worked as part-time professor and postgraduate tutor. He is a senior economist. He wrote a book entitled Study and Thought on the Japanese Securities Market, edited books like A Must-read for Financing in the U.S. Securities Market and Issuance of Bonds with Warrants and Market Practices, and authored a book entitled Basic Knowledge of Securities Market.

Liu Chijin, aged 46, 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, 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 55, is a vice president of the Company. Please refer to the section headed "Executive Directors" for his biographical details.

Peng Shou, aged 48, is a vice president of the Company. Please refer to the section headed "Executive Directors" for his biographical details.

Cui Xingtai, aged 47, is a vice president of the Company. Mr. Cui joined the Group since June 1999 and has over 24 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 on 17 January 2008. He is qualified as a senior engineer. Mr. Cui has been the vice president of China Cement Association since December 2007.

Biographical Details of Directors, Supervisors and Senior Management

SENIOR MANAGEMENT *(CONTINUED)*

Zhang Dingjin, aged 51, 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 38, is a vice president of the Company. Mr. Chang joined the Group in August 1997 and has over 10 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 company secretary and general manager of the legal division of the Company and he is also a member of Central Enterprises Youth Federation, the deputy secretary of the Listed Companies Association of Beijing.

Chen Xuean, aged 44, is the chief financial officer of the Company. Mr. Chen joined the Group since March 2005 and has over 20 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.

Xiao Jiaxiang, aged 46, is a vice president of the Company. Mr. Xiao joined the Group since February 2009 and has expensive experience and achievements in business management, regional economic and social development, group management (especially in group strategy management and group control), as well as financing and cooperation in international capital market. From July 1982 to July 1991, Mr. Xiao served as assistant engineer, engineer, deputy head and head of the mine workshop of Guizhou Shuicheng Cement Plant. From July 1991 to November 2001, he served as director, assistant to general manager, executive vice general manager in Huaxin Cement (Group) Co., Ltd. From November 2001 to March 2004, he served as Deputy Party Secretary and mayor of Daye City, Hubei Province. From March 2004 to January 2006, he served as Party Secretary of Daye City, Hubei Province and Director of People's Congress of Daye City. From February 2006 to February 2009, he served as President of Tianrui Corporation, and concurrent Chairman and General Manager of Tianrui Group Cement Co., Ltd. Mr. Xiao graduated from Wuhan Industrial University (now Wuhan University of Technology) with a bachelor's degree in non-metallic mining major in July 1982, received a MBA degree from Wuhan University of Technology in 1997 and a Ph. D degree in management from Huazhong University of Science & Technology in 2004. He is a professor level senior engineer. Mr. Xiao has been the vice chairman of China Cement Association since April 2007. He was honoured as a national outstanding scientific worker and the national advanced individual in quality management, and was granted awards such as including National Frontier Excellence Awards.

Biographical Details of Directors, Supervisors and Senior Management

QUALIFIED ACCOUNTANT

Pei Hongyan, aged 35, is the qualified accountant of the Company. She joined the Group in May 2001 and has over 8 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 fellow 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 38, 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 50, 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 five 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 SHAREHOLDERS 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 (together, the "Group") set out on pages 75 to 196 which comprise the consolidated balance sheet as at 31 December 2008, 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2008 and of its financial performance 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.

UHY VOCATION HK CPA LIMITED
Certified Public Accountants

DAVID TZE KIN NG, AUDITOR
Practising Certificate Number P553

21 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Revenue	5	**26,365,159**	10,514,411
Cost of sales		**(21,851,738)**	(8,519,325)
Gross profit		**4,513,421**	1,995,086
Selling and distribution costs		**(884,012)**	(524,269)
Administrative expenses		**(1,348,674)**	(616,307)
Investment and other income	7	**1,186,583**	688,487
Other expenses		**(88,172)**	(4,345)
Finance costs — net	8	**(1,368,044)**	(393,921)
Share of profit of associates		**155,327**	230,795
Profit before income tax	10	**2,166,429**	1,375,526
Income tax expense	11	**(293,073)**	(226,793)
Profit for the year		**1,873,356**	1,148,733
Attributable to:			
Equity holders of the Company		**1,511,542**	912,446
Minority interests		**361,814**	236,287
		1,873,356	1,148,733
Dividends			
— paid	12	**72,880**	67,123
— proposed	12	**111,655**	72,880
Earnings per share — basic (RMB)	13	**0.68**	0.43

The notes are an integral part of these consolidated financial statements.

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Consolidated Balance Sheet

As at 31 December 2008

	NOTE	**2008 RMB'000**	2007 RMB'000
Non-current assets			
Property, plant and equipment	14	**26,900,840**	13,005,097
Prepaid lease payments	15	**3,404,818**	1,535,901
Investment properties	16	**331,892**	316,340
Goodwill	17	**4,986,745**	1,130,556
Intangible assets	18	**740,072**	358,079
Investments in associates	20	**2,815,968**	1,794,292
Available-for-sale financial assets	21	**102,419**	107,298
Deposits	22	**969,668**	1,037,660
Deferred income tax assets	30	**185,234**	158,598
		40,437,656	19,443,821
Current assets			
Inventories	23	**3,331,223**	1,519,293
Trade and other receivables	24	**8,643,830**	4,480,418
Held-for-trading investments	21	**263,263**	209,652
Amounts due from related parties	25	**745,303**	389,411
Pledged bank deposits	27	**1,756,663**	686,779
Cash and cash equivalents	27	**3,726,253**	3,150,613
		18,466,535	10,436,166
Current liabilities			
Trade and other payables	28	**18,023,388**	4,799,588
Amounts due to related parties	25	**2,364,178**	1,401,121
Borrowings	29	**17,472,843**	8,663,614
Obligations under finance leases	31	**45,126**	18,222
Current income tax liabilities		**298,607**	120,829
Financial guarantee contracts due within one year	32	**6,690**	16,926
Dividend payable to minority shareholders		**7,089**	30,910
		38,217,921	15,051,210
Net current liabilities		**(19,751,386)**	(4,615,044)
Total assets less current liabilities		**20,686,270**	14,828,777

Consolidated Balance Sheet

As at 31 December 2008

	NOTE	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Borrowings	29	**7,774,960**	4,717,660
Deferred income		**94,263**	27,014
Obligations under finance leases	31	**32,783**	35,966
Financial guarantee contracts due after one year	32	**15,030**	21,659
Deferred income tax liabilities	30	**636,010**	273,500
		8,553,046	5,075,799
Net assets		**12,133,224**	9,752,978
Capital and reserves			
Share capital	33	**2,208,488**	2,208,488
Reserves		**6,621,862**	5,177,087
Capital and reserves attributable to equity holders of the Company		**8,830,350**	7,385,575
Minority interests		**3,302,874**	2,367,403
Total equity		**12,133,224**	9,752,978

The notes are an integral part of these consolidated financial statements.

Song Zhiping
Director

Cao Jianglin
Director

CNBM

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserves	Statutory surplus reserve fund *(Note 34)*	Exchange reserve	Retained earnings	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	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 operations	—	—	—	—	(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
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 35)*	—	—	—	—	—	—	—	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)	—	—	—
Balance at 31 December 2007 and 1 January 2008	2,208,488	3,267,410	507,518	159,423	1,263	1,241,473	7,385,575	2,367,403	9,752,978
Exchange difference arising on translation of foreign operations directly recognised in equity	—	—	—	—	(3,125)	—	(3,125)	—	(3,125)
Profit for the year	—	—	—	—	—	1,511,542	1,511,542	361,814	1,873,356
Total recognised income and expenses					(3,125)	1,511,542	1,508,417	361,814	1,870,231

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Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Capital reserves**	**Statutory surplus reserve fund** (Note 34)	**Exchange reserve**	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Issue share expenses	—	(1,466)	—	—	—	—	(1,466)	—	(1,466)
Dividends	—	—	—	—	—	(72,880)	(72,880)	—	(72,880)
Dividends paid to the minority shareholders by subsidiaries	—	—	—	—	—	—	—	(37,570)	(37,570)
Increase in minority interests as a result of acquisition of subsidiaries *(Note 35)*	—	—	—	—	—	—	—	437,619	437,619
Contributions from minority shareholders	—	—	—	—	—	—	—	342,501	342,501
Decrease in minority interest as a result of increase in interests in subsidiaries	—	—	—	—	—	—	—	(104,573)	(104,573)
Forfeiture interests from minority shareholders of subsidiaries	—	—	9,905	—	—	—	9,905	(1,823)	8,082
Share reserves of associates	—	—	799	—	—	—	799	—	799
Disposal of subsidiaries	—	—	—	—	—	—	—	(62,497)	(62,497)
Movements in statutory reserves	—	—	—	120,099	—	(120,099)	—	—	—
Balance at 31 December 2008	2,208,488	3,265,944	518,222	279,522	(1,862)	2,560,036	8,830,350	3,302,874	12,133,224

The notes are an integral part of these consolidated financial statements.

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Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	RMB'000	*RMB'000*
Cash flows from operating activities		
Profit before income tax	**2,166,429**	1,375,526
Adjustments for:		
Share of profit of associates	**(155,327)**	(230,795)
Finance costs	**1,614,796**	451,801
Interest income	**(246,752)**	(57,880)
Dividend from available-for sale financial assets	**(2,952)**	(1,573)
Impairment loss on investments in associates	**—**	1,124
Impairment loss on intangible assets	**—**	3,150
Loss on disposal of property, plant and equipment, investment properties, intangible assets and prepaid lease payments	**4,853**	3,220
Decrease/(increase) in fair value of held-for-trading investments	**40,635**	(156,762)
Deferred income released to income statement	**(2,987)**	(209)
Depreciation of property, plant and equipment and investment properties	**1,215,127**	416,672
Amortisation of intangible assets	**35,611**	11,103
Financial guarantee income	**(31,805)**	(13,485)
Prepaid lease payments released to the income statement	**78,041**	18,173
Waiver of payables	**(7,889)**	(256)
Allowance for bad and doubtful debts	**14,174**	49,983
Write-down/(reversals of provision) of inventories	**4,597**	(2,355)
Staff costs arising from share appreciation rights	**2,877**	2,877
Impairment loss in available-for-sales financial assets	**4,879**	—
Discount on acquisition of interests/additional interests in subsidiaries	**(104,415)**	(5,168)
Net foreign exchange losses	**19,704**	—
Gain on disposal of subsidiaries	**(2,484)**	—
Operating cash flows before working capital changes	**4,647,112**	1,865,146
Increase in inventories	**(865,867)**	(279,301)
Increase in trade and other receivables	**(499,749)**	(976,325)
Increase in held-for trading investments	**(53,611)**	(32,556)
Increase in amounts due from related parties	**(107,765)**	(162,137)
Increase in trade and other payables	**917,403**	261,731
Increase in amounts due to related parties	**492,267**	107,715
Increase in deferred income	**70,236**	23,222
Cash generated from operations	**4,600,026**	807,495
Income tax paid	**(259,256)**	(168,392)
Interest received	**246,752**	57,880
Net cash generated from operating activities	**4,587,522**	696,983

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 *RMB'000*	2007 *RMB'000*
Investing activities		
Purchase of property, plant and equipment	**(3,898,773)**	(1,298,431)
Purchase of intangible assets	**(157,148)**	(194,396)
Proceeds on disposal of property, plant and equipment and investment properties	**17,236**	24,909
Acquisition of investments in associates	**(759,581)**	(749,640)
Dividend received from associates	**1,194**	44,684
Disposal of subsidiaries	**15,663**	—
Purchases of available-for-sale financial assets	**(94,496)**	(3,401)
Dividend received from available-for-sale financial assets	**6,876**	1,573
Deposits paid	**(969,668)**	(1,037,660)
Deposits refund	**1,037,660**	5,000
Payments for prepaid lease payments	**(470,528)**	(326,508)
Payments for acquisition of subsidiaries, net of cash and cash equivalents acquired	**(3,844,891)**	(1,965,550)
Payments for acquisition of additional interests in subsidiaries	**(113,934)**	(159,405)
(Advances to)/repayments from related parties	**(243,318)**	105,038
Proceeds from repayment of loans receivable	**342,668**	110,000
New loans raised	**(809,913)**	(342,668)
(Increase)/decrease in pledged bank deposits	**(703,439)**	296,991
Net cash used in investing activities	**(10,644,392)**	(5,489,464)
Financing activities		
Interest paid	**(1,701,108)**	(517,232)
Issuance of shares	**—**	2,351,127
Issuance of share expenses	**—**	(17,435)
Dividend paid to shareholders	**(72,880)**	(67,123)
Dividend paid to minority shareholders of subsidiaries	**(19,251)**	(57,032)
Contributions from minority shareholders	**204,200**	408,999
Repayment of borrowings	**(25,976,382)**	(8,706,552)
New borrowings raised	**34,019,776**	13,168,213
Advances from immediate holding company	**1,650,000**	—
Repayments to related parties	**(1,468,720)**	(168,524)
Net cash generated from financing activities	**6,635,635**	6,394,441
Net increase in cash and cash equivalents	**578,765**	1,601,960
Exchange loss on cash and cash equivalents	**(3,125)**	(470)
Cash and cash equivalents at beginning of the year	**3,150,613**	1,549,123
Cash and cash equivalents at end of the year	**3,726,253**	3,150,613

The notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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 19. Hereinafter, the Company and its subsidiaries are collectively referred to as the "Group".

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated . These consolidated financial statements have been approved for issue by the Board of Directors on 21 April 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidation financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidation financial statements of China National Building Material Company Limited have been prepared in accordance with International Financial Reporting Standard ('IFRS'). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and held-for-trading investments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Amendments and interpretations effective in 2008

- The IAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

(a) Amendments and interpretations effective in 2008 *(Continued)*

- IFRIC — Int 11, 'IFRS 2 — Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

- IFRIC — Int 14, 'IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction,' provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affect by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statement, as the Group has a pension deficit and is not subject to any minimum funding requirements.

(b) Interpretations effective in 2008 but not relevant to the Group

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- IFRIC — Int 12, 'Service Concession arrangements'

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- IAS 1 (Revised), Presentation of financial statements' (effective for annual period starting form 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity, All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income (where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and consolidated statement of comprehensive income will be presented as performance statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- IFRS 8, 'Operating segments' (effective from 1 January 2009) IFRS 8 replaces IAS 14,'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009.

- IAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Revised) retrospectively from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effective of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in the consolidated income statement. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the IAS 32 (Amendment) and IAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

- IFRS 1 (Amendment), 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply IAS 27 (Amendment) prospectively from 1 January 2009 in its separate financial statements. This amendment is not relevant to the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- IFRS 2 (Amendment), 'Share-based payment' (effective 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply IFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- IFRIC — Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC — Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply IFRIC — Int 16 from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- IASB's annual improvements project published in May 2008.

  — IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather then all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments; Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

  — IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

  - The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  - The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  — IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- IASB's annual improvements project published in May 2008. *(Continued)*

  — IAS 28 (Amendment), 'Investment in associates' (and consequential amendments to IAS 32), 'Financial instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the IAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

  — IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

  — IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009.

  — IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).

    - This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

    - The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- IASB's annual improvements project published in May 2008. *(Continued)*

  — IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). *(Continued)*

  - The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that IAS 39 is consistent with IFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker.

  - When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge account ceases) are used.

  The Group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- IASB's annual improvements project published in May 2008. *(Continued)*

  — IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

  — There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the balance sheet date', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

(d) Amendments and interpretations to existing standards which are not yet effective and not relevant for the Group's operations

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are currently not relevant for the Group's operations:

- IAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' — 'Eligible hedged items' (effective for annual period starting from 1 January 2010)

- IFRS 1 (Amendment), 'First time adoption of IFRS' and IAS 27, 'Consolidated and separate financial statements' (effective for annual period starting from 1 January 2009).

- IFRIC — Int 15, 'Agreements for construction of real estates' (effective for annual period starting form 1 January 2009)

- IFRIC — Int 17 'Distributions of non-cash assets to owners' (effective for annual period starting from 1 July 2009)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

(d) Amendments and interpretations to existing standards which are not yet effective and not relevant for the Group's operations *(Continued)*

- IASB's annual improvements project published in August 2008

  — IFRS 2, 'Share-based payment' (effective for annual periods beginning on or after 1 July 2009).

  — IFRS 5, 'Non-current assets held for sale and discounted operations' (effective for annual periods beginning on or after 1 January 2010).

  — IFRS 8, 'Operating Segments' (effective for annual periods beginning on or after 1 January 2010).

  — IAS 7, 'Statement of Cash Flows' (effective for annual periods beginning on or after 1 January 2010).

  — IAS 18, 'Revenue' (effective for annual periods beginning on or after 1 January 2010).

  — IAS 36, 'Impairment of assets' (effective for annual periods beginning on or after 1 January 2010).

  — IAS 38, 'Intangible assets' (effective for annual periods beginning on or after 1 July 2009).

2.2 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Basis of consolidation *(Continued)*

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.

2.3 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 the consolidated income statement.

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.

2.4 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 considerations 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.5 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.

2.6 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.7 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.8 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.

2.9 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 in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.10 Prepaid lease payments

Upfront prepayments made for the prepaid lease payments and leasehold land are initially recognised in 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.

2.11 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.

2.12 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 the consolidated income statement.

Rentals payable under operating leases are charged to the consolidated income statement 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.12 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.

2.13 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.

2.14 Foreign currency translation

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.14 Foreign currency translation *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the consolidated income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement 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 the consolidated income statement in the period in which the foreign operation is disposed of.

2.15 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 consolidated income statement over the expected useful life of the relevant asset.

2.16 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.

2.17 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.

2.18 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 consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.19 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 income 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 liability method. Deferred income 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 income 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 income 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 income 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 income tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred income tax is also dealt with in equity.

2.20 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 straightline 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, mining rights 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.21 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.

2.22 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 selling and distribution.

2.23 Financial Instrument

Financial assets and financial liabilities are recognised in the consolidated 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 the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.24 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 investment and other income.

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 the consolidated income statement in the period in which they arise. The net gain or loss recognised in the consolidated income statement 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.24 Financial assets *(Continued)*

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.

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 the consolidated income statement 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 the consolidated income statement. 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 the consolidated income statement.

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 the consolidated income statement 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 the consolidated income statement in subsequent periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.24 Financial assets *(Continued)*

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 the consolidated income statement.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.24 Financial assets *(Continued)*

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 the consolidated income statement.

2.25 Dividend distribution

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

2.26 Comparatives

Certain comparative figures have been reclassified in order to conform to the current year's presentation.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and other price risk), credit risk, liquidity risk and capital risk. The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the Group's financial performance. The Group has not used derivative financial instruments to hedge the risk exposures.

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency risk, interest rate risk 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign currency risk *(Continued)*

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

	Liabilities		Assets	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
United States Dollar ("USD")	**203,861**	286,418	**630,845**	470,902
European Dollar ("EUR")	**17,237**	319,576	**53,406**	149,595
Hong Kong Dollar ("HKD")	**—**	2,257	**148**	13,161
Others	**—**	—	**380**	91

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign currency risk *(Continued)*

Effect on profit after tax

	2008	2007
	RMB'000	*RMB'000*
USD	**(23,432)**	(9,321)
EUR	**(2,014)**	8,589
HKD	**(8)**	(551)
	(25,454)	(1,283)

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.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(a) 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 RMB11,489.93 million (2007: RMB9,068.67 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 2008 would decrease by RMB125.19 million (2007: decrease by RMB95.42 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 investments 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 investments are set out in Note 21.

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 investments had been 5% higher, the Group's net profit for the year ended 31 December 2008 would increase by RMB11.38 million (2007: increase by RMB8.75 million). This is mainly due to the changes in fair value of held-for-trading investments.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

Credit risk arises from cash and cash equivalents, pledged bank deposits, amounts due from related parties as well as trade receivables and certain other receivables.

As at 31 December 2008, 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 32.

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.

(c) 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 2008, the Group has net current liabilities and capital commitments of approximately RMB19,751 million and RMB1,294 million (Note 37), 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 will issue approximately 298,555,000 new H Shares. As at 31 December 2008, the Group had unused banking facilities of approximately RMB27,319,000,000 (2007: RMB4,898,000,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

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.

	Effective interest rate	Within one year	One to two years	Two to three years	Three to four years	Four to five years	After five years	Total undiscounted cash flow	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2008									
Trade and other payables	—	19,997,362	3,428	3,704	314	—	—	20,004,808	18,023,388
Amounts due to related parties									
— interest-free	—	189,863	—	—	—	—	—	189,863	189,863
— variable rate	6.33%	489,318	—	—	—	—	—	489,318	489,318
— fixed rate	6.03%	34,997	—	—	—	—	—	34,997	34,997
Advances from immediate holding company	5.48%	1,650,000	—	—	—	—	—	1,650,000	1,650,000
Borrowings									
— fixed rate bank borrowings	5.75%	8,413,864	744,575	1,115,068	383,467	105,755	—	10,762,729	10,277,061
— variable rate bank borrowings	6.19%	7,836,350	2,759,140	553,419	644,691	169,907	237,870	12,201,377	11,489,934
— other borrowings from non-financial institutions	—	80,808	—	—	—	—	—	80,808	80,808
— bonds	4.94%	2,489,266	43,200	43,200	43,200	43,200	1,184,596	3,846,662	3,400,000
Obligations under finance leases	6.54%	48,567	34,501	—	—	—	—	83,068	77,909
Dividend payable to minority shareholders	—	7,089	—	—	—	—	—	7,089	7,089
		41,237,484	3,584,844	1,715,391	1,071,672	318,862	1,422,466	49,350,719	45,720,367

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

	Effective interest rate	Within one year	One to two years	Two to three years	Three to four years	Four to five years	After five years	Total undiscounted cash flow	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As 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 borrowings	6.59	3,284,142	79,564	73,507	59,520	35,611	—	3,532,344	3,283,664
— variable rate bank borrowings	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 institution	—	28,943	—	—	—	—	—	28,943	28,943
— 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

The contractual expiry periods of financial guarantees are as follows:

	2008		2007	
	RMB'000	***Expiry periods***	*RMB'000*	*Expiry periods*
Guarantee given to banks in respect of banking facilities utilised by:				
— former related parties	**69,000**	**(2009-2012)**	597,360	(2009-2018)
— the third parties	**259,300**	**(2009-2016)**	920,290	(2009-2011)
	328,300		1,517,650	

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(d) 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 29, 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.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In the application of the Group's accounting policies, which are described in note 2, 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 the 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 judgement and estimates on future operating cash flows and discount rates adopted. As at 31 December 2008, the carrying value of property, plant and equipment is approximately RMB26,901 million (2007: approximately RMB13,005 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(CONTINUED)*

Allowance for inventories

During the year, the Group write-down of inventories of approximately RMB4,597,000 (2007: reversed allowance of inventory of approximately RMB2,355,000). 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 judgement and estimates on the conditions and usefulness of the inventories.

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 2008, the carrying amount of goodwill is approximately RMB4,987 million (2007: approximately RMB1,131 million). Details of the recoverable amount calculation are disclosed in Note 17.

Allowance for bad and doubtful debts

The Group makes allowance for bad and doubtful debts of approximately RMB14,174,000 (2007: approximately RMB49,983,000) 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 judgement 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. REVENUE

	2008 ***RMB'000***	2007 *RMB'000*
Sale of goods	**23,231,966**	8,632,411
Provision of engineering services	**3,104,030**	1,868,485
Rendering of other services	**29,163**	13,515
	26,365,159	10,514,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purpose, the Group is currently organised into four main 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
Others	—	Merchandise trading business and others

Segment information about these businesses is presented below:

Year ended 31 December 2008

	Lightweight building materials	Cement	Engineering services	Glass fiber and FRP products	Others	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
INCOME STATEMENT							
Revenue							
External sales	2,365,698	18,349,554	3,244,114	1,549,738	856,055	—	26,365,159
Inter-segment sales *(Note)*	—	—	647,481	—	—	(647,481)	—
	2,365,698	18,349,554	3,891,595	1,549,738	856,055	(647,481)	26,365,159
Segment results	243,517	2,320,789	557,881	285,828	116,078	7,324	3,531,417
Unallocated other loss							(61,510)
Unallocated other expenses							(4,700)
Unallocated administrative expenses							(86,061)
Share of profit of associates	18,701	30,959	(2,248)	116,915	(9,000)	—	155,327
Finance costs							(1,368,044)
Profit before income tax							2,166,429
Income tax expense							(293,073)
Profit for the year							1,873,356

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

(a) Business segments *(Continued)*

Year ended 31 December 2008 *(Continued)*

	Lightweight building materials	Cement	Engineering services	Glass fiber and FRP products	Others	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
OTHER INFORMATION							
Capital expenditure:							
— Property, plant and equipment	865,194	3,046,684	46,614	194,860	90,084	—	4,243,436
— Prepaid lease payments	163,522	264,061	7,819	5,773	29,353	—	470,528
— Intangible assets	250	151,096	—	5,786	16	—	157,148
— Unallocated							14,398
	1,028,966	3,461,841	54,433	206,419	119,453	—	4,885,510
— Acquisition of subsidiaries	—	13,090,673	—	—	—	—	13,090,673

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

(a) Business segments *(Continued)*

Year ended 31 December 2008 *(Continued)*

	Lightweight building materials *RMB'000*	Cement *RMB'000*	Engineering services *RMB'000*	Glass fiber and FRP products *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Depreciation and amortisation							
— Property, plant and equipment	150,460	997,104	5,720	44,800	16,528	—	1,214,612
— Intangible assets	1,244	33,816	8	543	—	—	35,611
— Unallocated							515
	151,704	1,030,920	5,728	45,343	16,528	—	1,250,738
Prepaid lease payments released to the consolidated income statement	6,760	67,515	228	1,264	2,274	—	78,041
Allowance for bad and doubtful debts	2,603	(6,941)	9,089	9,326	97	—	14,174
Write-down of inventories	—	4,597	—	—	—	—	4,597
BALANCE SHEET							
ASSETS							
Segment assets	3,808,392	36,145,625	697,604	1,023,039	307,830	—	41,982,490
Investments in associates	227,225	1,102,009	10,542	1,434,647	41,545	—	2,815,968
Unallocated assets							14,105,733
Total consolidated assets							58,904,191
LIABILITIES							
Segment liabilities	505,235	14,365,119	1,796,571	871,539	329,128	—	17,867,592
Unallocated liabilities							28,903,375
Total consolidated liabilities							46,770,967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

(a) Business segments *(Continued)*

Year ended 31 December 2007

	Lightweight building materials *RMB'000*	Cement *RMB'000*	Engineering services *RMB'000*	Glass fiber and FRP products *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
INCOME STATEMENT							
Revenue							
External sales	2,132,726	4,753,274	2,021,737	781,994	824,680	—	10,514,411
Inter-segment sales *(Note)*	—	—	86,796	—	—	(86,796)	—
	2,132,726	4,753,274	2,108,533	781,994	824,680	(86,796)	10,514,411
Segment results	237,265	759,327	263,616	101,783	40,185	12,266	1,414,442
Unallocated other income							185,445
Unallocated other expenses							(83)
Unallocated administrative expenses							(61,152)
Share of profit of associates	2,263	(18)	1,085	219,045	8,420	—	230,795
Finance costs							(393,921)
Profit before income tax							1,375,526
Income tax expense							(226,793)
Profit for the year							1,148,733

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

(a) Business 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*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
OTHER INFORMATION							
Capital expenditure:							
— Property, plant and equipment	194,939	1,084,454	19,023	168,230	6,226	—	1,472,872
— Prepaid lease payments	131,770	160,023	28,373	—	104,495	—	424,661
— Intangible assets	—	194,396	—	—	—	—	194,396
— Unallocated							46
	326,709	1,438,873	47,396	168,230	110,721	—	2,091,975
Acquisition of subsidiaries							
— Allocated	—	5,806,478	—	—	—	—	5,806,478
— Unallocated							30,200
	—	5,806,478	—	—	—	—	5,836,678
Depreciation and amortisation							
— Property, plant and equipment	82,070	289,088	6,039	26,502	3,701	—	407,400
— Intangible assets	2,739	7,441	311	612	—	—	11,103
— Unallocated							9,272
	84,809	296,529	6,350	27,114	3,701	—	427,775

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

(a) Business 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	Others RMB'000	Eliminations RMB'000	Total RMB'000
Prepaid lease payments released to the consolidated income statement	4,343	10,873	137	1,234	1,586	—	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	28,371	5,916	8,729	6,982	(15)	—	49,983
(Reversals of)/write-down of inventories	(2,490)	—	—	135	—	—	(2,355)
BALANCE SHEET							
ASSETS							
Segment assets	3,446,350	16,836,969	1,548,617	1,198,669	625,543	—	23,656,148
Investments in associates	165,932	209,459	17,941	1,318,796	82,164	—	1,794,292
Unallocated assets							4,429,547
Total consolidated assets							29,879,987
LIABILITIES							
Segment liabilities	392,678	2,832,749	836,386	348,843	326,045	—	4,736,701
Unallocated liabilities							15,390,308
Total consolidated liabilities							20,127,009

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

(b) Geographical segments

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

	Revenue from external customers	
	2008	2007
	RMB'000	*RMB'000*
PRC	**23,316,056**	8,306,206
European countries	**123,750**	690,338
Middle East	**765,670**	643,938
Southeast Asia	**1,855,149**	497,838
Oceania	**19,669**	212,754
Others	**284,865**	163,337
	26,365,159	10,514,411

More than 90% of the Group's operations and assets are located in the PRC for the year ended 31 December 2008 and 2007.

7. INVESTMENT AND OTHER INCOME

	2008	2007
	RMB'000	*RMB'000*
Dividend from available-for-sale financial assets	**2,952**	1,573
Discount on acquisition of interests/additional interests in subsidiaries	**104,415**	5,168
Financial guarantee income *(Note 32)*	**31,805**	13,485
Government subsidies:		
VAT refunds *(Note a)*	**483,955**	271,308
Government grants *(Note b)*	**475,758**	205,808
Interest subsidy	**330**	—
(Decrease)/increase in fair value of held-for trading investments	**(40,635)**	156,762
Net rental income from:		
— investment properties *(Note 16)*	**51,513**	22,683
— equipment	**5,460**	420
Recovery of bad and doubtful debts previously written off	**10,839**	—
Technical and other service income	**20,864**	8,179
Waiver of payables	**9,144**	256
Others	**30,183**	2,845
	1,186,583	688,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENT AND OTHER INCOME *(CONTINUED)*

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 recognised 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 recognised 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.

8. FINANCE COSTS — NET

	2008	2007
	RMB'000	*RMB'000*
Interest expenses on borrowings:		
— wholly repayable within five years	**1,743,079**	477,799
— not wholly repayable within five years	**43,200**	39,433
	1,786,279	517,232
Less: interest capitalised to construction in progress	**(171,483)**	(65,431)
	1,614,796	451,801
Interest income:		
— interest on bank deposits	**(128,308)**	(50,687)
— interest on loans receivable	**(118,444)**	(7,193)
Finance costs — net	**1,368,044**	393,921

Borrowing costs capitalised for the year ended 31 December 2008 arose on the general borrowing pool and were calculated by applying a capitalisation rate of 5.9% (2007: 5.9%) per annum to expenditure on the qualifying assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and supervisors' emoluments

Year ended 31 December 2008

	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	—	—	—	—	—	—
Mr. Cao Jianglin	—	784	1,350	23	391	2,548
Mr. Li Yimin	—	388	240	23	201	852
Mr. Peng Shou	—	386	1,100	12	201	1,699
Non-executive directors						
Ms. Cui Lijun	—	126	—	—	—	126
Mr. Huang Anzhong	—	90	—	—	—	90
Mr. Zuo Fenggao	—	—	—	—	—	—
Independent non-executive directors						
Mr. Zhang Renwei	—	195	—	—	—	195
Mr. Zhou Daojiong	—	195	—	—	—	195
Mr. Chi Haibin	—	135	—	—	—	135
Mr. Lau Ko Yuen, Tom	—	195	—	—	—	195
Mr. Li De Cheng	—	—	—	—	—	—
Supervisors						
Mr. Shen Anqin	—	45	—	—	—	45
Ms. Zhou Guoping	—	45	—	—	—	45
Mr. Bao Wenchun	—	51	—	—	—	51
Ms. Cui Shuhong	—	137	72	23	78	310
Mr. Zhang Zhaomin	—	30	—	—	—	30
Mr. Liu Chijin	—	90	—	—	—	90
Mr. Liu Zhi Ping	—	137	72	23	78	310
Mr. Ma Zhong Zhi	—	60	—	—	—	60
	—	3,089	2,834	104	949	6,976

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(a) Directors' and supervisors' emoluments

Year ended 31 December 2007

	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	—	—	—	—	—	—
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

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2007: two) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2007: three) individuals were as follows:

	2008	2007
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**1,052**	1,055
Share appreciation rights	**201**	768
Discretionary bonuses	**2,646**	1,776
Retirement plan contributions	**41**	64
	3,940	3,663

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

	Number of the five highest paid individuals	
	2008	2007
Nil-HKD1,000,000 (equivalent to RMB880,300)	**—**	—
HKD1,000,001-HKD1,500,000 (equivalent to RMB1,320,450)	**3**	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. EXPENSES BY NATURE

	2008 RMB'000	2007 RMB'000
Depreciation of:		
— property, plant and equipment	1,215,127	408,363
— investment properties	7,488	8,309
	1,222,615	416,672
Amortisation of intangible assets (included in cost of sales)	35,611	11,103
Total depreciation and amortisation	1,258,226	427,775
Impairment loss on investments in associates	—	1,124
Impairment loss on intangible assets	—	3,150
Cost of inventories recognised as expenses	18,700,744	6,822,407
Prepaid lease payments released to the consolidated income statement	78,041	18,173
Auditors' remuneration	5,910	5,800
Staff costs including directors' remunerations:		
— Salaries, bonus and other allowances	935,057	417,956
— Share appreciation rights	2,877	2,877
— Retirement plan contributions	83,926	76,589
Total staff costs	1,021,860	497,422
Allowance for bad and doubtful debts	14,174	49,983
Write-down/(reversals of provision) of inventories	4,597	(2,355)
Operating lease rentals	12,493	14,186
Loss on disposal of property, plant and equipment and investment properties	4,491	3,220
Net foreign exchange losses	19,704	21,252

11. INCOME TAX EXPENSE

	2008 RMB'000	2007 RMB'000
Current income tax	385,920	221,662
Deferred income tax (*Note 30*)	(92,847)	5,131
	293,073	226,793

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INCOME TAX EXPENSE *(CONTINUED)*

PRC income tax is calculated at 25% (2007: 33%) of the estimated assessable profit of the Group as determined in accordance with relevant tax rules and regulations in the PRC, 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 total charge for the year can be reconciled to the profit before income tax as follows:

	2008	2007
	RMB'000	*RMB'000*
Profit before income tax	**2,166,429**	1,375,526
Tax at domestic income tax rate of 25% (2007: 33%)	**541,607**	453,924
Tax effect of:		
Share of profit of associates	**(38,834)**	(76,162)
Expenses not deductible for tax purposes	**21,488**	46,913
Tax effect of tax losses not recognised	**50,792**	24,715
Utilisation of tax losses not previously recognised	**(108,240)**	(8,836)
Income tax credits granted to subsidiaries on utilisation of industrial waste *(Note a)*	**(73,978)**	(80,934)
Income tax credits granted to subsidiaries on acquisition of certain qualified equipment *(Note b)*	**(62,700)**	(52,969)
Effect of different tax rates of subsidiaries	**(37,385)**	(80,818)
Effect of deferred tax due to the change in income tax rate	**323**	960
Income tax expense	**293,073**	226,793

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. 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.

12. DIVIDENDS

	2008	2007
	RMB'000	*RMB'000*
Dividends paid	**72,880**	67,123
Proposed final dividend — RMB0.045 (2007: RMB0.033) per share	**111,655**	72,880

The final dividend of RMB0.045 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.

13. 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:

	2008	2007
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**1,511,542**	912,446

	2008	2007
	'000	'000
Weighted average number of ordinary shares in issue	**2,208,488**	2,123,042

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. 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					
As at 1 January 2007	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 *(Note 35)*	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 16)*	—	(20,494)	—	—	(20,494)
As at 31 December 2007	1,447,804	5,164,413	7,715,307	261,274	14,588,798
Additions	3,194,946	406,084	595,342	51,381	4,247,753
Acquired on acquisition of subsidiaries *(Note 35)*	729,738	4,792,282	5,595,522	81,569	11,199,111
Transfer from construction in progress	(2,066,002)	504,272	1,555,089	6,641	—
Transfer to construction in progress for reconstruction	96,132	(92,893)	(31,752)	—	(28,513)
Disposals	—	(136,095)	(300,967)	(11,711)	(448,773)
Disposal of subsidiaries	—	(10,697)	(6,332)	(8,277)	(25,306)
Transfer to investment properties *(Note 16)*	—	(9,719)	—	—	(9,719)
Transfer from investment properties *(Note 16)*	—	7,258	—	—	7,258
As at 31 December 2008	3,402,618	10,624,905	15,122,209	380,877	29,530,609
DEPRECIATION AND IMPAIRMENT					
As at 1 January 2007	—	304,342	976,029	43,026	1,323,397
Charge 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 16)*	—	(2,443)	—	—	(2,443)
As at 31 December 2007	—	392,605	1,130,614	60,482	1,583,701

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Construction in progress *RMB'000*	Land and buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Charge for the year	—	297,010	873,727	44,390	1,215,127
Eliminated on transfer to construction in progress for reconstruction	—	(23,069)	(5,444)	—	(28,513)
Eliminated on transfer to investment properties *(Note 16)*	—	(4,636)	—	—	(4,636)
Eliminated on disposals	—	(19,792)	(107,746)	(9,164)	(136,702)
Transfer from investment properties *(Note 16)*	—	792	—	—	792
As at 31 December 2008	—	642,910	1,891,151	95,708	2,629,769
CARRYING VALUES					
As at 31 December 2008	3,402,618	9,981,995	13,231,058	285,169	26,900,840
As at 31 December 2007	1,447,804	4,771,808	6,584,693	200,792	13,005,097

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 2008, the carrying value of plant and machinery includes an amount of approximately RMB131,839,000 (2007: approximately RMB57,851,000) 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:

	2008 ***RMB'000***	2007 *RMB'000*
Land and buildings	**1,315,719**	281,533
Plant and machinery	**1,355,098**	731,138
Motor vehicles	**874**	—
Total	**2,671,691**	1,012,671

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 2008, land and buildings with carrying value of approximately RMB681,285,000 (2007: approximately RMB646,201,000) are still in the process of applying the title certificates.

15. PREPAID LEASE PAYMENTS

	2008	2007
	RMB'000	*RMB'000*
CARRYING AMOUNT		
At beginning of the year	**1,569,202**	420,400
Additions	**470,528**	424,661
Acquisition of subsidiaries *(Note 35)*	**1,630,744**	742,314
Released to the consolidated income statement	**(78,041)**	(18,173)
Disposals	**(72,080)**	—
Transfer to investment properties *(Note 16)*	**(32,515)**	—
At end of the year	**3,487,838**	1,569,202

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

	2008	2007
	RMB'000	*RMB'000*
The carrying amount of prepaid lease payments are analysed as follows:		
Non-current portion	**3,404,818**	1,535,901
Current portion included in other receivables, deposits and prepayments	**83,020**	33,301
	3,487,838	1,569,202

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

As at 31 December 2008, prepaid lease payments with carrying value of approximately RMB527,530,000 (2007: approximately RMB63,299,000) are still in the process of applying the title certificates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PREPAID LEASE PAYMENTS *(CONTINUED)*

As at 31 December 2008, the Group has pledged prepaid lease payments with a carrying value of approximately RMB239,132,000 (2007: approximately RMB406,368,000) to secure bank borrowings granted to the Group.

16. INVESTMENT PROPERTIES

	2008 ***RMB'000***	2007 *RMB'000*
COST		
At beginning of the year	**346,619**	301,784
Additions	**10,081**	—
Acquisition of subsidiaries *(Note 35)*	—	30,200
Disposals	**(21,366)**	(5,859)
Transfer from prepaid lease payments *(Note 15)*	**36,293**	—
Transfer from property, plant and equipment *(Note 14)*	**9,719**	20,494
Transfer to property, plant and equipment *(Note 14)*	**(7,258)**	—
At end of the year	**374,088**	346,619
DEPRECIATION		
At beginning of the year	**30,279**	20,778
Charge for the year	**7,488**	8,309
Eliminated on disposals	**(3,193)**	(1,251)
Transfer from prepaid lease payments *(Note 15)*	**3,778**	—
Transfer from property, plant and equipment *(Note 14)*	**4,636**	2,443
Transfer to property, plant and equipment *(Note 14)*	**(792)**	—
At end of the year	**42,196**	30,279
CARRYING VALUES		
At end of the year	**331,892**	316,340

The cost of investment properties is depreciated over their estimated useful lives at an estimated rate of 2.38% (2007: 2.38%) per annum.

As at 31 December 2008, the Group has pledged investment properties with a carrying value of approximately RMB32,525,000 (2007: approximately RMB242,681,000) to secure bank borrowings granted to the Group.

The fair value of the Group's investment properties as at 31 December 2008 was approximately RMB404,099,000 (2007: approximately RMB388,960,000). 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.

16. INVESTMENT PROPERTIES *(CONTINUED)*

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 approximately RMB54,506,000 (2007: approximately RMB36,292,000). Direct operating expenses arising on the investment properties amounted to approximately RMB2,993,000 (2007: approximately RMB13,609,000).

17. GOODWILL

	2008	2007
	RMB'000	*RMB'000*
At beginning of the year	**1,130,556**	253,907
Arising from acquisition of:		
— subsidiaries *(Note 35)*	**3,810,730**	870,788
— additional interest in subsidiaries	**45,459**	5,861
At end of the year	**4,986,745**	1,130,556

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:

	2008	2007
	RMB'000	*RMB'000*
Lightweight building materials	**99,380**	81,616
Cement	**4,871,312**	1,046,674
Engineering services	**62**	62
Glass fiber and FRP products	**15,991**	2,204
	4,986,745	1,130,556

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 assumptions 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 period beyond the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. INTANGIBLE ASSETS

	Mining rights *RMB'000*	Patents and trademarks *RMB'000*	Total *RMB'000*
COST			
As at 1 January 2007	11,772	30,791	42,563
Additions	194,396	—	194,396
Acquisition of subsidiaries *(Note 35)*	145,104	51	145,155
As at 31 December 2007	351,272	30,842	382,114
Additions	150,799	6,349	157,148
Acquisition of subsidiaries *(Note 35)*	241,236	19,582	260,818
Disposals	—	(5,152)	(5,152)
As at 31 December 2008	743,307	51,621	794,928
AMORTISATION AND IMPAIRMENT			
As at 1 January 2007	2,590	7,192	9,782
Charge for the year	7,438	3,665	11,103
Impairment loss recognised	—	3,150	3,150
As at 31 December 2007	10,028	14,007	24,035
Charge for the year	33,109	2,502	35,611
Eliminated on disposals	—	(4,790)	(4,790)
As at 31 December 2008	43,137	11,719	54,856
CARRYING VALUES			
As at 31 December 2008	700,170	39,902	740,072
As at 31 December 2007	341,244	16,835	358,079

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 30 years.

The directors of the Company reviewed the carrying amount of intangible assets. No impairment loss (2007: RMB3,150,000) was recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2008 and 31 December 2007, 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 held by the Company Direct 2008 %	Direct 2007 %	Indirect 2008 %	Indirect 2007 %	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 iv)***	34.06	Production and sale of FRP products
Suzhou of Beijing New Building Materials Public Limited Company	RMB80,000,000	**—**	—	**100.00**	100.00	Production and sales of FRP products
China United Cement Company Limited ("China United")	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")	RMB223,820,000	**—**	—	**93.00**	93.00	Production and sale of cement
Qingzhou China United Cement Company Limited	RMB200,000,000	**—**	—	**100.00**	100.00	Production and sale of cement
Taishan China United Cement Company Limited	RMB116,680,000	**—**	—	**90.00**	90.00	Production and sale of cement
Qufu China United Cement Company Limited	RMB36,195,479	**—**	—	**90.00**	90.00	Production and sale of cement
Linyi China United Cement Company Limited	RMB165,200,000	**—**	—	**90.00**	90.00	Production and sale of cement
Zaozhuang China United Cement Company Limited	RMB105,000,000	**—**	—	**100.00**	100.00	Production and sale of cement

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

Name of subsidiary	Nominal value of paid-in capital *(Note i)*	Attributable equity interest held by the Company Direct 2008 %	Direct 2007 %	Indirect 2008 %	Indirect 2007 %	Principal activities
Xuzhou China United Cement Company Limited	RMB346,940,000	**—**	—	**100.00**	100.00	Production and sale of cement
South Cement Company Limited ("South Cement")	RMB2,400,500,000	**79.15** ***(Note v)***	84.44	**—**	—	Production and sale of cement
Zhejiang Cement Company Limited	RMB627,730,000	**—**	—	**79.15**	81.41	Production and sale of cement
Zhejiang Hushan Group Company Limited	RMB300,000,000	**—**	—	**79.15**	73.27	Production and sale of cement
Zhejian Yulang Cement Company Limited	RMB191,882,385	**—**	—	**79.15**	—	Production and sale of cement
Liyang Hansheng Cement Company Limited	RMB375,000,000	**—**	—	**79.15**	—	Production and sale of cement
Hunan South Cement Company Limited	RMB1,000,000,000	**—**	—	**79.15**	—	Production and sale of cement
Chenzhou Dongjiang Jinlei Cement Company Limited	RMB64,460,000	**—**	—	**79.15**	—	Production and sale of cement
Zhaoshanxinxing Group Liuyang Company Limited	RMB160,000,000	**—**	—	**79.15**	—	Production and sale of cement
CNBM Investment Company Limited ("CNBM Investment")	RMB215,678,085	**100.00** ***(Note vi)***	—	**—**	49.15	Sale of lightweight building materials
China Composites Group Corporation Limited ("China Composites")	RMB350,000,000	**100.00**	100.00	**—**	—	Production and sale of FRP products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

Name of subsidiary	Nominal value of paid-in capital *(Note i)*	Attributable equity interest held by the Company Direct 2008 %	Direct 2007 %	Indirect 2008 %	Indirect 2007 %	Principal activities
Lianyungang Zhongfu Lianzhong Composite Material Group Company Limited	RMB166,579,600	**—**	—	**98.32**	98.32	Production and sale of FRP products
Changzhou China Composites Liberty Company Limited	RMB160,000,000	**—**	—	**75.00**	75.00	Production and sale of PVC tiles
Changzhou China Composites Tianma Fiberglass Products Company Limited ("Zhongxin Tianma")	USD11,885,000	**—**	—	**30.00** ***(Note iii)***	40.00	Production and sale of glass fiber materials
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 iv)***	46.55	Provision of engineering services
CTIEC BengBu Triumph Scienotech Engineering Company Limited	RMB30,000,000	**—**	—	**91.00**	91.00	Provision of engineering services

19. 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) 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.

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

(v) On 9 January 2008 and 30 December 2008, the minority shareholders injected additional share capital of RMB84,000,000 and RMB66,500,000 into South Cement as registered capital.

(vi) On 7 December 2007, the Company entered into the Equity Transfer Agreements with BNBM and China Fiberglass Company Limited to acquire all equity interests held in CNBM Investment. Upon completion of the Equity Transfer Agreements on 1 January 2008, CNBM Investment became a wholly owned subsidiary of the Company.

(vii) 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.

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

20. INVESTMENTS IN ASSOCIATES

	2008	2007
	RMB'000	*RMB'000*
Cost of investments in associates		
— listed in the PRC	**156,728**	156,728
— unlisted	**1,777,216**	921,557
Share of post-acquisition profit, net of dividend received	**882,024**	716,007
	2,815,968	1,794,292
Fair value of listed investments	**2,667,691**	6,039,739

As at 31 December 2008, the cost of investments in associates included goodwill of associates of approximately RMB65,496,000 (2007: approximately RMB52,918,000).

20. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

As at 31 December 2008 and 31 December 2007, 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 2008 %	2007 %	Principal activities
China Fiberglass *(Note i)*	RMB427,392,000	**36.15**	36.15	Production of glass fiber
Yaopi *(Note ii)*	RMB732,250,082	**16.26**	16.26	Production of float glass
Jushi Group Company Limited *(Note iii)*	USD151,208,000	**11.50**	11.50	Production of glass fiber
Nanfang Wannianqing Cement Company Limited ("Nanfang Wannianqing") *(Note iv)*	RMB400,000,000	**50.00**	50.00	Production of cement
Zhongfu Shenying Carbon Fiber Company Limited	RMB136,360,000	**45.00**	45.00	Production of carbon fiber
Hubei Daye Jianfeng Cement Company Limited	RMB150,000,000	**40.00**	40.00	Production and sale of cement
Dengfeng China United Dengdian Cement Company Limitedf	RMB300,000,000	**50.00**	—	Production and sale of cement
Shangdong Donghua Cement Company Limited	RMB120,000,000	**50.00**	—	Production and sale 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 regarded as an associate of the Company as it is the subsidiary of China Fiberglass.

(iv) Nanfang Wannianqing was 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.

The above table lists the associates of the Group which, in the opinion of the directors, 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, results in particulars of excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

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

	2008	2007
	RMB'000	*RMB'000*
Revenue	**11,861,547**	6,901,609
Profit for the year	**1,176,881**	902,061
Group's share of associates' profit for the year	**155,327**	230,795
Total assets	**35,011,546**	16,956,677
Total liabilities	**(17,479,376)**	(9,630,993)
Net assets attributable to the equity holders of the associates	**9,901,190**	4,567,036
Group's share of associates' net assets	**2,750,472**	1,741,374

21. INVESTMENTS

	2008	2007
	RMB'000	*RMB'000*
Available-for-sale financial assets		
Unlisted equity shares, at cost *(Note)*	**102,419**	107,298
Held-for-trading investments at market value:		
Quoted investment funds	**800**	1,712
Quoted listed equity shares	**262,463**	207,940
	263,263	209,652

Note: The available-for-sale financial assets 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. DEPOSITS

	2008 RMB'000	2007 RMB'000
Investment deposits for acquisition of subsidiaries	**402,914**	747,270
Investment deposits for acquisition of associates	**—**	40,000
Investment deposits for acquisition of jointly controlled entities	**100,000**	—
Deposits paid to acquire property, plant and equipment	**396,196**	177,498
Deposits paid in respect of prepaid lease payments	**70,558**	72,892
	969,668	1,037,660

Note: The carrying amounts of the deposits approximate to their fair values.

23. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**1,619,092**	735,243
Work-in-progress	**691,892**	296,985
Finished goods	**925,783**	480,754
Consumables	**94,456**	6,311
	3,331,223	1,519,293

24. TRADE AND OTHER RECEIVABLES

	2008 RMB'000	2007 RMB'000
Trade receivables, net of allowance for bad and doubtful debts *(Note b)*	**2,441,217**	1,884,962
Bills receivable *(Note c)*	**1,268,890**	543,948
Amounts due from customers for contract work *(Note 26)*	**316,543**	231,831
Loans receivable *(Note g)*	**809,913**	342,668
Other receivables, deposits and prepayments	**3,807,267**	1,477,009
	8,643,830	4,480,418

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Notes:

(a) *The carrying amounts of the trade and other receivables approximate to their fair values.*

(b) *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:*

	2008 **RMB'000**	2007 RMB'000
Within two months	**1,896,371**	1,305,600
More than two months but within one year	**415,589**	354,485
Between one and two years	**66,335**	158,338
Between two and three years	**30,399**	48,921
Over three years	**32,523**	17,618
	2,441,217	1,884,962

(c) *The bills receivable is aged within six months.*

(d) *Included in the trade receivables are debtors with a carrying amount of approximately RMB526,508,000 (2007: approximately RMB256,835,000) 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 2008, the retention receivables of approximately RMB18,338,000 (2007: approximately RMB18,052,000) and receivables within contractual payment term of approximately RMB6,240,000 (2007: approximately RMB23,900,000) with ageing between one and two years are not past due.

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

	2008 **RMB'000**	2007 RMB'000
More than two months but within one year	**403,491**	73,910
Between one and two years	**60,095**	116,386
Between two and three years	**30,399**	48,921
Over three years	**32,523**	17,618
	526,508	256,835

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Notes: (Continued)

(e) Movement in the allowance for bad and doubtful debts:

	2008 **RMB'000**	2007 RMB'000
Balance at beginning of the year	***102,752***	*48,393*
Additions from acquisition of subsidiaries	***107,648***	*4,376*
Allowance recognised on receivables	***14,174***	*49,983*
Balance at end of the year	***224,574***	*102,752*

(f) Carrying amounts of trade and other receivables are denominated in the following currencies:

	2008 **RMB'000**	2007 RMB'000
RMB	***8,060,845***	*4,362,092*
EUR	***13,231***	*22,546*
USD	***569,754***	*95,780*
	8,643,830	*4,480,418*

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.

(g) The amounts are carried interests at interest rates of 7.47%-12% per annum and repayable within one year. The balance is due from independent parties and is unsecured.

(h) As at 31 December 2008, the Group has pledged bills receivable of approximately RMB429,335,000 (2007: approximately RMB288,910,000) to secure bank borrowings granted to the Group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. AMOUNTS DUE FROM (TO) RELATED PARTIES

	2008 RMB'000	2007 RMB'000
Amounts due from related parties		
Trading in nature:		
Fellow subsidiaries	**337,901**	279,066
Associates	**4,890**	26,460
Minority shareholders of subsidiaries	**81,666**	11,165
	424,457	316,691
Non-trading in nature:		
Fellow subsidiaries	**200**	—
Associates	**95,860**	72,720
Minority shareholders of subsidiaries	**224,786**	—
	320,846	72,720
	745,303	389,411
Amounts due to related parties		
Trading in nature:		
Fellow subsidiaries	**80,687**	130,917
Associates	**6,305**	10,183
Immediate holding company	**—**	1,676
Minority shareholders of subsidiaries	**550,880**	2,829
	637,872	145,605
Non-trading in nature:		
Fellow subsidiaries	**2,710**	—
Immediate holding company	**1,650,000**	—
Minority shareholders of subsidiaries	**73,596**	1,255,516
	1,726,306	1,255,516
	2,364,178	1,401,121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. AMOUNTS DUE FROM (TO) RELATED PARTIES *(CONTINUED)*

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

As at 31 December 2008, amounts due from related parties of approximately RMB111,265,000 (2007: approximately RMB60,000,000) carry the variable loan interest rate stipulated by the bank for the corresponding period, which range from 4.86%-7.47% (2007: range from 5.67%-6.57%) per annum. The remaining balances of amounts due from related parties are interest-free.

As at 31 December 2008, amounts due to related parties of approximately RMB34,996,000 (2007: approximately RMB35,062,000) carry fixed interest at rate of 6.03% (2007: 6.03%) per annum and approximately RMB489,318,000 (2007: approximately RMB684,722,000) carry the variable interests stipulated by the bank for the corresponding period, which range from 5.31%-7.47% (2007: range from 6.84%-7.47%) per annum. The remaining balances of amounts due to related parties are interest-free.

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

	2008	2007
	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	**4,944,957**	2,806,526
Less: progress billings	**(4,720,137)**	(2,670,932)
	224,820	135,594
Amounts due from contract customers included in trade and other receivables *(Note 24)*	**316,543**	233,201
Amounts due to contract customers included in trade and other payables *(Note 28)*	**(91,723)**	(97,607)
	224,820	135,594

As at 31 December 2008, advances received from customers for contract work amounted to RMB91,723,000 (2007: RMB99,087,000) are included in trade and other payables. The retention receivables included in trade and other receivables, net of allowance for bad and doubtful debts, as set out in Note 24 amounted to RMB24,578,000 (2007: RMB46,879,000).

27. CASH AND CASH EQUIVALENTS/PLEDGED BANK DEPOSITS

Cash and cash equivalents/pledged bank deposits denominated in non-functional currencies of the relevant Group entities are as follows:

	2008	2007
	RMB'000	*RMB'000*
USD	**61,091**	21,486
EUR	**40,175**	36,819
Franc CFA	**35,593**	—
HKD	**148**	10,959
Others	**380**	91
	137,387	69,355

As at 31 December 2008, the Group pledged approximately RMB1,756,663,000 (2007: approximately RMB686,779,000), 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 1.77% to 4.14% (2007: range from 1.80% to 4.14%) per annum.

28. TRADE AND OTHER PAYABLES

An analysis of trade and other payables is as follows:

	2008	2007
	RMB'000	*RMB'000*
Within two months	**3,160,561**	1,376,942
More than two months but within one year	**1,812,458**	860,455
Between one and two years	**465,274**	171,656
Between two and three years	**123,134**	58,690
Over three years	**43,971**	33,514
Trade payables	**5,605,398**	2,501,257
Bills payable	**2,718,783**	628,444
Provision for share appreciation rights *(Note 41)*	**6,910**	4,033
Amounts due to customers for contract work *(Note 26)*	**91,723**	99,087
Other payables	**9,600,574**	1,566,767
	18,023,388	4,799,588

The carrying amount of trade and other payables approximate to their fair value. Bills payable is aged within six months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. BORROWINGS

	2008	2007
	RMB'000	*RMB'000*
Bank borrowings		
— Secured	**4,410,726**	968,126
— Unsecured	**17,356,269**	11,384,205
	21,766,995	12,352,331
Bonds *(Note)*	**3,400,000**	1,000,000
Other borrowings from non-financial institutions	**80,808**	28,943
	25,247,803	13,381,274
Analysed for reporting purposes:		
— Non-current	**7,774,960**	4,717,660
— Current	**17,472,843**	8,663,614
	25,247,803	13,381,274

Note: *On 28 July 2008, the Company issued domestic corporate bonds with an aggregate principal amount of RMB2.4 billion with the maturity of 1 year and a coupon rate 5.20% per annum. The repayment of the bonds is guaranteed by banks in the PRC.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. BORROWINGS *(CONTINUED)*

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

	2008	2007
	RMB'000	*RMB'000*
Fixed rate bank borrowings repayable:		
Within one year	**7,722,418**	3,066,164
Between one and two years	**1,037,653**	66,000
Between two and three years	**1,054,390**	64,000
Between three and four years	**362,600**	54,000
Between four and five years	**100,000**	33,500
	10,277,061	3,283,664
Variable rate bank borrowings repayable:		
Within one year	**7,345,425**	5,568,507
Between one and two years	**2,632,259**	1,677,660
Between two and three years	**521,150**	850,000
Between three and four years	**607,100**	601,000
Between four and five years	**160,000**	212,000
More than five years	**224,000**	159,500
	11,489,934	9,068,667

	2008	2007
Effective interest rate per annum:		
Fixed rate borrowings	**3.82% to 7.69%**	3.69% to 10.86%
Variable rate borrowings	**3.99% to 8.40%**	4.14% to 9.48%

The carrying amounts of borrowings approximate to their fair values. Other borrowings are unsecured, non-interest bearing and repayable on demand.

As at 31 December 2008, bank borrowings of approximately RMB106,468,000 (2007: approximately RMB407,000,000) were guaranteed by independent third parties.

The borrowings denominated in EUR of approximately RMB15,677,000 (2007: denominated in USD of approximately RMB3,550,000), the remaining balance is denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. DEFERRED INCOME TAX

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

	Fair value adjustments on investment	Fair value adjustments on properties	Fair value adjustments on intangible assets	Fair value adjustments on prepaid lease payments	Loss on partial disposal of subsidiaries 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*
As at 1 January 2007	—	(20,557)	—	(15,909)	20,909	11,458	1,018	—	—	1,500	(1,581)
Arising from acquisition of a subsidiaries *(Note 35)*	—	(117,271)	(5,232)	(115,448)	—	5,880	66,681	44,159	13,326	(285)	(108,190)
Credit/(charge) to the consolidated income statement *(Note 11)*	(9,907)	2,711	486	847	—	3,031	(191)	(2,403)	(3,371)	4,626	(4,171)
Effect of change in tax rate *(Note 11)*	—	—	—	—	—	(911)	(49)	—	—	—	(960)
As at 31 December 2007 and 1 January 2008	(9,907)	(135,117)	(4,746)	(130,510)	20,909	19,458	67,459	41,756	9,955	5,841	(114,902)
Arising from acquisition of Subsidiaries *(Note 35)*	—	(286,774)	(9,495)	(280,505)	—	21,937	122,965	—	3,976	(825)	(428,721)
Credit/(charge) to the consolidated income statement *(Note 11)*	1,328	14,451	(1,333)	5,622	—	14,486	(3,149)	71,194	(8,501)	(928)	93,170
Effect of change in tax rate *(Note 11)*	—	—	—	—	—	(29)	(164)	—	—	(130)	(323)
As at 31 December 2008	(8,579)	(407,440)	(15,574)	(405,393)	20,909	55,852	187,111	112,950	5,430	3,958	(450,776)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. DEFERRED INCOME TAX *(CONTINUED)*

	2008 RMB'000	2007 RMB'000
For presentation purpose:		
Deferred income tax assets	**185,234**	158,598
Deferred income tax liabilities	**(636,010)**	(273,500)
	(450,776)	(114,902)

At the balance sheet date, the Group has unused tax losses of approximately RMB979,917,000 (2007: approximately RMB342,958,000) available for offset against future profits, of which, approximately RMB528,117,000 (2007: approximately RMB175,934,000) were not recognised as deferred income 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:

	2008 RMB'000	2007 RMB'000
Unused tax losses expiring in:		
2008	**—**	2,706
2009	**48,900**	32,892
2010	**76,755**	73,282
2011	**134,920**	91,713
2012	**198,712**	142,365
2013	**520,630**	—
	979,917	342,958

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31. OBLIGATIONS UNDER FINANCE LEASES

In a newly acquired subsidiary, certain of its fixtures and equipment are under finance leases. The average lease term is 2 years (2007: 3 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates at 6.54% (2007: 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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts payable under finance leases:				
Within one year	**48,567**	22,400	**45,126**	18,222
In more than one year but not more than two years	**34,501**	22,400	**32,783**	19,878
In more than two years but not more than five years	**—**	16,800	**—**	16,088
	83,068	61,600	**77,909**	54,188
Less: future finance charge	**(5,159)**	(7,412)	**N/A**	N/A
Present value of lease obligations	**77,909**	54,188	**77,909**	54,188
Less: Amount due for settlement within 12 months			**(45,126)**	(18,222)
			32,783	35,966

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

32. FINANCIAL GUARANTEE CONTRACTS

	2008	2007
	RMB'000	*RMB'000*
As at 1 January	**38,585**	—
Fair value of guarantee on the date of acquisition of subsidiaries *(Note 35)*	**14,940**	52,070
Less: Amount released to the consolidated income statement *(Note 7)*	**(31,805)**	(13,485)
As at 31 December	**21,720**	38,585
For presentation purpose:		
Non-current liabilities	**15,030**	21,659
Current liabilities	**6,690**	16,926
	21,720	38,585

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. FINANCIAL GUARANTEE CONTRACTS *(CONTINUED)*

Newly acquired subsidiaries had guaranteed bank loans of approximately RMB328,300,000 (2007: approximately RMB1,517,650,000) for former related parties and third parties. The fair value of the guarantees granted amounting to approximately RMB14,940,000 (2007: approximately 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.

33. SHARE CAPITAL

	Domestic Shares *(Note a)* Number of shares	Amount	H Shares *(Note b)* Number of shares	Amount	Total capital
		RMB'000		*RMB'000*	*RMB'000*
Registered shares of RMB1.0 each					
As at 1 January 2007	1,319,366,000	1,319,366	752,334,000	752,334	2,071,700
Issuance of new H Shares *(Note c)*	—	—	136,788,000	136,788	136,788
Conversion of Domestic Shares into H Shares *(Note c)*	(12,961,000)	(12,961)	12,961,000	12,961	—
As at 31 December 2007 and 31 December 2008	1,306,405,000	1,306,405	902,083,000	902,083	2,208,488

Notes:

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

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

(c) 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 above rank pari passu in all respects with each other.

34. 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 income 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.

35. ACQUISITION OF SUBSIDIARIES AND ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

In the year of 2008, the Group acquired 69 subsidiaries from independent third parties and acquired certain assets through acquisition of subsidiaries. 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:

	2008			2007
	Acquirees' carrying amount before combination	**Fair value adjustments**	**Fair value**	Fair value
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Net assets acquired:				
Property, plant and equipment *(Note 14)*	**10,090,236**	**1,108,875**	**11,199,111**	4,919,009
Investment properties *(Note 16)*	**—**	**—**	**—**	30,200
Intangible assets *(Note 18)*	**211,209**	**49,609**	**260,818**	145,155
Investments in associates	**22,492**	**—**	**22,492**	3,031
Prepaid lease payments *(Note 15)*	**488,774**	**1,141,970**	**1,630,744**	742,314
Available-for-sale financial assets	**500**	**—**	**500**	51,000
Deferred income tax assets *(Note 30)*	**148,699**	**395**	**149,094**	129,761
Inventories	**946,063**	**—**	**946,063**	403,617
Trade and other receivables	**3,210,096**	**—**	**3,210,096**	1,344,846
Amounts due from related parties	**4,808**	**—**	**4,808**	177,758
Held-for-trading investments	**—**	**—**	**—**	1,834
Pledged bank deposits	**366,445**	**—**	**366,445**	558,508
Cash and cash equivalents	**846,125**	**—**	**846,125**	255,583
Trade and other payables	**(7,703,995)**	**—**	**(7,703,995)**	(1,992,236)
Current income tax liabilities	**(51,114)**	**—**	**(51,114)**	(24,122)
Dividend payable to minority shareholders	**(77,600)**	**—**	**(77,600)**	(5,190)
Amounts due to related parties	**(289,510)**	**—**	**(289,510)**	(1,386,554)
Borrowings	**(3,823,135)**	**—**	**(3,823,135)**	(2,871,369)
Financial guarantee contracts	**(13,360)**	**(1,580)**	**(14,940)**	(52,070)
Obligations under finance leases	**—**	**—**	**—**	(54,188)
Deferred income tax liabilities *(Note 30)*	**(2,571)**	**(575,244)**	**(577,815)**	(237,951)
Net assets	**4,374,162**	**1,724,025**	**6,098,187**	2,138,936

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2008			2007
	Acquirees' carrying amount before combination	**Fair value adjustments**	**Fair value**	Fair value
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Minority interests *(Note)*			**(437,619)**	(314,127)
Discount on acquisition of interest in subsidiaries			**(104,415)**	—
Goodwill *(Note 17)*			**3,810,730**	870,788
Total consideration			**9,366,883**	2,695,597

Note: About RMB1,975,000 (2007: RMB119,660,000) of the acquirees' minority interests on the acquisition dates is included in above minority interests balance.

	2008	2007
	RMB'000	*RMB'000*
Total consideration satisfied by:		
Cash	**4,269,378**	2,221,133
Other payables	**5,097,505**	474,464
	9,366,883	2,695,597
Net cash outflow arising on acquisition:		
Cash consideration paid	**(4,269,378)**	(2,221,133)
Less: Cash and cash equivalents acquired	**846,125**	255,583
	(3,423,253)	(1,965,550)

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, Hunan 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 approximately RMB463,000,000 attributable to the additional business generated by these new acquired cement companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Had these business combinations been effected at 1 January 2008, the revenue of the Group would be approximately RMB29,843,531,000, and profit for the year of the Group would be approximately RMB1,839,351,000. 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.

Details of the Group's significant acquisitions during the year are as follows:

(i) On 31 July 2008, the Group acquired 51% of the equity interests of 臥龍中聯水泥有限公司 ("Wo Long Zhong Lian") for consideration of approximately RMB223,070,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	312,385	29,502	341,887
Prepaid lease payments	28,232	17,927	46,159
Deferred income tax assets	1,155	—	1,155
Inventories	33,636	—	33,636
Trade and other receivables	180,712	—	180,712
Cash and cash equivalents	115,556	—	115,556
Trade and other payables	(250,138)	—	(250,138)
Current income tax liabilities	(5,473)	—	(5,473)
Borrowings	(102,500)	—	(102,500)
Deferred income tax liabilities	(85)	(11,857)	(11,942)
Net assets	313,480	35,572	349,052
Minority interests			(188,506)
Goodwill			62,524
Total consideration			223,070

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(i) On 31 July 2008, the Group acquired 51% of the equity interests of 臥龍中聯水泥有限公司 ("Wo Long Zhong Lian") for consideration of approximately RMB223,070,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	223,070
Net cash outflow arising on acquisition:	
Cash consideration paid	(223,070)
Less: Cash and cash equivalents acquired	115,556
	(107,514)

Included in the profit for the year is approximately RMB19,637,000 attributable to the additional business generated by Wo Long Zhong Lian.

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

(ii) On 31 August 2008, the Group acquired 75% of the equity interests of 郏縣中聯天廣水泥有限公司 ("Jia Xian Zhong Lian Tian Guang") for consideration of approximately RMB268,927,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	338,620	72,861	411,481
Prepaid lease payments	14,234	30,124	44,358
Inventories	35,810	—	35,810
Trade and other receivables	10,548	—	10,548
Cash and cash equivalents	2,336	—	2,336
Trade and other payables	(248,037)	—	(248,037)
Borrowings	(18,060)	—	(18,060)
Deferred income tax liabilities	—	(25,746)	(25,746)
Net assets	135,451	77,239	212,690
Minority interests			(53,172)
Goodwill			109,409
Total consideration			268,927

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(ii) On 31 August 2008, the Group acquired 75% of the equity interests of 郏縣中聯天廣水泥有限公司 ("Jia Xian Zhong Lian Tian Guang") for consideration of approximately RMB268,927,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008 *RMB'000*
Total consideration satisfied by:	
Other payables	268,927
Net cash inflow arising on acquisition:	
Cash consideration paid	—
Less: Cash and cash equivalents acquired	2,336
	2,336

Included in the profit for the year is approximately RMB16,405,000 attributable to the additional business generated by Jia Xian Zhong Lian Tian Guang.

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

(iii) On 1 January 2008 and 1 August 2008, the Group acquired 60% and 40% of the equity interests of 浙江裕廊水泥公司 ("Zhejiang Yu Lang") respectively, for the total consideration of approximately RMB414,156,000 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:

		2008	
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	193,594	57,698	251,292
Prepaid lease payments	12,686	114,601	127,287
Available-for-sale financial assets	500	—	500
Deferred income tax assets	7,328	—	7,328
Inventories	22,397	—	22,397
Trade and other receivables	38,818	—	38,818
Amounts due from related parties	1,884	—	1,884
Cash and cash equivalents	17,237	—	17,237
Trade and other payables	(74,725)	—	(74,725)
Current income tax liabilities	117	—	117
Amounts due to related parties	(1,430)	—	(1,430)
Borrowings	(35,386)	—	(35,386)
Deferred income tax liabilities	—	(43,075)	(43,075)
Net assets	183,020	129,224	312,244
Goodwill			101,912
Total consideration			414,156

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(iii) On 1 January 2008 and 1 August 2008, the Group acquired 60% and 40% of the equity interests of 浙江裕廊水泥公司 ("Zhejiang Yu Lang") respectively, for the total consideration of approximately RMB414,156,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	163,056
Other payables	251,100
	414,156
Net cash outflow arising on acquisition:	
Cash consideration paid	(163,056)
Less: Cash and cash equivalents acquired	17,237
	(145,819)

Included in the profit for the year is approximately RMB9,917,000 attributable to the additional business generated by Zhejiang Yu Lang.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(iv) On 31 March 2008, the Group acquired 85% of the equity interests of 上海崛榮實業有限公司 ("Shanghai Jue Rong Shi Ye") for consideration of approximately RMB233,631,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	156,726	6,333	163,059
Prepaid lease payments	14,056	21,893	35,949
Deferred income tax assets	11	—	11
Inventories	10,470	—	10,470
Trade and other receivables	27,994	—	27,994
Cash and cash equivalents	61,749	—	61,749
Trade and other payables	(83,888)	—	(83,888)
Amounts due to related parties	(3,534)	—	(3,534)
Deferred income tax liabilities	(213)	(7,056)	(7,269)
Net assets	183,371	21,170	204,541
Minority interests			(30,681)
Goodwill			59,771
Total consideration			233,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(iv) On 31 March 2008, the Group acquired 85% of the equity interests of 上海崛榮實業有限公司 ("Shanghai Jue Rong Shi Ye") for consideration of approximately RMB233,631,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	188,688
Other payables	44,943
	233,631
Net cash outflow arising on acquisition:	
Cash consideration paid	(188,688)
Less: Cash and cash equivalents acquired	61,749
	(126,939)

Included in the profit for the year is approximately RMB28,505,000 attributable to the additional business generated by Shanghai Jue Rong Shi Ye.

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

(v) On 30 April 2008, the Group acquired 100% of the equity interests of 浙江桐星水泥股份有限公司 ("Zhejiang Tong Xing") for consideration of approximately RMB314,047,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	115,359	11,305	126,664
Prepaid lease payments	14,677	16,545	31,222
Deferred income tax assets	1,093	—	1,093
Inventories	17,973	—	17,973
Trade and other receivables	199,195	—	199,195
Pledged bank deposits	42	—	42
Cash and cash equivalents	2,843	—	2,843
Trade and other payables	(46,161)	—	(46,161)
Amounts due to related parties	(5,968)	—	(5,968)
Borrowings	(43,650)	—	(43,650)
Deferred income tax liabilities	—	(6,962)	(6,962)
Net assets	255,403	20,888	276,291
Goodwill			37,756
Total consideration			314,047

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(v) On 30 April 2008, the Group acquired 100% of the equity interests of 浙江桐星水泥股份有限公司 ("Zhejiang Tong Xing") for consideration of approximately RMB314,047,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	60,985
Other payables	253,062
	314,047
Net cash outflow arising on acquisition:	
Cash consideration paid	(60,985)
Less: Cash and cash equivalents acquired	2,843
	(58,142)

Included in the profit for the year is approximately RMB26,487,000 attributable to the additional business generated by Zhejiang Tong Xing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(vi) On 29 February 2008, the Group acquired 100% of the equity interests of 浙江申河水泥公司 ("Zhejiang Shen He") for consideration of approximately RMB279,174,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	212,674	28,387	241,061
Intangible assets	48	—	48
Investments in associates	42	—	42
Prepaid lease payments	4,675	21,450	26,125
Deferred income tax assets	978	—	978
Inventories	31,128	—	31,128
Trade and other receivables	54,807	—	54,807
Pledged bank deposits	5,808	—	5,808
Cash and cash equivalents	4,786	—	4,786
Trade and other payables	(95,497)	—	(95,497)
Current income tax liabilities	1,337	—	1,337
Amounts due to related parties	(746)	—	(746)
Borrowings	(53,750)	—	(53,750)
Financial guarantee contracts	(130)	—	(130)
Deferred income tax liabilities	—	(12,459)	(12,459)
Net assets	166,160	37,378	203,538
Goodwill			75,636
Total consideration			279,174

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(vi) On 29 February 2008, the Group acquired 100% of the equity interests of 浙江申河水泥公司 ("Zhejiang Shen He") for consideration of approximately RMB279,174,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	150,602
Other payables	128,572
	279,174
Net cash outflow arising on acquisition:	
Cash consideration paid	(150,602)
Less: Cash and cash equivalents acquired	4,786
	(145,816)

Included in the profit for the year is approximately RMB8,543,000 attributable to the additional business generated by Zhejiang Shen He.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(vii) On 30 June 2008, the Group acquired 90% of the equity interests of 嘉興芽芽水泥有限公司 ("Jiaxing Ya Ya") for consideration of approximately RMB181,719,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	69,798	4,081	73,879
Intangible assets	96	—	96
Prepaid lease payments	2,235	2,580	4,815
Deferred income tax assets	1,724	—	1,724
Inventories	15,345	—	15,345
Trade and other receivables	306,840	—	306,840
Pledged bank deposits	44,150	—	44,150
Cash and cash equivalents	9,967	—	9,967
Trade and other payables	(150,431)	—	(150,431)
Current income tax liabilities	(89)	—	(89)
Amounts due to related parties	(7,993)	—	(7,993)
Borrowings	(57,000)	—	(57,000)
Deferred income tax liabilities	—	(1,665)	(1,665)
Net assets	234,642	4,996	239,638
Minority interests			(23,964)
Discount on acquisition of subsidiaries			(33,955)
Total consideration			181,719

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(vii) On 30 June 2008, the Group acquired 90% of the equity interests of 嘉興芽芽水泥有限公司 ("Jiaxing Ya Ya") for consideration of approximately RMB181,719,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	97,631
Other payables	84,088
	181,719
Net cash outflow arising on acquisition:	
Cash consideration paid	(97,631)
Less: Cash and cash equivalents acquired	9,967
	(87,664)

Included in the profit for the year is approximately RMB10,847,000 attributable to the additional business generated by Jiaxing Ya Ya.

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

(viii) On 1 July 2008, the Group acquired 100% of the equity interests of 郴州東江金磊水泥有限責任公司 ("Chenzhou Jin Lei") for consideration approximately of RMB593,492,000 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:

		2008	
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	353,512	7,664	361,176
Intangible assets	5,957	—	5,957
Prepaid lease payments	697	70,299	70,996
Deferred income tax assets	387	—	387
Inventories	44,063	—	44,063
Trade and other receivables	49,564	—	49,564
Cash and cash equivalents	33,280	—	33,280
Trade and other payables	(82,350)	—	(82,350)
Current income tax liabilities	(13,995)	—	(13,995)
Amounts due to related parties	(132,280)	—	(132,280)
Borrowing	(57,000)	—	(57,000)
Deferred income tax liabilities	(2,580)	(19,491)	(22,071)
Net assets	199,255	58,472	257,727
Goodwill			335,765
Total consideration			593,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(viii) On 1 July 2008, the Group acquired 100% of the equity interests of 郴州東江金磊水泥有限責任公司 ("Chenzhou Jin Lei") for consideration approximately of RMB593,492,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	231,052
Other payables	362,440
	593,492
Net cash outflow arising on acquisition	
Cash consideration paid	(231,052)
Less: Cash and cash equivalents acquired	33,280
	(197,772)

Included in the profit for the year is approximately RMB85,861,000 attributable to the additional business generated by Chenzhou Jin Lei.

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

(ix) On 1 August 2008, the Group acquired 100% of the equity interests of 兆山新星集團湖南水泥有限公司 ("Zhaoshan Ningxiang") for consideration of approximately RMB533,794,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	210,234	79,161	289,395
Prepaid lease payments	4,626	47,543	52,169
Deferred income tax assets	35	—	35
Inventories	23,567	—	23,567
Trade and other receivables	131,348	—	131,348
Cash and cash equivalents	11,112	—	11,112
Trade and other payables	(175,329)	—	(175,329)
Current income tax liabilities	(512)	—	(512)
Amounts due to related parties	(2,174)	—	(2,174)
Borrowings	(70,000)	—	(70,000)
Financial guarantee contracts	(140)	—	(140)
Deferred income tax liabilities	—	(31,681)	(31,681)
Net assets	132,767	95,023	227,790
Goodwill			306,004
Total consideration			533,794

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

(ix) On 1 August 2008, the Group acquired 100% of the equity interests of 兆山新星集團湖南水泥有限公司 ("Zhaoshan Ningxiang") for consideration of approximately RMB533,794,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	256,296
Other payables	277,498
	533,794
Net cash outflow arising on acquisition:	
Cash consideration paid	(256,296)
Less: Cash and cash equivalents acquired	11,112
	(245,184)

Included in the profit for the year is approximately RMB15,058,000 attributable to the additional business generated by Zhaoshan Ningxiang.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(x) On 1 August 2008, the Group acquired 100% of the equity interests of 兆山新星集團湖南瀏陽水泥有限公司 ("Zhaoshan Liuyang") for consideration of approximately RMB379,720,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	294,676	81,883	376,559
Prepaid lease payments	6,835	85,791	92,626
Deferred income tax assets	463	—	463
Inventories	44,684	—	44,684
Trade and other receivables	173,733	—	173,733
Cash and cash equivalents	23,676	—	23,676
Trade and other payables	(131,132)	—	(131,132)
Amounts due to related parties	(4,519)	—	(4,519)
Borrowings	(195,000)	—	(195,000)
Financial guarantee contracts	(1,850)	—	(1,850)
Deferred income tax liabilities	—	(41,919)	(41,919)
Net assets	211,566	125,755	337,321
Goodwill			42,399
Total consideration			379,720

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(x) On 1 August 2008, the Group acquired 100% of the equity interests of 兆山新星集團湖南瀏陽水泥有限公司 ("Zhaoshan Liuyang") for consideration of approximately RMB379,720,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	183,244
Other payables	196,476
	379,720
Net cash outflow arising on acquisition:	
Cash consideration paid	(183,244)
Less: Cash and cash equivalents acquired	23,676
	(159,568)

Included in the profit for the year is approximately RMB9,133,000 attributable to the additional business generated by Zhaoshan Liuyang.

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

(xi) On 31 July 2008, the Group acquired 85% of the equity interests of 上海海豹水泥(集團)有限公司 ("Shanghai Hai Bao") for consideration of approximately RMB233,785,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	106,048	29,165	135,213
Intangible assets	—	9,896	9,896
Prepaid lease payments	8,517	56,370	64,887
Deferred income tax assets	13,703	—	13,703
Inventories	29,685	—	29,685
Trade and other receivables	229,417	—	229,417
Cash and cash equivalents	3,635	—	3,635
Trade and other payables	(154,081)	—	(154,081)
Current income tax liabilities	(14,908)	—	(14,908)
Dividend payable to minority shareholders	(65,708)	—	(65,708)
Amount due to related parties	(1,007)	—	(1,007)
Borrowings	(20,500)	—	(20,500)
Deferred income tax liabilities	—	(23,858)	(23,858)
Net assets	134,801	71,573	206,374
Minority interests *(Note)*			(31,371)
Goodwill			58,782
Total consideration			233,785

Note: About RMB488,000 of the acquirees' minority interests on the acquisition dates is included in above minority interests balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(xi) On 31 July 2008, the Group acquired 85% of the equity interests of 上海海豹水泥(集團)有限公司 ("Shanghai Hai Bao") for consideration of approximately RMB233,785,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008 *RMB'000*
Total consideration satisfied by:	
Cash	54,869
Other payables	178,916
	233,785
Net cash outflow arising on acquisition:	
Cash consideration paid	(54,869)
Less: Cash and cash equivalents acquired	3,635
	(51,234)

Included in the profit for the year is approximately RMB8,833,000 attributable to the additional business generated by Shanghai Hai Bao.

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

(xii) On 30 June 2008, the Group acquired 100% of the equity interests of 浙江錦龍水泥有限公司 ("Zhejiang Jin Long") for consideration of approximately RMB303,144,000 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:

		2008	
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	347,863	68,815	416,678
Intangible assets	90,179	259	90,438
Prepaid lease payments	16,665	39,735	56,400
Deferred income tax assets	28,954	—	28,954
Inventories	36,190	—	36,190
Trade and other receivables	10,471	—	10,471
Pledged bank deposits	14,600	—	14,600
Cash and cash equivalents	3,678	—	3,678
Trade and other payables	(326,548)	—	(326,548)
Current income tax liabilities	(183)	—	(183)
Amount due to related parties	(947)	—	(947)
Borrowings	(118,000)	—	(118,000)
Financial guarantee contracts	(2,000)	—	(2,000)
Deferred income tax liabilities	—	(27,202)	(27,202)
Net assets	100,922	81,607	182,529
Goodwill			120,615
Total consideration			303,144

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(xii) On 30 June 2008, the Group acquired 100% of the equity interests of 浙江錦龍水泥有限公司 ("Zhejiang Jin Long") for consideration of approximately RMB303,144,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	136,907
Other payables	166,237
	303,144
Net cash outflow arising on acquisition:	
Cash consideration paid	(136,907)
Less: Cash and cash equivalents acquired	3,678
	(133,229)

Included in the profit for the year is approximately RMB7,567,000 attributable to the additional business generated by Zhejiang Jin Long.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(xiii) On 30 June 2008, the Group acquired 90% of the equity interests of 浙江兆山新星集團安吉水泥有限公司 ("Zhaoshan Xinxing An Ji") for consideration of approximately RMB408,658,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	301,279	8,411	309,690
Intangible assets	5,938	1,487	7,425
Prepaid lease payments	11,870	20,604	32,474
Deferred income tax assets	3,800	—	3,800
Inventories	52,583	—	52,583
Trade and other receivables	28,942	—	28,942
Pledged bank deposits	10,000	—	10,000
Cash and cash equivalents	1,645	—	1,645
Trade and other payables	(209,669)	—	(209,669)
Current income tax liabilities	(1,979)	—	(1,979)
Amount due to related parties	(2,422)	—	(2,422)
Borrowings	(42,000)	—	(42,000)
Financial guarantee contracts	(660)	—	(660)
Deferred income tax liabilities	—	(7,626)	(7,626)
Net assets	159,327	22,876	182,203
Minority interests			(18,220)
Goodwill			244,675
Total consideration			408,658

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(xiii) On 30 June 2008, the Group acquired 90% of the equity interests of 浙江兆山新星集團安吉水泥有限公司 ("Zhaoshan Xinxing An Ji") for consideration of approximately RMB408,658,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	51,285
Other payables	357,373
	408,658
Net cash outflow arising on acquisition:	
Cash consideration paid	(51,285)
Less: Cash and cash equivalents acquired	1,645
	(49,640)

Included in the profit for the year is approximately RMB17,964,000 attributable to the additional business generated by Zhaoshan Xinxing An Ji.

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

(xiv) On 31 March 2008, the Group acquired 90% of the equity interests of 臨沂中聯水泥有限公司 ("Linyi Zhong Lian") for consideration of approximately RMB336,623,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	472,178	4,253	476,431
Intangible assets	45,830	37,978	83,808
Prepaid lease payments	22,071	46,937	69,008
Inventories	19,089	—	19,089
Trade and other receivables	23,126	—	23,126
Cash and cash equivalents	61,250	—	61,250
Trade and other payables	(121,899)	—	(121,899)
Borrowings	(426,764)	—	(426,764)
Deferred income tax liabilities	—	(22,292)	(22,292)
Net assets	94,881	66,876	161,757
Minority interests			(16,175)
Goodwill			191,041
Total consideration			336,623

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(xiv) On 31 March 2008, the Group acquired 90% of the equity interests of 臨沂中聯水泥有限公司 ("Linyi Zhong Lian") for consideration of approximately RMB336,623,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	336,623
Net cash outflow arising on acquisition:	
Cash consideration paid	(336,623)
Less: Cash and cash equivalents acquired	61,250
	(275,373)

Included in the profit for the year is approximately RMB44,213,000 attributable to the additional business generated by Linyi Zhong Lian.

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

(xv) On 31 March 2008, the Group acquired 100% of the equity interests of 浙江立馬水泥有限公司 ("Zhejiang Li Ma") for consideration of approximately RMB335,753,000 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:

		2008	
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	274,629	63,674	338,303
Prepaid lease payments	30,721	21,714	52,435
Deferred income tax assets	13,753	—	13,753
Inventories	47,004	—	47,004
Trade and other receivables	32,315	—	32,315
Pledged bank deposits	12,500	—	12,500
Cash and cash equivalents	1,228	—	1,228
Trade and other payables	(149,871)	—	(149,871)
Current income tax liabilities	(55)	—	(55)
Amounts due to related parties	(1,245)	—	(1,245)
Borrowings	(170,092)	—	(170,092)
Deferred income tax liabilities	—	(21,347)	(21,347)
Net assets	90,887	64,041	154,928
Goodwill			180,825
Total consideration			335,753

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(xv) On 31 March 2008, the Group acquired 100% of the equity interests of 浙江立馬水泥有限公司 ("Zhejiang Li Ma") for consideration of approximately RMB335,753,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	241,312
Other payables	94,441
	335,753
Net cash outflow arising on acquisition:	
Cash consideration paid	(241,312)
Less: Cash and cash equivalents acquired	1,228
	(240,084)

Included in the profit for the year is approximately RMB780,000 attributable to the additional business generated by Zhejiang Li Ma.

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

(xvi) On 29 February 2008, the Group acquired 100% of the equity interests of 浙江振大水泥有限公司 ("Zhejiang Zhen Da") for consideration of approximately RMB105,228,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	109,245	11,195	120,440
Prepaid lease payments	5,408	6,948	12,356
Deferred income tax assets	3,255	—	3,255
Inventories	15,732	—	15,732
Trade and other receivables	8,386	—	8,386
Pledged bank deposits	4,994	—	4,994
Cash and cash equivalents	426	—	426
Current income tax liabilities	(21,199)	—	(21,199)
Amounts due to related parties	(624)	—	(624)
Borrowings	(23,150)	—	(23,150)
Deferred income tax liabilities	—	(4,536)	(4,536)
Net assets	102,473	13,607	116,080
Discount on acquisition of subsidiaries			(10,852)
Total consideration			105,228

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(xvi) On 29 February 2008, the Group acquired 100% of the equity interests of 浙江振大水泥有限公司 ("Zhejiang Zhen Da") for consideration of approximately RMB105,228,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	56,732
Other payables	48,496
	105,228
Net cash outflow arising on acquisition:	
Cash consideration paid	(56,732)
Less: Cash and cash equivalents acquired	426
	(56,306)

Included in the profit for the year is approximately RMB3,195,000 attributable to the additional business generated by Zhejiang Zhen Da.

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

(xvii) On 1 January 2008 and 1 August 2008, the Group acquired 60% and 40% of the equity interests of 浙江山鷹水泥有限公司 ("Zhejiang Shan Ying") respectively, for the total consideration of approximately RMB176,584,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	97,192	29,517	126,709
Investments in associates	20,300	—	20,300
Prepaid lease payments	5,204	51,756	56,960
Deferred income tax assets	5,797	—	5,797
Inventories	13,182	—	13,182
Trade and other receivables	45,670	—	45,670
Amounts due from related parties	2,925	—	2,925
Cash and cash equivalents	16,449	—	16,449
Trade and other payables	(64,084)	—	(64,084)
Current income tax liabilities	(849)	—	(849)
Amounts due to the related parties	(1,273)	—	(1,273)
Borrowings	(63,000)	—	(63,000)
Deferred income tax liabilities	—	(20,318)	(20,318)
Net assets	77,513	60,955	138,468
Goodwill			38,116
Total consideration			176,584

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

(xvii) On 1 January 2008 and 1 August 2008, the Group acquired 60% and 40% of the equity interests of 浙江山鷹水泥有限公司 ("Zhejiang Shan Ying") respectively, for the total consideration of approximately RMB176,584,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	92,884
Other payables	83,700
	176,584
Net cash outflow arising on acquisition:	
Cash consideration paid	(92,884)
Less: Cash and cash equivalents acquired	16,449
	(76,435)

Included in the profit for the year is approximately RMB4,546,000 attributable to the additional business generated by Zhejiang Shan Ying.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(xviii) On 31 May 2008, the Group acquired 100% of the equity interests of 江蘇蛟橋水泥有限公司 ("Jiangsu Jiao Qiao") for consideration of approximately RMB233,293,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	275,065	37,444	312,509
Intangible assets	8,496	—	8,496
Prepaid lease payments	56,450	56,626	113,076
Deferred income tax assets	303	—	303
Inventories	32,426	—	32,426
Trade and other receivables	26,746	—	26,746
Pledged bank deposits	49,480	—	49,480
Cash and cash equivalents	772	—	772
Trade and other payables	(148,804)	—	(148,804)
Amounts due to related parties	(13,047)	—	(13,047)
Borrowings	(181,500)	—	(181,500)
Financial guarantee contracts	(1,210)	—	(1,210)
Deferred income tax liabilities	—	(23,517)	(23,517)
Net assets	105,177	70,553	175,730
Goodwill			57,563
Total consideration			233,293

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(xviii) On 31 May 2008, the Group acquired 100% of the equity interests of 江蘇蛟橋水泥有限公司 ("Jiangsu Jiao Qiao") for consideration of approximately RMB233,293,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	69,729
Other payables	163,564
	233,293
Net cash outflow arising on acquisition:	
Cash consideration paid	(69,729)
Less: Cash and cash equivalents acquired	772
	(68,957)

Included in the loss for the year is approximately RMB6,265,000 attributable to the additional business generated by Jiangsu Jiao Qiao.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(xix) On 31 March 2008, the Group acquired 100% of the equity interests of 浙江華業韶洋建材有限公司 ("Hua Ye Shao Yang") for consideration of approximately RMB144,434,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	115,044	20,707	135,751
Prepaid lease payments	9,419	13,317	22,736
Deferred income tax assets	2,956	—	2,956
Inventories	10,093	—	10,093
Trade and other receivables	63,569	—	63,569
Cash and cash equivalents	12,522	—	12,522
Trade and other payables	(51,491)	—	(51,491)
Current income tax liabilities	305	—	305
Amounts due to related parties	(825)	—	(825)
Borrowings	(29,000)	—	(29,000)
Financial guarantee contracts	(60)	—	(60)
Deferred income tax liabilities	—	(8,506)	(8,506)
Net assets	132,532	25,518	158,050
Discount on acquisition of subsidiaries			(13,616)
Total consideration			144,434

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(xix) On 31 March 2008, the Group acquired 100% of the equity interests of 浙江華業韶洋建材有限公司 ("Hua Ye Shao Yang") for consideration of approximately RMB144,434,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008
	RMB'000
Total consideration satisfied by:	
Cash	69,609
Other payables	74,825
	144,434
Net cash outflow arising on acquisition:	
Cash consideration paid	(69,609)
Less: Cash and cash equivalents acquired	12,522
	(57,087)

Included in the profit for the year is approximately RMB12,843,000 attributable to the additional business generated by Hua Ye Shao Yang.

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

(xx) On 31 May 2008, the Group acquired 100% of the equity interests of 宜興市雙龍水泥有限公司 ("Yixing Shuang Long") for consideration of approximately RMB277,810,000 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:

	2008		
	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	270,137	—	270,137
Prepaid lease payments	22,045	36,149	58,194
Deferred income tax assets	30	—	30
Inventories	12,581	—	12,581
Trade and other receivables	147,233	—	147,233
Cash and cash equivalents	1,111	—	1,111
Trade and other payables	(221,280)	—	(221,280)
Amounts due to related parties	(806)	—	(806)
Borrowings	(108,600)	—	(108,600)
Financial guarantee contracts	(120)	—	(120)
Deferred income tax liabilities	—	(9,037)	(9,037)
Net assets	122,331	27,112	149,443
Goodwill			128,367
Total consideration			277,810

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(xx) On 31 May 2008, the Group acquired 100% of the equity interests of 宜興市雙龍水泥有限公司 ("Yixing Shuang Long") for consideration of approximately RMB277,810,000 from independent third party. The acquired subsidiary group is principally engaged in the production and sale of cement. *(Continued)*

	2008 *RMB'000*
Total consideration satisfied by:	
Cash	93,311
Other payables	184,499
	277,810
Net cash outflow arising on acquisition:	
Cash consideration paid	(93,311)
Less: Cash and cash equivalents acquired	1,111
	(92,200)

Included in the loss for the year is approximately RMB10,336,000 attributable to the additional business generated by Yixing Shuang Long.

36. CONTINGENT LIABILITIES

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

	2008 ***RMB'000***	2007 *RMB'000*
Guarantees given to banks in respect of banking facilities utilised by former related parties	**69,000**	597,360
Facilities utilised by independent third parties	**259,300**	920,290
	328,300	1,517,650

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. COMMITMENTS

	2008 RMB'000	2007 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	**212,877**	1,028,777
— Acquisition of prepaid lease payments	**6,500**	—
— Acquisition of subsidiaries	**1,074,600**	2,300,510

38. OPERATING LEASE COMMITMENTS

Lessee

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

	2008 RMB'000	2007 RMB'000
Within one year	**14,856**	12,889
In the second to fifth year inclusive	**32,216**	28,915
Over five years	**62,898**	109,044
	109,970	150,848

Operating lease payments represent rentals payable by the Group for certain of its business premises. Leases are negotiated for an average term of fifteen (2007: fifteen) years and rentals are fixed for an average term of fifteen (2007: fifteen) years.

Lessor

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

	2008 RMB'000	2007 RMB'000
Within one year	**42,158**	35,578
In the second to fifth year inclusive	**153,262**	136,428
Over five years	**315,772**	382,114
	511,192	554,120

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Apart from the amounts due from (to) related parties as disclosed in Note 25, during the year, the Group had the following transactions with the Parent and the Parent Group, the associates of the Group and minority shareholders of the Group's subsidiaries:

	2008 ***RMB'000***	2007 *RMB'000*
Provision of production supplies to		
— the Parent Group	**62,827**	113,504
— Associates	**252,794**	32,718
— Minority shareholders of subsidiaries	**19,665**	39,762
	335,286	185,984
Provision of support services to the Parent Group	**17,051**	9,730
Provision of technical consultation services to minority shareholders of a subsidiary	**—**	3,000
Rental income in respect of supply of equipment to		
— the Parent Group	**8,953**	12,013
— Associates	**4,561**	—
	13,514	12,013
Rental income received from an associate	**17,442**	1,053
Licensing of trademarks to the Parent Group	**100**	123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

Apart from the amounts due from (to) related parties as disclosed in Note 25, during the year, the Group had the following transactions with the Parent and the Parent Group, the associates of the Group and minority shareholders of the Group's subsidiaries: *(Continued)*

	2008	2007
	RMB'000	*RMB'000*
Interest income received from		
— Associates	**11,127**	—
— Minority shareholders of subsidiaries	**—**	3,737
	11,127	3,737
Supply of raw materials by		
— the Parent Group	**131,286**	72,721
— Associates	**141,606**	17,135
— Minority shareholders of subsidiaries	**25,457**	25,162
	298,349	115,018
Provision of production supplies by		
— the Parent Group	**45,453**	39,051
— Associates	**31,775**	79,441
— Minority shareholders of subsidiaries	**—**	2,077
	77,228	120,569
Provision of support services by		
— the Parent Group	**12,825**	21,940
— Minority shareholders of subsidiaries	**21,328**	4,521
	34,153	26,461
Rendering of engineering services by the Parent Group	**—**	18,378
Supplying of equipment by the Parent Group	**23,092**	49,304
Rental expenses paid to		
— the Parent Group	**—**	630
— Minority shareholders of subsidiaries	**653**	—
	653	630

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. 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 the 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

	2008 *RMB'000*	2007 *RMB'000*
Sales	**966,348**	281,699
Purchases	**167,063**	1,547,771
Finance costs	**1,902,736**	517,233

(ii) Material balances

	2008 *RMB'000*	2007 *RMB'000*
Trade and other receivables	**794,312**	113,469
Trade and other payables	**75,466**	189,646

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.

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(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:

	2008	2007
	RMB'000	*RMB'000*
Short-term benefits	**5,923**	7,525
Share-based payments	**949**	1,091
Post-employment benefits	**104**	73
	6,976	8,689

40. 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 10.

41. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. SHARE APPRECIATION RIGHTS PLAN *(CONTINUED)*

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 *RMB'000*
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 approximately RMB2,877,000 (2007: approximately RMB2,877,000), 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.

42. SUBSEQUENT EVENTS

a) On 5 February 2009, the Company entered into a placing agreement with Morgan Stanley & Co. International plc and China International Capital Corporation Hong Kong Securities Limited, in relation to the placing of an aggregate of 298,555,032 H Shares in the share capital of the Company with an aggregate nominal value of HK$2,343,657,001, at a gross price of HK$7.85 per placing share and a net price of HK$7.69 per placing share. The placing shares represent approximately 33.1% of the total existing issued H share capital and approximately 24.9% of the total 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 will be approximately HK$2,093,898,229 after deducting the commission and expenses of the placing.

b) On 6 March 2009, the Company, Liaoyuan Jingang Cement Company Limited ("Liaoyuan Jingang") and Hony Capital Management (Tianjin) (Limited Partnership) ("Hony Capital") entered into the Capital Contribution Agreement with a view to establishing North Cement Company Limited which will become the flagship company of the Group for developing the Group's cement business in the North Region. Registered capital are in amount of RMB1 billion. The Capital Contribution Agreement will be effective from the date of the legal representatives or the respective authorised representatives of the parties to the Capital Contribution Agreement duly sign and seal the agreement. Upon completion of the Capital Contribution Agreement, North Cement Company Limited will be held as to 45% by the Company, 45% by Liaoyuan Jingang and 10% by Hony Capital.