China National Materials Company Limited

(A joint stock company incorporated in the People's Republic of China with limited liability) (Stock Code: 1893)

Materials Innovating Prosperity

Annual Report 2007

Contents

Corporate Information

Directors

Executive Directors

TAN Zhongming *(Chairman)*
YU Shiliang *(President)*

Non-executive Directors

LIU Zhijiang
ZHOU Yuxian
CHEN Xiaozhou

Independent Non-executive Directors

YANG Yuzhong
ZHANG Lailiang
ZHANG Qiusheng
LEUNG Chong Shun

Supervisors

XU Weibing *(Chairman)*
WANG Baoguo
WANG Jijun
WANG Jianguo
ZHANG Lirong
WANG Wei
YU Xingmin

Strategy Committee

TAN Zhongming *(Chairman)*
YU Shiliang
LIU Zhijiang
ZHOU Yuxian
YANG Yuzhong
CHEN Xiaozhou

Audit Committee

ZHANG Qiusheng *(Chairman)*
ZHANG Lailiang
LIU Zhijiang

Remuneration Committee

TAN Zhongming *(Chairman)*
ZHOU Yuxian
ZHANG Lailiang
ZHANG Qiusheng
LEUNG Chong Shun

Nomination Committee

TAN Zhongming *(Chairman)*
YU Shiliang
LIU Zhijiang
ZHOU Yuxian

Joint Company Secretaries

SU Kui
CHAN Wing Hang (FCCA, CPA)

Authorised Representatives

ZHOU Yuxian
CHAN Wing Hang (FCCA, CPA)

Qualified Accountant
CHAN Wing Hang (FCCA, CPA)

Registered Office and Place of Business
11 Beishuncheng Street
Xizhimennei
Xicheng District
Beijing 100035
PRC

Place of Business in Hong Kong
Room C, 26th Floor
211 Johnston Road
Wanchai
Hong Kong

Legal Advisor
Herbert Smith (as to Hong Kong law)
Jia Yuan Law Firm (as to PRC law)

Auditor
Hong Kong auditor:
PricewaterhouseCoopers

PRC auditor:
Reanda Certified Public Accountants Co., Ltd.

Principal Bankers
China Construction Bank Corporation
Bank of Communications Co., Ltd.

Hong Kong H Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Compliance Adviser
BOCOM International (Asia) Limited

Company Website
http://www.sinoma-ltd.cn

Stock Code
1893

Corporate Profile

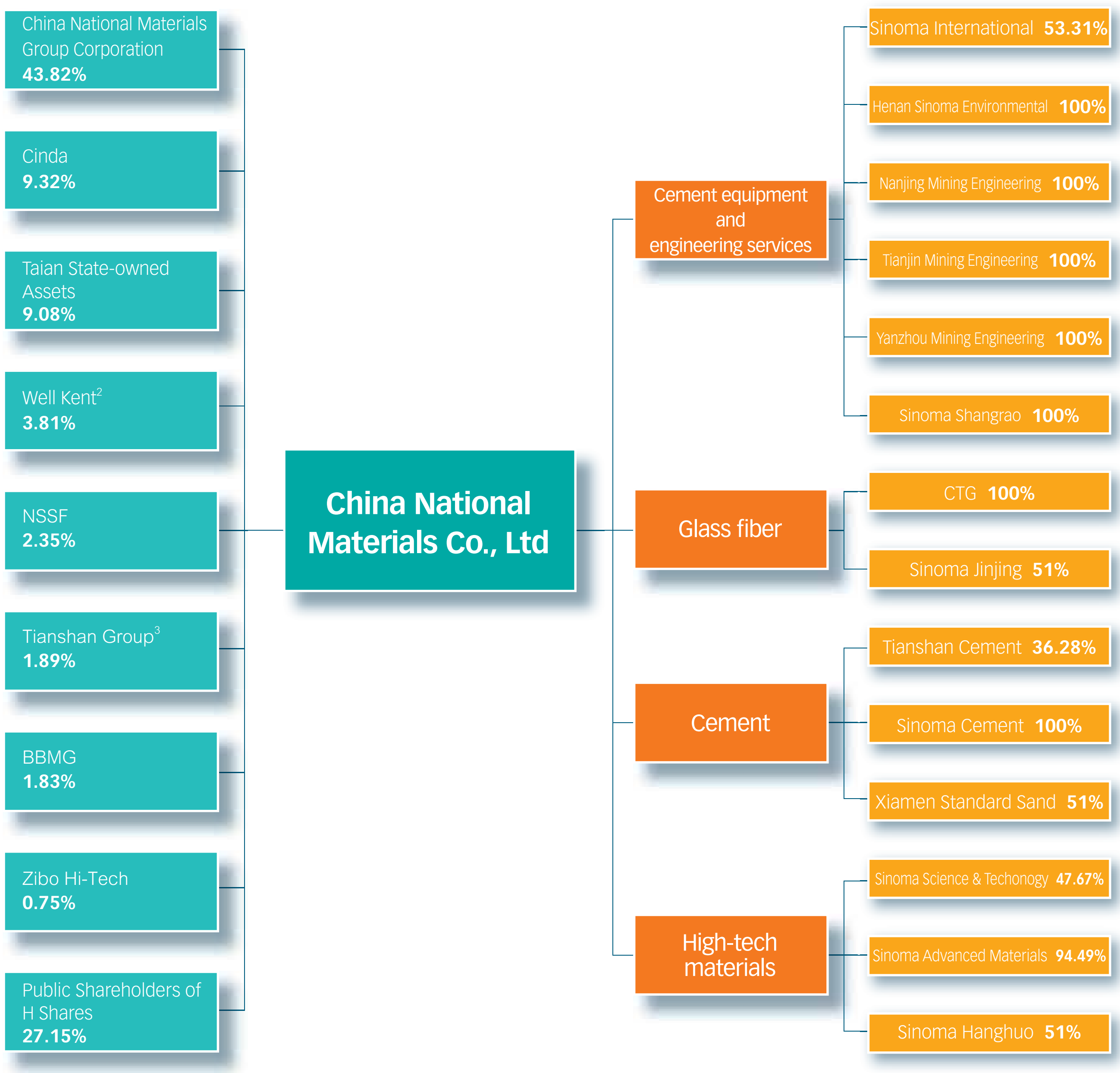
China National Materials Company Limited is a joint stock company approved by the State-owned Assets Supervision and Administration Commission of the State Council and established jointly by China National Materials Group Corporation and other promoters. The Company was incorporated on 31 July 2007 and was listed on the main board of the Stock Exchange of Hong Kong Limited (stock code: 1893).

The Group is mainly engaged in business in cement equipment and engineering services, glass fiber, cement and high-tech materials. The Company possesses series of core technologies such as glass fiber, composite materials, synthetic crystals, advanced ceramics and New Dry Process cement technology. We are a leading provider of cement equipment and engineering services in the world and a leading producer of non-metal materials in the PRC. We are the only company in the non-metal materials industry in the PRC with a business model that integrates research and development, industrial design, engineering and construction services and production. The Company possesses advanced research and development capacity, strong ability in commercialization of innovative technology, successful experience in merger and acquisition and unique business model.

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

Corporate Structure

As at 31 December 2007[1]



Note:

1. After the exercise of over-allotment in January 2008, as at the date of the annual report, the shareholding proportion is as follows: China National Materials Group Corporation (41.84%), Cinda (8.96%), Taian State-owned Assets (8.67%), Well Kent (3.66%), NSSF (2.60%), Tianshan Group (1.80%), BBMG (1.75%), Zibo Hi-Tech (0.72%), Public Shareholders of H Shares (30.00%).

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

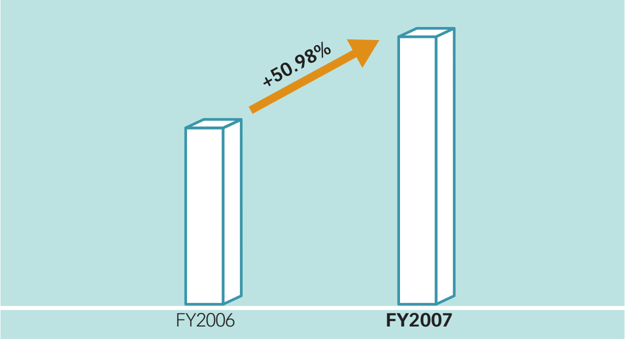
3. China National Materials Group Corporation holds 50.95% of the equity interest of Tianshan Group.

Financial and Business Summary

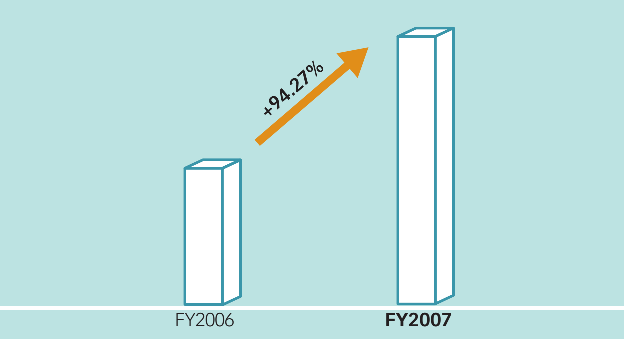
Financial Summary

Overall Information	**2007** (RMB million)	2006 (RMB million) (Restated)	Growth rate (%)
Turnover	**19,647.09**	13,012.87	50.98
Profit for the year	**1,024.85**	527.55	94.27
Profit attributable to equity holders of the Company	**472.67**	281.91	67.67
Total assets	**29,423.90**	21,487.98	36.93
Total liabilities	**20,396.64**	16,943.41	20.38
Total equity	**9,027.26**	4,544.57	98.64
Earnings per Share (RMB)	**0.20**	0.13	53.85
Equity per Share at the end of year (RMB)	**1.74**	0.84	107.14

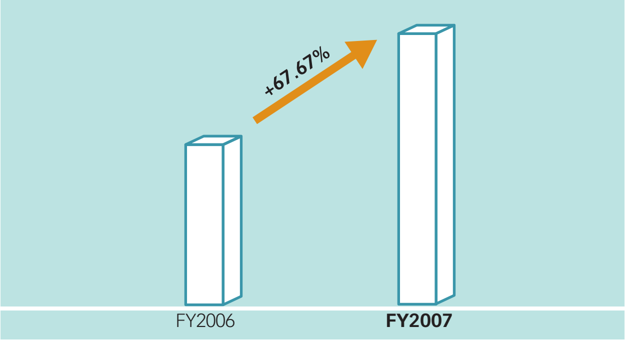
Turnover



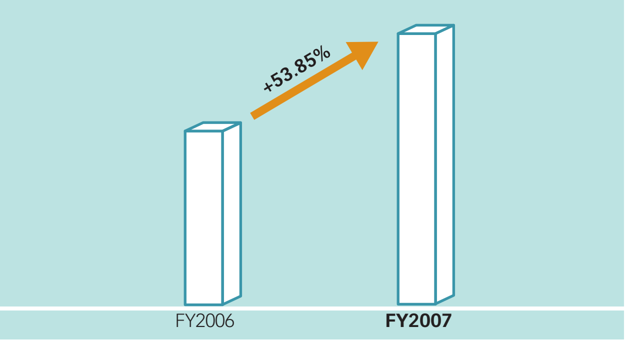
Profit for the year



Profit attributable to equity holders of the Company



Earnings per Share



Business Summary

Cement equipment and engineering services	2007	2006	Change (%)
Amount of new contract (RMB million)	**24,861**	17,819	39.52
Amount of backlog (RMB million)	**30,881**	21,250	45.32

Glass fiber	Sales in 2007	Sales in 2006	Change (%)
Roving (tons)	**159,244**	145,347	9.56
Mat (tons)	**37,280**	30,344	22.86
Electronic yarn (tons)	**18,353**	23,160	(20.75)
Chopped strands (tons)	**12,757**	9,995	27.63
Woven roving (tons)	**4,528**	5,424	(16.52)
Wet-process tissue (million sqm.)	**85.22**	45.49	87.34

Cement	Sales in 2007	Sales in 2006*	Change (%)
Cement ('000 tons)	**11,780**	9,100	29.45
Clinker ('000 tons)	**2,128**	1,459	45.85
Standard sand ('000 tons)	**24.07**	21.00	14.62

Hi-Tech Materials	Sales in 2007	Sales in 2006	Change (%)
Glass microfiber paper (tons)	**5,600**	4,350	28.74
High strength glass fiber (tons)	**768**	500	53.60
High temperature filtration materials ('000 sqm.)	**1,300**	1,320	(1.52)
CNG Cylinder (units)	**17,759**	–	–
Microcrystalline alumina ceramics (tons)	**21,943**	13,827	58.70
Fine fused quartz ceramics (units)	**18,927**	8,670	118.30
Solar-energy fused silica crucibles (units)	**800**	–	–

* Sales in 2006 has already incorporated that of Tianshan Cement.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors of the Company, I am pleased to report to the shareholders and for the Shareholders' perusal, the excellent results of the Company during the year.

Last year was a remarkable year in the Company's history of development. Upon the incorporation on 31 July last year, the Company was successfully listed on the main board of the Stock Exchange of Hong Kong Limited on 20 December last year.

Taking advantage of its listing after reorganization, the Company consolidated its corporate resources, reorganized its corporate structures and standardized its corporate management according to the international standards. The corporate management level and core competitiveness were further enhanced. Capitalizing on China's strong economic growth, as well as opportunities arising from the government's controls over the macroeconomy and strong demand in the international market for our products and services, the Company steps up the expansion of both the domestic and foreign markets and strengthens its internal management. It has also accelerated the pace in building its production capacity, and in expansion by mergers and acquisitions, overcome adverse factors such as rising fuel and raw material prices, reduction in export tax refund and appreciation of Renminbi. The production and operation of the Company has recorded substantial growth.

During the reporting period, the turnover of the Group was RMB19,647.09 million, representing a growth of 50.98% on a year-on-year basis. Profit before income tax was RMB1,408.22 million, up 90.42% on a year-on-year basis. Profit attributable to equity holders of the Company amounted to RMB472.67 million, representing an increase of 67.67% on a year-on-year basis. Earnings per share of the Company was RMB0.20.

Cement equipment and engineering services

The internationalization strategy of the cement equipment and engineering services section achieved fruitful results last year. With projects which the Company undertook in 2004 and 2005 when it first entered the international market commencing operation on schedule successfully, the competitive edge of the brand SINOMA in the international market was further recognised. The Company successfully entered the US market with the provision of cement technology and complete package of equipment on an EP basis, indicating that the Company's technology and equipment can meet the most stringent technical requirements in the international market. The Company continued to achieve breakthroughs in its expansion of international markets and the amount of new contracts continued to increase substantially, which further strengthened the leading position of the Company in the global market. With the improvement of the Company's technology and equipment and the enhancement of

Mr TAN Zhongming
Chairman

equipment manufacturing base, it is capable of providing all the main equipment, with intellectual property rights, for cement production lines with a scale of and below 10,000 tons per day, and the overall competitiveness was further enhanced.

Glass fiber

Last year, this segment underwent reorganization and consolidation, under which CTG became a wholly-owned subsidiary of the Company. This segment further stepped up its expansion of production capacities and has established two large-scale enterprises and three manufacturing bases, with a total production capacity of 300,000 tons, further enhancing the Company's position as the second largest manufacturer in China and one of the five largest manufacturers in the world. Last year, this segment increased its investment on research and development, developed and applied a number of new technologies which were energy-saving, consumption-reduced and environmental-friendly. It also actively made adjustment to product mix in response to market changes, resulting in the stable growth of its operation and performance. The growth of the segment results exceeded that of the turnover, and the comprehensive competitiveness was further enhanced.

Cement

Last year, the cement segment commenced large-scale development by various means, such as reorganization, merger and acquisition and investment in new production lines. As a result, production capacity and efficiency were both drastically enhanced. Last year, the Company commenced the construction of a 5,000 tons per day, a 2,500 tons per day and two 2,000 tons per day clinker production lines, besides, the operating results of Tianshan Cement were fully consolidated into those of the Company, thereby significantly increasing the operating efficiency of the cement segment of the Company. Last year, Tianshan Cement further strengthened its management and continued to reduce energy consumption. It also captured opportunities arising from the strong demand of cement in Xinjiang area, to expand its production capacity and steadily increase its market share to 42% from 39%, as a result, the operation efficiency was largely increased accordingly. The three production lines commenced operation by Sinoma Cement in 2006 were fully utilized last year. The production and sales volume greatly increased and operation results grew a few times. The existing regional advantages were therefore further strengthened.

High-tech materials

Taking advantage of its technological edge, the high-tech materials segment further speeded up its technological commercialization. The results of this segment improved significantly due to the economies of scale with Company's a series of high-tech materials projects developed by the Company's technology with its own intellectual property rights commenced operation successfully. Particularly developed for the alternative energy industry, the project of production lines with an annual production capacity of 200 sets fan blades for wind power generators, the project with an annual production capacity of 30,000 solar-energy fused silica crucibles and the project of CNG cylinders were completed and commenced production. The Company thus immediately became the largest manufacturer of solar-energy fused silica crucibles and a major supplier of CNG cylinders in China. Those projects laid a solid foundation for the rapid development of the Company's high-tech materials business.

In the past year, the Company further perfected its governance structure. Four specialized committees were established under the Board of Directors. The Company has also formulated rules of procedures for the Board of Directors, Supervisory Committee and each of the specialized committees. Management systems such as the internal financial, audit and the legal risk aversion systems were also upgraded on an on-going basis.

Prospects

2008 will be another year of rapid growth for the Company. Despite adverse factors such as slowdown of global economic growth, continuous increase in fuel and raw materials prices and further acceleration in the pace of appreciation of Renminbi, the Company reasonably believes that, leveraging on China's rapid economic growth, the stepping up of the adjustment of industry structure, faster upgrade of the industry, the ongoing rapid development of countries of emerging markets and the Company's leading position in the industry, technological advantages and strong competitiveness, the Company will definitely achieve more remarkable development, continue to create value and offer better returns for its shareholders in the coming year.

The cement equipment and engineering services segment will continue to uphold internationalization as its development strategy and devote more resources to expand its international market. In the first quarter of 2008, benefiting from the contract with an aggregate amount of RMB20 billion entered into with companies including Lafarge of France, the number of international contracts entered into throughout 2008 will increase substantially as compared with 2007. Besides, we will further enhance technological research and development, step up equipment manufacturing, develop new cement manufacturing technologies and new equipment featuring outstanding qualities of energy saving, pollution reduction and wastes treatment and continue to upgrade our technical standard in cement manufacturing equipment. Besides the efforts to increase our international market share, we will at the same time strengthen our control over exchange rate risk, continue to improve our profitability and maximize our return to shareholders.

The glass fiber segment will seize business opportunities, accelerate the pace in building its production capacity, merger and acquisitions and expand its manufacturing scale while on the other hand fully utilizing its economies of scale and technical innovation and further improve its profitability. The construction work of the two production lines with an annual production capacity of 60,000 tons each has commenced in the second half of 2007 and the first half of 2008 and both production lines are expected to commence operation in 2008. We will start the construction work of another production line with an annual production capacity of 60,000 tons of glass fiber in 2008 and will attempt to commence the construction work of a production line with an annual production capacity of 80,000 tons within this year in order to achieve our target of increasing our annual production capacity to the level of 500,000 tons by the end of 2008.

The cement segment will capitalise on the opportunities arising from the macro-economic control measures implemented by the State and adjustment of industry structures, and working towards the target of becoming the first-class enterprise in the PRC with an emphasis on speeding up the Company's pace in the merger and acquisition of domestic cement enterprises. The Company, with an aim to ensuring that the cement production capacity will surpass 32 million tons by the end of 2008, will, when appropriate, consider exercising its pre-emptive right to acquire the Parents' Retained Business (including but not limited to Ningxia Building Materials and Jidong Cement) in due course and at the same time speed up the construction of cement projects, and rapidly increase the Company's cement production capacity. Besides, it will expand potential market and aim to become the largest cement producer in the north China. In addition, we will further speed up our progress made in improving our energy saving and waste emission level, fully implement the installation of the waste heat power generation facilities to the existing clinker production lines, so as to reduce costs and enhance efficiency.

The high-tech materials segment will further step up its efforts in technology innovation to expedite the implementation of the strategy of technology commercialization. We will also increase our pace of construction of alternative energy projects, which includes the construction of a production line of solarenergy fused silica crucibles (太陽能多晶矽石英坩鍋) and critical materials with an annual production capacity of 100,000 units and the construction project of fan blades for wind power generators with an annual production capacity of 500 units. It is also our target to accelerate the pace of construction of energy saving and environmental protection projects in order to guarantee that the expansion projects that will deliver an annual production capacity of 4 million sq.m. of high temperature filtration materials, an annual production capacity of 40,000 tons of high wear-resistant and low level consumption microcrystalline alumina ceramics and an annual production capacity of 150,000 CNG cylinders could be accomplished smoothly and we could commence the construction work of the production line with an annual capacity of 160,000 units of super-high voltage electric porcelain according to our schedule. We will endeavor to become the largest solar energy fused silica crucibles producer in Asia and the major fan blades for wind power generator producer in the PRC, further consolidate and strengthen our leading positions in relevant business segments, expand our business and enhance the results contributions to the Company.

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

China National Materials Company Limited
TAN Zhongming
Chairman
22 April 2008

Management Discussion and Analysis

Mr YU Shiliang
President

BUSINESS OVERVIEW

Overview

The Company is the largest cement equipment and engineering services provider in the world as well as a leading producer of non-metal materials in the PRC. It is principally engaging in four business segments comprising cement equipment and engineering services, glass fiber, cement and high-tech materials, and is currently the only enterprise in the PRC non-metal materials industry with an integrated business model covering research and development, industrial design, equipment manufacturing, engineering and construction services, and production.

Facing with the new opportunities arisen since the reorganisation and listing of the Company in 2007, the Company adhered to the management philosophy of maximising efficiency and focused on accelerating business development and enhancing financial performance by capturing market opportunities to expand its scale of operation, strengthening management over production operation, and mitigating adverse effects of raw material price surge and continuous appreciation of Renminbi, thereby achieved an overall increase in both production volume of major products as well as the number of completed projects, and has substantially maximised economic benefits.

Services provided in 36 Countries

The largest Cement Equipment and Engineering Services provider in the world

SCC 10,000TPD cement production line, Saudi Arabia

Cement Equipment and Engineering Services

Industry Review

Demand for and investment in cement continued to grow throughout 2007. The accelerating pace of economic growth of developing countries and emerging markets with abundant mineral resources such as Africa, Latin America and Asia, coupled with the demand for upgrading of the existing cement production lines in developed countries and the rapid replacement of laggard cement production facilities and growing demand for cement in the PRC, have all contributed to generating strong investment demand in cement projects world-wide. The competitive strength of the PRC cement equipment and engineering industry

RCC 5,000TPD cement production line, Saudi Arabia

The largest cement mill in China

becomes increasingly notable with the commencement and smooth operation of overseas cement production lines projects built by PRC enterprises.

Business Review

Vigorously expanding business and reinforcing the Company's No. 1 position in the global market

The expansion of the Company's cement equipment and engineering services business segment continued to gain strong momentum in 2007. The value of new contracts was RMB24,860 million, representing an increase of 39.52% on a year-on-year basis, in which the value of new domestic contracts was RMB7,942 million, representing a corresponding growth of 36.06% on a year-on-year basis. This indicates that Company has maintained its unparalleled competitive edge in the PRC market. The value of new overseas contracts was RMB16,910 million, representing an increase of 41.20% on a year-on-year basis and accounting for 68.05% of total value of new contracts. The backlog as at 31 December 2007 amounted to RMB30,880 million, representing an increase of 45.32% on a year-on-year basis. The U.S. SCC cement production line project with production capacity of 4,000 tons per day EP project finalised in May 2007 signified the first penetration of large-scale packaged cement equipment into the U.S. market. The Company had made its way to the markets of 36 countries in Europe, America, Asia and Africa by the end of 2007 and has maintained its leading position in the international cement equipment and engineering services market.

Smooth proceeding of projects and commencement of operation of core projects

In 2007, the Company, by enhancing management, exercising its overall strength, strengthening coordination among projects, integrating resources as well as reinforcing control of monumental international projects, ensured smooth development and progress of all projects. A number of domestic and overseas projects such as UCC 10,000 tons per day production line for the Union Cement Co. of UAE, RCC 5,000 tons per day production line, SPCC 5,000 tons per day production line and CCC 5,000 tons per day production line in Saudi Arabia, 4,000 tons per day project for HOLCIM in Morocco, 3,000 tons per day production line in Malaga, Spain, Dujiangyan Line II 3,500 tons per day production line for Lafarge, Conch-Wuhu Phase II 5,000 tons per day production line, and two 5,000 tons per day production lines for TCC Yingde Cement Co., Ltd (Phase I) commenced operation in 2007.

Initiative innovation and enhancement of equipment manufacturing capability

The Company has devoted enormous resources to initiate innovation and continued to improve the design and upgrade the technology level of its equipment manufacturing. In 2007, the roller mill and 10,000-ton bucket conveyer self-developed by the Company have been applied in a large number of cement projects. The Company has currently established equipment manufacturing bases in Tianjin, Tangshan, Chengdu, Pingdingshan and Shangrao with manufacturing capability of 270,000 tons per year. The Company currently has manufacturing capability of all main equipment of cement production lines with a scale of 10,000 tons per day and below. Currently the Company is in entire possession of the intellectual property rights to the most-advanced technology of the largest scale cement production lines.

Annual production capacity of 300,000 tons

One of the Top Five in the World
The Second Largest in China

Electronic yarn

Glass Fiber

Industry Review

In 2007, leveraging on the continuous growth of world economy and the constant and rapid development of China's economy, the application of glass fiber was further broadened, and the glass fiber production industry in China continued to grow rapidly. According to the statistics of the China Fiberglass Industry Association, China's aggregate production volume of glass fiber in 2007 amounted to 1,600,000 tons. China has leaped into the largest glass fiber production country in the world.

Alkali-free direct-melt glass fiber production line

Production workshop

Driven by strong demand, the glass fiber market of China has experienced robust growth in investment. In addition, the "Admission Condition for Glass Fiber Industry" promulgated on 1 February 2007 has raised the entry barrier for the glass fiber industry and thereby improved the operating environment of the industry and placed effective restrain on small and medium enterprises that engaged mainly in the construction of low-standard facilities and make haphazard investments. The proportion of production volume of direct-melt furnace glass fiber has climbed steadily while the whole industry is becoming increasingly centralized. The export of glass fiber products continued to grow rapidly in 2007. The "Notice concerning the Reduction of Tax Refund Rate of Some Export Commodities" which was implemented on July 1, 2007 has lowered the export tax refund rate of glass fiber and glass fiber products from 13% to 5% and thereby affecting the profitability of the glass fiber industry.

Business Review

Steady Growth of Production and Operation

In 2007, the Company implemented various effective measures with respect to its glass fiber business segment, including formalizing management, consolidating resources, developing new techniques and implementing digitalized technology on a continuous basis, and such have helped us to capture the rapid expansion momentum of the market and increase the production capacity and yield. Meanwhile, the Company was also capable of mitigating the negative impact of reduced export tax refund rate, price-hike of energy and raw materials and the appreciation of Renminbi through timely adjustment in our product mix and raising sale price, thereby maintaining the growth of the glass fiber business segment. The production volume of glass fiber and glass fiber products reached 233,800 tons in 2007, representing a year-on-year increase of 14.8%. Segment result also increased by 25.37% year-on-year as compared with the previous year.

Efficiency Enhanced Through Energy-saving

The Company has increased its investment in introducing energy-saving and environmental friendly new equipment, techniques and technologies. The CTG production lines promoted the use of new technologies such as "pure oxygen burning". Such technology enhances combustion efficiency, resulting in significant energy-saving and reducing the amount of exhaust fume and unit energy consumed for molten glass by 80% and 38% respectively. "The energy-saving pure oxygen burning technology applied in alkali-free glass fibre production lines for and above 10,000 tons per year." (萬噸級以上無堿玻璃纖維池窯純氧燃燒節能技術) was awarded with "Shandong Energy Conservation Prize". At the end of 2007, CTG has resolved the issue of natural gas supply shortage and decreased fuel cost as its natural gas transmission project has completed and has commenced operation.

Seizing Opportunity and Expanding Scale

Through scientific, reasonable and organized measures, the Company accelerated the progress of its projects. The construction of alkali-free direct-melt glass fiber production line of CTG with an aggregate annual production capacity of 60,000 tons commenced in January 2007 and was completed and in operation within six months. As at the end of 2007, the Company was equipped with an alkali-free glass fiber production capacity of 300,000 tons per year. Besides, the construction of the other alkali-free direct-melt glass fiber production line with an aggregate annual production capacity of 60,000 tons has commenced, and the preparation works of another two alkali-free direct-melt glass fiber production lines with an aggregate annual production capacity of 60,000 tons each were progressing as planned.

Cement and Clinker sold 13.91 million tons

The largest cement producer in Xinjiang & a major producer in Pearl River Delta

5,000TPD Clinker production line, Tianshan Cement

Cement

Industry Review

With the rapid growth of the PRC economy in 2007 and the increase in the fixed asset investment across the PRC, the trend in adjusting the structure of the domestic cement industry and the energy-saving and pollution reduction increased. The cement industry managed to maintain its vitality of growth with a total production volume of 1.36 billion tons, representing a year-on-year increase of 10%. The price rose steadily and the industry structure was further optimised. The industry became more centralized with a gradual decline of energy consumption in per unit output.

Business Review

Substantial Increase in Production and Sales as well as Consolidation of Market Position

In 2007, the Company's production and sales of cement segment increased substantially with an annual cement sales of 11,780,000 tons, representing a year-on-year increase of 29.45%, and annual clinker sales of 2,130,000 tons, representing a year-on-year increase of 45.85%. Our market share in Xinjiang Autonomous Region increased from 39% in 2006 to 42% and ranked first in the region. Sales in the Pearl River Delta almost doubled, in which our market position was further strengthened.

Reinforcement of strengths in Existing Markets and Expansion toward Potential Regional Markets

During the reporting period, to further increase market share in Xinjiang Autonomous Region, the Company has commenced construction of a 2,000 tons per day clinker production line and a clinker production line of 2,000 tons per day, using slag instead of limestone as raw materials. In order to expand and develop in Hunan Province, the Company has commenced the construction of one cement production line of 5,000 tons per day and another cement production line of 2,500 tons per day. The construction of a cement production line of 5,000 tons per day in Hunan has also been started in January 2008.

Implementation of Energy-saving and Pollution Reduction Measures and Developing Clean Production

The Company initiated energy-saving and pollution reduction measures actively during the reporting period. In 2007, the 5,000 tons per day clinker production line in Liyang, Jiangsu Province, the 5,000 tons per day clinker production line in Yunfu, Guangdong Province and the 2,000 tons per day clinker production line in Urumqi, Xinjiang Province were equipped with 9MW, 9MW and 3MW low temperature waste heat power generation facilities respectively. The Company used slag to replace limestone as the raw materials for the clinker production line of 2,000 tons per day and such production line has started operation in March 2008 and will be able to use up industrial wastes, including approximately 600,000 tons of carbide slag every year. The above measures should reduce the emission of carbon dioxide by approximately 400,000 tons a year in total. We endeavored to lower energy and resources consumption and cost, and to enhance our operating efficiency by optimizing our techniques, improving our technologies and actively commencing the integrated use of resources.

200 set blades for wind power generators

30,000 Solar-energy fused silica crucibles

and the largest domestic manufacturing base in China

Fan blades for wind power generators

High-tech Materials

Industry Review

High-tech materials are vital material bases for technological development and, for their unique and excellent integrated features, are widely used in aerospace, telecommunications, alternative energies, transportation, environmental protection and construction industries. With the scientific advancement and the growing pace of industrial development, the areas of application of and demand for high-tech materials have been increasing accordingly. With tight supply of conventional fuel, research and development on and commercialization of high-tech materials for alternative energy industries advanced by leaps and bounds in 2007 and related products market developed rapidly.

Solar-energy fused silica crucibles

CNG cylinders

Business Review

The Company is a leading enterprise in the PRC high-tech materials market and its major products include specialty fiber, fiber reinforcement composite materials and advanced ceramics.

Utilizing Technological Edge and Developing High-Tech Materials in Relation to Alternative Energy Industries

Leveraging on its technological advantage, the Company speeded up the commercialisation of high-tech materials oriented towards alternative energy industries. The Company's technologies and products were applied to the alternative energy industries with the completion of a production line with an annual production capacity of 30,000 units of solar-energy fused silica crucibles, and the completion of a production line which produces 200 set blades for wind power generators annually, making the Company the largest domestic manufacturing base of core materials for solar-energy fused silica crucibles in the PRC.

Tightened Management Control and Achieving Substantial Growth in the Company's Results

The high-tech materials segment achieved relatively strong growth in terms of production scale and economic efficiency in 2007. Sales and production volume of major products such as microcrystalline alumina ceramics, fine fused quartz ceramics and high strength glass fiber increased significantly. Through reinforced control and technical upgrade, the production capacity and yield rate of this segment was further increased while the unit production cost was reduced, and the impact of the price increase of raw materials, appreciation of Renminbi and reduction of export tax refund rate were alleviated, resulting in a steady rise of gross margin and substantial growth of 85.78% in segment results.

Accelerated Commercialization

During the reporting period, the Company speeded up the deployment of the technology with intellectual property rights and made increased investment to develop the high-tech materials segment. Phase I of the CNG cylinders project commenced formal production in June 2007. The products produced were recognised by several international certification organizations and were exported. The high strength glass fiber project and phase I of the glass microfiber paper production line with an annual production capacity of 4,000 tons formally commenced production in May 2007, while other expansion projects have been commenced and are under construction including production lines of high-temperature filtration materials, automobile composite materials, microcrystalline alumina ceramics, fine fused quartz ceramic and high voltage electric porcelain.

Strengthened Technological Innovation and Increasing Core Competitiveness

The technological improvement and innovation efforts achieved fruitful results during the reporting period. The construction of the "National Key Research Laboratory for Specialty Fiber Composite Materials" of Sinoma Science & Technology was approved by the Ministry of Science and Technology of the PRC. It was named one of the earliest corporate key national research laboratories. Following the success of Sinoma Science & Technology, Sinoma Advanced Materials was also recognised as a national innovative enterprise in 2007. During the reporting period, the High-Tech Materials segment acquired 9 awards from the PRC government and 25 patents, of which 7 were for invention. The core competitiveness of the Company was further enhanced.

FINANCIAL REVIEW

	Year ended 31 December 2007 (RMB million)	Year ended 31 December 2006 (RMB million) (Restated)	Change (RMB million)	(%)
Turnover	**19,647.09**	13,012.87	6,634.22	50.98
Cost of sales	**(16,578.56)**	(11,040.80)	(5,537.76)	50.16
Gross profit	**3,068.53**	1,972.07	1,096.46	55.60
Other gains	**309.29**	67.70	241.59	356.85
Selling and marketing expenses	**(515.85)**	(243.17)	(272.68)	112.14
Administrative expenses	**(1,169.09)**	(837.98)	(331.11)	39.51
Other expenses	**(32.38)**	(80.53)	48.15	(59.79)
Operating profit	**1,660.50**	878.09	782.41	89.10
Interest income	**85.64**	46.47	39.17	84.29
Finance costs	**(387.89)**	(193.27)	(194.62)	100.70
Share of profit of associates	**49.97**	8.24	41.73	506.43
Profit before income tax	**1,408.22**	739.53	668.69	90.42
Income tax expense	**(383.37)**	(211.98)	(171.39)	80.85
Profit for the year	**1,024.85**	527.55	497.30	94.27
Attributable to:				
Equity holders of the Company	**472.67**	281.91	190.76	67.67
Minority interests	**552.18**	245.64	306.54	124.79
	1,024.85	527.55	497.30	94.27
Dividends	**572.63**	NA	NA	NA

Operating Results

As at 31 December 2007, profit before income tax of the Group amounted to RMB1,408.22 million, up 90.42% as compared with the corresponding period last year. Profit attributable to the equity holders of the Company was RMB472.67 million, representing an increase of 67.67% as compared with the corresponding period last year. Earnings per share of the Company was RMB0.20.

Consolidated operating results

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

Turnover
Turnover in 2007 amounted to RMB19,647.09 million, representing an increase of RMB6,634.22 million or 50.98% as compared with RMB13,012.87 million in 2006. The increase was mainly attributable to the efforts of the subsidiaries to develop new markets and enlarge market share, resulting in an overall increase in turnover across all the segments. In particular, turnover of the cement equipment and engineering services segment increased substantially by RMB2,979.08 million, while the increase in turnover of the cement segment, the high-tech materials segment and the glass fiber segment amounted to RMB3,219.88 million, RMB291.39 million and RMB121.73 million respectively.

Cost of sales
Our cost of sales increased by RMB5,537.76 million or 50.16% from RMB11,040.80 million in 2006 to RMB16,578.56 million in 2007. The increase was mainly due to the rise of turnover. Cost of sales of the cement equipment and engineering services segment, cement segment, high-tech materials segment and the glass fiber segment increased by RMB2,857.83 million, RMB2,378.32 million, RMB222.92 million and RMB62.76 million, respectively. During the reporting period, the Company implemented various initiatives that successfully controlled the rise of costs in view of the surging raw material and energy prices.

Gross profit and gross margin
Our gross profit increased by RMB1,096.46 million or 55.60% from RMB1,972.07 million in 2006 to RMB3,068.53 million in 2007. The increase was mainly due to an increase in gross profit of the cement segment of RMB841.56 million. In addition, a RMB121.25 million increase was recorded in the cement equipment and engineering services segment, a RMB68.47 million increase was recorded in the high-tech materials segment, and a RMB58.97 million increase was recorded in the glass fiber segment.

The Group's gross margin increased from 15.15% in 2006 to 15.62% in 2007 .

Other gains
Other gains in 2007 amounted to RMB309.29 million, representing an increase of RMB241.59 million or 356.85% as compared with RMB67.70 million in 2006. The increase was mainly attributable to the government grants of value-added tax refund arising from the consolidation of the results of Tianshan Cement, the debt restructuring gain of Sinoma Hanjiang and the gain from disposal of Hanjiang Caiban Door and Window Co., Ltd..

Selling and marketing expenses
The Group's selling and marketing expenses in 2007 was RMB515.85 million, up RMB272.68 million or 112.14% as compared with RMB243.17 million recorded in 2006, as a result of the consolidation of Tianshan Cement and a substantial increase in production and sales, an increase of RMB244.75 million recorded by the cement segment. Selling and marketing expenses of the cement equipment and engineering services segment and high-tech materials segment increased by RMB26.07 million and RMB9.65 million, respectively, as a result of the significant increase in their turnover.

Administrative expenses
Administrative expenses amounted to RMB1,169.09 million in 2007, representing an increase of RMB331.11 million or 39.51% as compared with RMB837.98 million in 2006. The increase was mainly attributable to a substantial increase in administrative expenses of RMB217.09 million recorded by the cement segment. Administrative expenses of the cement equipment and engineering services segment and the high-tech materials segment increased by RMB56.90 million and RMB8.26 million, respectively.

Operating profit and operating profit margin
Operating profit increased by RMB782.41 million or 89.10% from RMB878.09 million in 2006 to RMB1,660.50 million in 2007. The increase was mainly due to the enhancement of the Company's operation efficiency. The operating profit of the cement segment increased by RMB582.81 million due to the consolidation of the results of Tianshan Cement, the increase in production volume and sales as well as better cost control on expenses. The operating profit of the cement equipment and engineering services segment, glass fiber segment, and high-tech materials segment increased by RMB82.77 million, RMB66.64 million and RMB63.84 million, respectively. Our operating profit margin in 2007 grew to 8.45% from 6.75% in 2006.

Finance costs
Finance costs increased by RMB194.62 million or 100.70% from RMB193.27 million in 2006 to RMB387.89 million in 2007. The increase was mainly due to the consolidation of finance costs of Tianshan Cement and the increase in borrowings to finance the construction of production lines. In addition, in 2007, China has raised its loan interest rates six times and the loan interest rate for loan due within one year with an accumulated hike of 1.35 percentage points and such move has increased the effective interest rate of the Group's borrowings denominated in Renminbi from 5.78% per annum in 2006 to 6.68% per annum in 2007.

Share of profit of associates
Share of profit of associates was RMB49.97 million in 2007, representing an increase of RMB41.73 million or 506.43% as compared with RMB8.24 million in 2006. The increase was mainly as a result of BBMG Co., Ltd. becoming an associated company of the Company in April 2007 and the increase in the share of profit of associated companies from the consolidation of Tianshan Cement's share of profit of associated companies. The increase was partly offset by the decrease in the profit of some associated companies.

Income tax expense
Income tax expense increased by RMB171.39 million or 80.85% from RMB211.98 million in 2006 to RMB383.37 million in 2007. The increase was mainly due to an increase in profit before tax, as well as a decrease of the effective income tax rate of the Group from 28.66% in 2006 to 27.22% in 2007, which was mainly attributable to more profits being contributed by various subsidiaries of the Group which enjoyed preferential income tax rates in 2007.

Profit attributable to minority interests
In 2007, profit attributable to minority interests was RMB552.18 million, up RMB306.54 million or 124.79% as compared with RMB245.64 million in 2006. The increase was mainly a result of an increase in net profit for the year and the transfer of certain businesses to Sinoma International by the end of 2006 or in early 2007 resulting in a dilution of equity interests in these businesses.

Profit attributable to the equity holders of the Company
As a result of the foregoing, profit attributable to the equity holders of the Company amounted to RMB472.67 million in 2007, representing an increase of RMB190.76 million or 67.67% as compared with RMB281.91 million in 2006.

Segment results

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

Cement equipment and engineering services

	2007 (RMB million)	2006 (RMB million)	Change (RMB million)	Change (%)
Turnover	**12,928.40**	9,949.32	2,979.08	29.94
Cost of sales	**11,588.22**	8,730.39	2,857.83	32.73
Gross profit	**1,340.18**	1,218.93	121.25	9.95
Selling and marketing expenses	**145.14**	119.07	26.07	21.89
Administrative expenses	**604.07**	547.17	56.90	10.40
Segment results	**637.60**	554.83	82.77	14.92

Turnover

Turnover of the cement equipment and engineering services segment in 2007 amounted to RMB12,928.40 million, representing an increase of RMB2,979.08 million or 29.94% as compared with RMB9,949.32 million in 2006. The increase was mainly attributable to the continuous growth of our business, increase in market share and substantial amount of overseas and domestic projects were under construction or completed and put into production during the year, thus the volume of projects recorded was largely increased.

Cost of sales

Cost of sales of the cement equipment and engineering services segment increased by RMB2,857.83 million or 32.73% from RMB8,730.39 million in 2006 to RMB11,588.22 million in 2007. The increase was mainly due to the increase in construction scale of our engineering projects and the surge of procurement prices of raw materials like equipment and steel.

Gross profit and gross margin

Gross profit of the cement equipment and engineering services segment increased by RMB121.25 million or 9.95% from RMB1,218.93 million in 2006 to RMB1,340.18 million in 2007. The increase was mainly due to the substantial increase of turnover. Gross margin recorded by the cement equipment and engineering services segment in 2007 decreased to 10.37% from 12.25% in 2006. The decrease in gross margin was mainly due to (i) revenue from engineering, procement and construction ("EPC") contracts increased rapidly while the gross margin of such EPC contracts was lower than that of design services and equipment sales; (ii) increase in prices of raw materials, such as steel, and certain equipment purchased; and (iii) 30% of the income from cement equipment and engineering services recognised in 2007 originated from EPC contracts signed in 2005 at a lower bid price when the Group penetrated the international market to increase the market share, with a view to enlarging market share. As those US dollar denominated EPC contracts were entered into prior to the exchange rate reform, it resulted in a decrease in revenue once converted into Renminbi due to the exchange rate fluctuation.

Selling and marketing expenses

Selling and marketing expenses of the cement equipment and engineering services segment in 2007 was RMB145.14 million, up RMB26.07 million or 21.89% as compared with RMB119.07 million recorded in 2006. The increase was due to the increased marketing effort in domestic and overseas markets. In addition, the Group has effectively controlled its selling and marketing expenses and such achievement was brought about by the brand effect. The increase rate of selling and marketing expenses was significantly lower than the increase rate of contract revenue of the newly-signed contracts.

Administrative expenses

Administrative expenses of the cement equipment and engineering services segment amounted to RMB604.07 million in 2007, representing an increase of RMB56.90 million or 10.40% as compared with RMB547.17 million in 2006. The increase was mainly attributable to the expansion in scale of operation which increased total salaries and wages. The Group has taken measures to enhance its administration, consolidate its resources, implement a cost-targeted management policy and control major international and domestic projects in progress which brought about an effective control of our administrative expenses.

Segment results

On the basis of the abovementioned, in 2007, segment results of the cement equipment and engineering services segment were RMB637.60 million, representing an increase of RMB82.77 million or 14.92% as compared to RMB554.83 million in 2006.

Glass fiber

	2007	2006	**Change**	
	(RMB million)	(RMB million)	(RMB million)	(%)
Turnover	**1,743.83**	1,622.10	121.73	7.50
Cost of sales	**1,230.00**	1,167.24	62.76	5.38
Gross profit	**513.83**	454.86	58.97	12.96
Selling and marketing expenses	**68.22**	76.01	(7.79)	(10.25)
Administrative expenses	**128.99**	134.95	(5.96)	(4.42)
Segment results	**329.28**	262.64	66.64	25.37

Turnover

Turnover of the glass fiber segment in 2007 amounted to RMB1,743.83 million, representing an increase of RMB121.73 million or 7.50% as compared with RMB1,622.10 million in 2006. The increase was mainly attributable to (i) the commencement of operation of a 60,000 tons per year production line in September 2007, thus increasing the production volume of glass fiber products and (ii) the surge of product prices. However, since Sinoma Jinjing Fibre Glass Co., Ltd. ("Sinoma Jinjing") has sold most of its operating assets to PPG Sinoma Zibo Jinjing Fiber Glass Co., Ltd. ("PPG Sinoma Jinjing Zibo", a jointly controlled entity of the Group) in July 2006, the Group has only consolidated 50% of PPG Sinoma Jinjing Zibo's operating results in 2007 and therefore partially offset the turnover increase.

Cost of sales

Cost of sales of the glass fiber segment increased by RMB62.76 million or 5.38% from RMB1,167.24 million in 2006 to RMB1,230.00 million in 2007. The application of a new technology by CTG has lowered our energy consumption. The improvement of production techniques of Sinoma Jinjing has also increased the production capacity and yield rate and lowered the average unit production cost. The above factors effectively overcame the adverse influences arisen from the reduction in export tax refund rate and rising prices of raw materials and fuels, thus effectively controlled the cost of sales.

Gross profit and gross margin

Gross profit of the glass fiber segment increased by RMB58.97 million or 12.96% from RMB454.86 million in 2006 to RMB513.83 million in 2007. The gross margin of the glass fiber segment in 2007 grew to 29.47% from 28.04% in 2006. The application of new techniques, the stable operation of new production line, the increase of production yield, together with the rise in selling price and increase in sales volume further enhanced the gross profit and gross margin.

Selling and marketing expenses

Selling and marketing expenses of the glass fiber segment in 2007 were RMB68.22 million, representing a decrease of RMB7.79 million or 10.25% as compared with RMB76.01 million recorded in 2006. The decrease was mainly due to (i) the timely adjustment of the Group's sales policy in response to the market demand and supply of the glass fiber, which reduced the overall selling expenses; and (ii) the consolidation of only 50% of the selling and marketing expenses of PPG Sinoma Jinjing Zibo.

Administrative expenses

Administrative expenses of the glass fiber segment amounted to RMB128.99 million in 2007, representing a decrease of RMB5.96 million or 4.42% as compared with RMB134.95 million in 2006. The decrease was mainly attributable to the consolidation of only 50% of the administrative expenses of PPG Sinoma Jinjing Zibo.

Segment results

On the basis of the abovementioned, in 2007, segment results of the glass fiber segment were RMB329.28 million, representing an increase of RMB66.64 million or 25.37% as compared to RMB262.64 million in 2006.

Cement

	2007	2006	**Change**	
	(RMB million)	(RMB million)	(RMB million)	(%)
Turnover	**3,842.63**	622.75	3,219.88	517.04
Cost of sales	**2,904.41**	526.09	2,378.32	452.07
Gross profit	**938.22**	96.66	841.56	870.64
Selling and marketing expenses	**257.94**	13.19	244.75	1,855.57
Administrative expenses	**256.69**	39.60	217.09	548.21
Segment results	**635.69**	52.88	582.81	1,102.14

Since 20 December 2006, Tianshan Cement has been considered as a subsidiary of the Group and its assets, liabilities and results were consolidated into the Group's consolidated financial statements. Formerly, Tianshan Cement was an associate of the Group.

Turnover

Turnover of the cement segment in 2007 amounted to RMB3,842.63 million, representing an increase of RMB3,219.88 million or 517.04% as compared with RMB622.75 million in 2006. The increase was mainly attributable to the consolidation of the results of Tianshan Cement and the increase in sales volume and prices of cement.

Cost of sales

Cost of sales of the cement segment increased by RMB2,378.32 million or 452.07% from RMB526.09 million in 2006 to RMB2,904.41 million in 2007. The increase was mainly due to the consolidation of the results of Tianshan Cement in 2007, the rise in sales volume of cement and prices of coal.

Gross profit and gross margin

Gross profit of the cement segment increased by RMB841.56 million or 870.64% from RMB96.66 million in 2006 to RMB938.22 million in 2007. The substantial increase in gross profit was primarily attributable to the consolidation of the results of Tianshan Cement and the increase of sales volume and prices of cement. Gross margin of the cement segment in 2007 grew to 24.42% from 15.52% in 2006. The increase was mainly attributable to (i) the rise of selling prices of cement; (ii) that Sinoma Cement mitigated the adverse effects resulting from the energy price hike to a certain extent, and raised its gross margin by adjusting the types of raw materials and fuel; and (iii) the consolidation of the results of Tianshan Cement, which has a relatively higher gross margin.

Selling and marketing expenses

Selling marketing expenses of the cement segment in 2007 was RMB257.94 million, representing an increase of RMB244.75 million or 1,855.57% as compared with RMB13.19 million recorded in 2006. The increase was mainly due to the consolidation of the results of Tianshan Cement. Owing to the special and geographic conditions in Xinjiang Autonomous Region, which led to long-distance transportation and higher proportion of packed cement, the selling and marketing expenses, especially shipping and packaging costs incurred, were comparably higher. Meanwhile, the overall sales volume of cement of the Group in 2007 increased and the selling and marketing expenses also rose correspondingly.

Administrative expenses

Administrative expenses of the cement segment amounted to RMB256.69 million in 2007, representing an increase of RMB217.09 million or 548.21% as compared with RMB39.60 million in 2006. The increase was mainly attributable to the consolidation of the results of Tianshan Cement and the rise in administrative expenses incurred by expansion of production scale.

Segment results

On the basis of the abovementioned, in 2007, segment results of the cement segment were RMB635.69 million, representing an increase of RMB582.81 million or 1,102.14% as compared with RMB52.88 million in 2006.

High-tech materials

	2007	2006	**Change**	
	(RMB million)	(RMB million)	(RMB million)	(%)
Turnover	**1,166.77**	875.38	291.39	33.29
Cost of sales	**894.74**	671.82	222.92	33.18
Gross profit	**272.03**	203.56	68.47	33.64
Selling and marketing expenses	**44.55**	34.90	9.65	27.65
Administrative expenses	**112.43**	104.17	8.26	7.93
Segment results	**138.26**	74.42	63.84	85.78

Turnover

Turnover of the high-tech materials segment in 2007 amounted to RMB1,166.77 million, representing an increase of RMB291.39 million or 33.29% as compared with RMB875.38 million in 2006. The increase was mainly attributable to our efforts devoted in developing new markets and expanding sales effort, and the substantial increase in production and sales volume of our major products. In addition, the commencement of production lines such as CNG cylinder also expanded the scale of production and sales and increased the turnover.

Cost of sales

Cost of sales of the high-tech materials segment increased by RMB222.92 million or 33.18% from RMB671.82 million in 2006 to RMB894.74 million in 2007. The increase was mainly due to the rise of sales volume. During the reporting period, our effort in the enhancement of management and technological improvement to the existing production lines have further increased the production capacity and production yield and effectively lowered our production cost and such favorable factors offset the adverse effects of the surge of raw material prices and lowering of export tax refund rate, effectively maintained the cost of sales.

Gross profit and gross margin

Gross profit of the high-tech materials segment increased by RMB68.47 million or 33.64% from RMB203.56 million in 2006 to RMB272.03 million in 2007. Gross margin in 2007 grew to 23.31% from 23.25% in 2006. The increase was mainly due to the effective control of production cost which were contributed by the enhancement of management and improvement of production techniques and such encouraging performance has offset the adverse effects brought by factors such as the rise in raw material prices and hence maintained a steady gross margin.

Selling and marketing expenses

Selling and marketing expenses of the high-tech materials segment in 2007 was RMB44.55 million, representing an increase of RMB9.65 million or 27.65% as compared with RMB34.90 million recorded in 2006. The increase was mainly due to the effort in the expansion of market and marketing scale.

Administrative expenses

Administrative expenses of the high-tech materials segment amounted to RMB112.43 million in 2007, representing an increase of RMB8.26 million or 7.93% as compared with RMB104.17 million in 2006, which was mainly attributable to the expansion in operating scale. Our further enhancement in management also effectively controlled the administrative expenses.

Segment results

On the basis of the abovementioned, in 2007, segment results of the high-tech materials segment were RMB138.26 million, representing an increase of RMB63.84 million or 85.78% as compared with RMB74.42 million in 2006. Such increase was due to the economies of scale and effective management, and the increase rate substantially surpassed the increase rate of turnover.

Liquidity and capital resources

Cash flows:

	2007 (RMB million)	2006 (RMB million)
Net cash generated from operating activities	**2,462.74**	800.54
Net cash used in investing activities	**(2,109.81)**	(1,261.24)
Net cash generated from financing activities	**4,443.35**	1,440.62
Cash and cash equivalents at the end of the year	**8,443.18**	3,699.78

Net cash generated from operating activities
The net cash generated from the operating activities in 2007 was RMB2,462.74 million, representing an increase of RMB1,662.20 million as compared with RMB800.54 million in 2006, which was attributable to the growth of cashflow from operations to RMB3,090.08 million, an increase of RMB1,918.07 million as compared with RMB1,172.01 million in 2006. Such growth was partially offset by the increase of interest paid of RMB181.83 million and the increase of tax expenses paid of RMB74.04 million.

Net cash used in investing activities
Net cash used in investing activities increased by RMB848.57 million from RMB1,261.24 million in 2006 to RMB2,109.81 million in 2007, which was mainly attributable to the increase in cash outflow to acquire property, plant and equipment of RMB187.76 million, the decrease in cash inflow from the disposal of property, plant and equipment of RMB212.87 million and the decrease in the net cash inflow from the acquisition of subsidiaries of RMB334.78 million.

Net cash generated from financing activities
Net cash generating from financing activities increased by RMB3,002.73 million from RMB1,440.62 million in 2006 to RMB4,443.35 million in 2007, which was mainly attributable to the proceeds raised by the initial public offering of H shares of RMB3,958.48 million, representing an increase of RMB3,636.32 million as compared with that raised by the initial public offering of A shares by Sinoma Science & Technology of RMB322.16 million in 2006, the proceeds from borrowing increased by RMB688.42 million, the capital contribution from promoters which led to a cash inflow of RMB300.00 million. The cashflow generated from these financing activities were partially offset by such factors as the repayment of increased borrowings by RMB1,137.30 million, the dividends paid to minority interests increased by RMB169.77 million and the disbursement of expenses related to the initial public offering increased by RMB177.65 million.

Working Capital

As at 31 December 2007, the Group's cash and cash equivalents amounted to RMB8,443.18 million (2006: RMB3,699.78 million) and maintained a growing trend. Unutilized bank facilities was RMB2,076.81 million (2006: RMB728.00 million). The current ratio (calculated by dividing the total current assets by the total current liabilities) of the Group as at 31 December 2007 increased to 111.53% (2006: 89.00%).

The Group monitors its capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as the total borrowings (including current and non-current borrowings as shown in the balance sheet), less cash and cash equivalents. Total capital is calculated as "equity", as shown in the consolidated balance sheet, plus net debt. As at 31 December 2007, the balance of cash and cash equivalents of the Group is in excess of the balance of total borrowings and the Group held net cash of RMB990.57 million. The gearing ratio of the Group as at 31 December 2006 was 41.34%.

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

Net Current Assets

As at 31 December 2007, the Group's net current assets was RMB1,840.31 million, increased by RMB3,316.48 million from the net current liabilities of RMB1,476.17 million as at 31 December 2006, which was mainly attributable to the net proceeds raised from the initial public offering of H shares of RMB3,675.85 million and the increase in the current portion of trade and other receivables of RMB887.66 million. The growth in the net current assets was partly offset by the increase in the current portion of trade and other payables of RMB2,523.79 million.

Inventory Analysis

As at 31 December 2007, the Group's inventories decreased by RMB22.87 million from RMB2,455.75 million as at 31 December 2006 to approximately RMB2,432.88 million. The average inventory turnover days, calculated as the average opening and closing inventory gross balances divided by cost of sales for the year and multiplied by 365 days, decreased to 54.1 days in 2007 from 78.0 days in 2006. Such decrease in inventory turnover days was mainly attributable the improved turnover for cement equipment and engineering services and cement segments.

Trade Receivables and Trade Payables

As at 31 December 2007, the Group's gross trade receivables increased by RMB525.48 million from RMB2,059.92 million as at 31 December 2006 to RMB2,585.40 million. In 2007, the cement equipment and engineering services segment, the cement segment and the high-tech materials segment had an improved turnover for trade receivables and hence allowing the Group to record an improvement of average turnover days for trade receivables to 43.1 days in 2007 (2006: 51.1 days). The average trade receivable turnover days is calculated as the average opening and closing gross balances of trade receivables divided by turnover for the year and multiplied by 365 days. As at 31 December 2007, the Group's trade payables increased by RMB1,035.67 million from RMB3,393.31 million as at 31 December 2006 to RMB4,428.98 million. The average turnover days of trade payables decreased to 85.1 days in 2007 (2006: 100.5 days), which was mainly attributable to the increase of turnover rate in the cement segment. The average trade payable turnover days is calculated as the average opening and closing balances of trade payables divided by cost of sales for the year and multiplied by 365 days.

Contract Work-in-Progress

As at 31 December 2007, the Group's contract work-in-progress, calculated as the net of amounts due from customers for contract work and amounts due to customers for contract work, decreased by RMB138.22 million from RMB291.76 million as at 31 December 2006 to RMB153.54 million, which was mainly attributable to the completion of certain large-scale projects during the year as well as the speed-up of settlement with customers in certain projects.

Capital Expenditure

During the reporting period, capital expenditure amounted to RMB2,467.27 million, representing a decrease of RMB2,599.80 million as compared with the capital expenditure in 2006 of RMB5,067.07 million. On one hand, the increase of production lines in the cement and glass fiber segments led to increase in capital expenditure in 2007. During the year 2007, capital expenditures of the cement equipment and engineering services segment, glass fiber segment, cement segment and high-tech materials segment amounted to RMB289.20 million, RMB1,278.68 million, RMB623.52 million and RMB274.63 million respectively. These expenditures were mainly applied to the construction of production lines of CTG and Phase III of Taishan Fiberglass Zoucheng Co., Ltd. with an annual production capacity of 60,000 tons of glass fiber each, 5,000 tons per day clinker production line of Sinoma Zhuzhou Cement Co., Ltd, production line of 50,000 CNG cylinders per year of Sinoma Science & Technology as well as production line of 30,000 solar-energy fused silica crucibles per year of Sinoma Advanced Materials.

On the other hand, capital expenditure arising from the acquisition of subsidiaries decreased from RMB3,255.90 million in 2006 to RMB13.22 million in 2007, which was attributable to the substantial capital expenditure incurred by the acquisition of Tianshan Cement in 2006. These factors offset the above increase in capital expenditure and led to the decline in capital expenditure.

Material Investments

For the year ended 31 December 2007, the Group did not have any new material investments.

Material Acquisitions and Disposals of Assets

For the year ended 31 December 2007, the Group did not have any material acquisitions and disposals of assets.

Contingent Liabilities

	The Group 2007 (RMB million)	2006 (RMB million)
Outstanding proceeding or arbitration	**80.82**	69.47
Outstanding guarantee	**637.42**	506.00
	718.24	575.47

As at 31 December 2007, the Group was involved in a pending arbitration with respect to a cement construction contract. On 17 January 2008, an arbitration judgment in favor of the Group was awarded by the Shanghai branch of China International Economic and Trade Arbitration Committee.

Market Risks

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

Foreign Exchange Risks

The Company conducts its domestic business primarily in RMB, which is also its functional currency. However, overseas engineering business and export of products are denominated in foreign currencies, primarily US dollars. In addition, some of our RMB revenues have to be converted into foreign currencies to pay wages and purchase imported equipment and raw materials for overseas operations. Therefore, the Company has a certain level of exposure to foreign exchange fluctuations. During the year, the Company was exposed to foreign exchange rate risks in respect of the appreciation of RMB against US dollars and has actively mitigated such risk by various measures such as including fixed exchange rate provision in contracts for new projects, adjusting terms in response to the floating exchange rate, settling transactions in Euro, increasing purchases of foreign raw materials and equipments and increasing the amount of US borrowings. The Company will continue to strengthen the above measures in the future to effectively address the risks arisen from the fluctuation in exchange rate.

Interest Rate Risks

The Company is exposed to risks resulting from fluctuations in interest rates on our debt. The Company raises borrowings to support general corporate purposes, including capital expenditures and working capital requirements. The majority of the Group's borrowings are at floating interest rate subject to adjustment by our lenders in accordance with changes in the People's Bank of China regulations. In 2007, the People's Bank of China increased benchmark RMB lending interest rates for six times, resulting in a certain extent of increase in the Company's finance costs. Under the stringent national currency policy in 2008, continuous rise in interest rates is still possible. In order to mitigate the risks arising from the increase in RMB interest rate, the Company, to the extent possible, enters into borrowing contracts with fixed interest rates and longer terms. Meanwhile, taking advantage of the Group's overall edge, the Group strengths the cooperation with the banks to secure prime loans and optimizes the internal fund allocation to maintain reasonable capital structure and minimize the amount of bank borrowings. In addition, the Company would, where appropriate, increase the amount of foreign currency borrowings with lower interest rate (mainly US dollars) and reduces RMB borrowings.

Raw Materials and Energy Price Risks

The prices of raw materials, which are mainly steel and coal, and energy rose continuously since 2007. In 2008, prices continue to rise, exerting pressure on cost control of the Company. The Company will utilise optimised design to reduce the consumption of raw materials and incorporate compensation terms for rising price of major raw materials to the contracts. It will also increase its effort in technological improvement to reduce energy consumption and adjust its energy structure to reduce the cost of energy. Measures such as increasing effort in tendering and purchase and control in cost of purchase will be adopted to mitigate the risks arisen from the rising prices of raw materials and energy.

Biography of Directors, Supervisors and Senior Management

Executive Directors

TAN Zhongming, aged 54, is an executive Director and the Chairman of the Board. Mr. Tan has also served as the general manager of our Parent since October 2000. From March 2002 to July 2007, he served as the general manager of our predecessor, China National Non-Metallic Materials Corporation. Mr. Tan possesses in-depth knowledge as well as extensive managerial and operational experience in this industry. Mr. Tan has served in various key management positions such as the chief deputy head of Shandong Weifang Cement Factory and the chief deputy head of the Lunan Cement Factory (魯南水泥廠). From 1995 to October 2000, Mr. Tan has served a number of key government positions in the State Bureau of Building Materials Industry (國家建築材料工業局) such as the head of the production control and industry departments. Mr. Tan is also a director of three A Shares listed companies, namely, Sinoma International, Sinoma Science & Technology and Tianshan Cement, since December 2001, December 2004 and December 2006 respectively. Mr. Tan is entitled to a special government allowance provided by the State Council. He was awarded with the titles as Outstanding Entrepreneur in the National Building Materials Industry in 2004 and National Labour Model (全國勞動模範) in 2005. Mr. Tan also serves as vice president of China Building Materials Federation, president of China Building Materials Construction Society, vice president of China Cement Association and vice president of China Association of Construction Enterprise Management. Mr. Tan is the representative of the 13th People's Congress of Beijing Municipality. Mr. Tan graduated from Xi'an Jiaotong University (西安交通大學) in June 1999 with a doctoral degree in management studies and he is also a professorate senior engineer.

YU Shiliang, aged 53, is an executive Director and President of the Company. He served as the general manager of our Parent from April 1997 to October 2000 and served as the deputy general manager of our Parent from October 2002 to October 2007. Mr. Yu has worked over 28 years in the non-metal materials industry and therefore has gained extensive operational and managerial experience as well as in-depth knowledge of this field. Mr. Yu has served various positions in Xianyang Research & Design Institute of Ceramics (國家建材局咸陽陶瓷研究設計院) such as the deputy head and head of the institute since 1984 and served as the head of the Synthetic Crystals Research Institute (人工晶體研究所), currently a subsidiary of our Parent, from April 1995 to April 1997. Mr. Yu was also a director of Sinoma Science & Technology from December 2001 to December 2004 and from March 2008 to present. Mr. Yu is entitled to a special government allowance provided by the State Council. He was the fifth National Outstanding Entrepreneur in Innovation. In 1999 and 2007, he was awarded with the title as Top Ten News Figures in the PRC Building Materials Industry (全國建材行業十大新聞人物). Mr. Yu also serves as vice chairman of Chinese Ceramics Society and deputy director of the Information Committee of the China Enterprise Confederation. Mr. Yu was the representatives of the 16th and 17th National People's Congress of Communist Party. Mr. Yu graduated from Nanjing University of Technology (南京工業大學) in August 1978 majored in ceramics and he is also a professorate senior engineer.

Non-executive Directors

LIU Zhijiang, aged 50, is a non-executive Director of the Company. He serves as the deputy general manager of Parent since May 2005. Mr. Liu also serves as the chairman of the board of Sinoma International since April 2006. He has over 25 years of experience in the PRC non-metal materials industry. Mr. Liu has served a number of key positions in Tianjin Cement Institute, currently a subsidiary of Parent, since August 1982 such as deputy head and head of the institute. Mr. Liu is entitled to a special government allowance provided by the State Council. He was awarded with the titles as Provincial Young and Middle aged Expert with Important Contribution (省部級有突出貢獻的中青年專家), China Engineering Design Master and was included in the first group of national candidates for the New Century Hundred-Thousand-Ten Thousand Talents Project (新世紀百千萬人才工程). He also serves in various positions such as vice president of China Building Materials Federation, vice chairman of China Building Material Industry Science and Technology Education Committee, the vice president of China Cement Association and vice president of China Project Construction Association. Mr. Liu graduated from South China University of Technology (華南理工大學) in July 1982 majored in binding materials and is also a professorate senior engineer.

ZHOU Yuxian, aged 44, is a non-executive Director of the Company. He has also been serving as the deputy general manager of our Parent since October 2000. Mr. Zhou has over 20 years of experience in the PRC non-metal materials industry. Mr. Zhou has served a number of key positions in the Synthetic Crystals Research Institute (人工晶體研究所) since August 1983, such as the deputy head and head of the institute. Mr. Zhou is also a director of Sinoma Science & Technology since December 2001. Mr. Zhou is entitled to a special government allowance provided by the State Council. He also serves in various positions such as Standing Committee of the Youth Association of the State-owned Enterprises, the committee member of All-China Youth Federation, vice chairman of China Capital Entrepreneurs' Club and member of the Standing Committee of Chinese Youth Entrepreneurs' Association. Mr. Zhou graduated with a master degree in engineering from Wuhan University of Technology (武漢理工大學) in December 2003 and is qualified as a professorate senior engineer.

CHEN Xiaozhou, aged 45, is a non-executive Director of the Company. Mr. Chen also has served as vice president of Cinda since January 2003. He joined Cinda in August 1999 where he has served as assistant to president since September 2000. Prior to that, Mr. Chen worked at China Construction Bank and its predecessor as head of finance department of the international banking sector and deputy general manager of business operation sector from August 1988 to August 1999. Mr. Chen is currently chairman of the board of Well Kent and chairman of the board of Silver Grant International Industries Limited, a company listed on the Stock Exchange, since February 2006. Mr. Chen graduated from PBOC's Financial Research Institute (中國人民銀行總行金融研究所) in June 1988 with a master degree in currency banking.

Independent Non-executive Directors

YANG Yuzhong, aged 63, is an independent non-executive Director of the Company. He served various positions including the deputy chief engineer and head of the China Aero-Polytechnology Establishment (中國航空綜合技術研究所) from 1975 to 1992 and for China Aviation Industry HQ (中國航空工業總公司科技司) as the deputy director general of the technology sector and director general of the quality control department from October 1993 to June 1997. He was appointed as the deputy general manager of China Aviation Industry Corporation I (中國航空工業第一集團公司) from June 1997 to July 2006. Mr. Yang also served as chairman of the board of China Commercial Aircraft Co. Limited (中國商用飛機有限公司) from September 2002 to August 2006. Currently, he serves as a consultant to China Aviation Industry Corporation I and an independent non-executive director of China South Locomotive and Rolling Stock Corporation Limited (中國南車股份有限公司). Mr. Yang has extensive managerial experience for substantive periods in various enterprises. Mr. Yang was graduated from Beihang University (北京航空航天大學) in July 1967 majored in aircraft design and building.

ZHANG Lailiang, aged 60, is an independent non-executive Director of the Company. He has served various positions including the deputy general manager of Luzhong Metallurgy and Mining Group Corporation (冶金部魯中礦業公司) from February 1984 to June 1991. Mr. Zhang served as the director general of the economics control division and structural reform division of the Ministry of Metallurgy (冶金部) from June 1991 to October 2000. From October 2000 to August 2002, Mr. Zhang served as deputy director and head of the supervisory committee of the Office of Workers Committee of Central Enterprises (中央企業工委辦公廳). He has also served as vice chairman of the board of Xinxing Iron Pipes Group (新興鑄管集團有限公司) from August 2002 to July 2007. Mr. Zhang graduated from Shandong Metallurgical Institute of Technology (山東冶金學院) in July 1968 majored in civil construction and also holds a degree in management and engineering awarded by Xi'An University of Architecture and Technology (西安建築科技大學) in December 1983 and the Party School of the Central Committee of the Communist Party of China (CPC) (中共中央黨校) in December 1994, majored in economics and administration management.

ZHANG Qiusheng, aged 39, is an independent non-executive Director of the Company. Mr. Zhang is a certified tax counsel in the PRC and he has an in-depth knowledge in economics and accounting where he is appointed as the consultant in principles and rules in accounting of the China Accounting Standards Committee (財政部會計準則委員會) and a non-practising committee member of the China Accounting Association (中國會計學會). He is also an independent non-executive director for China Railway Tielong Container Logistics Co. Ltd (中鐵鐵龍集裝箱物流股份有限公司), a company listed on the Shanghai Stock Exchange since 2002, Luyin Investments Group Co. Ltd (魯銀投資集團股份有限公司), a company listed on the Shanghai Stock Exchange since 2004 and Yuyuan Holding Co. Ltd (玉源控股股份有限公司), a company listed on the Shenzhen Stock Exchange since 2002. He is also an external director of China Chengtong Group (中國誠通控股集團有限公司). Mr. Zhang graduated from Beijing Jiaotong University School of Economics and Management (北京交通大學經濟管理學院) in December 1992 where he holds a doctorate degree in economics and is currently a professor as well as tutor for doctorate candidates. He is also the director of the Centre of China Mergers and Acquisitions Research of Beijing Jiaotong University (北京交通大學中國企業兼併重組研究中心). Prior to that, Mr. Zhang was an accounting lecturer from December 1992 to December 1994, a deputy professor of the accounting department of the Beijing Jiaotong University (北京交通大學) from December 1994 to July 1997. He was also a senior visiting scholar of University of Colorado, USA from August 1996 to August 1997.

LEUNG Chong Shun, aged 42, is an independent non-executive Director of the Company. Mr. Leung has also been serving as an independent non-executive director of Lijun International Pharmaceutical (Holding) Co., Ltd, (利君國際醫藥(控股)有限公司) a company listed on the Stock Exchange since October 2005. Mr. Leung is a partner of Woo Kwan, Lee & Lo. (胡關李羅律師行), a reputable law firm based in Hong Kong. Mr. Leung has practiced law in Hong Kong since 1991 and was graduated from the University of Hong Kong in November 1988 where he was awarded a bachelor degree of Laws with honors. He is qualified as a solicitor in both Hong Kong and England.

Supervisors

XU Weibing, aged 48, is the Chairman of the supervisory committee of the Company. She has been serving as the chief accountant of our Parent since October 2000 and the deputy general manager of China National Non-Metallic Materials Corporation since 2005. She has over 25 years experience in extensive accounting and finance operations experience. Ms. Xu joined our Parent since 1989 and has served various key accounting and financial positions. Ms. Xu is entitled to a special government allowance provided by the State Council. She also serves as the committee member of China Association of Chief Financial Officers and deputy head of Accounting Committee of the National Building Materials Association (中國建材會計學會). Ms. Xu graduated from Dongbei University of Finance & Economics (東北財經大學) majored in finance in July 1983 and she is also a senior accountant.

WANG Baoguo, aged 52, is a Supervisor. He has been the deputy general manager of China National Non-Metallic Materials Corporation, since October 2004 as well as the chairman of the board of directors and general manager of Sinoma Jinjing. Mr. Wang has been working for the Shandong Economic Planning Commission (山東省計委) from 1981 to 1992. He has also served as the deputy mayor of Dongying City, Shandong Province (山東省東營市副市長) from December 1992 to October 2003. Mr. Wang graduated from the Party School of the Central Committee of the Communist Party of China (CPC) (中共中央黨校) majored in economics and management. He is a senior economist.

WANG Jijun, aged 49, is a Supervisor. Mr. Wang has been serving as the secretary of the board of directors and deputy general manager of CTG since 2001. Mr. Wang has worked in the PRC mining industry since 1982. He joined Taian Taishan Composite Materials Co., Ltd. (泰安泰山複合材料有限公司) in April 2000, since then, he has served a number of senior positions within the company including the deputy general manager and secretary of the board of directors until December 2001. Mr. Wang obtained a bachelor's degree in mining from Shandong Metallurgical Institute of Technology (山東冶金工業學院) in January 1982 and he is a senior economist.

WANG Jianguo, aged 51, is a Supervisor. Mr. Wang has been serving as director of BBMG since November 2005 and chairman of the labor union of BBMG and its predecessor, Beijing Building Material Group Corporation (北京建材集團總公司) since August 2000. Mr. Wang has also worked with Beijing Building Material Group Corporation as the operational manager and the vice president of the labor union from September 1995 to August 2000. Prior to that, he served as the deputy head of the factory in Beijing Ceramics Factory (北京市陶瓷廠) from March 1992 to September 1995. Mr. Wang graduated from Capital University of Economics and Business (首都經貿大學) in July 1987 and majored in Economics. He is an economist.

ZHANG Lirong, aged 51, is an employee representative supervisor of the Company. Ms. Zhang is also the president of Tianshan Cement since October 2004. She has served various positions in Xinjiang Cement Factory (新疆水泥廠) such as chief economist and deputy head of the factory from December 1975 to April 1995. Ms. Zhang has also been appointed as the deputy director-general and director-general of Xinjiang Administration of Construction Materials (新疆建材局) from May 1995 to September 1999. Ms. Zhang is a director of Tianshan Cement since 1998. She has served as chairman of the board of Tianshan Cement from October 1998 to October 2004. Ms. Zhang holds a law degree from Yunnan University (雲南大學) and is a senior economist.

WANG Wei, aged 51, is an employee representative Supervisor of the Company. Mr. Wang has been serving as the director and president of Sinoma International since December 2001. Mr. Wang joined our Parent since 1984 where he served as deputy head of the Nanjing Cement Industry Design & Research Institute (南京水泥工業設計研究院). Mr. Wang has also served as vice general manager and general manager of China National Non-Metallic Materials Corporation from June 2001 to March 2002. Mr. Wang graduated from Nanjing University of Technology (南京工業大學) majored in cement and he is a professorate senior engineer.

YU Xingmin, aged 52, is an employee representative Supervisor of the Company. He has been serving as vice president of Sinoma International and the chairman of the board as well as the general manager of TCDRI since August 2005 and November 2006, respectively. Mr. Yu worked in Tianjin Cement Institute as among other roles deputy head and head of the institute since February 1982. At present, Mr. Yu also serves as the vice president of China Federation of Building Materials Industries. Mr. Yu graduated from Harbin Institute of Technology (哈爾濱工業大學) majored in cement and is a professorate senior engineer.

Senior Management

YU Shiliang, please refer to the section headed "Executive Directors" for details.

LI Xinhua, aged 43, is a Vice President of the Company who is primarily responsible for the overall human resources management, business development and investment planning. Mr. Li has been serving as chairman of the board of directors of Sinoma Science & Technology since May 2003. He has over 20 years of experience in the non-metal materials industry. Mr. Li first joined Beijing FRP Research and Design Institute (北京玻璃鋼研究設計院), currently a subsidiary of our Parent, since August 1985 and has served various key positions such as vice president and president of the institute. Mr. Li is National Young and Middle aged Expert with Important Contribution (國家有突出貢獻的中青年專家) and is entitled to a special government allowance provided by the State Council. At present, Mr. Li also serves as vice president of China Building Materials Federation, vice president of Chinese Society for Composite Materials, president of China Composite Industry Association and vice chairman of China Building Material Industry Science and Technology Education Committee. Mr. Li graduated from Shandong Institute of Building Materials (山東建材學院) in July 1985 with a bachelor's degree in chemistry. He is a professorate senior engineer.

YU Mingqing, aged 44, is a Vice President of the Company who is primarily responsible for the management and operation of High-tech materials segment and information system within the Company. Mr. Yu also currently serves as the chairman of the board of Sinoma Advanced Materials since October 2004. Mr. Yu first has worked at Shangdong Industrial Ceramics Research and Design Institute (山東工業陶瓷研究設計院), currently a subsidiary of our Parent, from July 1989 to April 2001, where he served various key positions such as vice president and president of the institute. Mr. Yu has also served as the head of Sinoma Synthetic Crystals Research Institute (中材人工晶體研究院) from May 2001 to October 2004 and Vice President of China National Non-Metallic Materials Corporation from October 2004. Mr. Yu has been involved in the production, operation and management of non-metal materials for over 15 years and has accumulated rich knowledge of the industry. He graduated from Wuhan University of Technology (武漢理工大學) in January 2003 majored in materials and holds a doctorate degree. He is also a professorate senior engineer.

GU Chao, aged 47, is the Vice President of the Company who is primarily responsible for the production operation of the Cement equipment and engineering services segment, the production safety control and management of environmental matters. He has served as a deputy general manager of China National Non-Metallic Materials Corporation since September 2000. Mr. Gu first joined China Building Materials Industry Construction Corporation (中國建築材料工業建設總公司), our predecessor since 1989 where he has served various senior managerial positions in the production, business development and foreign engineering departments. Mr. Gu has over 25 years of work experience in the non-metal materials industry and he has profound understanding of this industry in China. Mr. Gu graduated from Xi'an University of Architecture and Technology (西安冶金建築學院) in July 1982 majored in constructions and he is also a senior engineer.

SU Kui, aged 45, is the Vice President and Company Secretary who is primarily responsible for assisting directors to handle daily duties of the Board of Directors and assisting directors and president to comply with both domestic and foreign law, regulation, articles of association and other relevant requirements when exercising their authority. He is also in charge of coordination of information disclosure, maintaining investor relations and organization of financing in capital market. Mr. Su has been serving as the deputy general manager of the China National Non-Metallic Materials Corporation since March 2002 Mr. Su has extensive experience in enterprise production, operation and management, and has more than 20 years of experience in the non-metals materials industry. He joined our Parent since 1987 and has held numerous positions such as manager of the general planning division and the manager of finance department, respectively and assistant of general manager of the corporation. Mr. Su graduated from Wuhan University of Technology (武漢理工大學) in July 1984 majored in non-metals mining and is a senior engineer.

JIN Leyong, aged 53, is the Vice President of the Company who is primarily responsible for the management of the overall general and daily operation and all legal related matters of the Company. He served as a Vice President in China National Non-Metallic Materials Corporation since December 2005. Before taking on this office, Mr. Jin has held various positions such as assistant engineer, engineer, department head and assistant of the president of Tianjin Cement Institute from January 1982 to June 1992. Mr. Jin then joined China Nongfang North Corporation (中國農房華北公司) and served as the deputy general manager and general manager from June 1992 to October 1999. Mr. Jin was then appointed as the deputy chief bureau of State Building Materials Bureau Retirement Department (國家建材局離退休幹部局) from October 1999 to October 2001. Mr. Jin first joined our Parent in October 2001 and has served in various subsidiaries of our Parent holding senior managerial positions such as deputy vice president of China Building-Materials Industrial Corporation for Foreign Econo-Technical Cooperation and President of Beijing FRP Research and Design Institute. Mr. Jin has over 25 years of experience in the building materials industry. He graduated from Wuhan University of Technology (武漢理工大學) in January 1982 with a bachelor's degree in constructions and is a professorate senior engineer.

SUI Yumin, aged 43, is the Vice President of the Company who is primarily responsible for the overall management of business and production operations of the cement segment. Before Mr. Sui joined the Group in August 2003, he held various positions in Lunan Cement Factory (魯南水泥廠) such as deputy chief engineer and deputy general manager from August 1986 to August 2003. He worked as the deputy general manager of Sinoma Cement and the chairman and general manager of Sinoma Hanjian from August 2003 to September 2004. Subsequently he served as the deputy general manager and executive deputy general manager for Tianshan Cement until July 2007. Mr. Sui has extensive work experience in the cement industry of over 20 years. Mr. Sui graduated from Shandong Institute of Building Materials (山東建材學院) in July 1986 majored in cement constructions and is a senior engineer.

ZHANG Zhifa, aged 54, is the Vice President of the Company who is primarily responsible for the overall management of business and production operations of the glass fiber sector and is the chairman of the board of CTG since January 2002. Mr. Zhang has over 25 years in the non-metal materials industry. Mr. Zhang first joined the Group in July 2007 and prior to that he worked for Taian Dongping Cement Factory (泰安市東平水泥廠) as deputy head and head of the factory from January 1978 to June 1986. Since then Mr. Zhang worked in Taian Building Materials Bureau (泰安市建材工業局) until 1999 serving various positions such as deputy head. He also served as the chairman of the board and general manager of Taian Taishan Composite Materials Co., Ltd. (泰安市泰山複合材料有限公司) from June 2000 to December 2001. At present, he also serves as the vice president of China Building Materials Federation. Mr. Zhang was a representative of the 11th National People's Congress. He graduated from Nanjing University of Technology (南京工業大學) in January 1978 majored in silicate materials and is a professorate senior engineer.

LIU Biao, aged 41, is the Chief Financial Officer of the Company who is primarily responsible for financial planning, budgeting, accounting, auditing, treasury management. Mr. Liu joined Hunan Bureau of the General Administration of Civil Aviation of China (民航湖南省管理局) and worked as an accountant in the finance department and deputy director from July 1987 to August 1992. Mr. Liu subsequently joined China Southern Airlines Company Limited (中國南方航空股份有限公司) and held key finance related positions such as the deputy financial supervisor from August 1992 to June 1998. Mr. Liu also served various senior managerial and supervising positions such as head of the auditing department and deputy chief supervisor of the supervisory bureau in China Southern Air Holding Company (中國南方航空集團公司) and its subsidiaries from June 1998 to August 2007. He graduated from Hunan College of Finance & Economics (湖南財經學院) in October 1990 majored in accounting and was awarded a master degree in business administration by Wuhan University (武漢大學) in June 2007. Mr. Liu is a qualified accountant and a member of the Chinese Institute of Certified Public Accountants.

CHAN Wing Hang, aged 30, is the financial controller, company secretary and Qualified Accountant of the Company who is primarily responsible for the financial accounting, company secretarial and compliances functions. He is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company, Mr. Chan worked in various Hong Kong Main Board listed companies, he has served as positions including Qualified Accountant and Company Secretary. Mr. Chan has served as the assistant financial controller and company secretary of Western Mining Co., Ltd. (西部礦業股份有限公司), a company which issued and listed its A shares on Shanghai Stock Exchange in July 2007, who managed its compliance, company secretarial and accounting units. Mr. Chan has extensive experience in accounting, finance, compliance, project financing and raising of capital. He graduated from City University of Hong Kong (香港城市大學) in November 1999 with a degree of Bachelor of Business Administration (Honours) in Accountancy.

Directors' Report

The Board of Directors (the "Board") is pleased to present the annual report, together with the audited financial statements of the Group for the year ended 31 December 2007.

Principal Business

The Group is principally engaged in the cement equipment and engineering services, glass fiber, cement and high-tech materials business. Details of the activities of the Company's principal subsidiaries are set out in note 48 of the financial statements.

Results

The results of the Group for the year ended 31 December 2007 and the financial position of the Group as at 31 December 2007 are set out in the audited financial statements of this annual report.

Initial Public Offering

The Company's H shares were listed on the main board of the Stock Exchange of Hong Kong Limited on 20 December 2007 through the issuance of 931,708,000 Shares at the offer price of HK$4.50 per Share in its Hong Kong Public Offering and International Placing and the net proceeds were approximately RMB3,675.85 million.

Share Capital

As at 31 December 2007, prior to the exercise of the over-allotment right of the initial public offering, the total share capital of the Company was RMB3,431,708,000, which was divided into 3,431,708,000 shares of RMB1.00 each. After the over-allotment right was exercised on 3 January 2008, the total share capital of the Company was RMB3,571,464,000, divided into 3,571,464,000 shares of RMB1.00 each. The share capital structure of the Company was as follows:

	As at 31 December 2007		**As at 22 April 2008**	
Type of Shares	Number of Shares	Percentage to the total issued share capital	**Number of Shares**	**Percentage to the total issued share capital**
Domestic shares	2,288,611,885	66.69%	**2,276,522,667**	**63.74%**
Foreign Shares				
Non-listed shares	130,793,218	3.81%	**130,793,218**	**3.66%**
H Shares	1,012,302,897	29.50%	**1,164,148,115**	**32.60%**
Total	3,431,708,000	100%	**3,571,464,000**	**100%**

Dividends

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2007, except for Special Distribution and Special Dividend, details of which are set out in note 40 of the financial statements.

Public Shareholding

On the date of this annual report, based on the public information available to the Company and as far as the Directors are aware, the Company fulfilled the requirements of Rule 8.08 of the Listing Rules.

Directors and Supervisors

Certain information concerning the Directors and Supervisors of the Company as at the date of this annual report is set out as below:

Name	Position	Gender	Age	Term
TAN Zhongming	Chairman of the Board of Directors and Executive Director	M	54	26 July 2007 to 25 July 2010
YU Shiliang	Executive Director and President	M	53	26 July 2007 to 25 July 2010
LIU Zhijiang	Non-executive Director	M	50	26 July 2007 to 25 July 2010
ZHOU Yuxian	Non-executive Director	M	44	26 July 2007 to 25 July 2010
CHEN Xiaozhou	Non-executive Director	M	45	26 July 2007 to 25 July 2010
YANG Yuzhong	Independent Non-executive Director	M	63	26 July 2007 to 25 July 2010
ZHANG Lailiang	Independent Non-executive Director	M	60	26 July 2007 to 25 July 2010
ZHANG Qiusheng	Independent Non-executive Director	M	39	26 July 2007 to 25 July 2010
LEUNG Chong Shun	Independent Non-executive Director	M	42	26 July 2007 to 25 July 2010
XU Weibing	Chairman of Supervisory Committee	F	48	26 July 2007 to 25 July 2010
WANG Baoguo	Supervisor	M	52	26 July 2007 to 25 July 2010
WANG Jijun	Supervisor	M	49	26 July 2007 to 25 July 2010
WANG Jianguo	Supervisor	M	51	26 July 2007 to 25 July 2010
ZHANG Lirong	Supervisor	F	51	26 July 2007 to 25 July 2010
WANG Wei	Supervisor	M	51	26 July 2007 to 25 July 2010
YU Xingmin	Supervisor	M	52	26 July 2007 to 25 July 2010

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

The biography of the Directors' and Supervisors' of the Company is set out in the section of "Biography of Directors, Supervisors and Senior Management".

Disclosure of Interests

Directors', Supervisors' and Chief Executives' interests in the Company's Shares, Underlying Shares and Debenture and short positions in Shares

As at 31 December 2007, no Director, Supervisor or Chief Executive of the Company has any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance), which were required to be notified to the Company and the Stock Exchange of Hong Kong pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests or short positions which they were taken or deemed to have under such provisions of the Securities and Futures Ordinance) or which were required, pursuant to Section 352 of the Securities and Futures Ordinance, to be entered into the register maintained under such provisions or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange of Hong Kong.

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

During the year, no right to subscribe the shares in or debentures of the Company or any of its associated corporations was granted by the Company to any Director, Supervisor or Chief Executive of the Company or their respective spouse or children aged under 18, and any such rights to subscribe the above shares or debentures were not exercised by them.

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

As at 31 December 2007, according to the register required to be maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance, the following persons, other than the Directors, Supervisors and Chief Executives of the Company, had registered an interest or short position in the shares or underlying shares of the Company that was required to be disclosed pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance:

Name	Type of Shares	Nature of interests	Number of Shares interested	Percentage to the respective class of issued shares	Percentage to the total share capital
China National Materials Group Corporation	Domestic shares	Long positions	1,503,649,884	65.7%	43.82%
China Cinda Asset Management Corporation	Domestic shares	Long positions	319,788,108	13.97%	9.32%
Taian State-owned Assets Management Co., Ltd.	Domestic shares	Long positions	311,700,035	13.62%	9.08%
Well Kent International Holdings Company Limited	Unlisted foreign shares	Long positions	130,793,218	100%	3.81%
UBS AG	H shares	Long positions	150,992,000	14.92%	4.07%
		Short positions	66,666,000	6.59%	2.91%
Bank of China Limited	H shares	Long positions	139,756,000	13.81%	4.07%
		Short positions	99,999,000	9.88%	2.91%

Disclosure of Interests *(Continued)*

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares *(Continued)*

Name	Type of Shares	Nature of interests	Number of Shares interested	Percentage to the respective class of issued shares	Percentage to the total share capital
BOC International Holdings Limited	H shares	Long positions	139,756,000	13.81%	4.07%
		Short positions	99,999,000	9.88%	2.91%
BOCI Asia Limited	H shares	Long positions	139,756,000	13.81%	4.07%
		Short positions	99,999,000	9.88%	2.91%
Central SAFE Investments Limited	H shares	Long positions	139,756,000	13.81%	4.07%
		Short positions	99,999,000	9.88%	2.91%
The National Council for Social Security Fund	H Shares	Long positions	80,594,897	7.96%	2.35%
Northern Trust Fiduciary Services (Ireland) Limited	H Shares	Long positions	56,086,243	5.54%	1.63%
Baring Asset Management Limited	H Shares	Long positions	57,246,000	5.66%	1.67%

Save as disclosed above, there was no other person or company with interests or short positions in the shares and underlying shares of the Company which would be recorded in the register of the Company required to be kept under section 336 of the SFO.

Major Customers and Suppliers

The consolidated turnover from the five largest customers of the Group accounted for less than 30% of the Group's total turnover in 2007. The consolidated total purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases in 2007.

Purchase, Sale and Repurchase of the Company's Shares

From the date of listing to 31 December 2007, the Company did not redeem any of its shares and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares.

Property, Plant and Equipment

For the year ended 31 December 2007, the additions of property, plant and equipment of the Group amounted to RMB2,236.17 million. Details of these movements are set out in note 7 to the financial statements.

Reserve

Details about the movement of the Group's reserve during the year is set out in the "Consolidated Statement of Changes in Equity" of this annual report.

Employee

As at 31 December 2007, the number of employees of the Group was 26,794.

Remuneration Policy

The Company has set up the Remuneration Committee under the Board, which is responsible for formulating remuneration policy and determining and administrating the emoluments of the Executive Directors and Chief Executives of the Company. The Remuneration Committee under the Board of Directors is responsible for formulating the remuneration policy and remuneration package for the Executive Directors and Senior Management of the Company in accordance with its written terms of reference. The remuneration of the Executive Directors of the Company was determined and realized according to the directors' service agreements as approved in the general meeting and the operating results of the Company. The remuneration of the Supervisors of the Company was determined and realized according to the supervisors' service agreements as approved in the general meeting. According to the remuneration package of the senior management, the senior management of the Company received annual remuneration. Their annual remuneration package included basic salary and performance-linked bonus. Basic salary was paid monthly and bonus was determined by the Remuneration Committee.

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

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

As required by the state and local labour and social benefit laws and regulations, the Company contributed to certain housing reserve and social insurance premiums for its employees. Insurance premiums are paid for retirement insurance, medical insurance, unemployement insurance, maternity insurance and employment injury insurance. In Beijing, as required by the prevailing and applicable local rules, the Company's contributions to retirement insurance, medical insurance, unemployement insurance, employment injury insurance, maternity insurance and housing fund shall account for 20%, 10%, 1.5%, 0.4%, 0.8% and 12% of the total basic monthly salary of the employee (prior to July 2007, the contribution to housing fund as required by the local rules in Beijing shall account for 10% of the employee salary).

Retirement Plan of the Staff

Details are set out in note 34 to the financial statements.

Share Appreciation Rights Plan

To motivate and award the senior management team and other major members of the Company, the Company intends to adopt a share appreciation rights plan.

Currently, the Company has devised the share appreciation rights plan, which has been approved and passed in the ninth meeting held by the first session of the Board of the Company and is subject to the approval of the PRC government.

The Company plans to submit the Share Appreciation Rights Plan to the General Meeting of the Company for its approval before 31 December 2008.

Directors' and Supervisors' Remunerations

Details of the remunerations of the Directors and Supervisors of the Company are set out in note 41 to the financial statements.

During the reporting period, no Director or Supervisor of the Company gave up any remuneration arrangement of the Company.

Service Contracts with Directors and Supervisors

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

Directors' and Supervisors' Interests in Contract

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

Management Contract

During the year, the Company has not signed or held any contracts concerning the management of the general business or any major business segments of the Company.

Connected Transactions

The major connected transactions of the Group during 2007 are as follows:

Connected Transactions in relation to Reorganization

I. *Non-competition Agreement*

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

For the year ended 31 December 2007, no Directors of the Company, including Independent Non-executive Directors, has made any decision to exercise the options.

II. *Reorganization Agreement*

The Company entered into the Reorganization Agreement with Parent and other four promoters on 1 August 2007. Pursuant to the Reorganization Agreement, the Reorganization took effect from 31 July 2007 and each of the promoters who has entered into the Reorganization Agreement agreed to indemnify the Company against, among other things:

(i) all claims incurred in connection with or arising from the breach of any provisions of the Reorganization Agreement on the part of the promoters;

(ii) all claims incurred in connection with or arising from the assets and liabilities retained by or transferred to the promoters in accordance with the Reorganization Agreement;

(iii) all claims incurred in connection with or arising from the assets and liabilities which have been transferred to us pursuant to the Reorganization Agreement arising on or before 31 July 2007, the effective date of the Reorganization; and

(iv) all taxes payable in respect of the assets which have been transferred to us pursuant to the Reorganization Agreement arising on or before 31 July 2007, the effective date of the Reorganization.

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions

The Group has entered into certain Non-exempted continuous connected transactions. The table below has set out the annual cap of transaction amount and the actual transaction amount of such transactions:

		Expenditure		**Revenue**	
		Actual amount (RMB million)	**Cap (RMB million)**	**Actual amount (RMB million)**	**Cap (RMB million)**
Leasing of property	(1)	16.942	17.182	–	–
Mutual Supply of Equipment and Parts, Provision of Maintenance, Repair and Installation Services Agreement with Parent Group	(2)	5.975	7.906	47.557	70.713
Provision of Cement Equipment and Engineering Services Agreements	(3)	–	–	192.959	262.120
Mutual Supply of Raw Materials, Products and Services Agreement with Hengda Hongkong Group	(4)	58.520	85.910	42.299	68.000
Mutual Comprehensive Services Agreement with Parent Group	(5)	27.586	59.646	21.908	6.574
Mutual Supply of Raw Materials and Products Agreement with Tianshan Group	(6)	26.204	–	5.155	–
Mutual Supply of Products and Services Agreement between CTG and Shandong Taishan Composite Materials Co., Ltd.	(7)	73.235	–	27.991	–
Surplus Energy Electricity Generation Sub-contract between TCDRI and CEC	(8)	92.656	–	–	–

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(1) Leasing of Property

The members of the Group have entered into the following leasing agreements with the connected persons of the Company:

(a) Leasing of Land

	Address	Contracting parties	Approximate gross floor area (sqm)	Intended use	Annual rental	Term
i	Eastern side of Huju Road, western side of Hanximen Da Street and southern side of Hanzhong Road Baixia District Nanjing Jiangsu Province The PRC	Landlord: Nanjing Cement Industry Design and Research Institute (南京水泥工業設計研究院), a wholly owned subsidiary of Parent Tenant: Sinoma International, a 53.31% subsidiary of the Company	1,576	Office	RMB641,549	1/1/2007 – 31/12/2009
ii	No. 87 Jianshe Da Street Fuxing District Handan Hebei Province The PRC	Landlord: China Building Materials Industry Construction Handan Engineering Co. (中國建築材料工業建設邯鄲安裝工程公司), a wholly owned subsidiary of Parent Tenant: Handan Technology and Equipment Branch Co. of Sinoma International Engineering Co,. Ltd. (中材國際工程股份有限公司邯鄲技術裝備分公司), a branch of Sinoma International, which is a subsidiary of which the Company holds 53.31% interests	20,239.2	Production	RMB505,980	1/7/2003 – 30/6/2022
iii	Southern side of Jidong Cement Plant Linyin Road Fengrun District Tangshan Hebei Province The PRC	Landlord: China Building Materials Industry Construction Tangshan Engineering Co. (中國建築材料工業建設唐山安裝工程公司), a wholly owned subsidiary of Parent Tenant: Sinoma International Engineering Co., Ltd. Tangshan Technology and Equipment Branch (中材國際工程股份有限公司唐山技術裝備分公司), a branch of Sinoma International, which is a subsidiary of which the Company holds 53.31% interests	34,159.97	Production	RMB853,999	30/12/2002 – 29/12/2022

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(1) Leasing of Property (Continued)

(a) Leasing of Land *(Continued)*

	Address	Contracting parties	Approximate gross floor area (sqm)	Intended use	Annual rental	Term
iv	No. 7 Xingfu Road Fengrun District Tangshan Hebei Province The PRC	Landlord: China Building Materials Industry Construction Tangshan Engineering Co. (中國建築材料工業建設唐山安裝工程公司), a wholly owned subsidiary of Parent Tenant: CBMI Construction Co., Ltd. (中材建設有限公司), an indirectly held subsidiary of the Company, which is held as to 76.58% by Sinoma International	5,009	Office	RMB125,225	1/1/2003 – 31/12/2022
v	Gongye Street North and Baojue Street West Zhangpu Town Kunshan Jiangsu Province The PRC	Landlord: China Building Materials Industry Construction Suzhou Engineering Co. (中國建築材料工業建設安裝工程公司), a wholly owned subsidiary of Parent Tenant: Sinoma (Suzhou) Construction Co., Ltd. (蘇州中材建設有限公司), an indirectly held subsidiary of the Company, which is held as to 44.49% by Sinoma International and 37.42% by CBMI Construction Co., Ltd., which is a 76.58% subsidiary of Sinoma International	36,000	Production	RMB400,000	1/1/2007 – 31/12/2009
vi	No. 331 Xinhong Road Chenghua District Chengdu Sichuan Province The PRC	Landlord: Chengdu Cement Industry Design and Research Institute (成都水泥工業設計研究院), a wholly owned subsidiary of Parent Tenant: Chengdu Design and Research Institute of Building Materials Industry Co., Ltd. (成都建築材料工業設計研究院有限公司), an indirectly held subsidiary of the Company, which is held as to 53.12% by Sinoma International	841.5	Office	RMB134,640	1/1/2003 – 31/12/2022

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(1) Leasing of Property (Continued)

(a) Leasing of Land *(Continued)*

	Address	Contracting parties	Approximate gross floor area (sqm)	Intended use	Annual rental	Term
vii	No. 5 Xisan Lane Liuquan Road Zhangdian District Zibo Shandong Province The PRC	Landlord: Shandong Research and Design Institute & Industrial Ceramics (山東工業陶瓷研究設計院), a wholly owned subsidiary of Parent Tenant: Sinoma Advanced Materials, a subsidiary of which the Company holds 94.49% interests	1908.23	Production	RMB47,743.2	25/12/2000 – 30/11/2020
viii	No. 18 Luoqiao Road Shangrao Jiangxi Province The PRC	Landlord: Shangrao Automobile Maintenance Plant of China Building Material Industry Construction Co. (中國建築材料工業建設總公司上饒汽車修理廠), a wholly owned subsidiary of Parent Tenant: Sinoma Shangrao, a wholly owned subsidiary of the Company	1,980	Production	RMB23,760	1/4/2007 – 31/3/2010
ix	No. 6 Tunbei Road Changji Xinjiang Uygur Autonomous Region The PRC	Landlord: COFCO Xinjiang Tunhe Holdings Co., Ltd. (中糧新疆屯河股份有限公司), a substantial shareholder of Xinjiang Tunhe Cement Co., Ltd. (新疆屯河水泥有限責任公司) Tenant: Xinjiang Tunhe Cement Co., Ltd. (新疆屯河水泥有限責任公司), an indirectly held subsidiary of the Company, which is held as to 51% by Tianshan Cement	411,697	Production	RMB1,000,000	30/9/2000 – 30/9/2040

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(1) Leasing of Property (Continued)

(b) Leasing of Buildings

	Address	Contracting parties	Approximate gross floor area (sqm)	Intended use	Annual rental	Term
i	No. 11 Beishuncheng Street Xizhimennei Xicheng District Beijing The PRC	Landlord: Geological Exploration Centre, which is wholly owned by Parent Tenant: The Company	3,931.98	Office	RMB4,449,035.37	1/7/2007 – 30/6/2010
ii	Eastern side of Huju Road, western side of Hanximen Street and southern side of Hanzhong Road Baixia District Nanjing Jiangsu Province The PRC	Landlord: Nanjing Cement Industry Design and Research Institute (南京水泥工業設計研究院), a wholly owned subsidiary of Parent Tenant: Sinoma International, a 53.31% subsidiary of the Company	1,604.27	Office	RMB1,011,859.2	1/1/2007 – 31/12/2009
iii	Gongye Street North and Baojue Street West Zhangpu Town Kunshan Jiangsu Province The PRC	Landlord: China Building Materials Industry Construction Suzhou Engineering Co. (中國建築材料工業建設安裝工程公司), a wholly owned subsidiary of Parent Tenant: Sinoma (Suzhou) Construction Co., Ltd. (蘇州中材建設有限公司), an indirectly held subsidiary of the Company, which is held as to 44.49% by Sinoma International and 37.42% by CBMI Construction Co., Ltd., which is a 76.58% subsidiary of Sinoma International	6,498.8	Production	RMB800,000	1/1/2007 – 31/12/2009

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(1) Leasing of Property (Continued)

(b) Leasing of Buildings *(Continued)*

	Address	Contracting parties	Approximate gross floor area (sqm)	Intended use	Annual rental	Term
iv	Levels 6, 7, 8 Kunshan Bolu Building No. 2 Qianjin Road West Kunshan Jiangsu Province The PRC	Landlord: China Building Materials Industry Construction Suzhou Engineering Co. (中國建築材料工業建設蘇州安裝工程公司), a wholly owned subsidiary of Parent Tenant: Sinoma (Suzhou) Construction Co., Ltd. (蘇州中材建設有限公司), an indirectly held subsidiary of the Company, which is held as to 44.49% by Sinoma International and 37.42% by CBMI Construction Co., Ltd., which is a 76.58% subsidiary of Sinoma International	1196.1	Office	RMB698,522.4	1/1/2007 – 31/12/2007
v	Levels 1, 2, 3 No. 87 Jianshe Da Street Fuxing District Handan Hebei Province The PRC	Landlord: China Building Materials Industry Construction Handan Engineering Co. (中國建築材料工業建設邯鄲安裝工程公司), a wholly owned subsidiary of Parent Tenant: 中材國際工程股份有限公司邯鄲技術裝備分公司, an indirectly held subsidiary of our Company, which is held as to 82.43% by CBMI Construction Co., Ltd., which is a 76.58% subsidiary of Sinoma International	1,560	Office	RMB393,120	1/1/2003 – 31/12/2012
vi	Room 715 and 717 No. 718 Sanxiang Road Suzhou Jiangsu Province The PRC	Landlord: Suzhou Sinoma Architecture and Building Materials Design Research Institute Co., Ltd. (蘇州中材建築建材設計研究院有限公司), an indirectly held subsidiary of the Company, which is held as to 60.98% by Sinoma International Tenant: Suzhou Gongming Construction Supervision Co., Ltd. (蘇州公明建設監理有限公司), which is held as to 50.98% by Suzhou Sinoma Architecture and Building Materials Design Research Institute Co., Ltd. (蘇州中材建築建材設計研究院有限公司) and 49.02% by Suzhou Concrete and Cement Product Research Institute (蘇州混凝土水泥製品研究院), which is wholly owned by Parent	75	Office	RMB18,000	1/1/2007 – 31/12/2009

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(1) Leasing of Property (Continued)

(b) Leasing of Buildings *(Continued)*

	Address	Contracting parties	Approximate gross floor area (sqm)	Intended use	Annual rental	Term
vii	Levels 1, 11 and 12 No. 331 Xinhong Road Chenghua District Chengdu Sichuan Province The PRC	Landlord: Chengdu Cement Industry Design and Research Institute (成都水泥工業設計研究院), which is wholly owned by Parent Tenant: Chengdu Design and Research Institute of Building Materials Industry Co., Ltd. (成都建築材料工業設計研究院有限公司), an indirectly held subsidiary of the Company, which is held as to 53.12% by Sinoma International	2,500	Office	RMB1,020,000	1/1/2007 – 31/12/2009
viii	No. 1 Yinheli Bei Road Beichen District Tianjin The PRC	Landlord: Tianjin Cement Institute, which is wholly owned by Parent Tenant: TCDRI, an indirectly held subsidiary of the Company, which is held as to 93% by Sinoma International	9,792.2	Production, office and dormitory	RMB2,201,664	1/7/2007 – 31/12/2009
ix	Level 2, East Wing (not including Room 2101) No. 11 Beishuncheng Street Xizhimennei Xicheng District Beijing The PRC	Landlord: Geological Exploration Centre, which is wholly owned by Parent Tenant: Sinoma Science & Technology, a 47.67% subsidiary of the Company	590	Office	RMB538,375	1/4/2006 – 31/3/2008
x	No. 30 Ande Lane Nanjing Jiangsu Province The PRC	Landlord: Nanjing Fibreglass Research and Design Institute (南京玻璃纖維研究設計院), which is wholly owned by Parent Tenant: Sinoma Science & Technology (中材科技), a 47.67% subsidiary of the Company	29,122.87	Production, office, warehouse and garage	RMB2,504,600	1/1/2006 – 31/12/2008

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(1) Leasing of Property (Continued)

(b) Leasing of Buildings *(Continued)*

	Address	Contracting parties	Approximate gross floor area (sqm)	Intended use	Annual rental	Term
xi	Office, various production workshops and warehouses located at Southern side of Kangzhuang Town Yanqing County Beijing The PRC	Landlord: Beijing FRP Research and Design Institute (北京玻璃鋼研究設計院), which is wholly owned by Parent Tenant:: Beijing FRP Research and Design Institute Co., Ltd. (北京玻璃鋼複合材料有限公司), an indirectly held subsidiary of the Company, which is held as to 80% by Sinoma Science & Technology	27,748.38	Offic, production and warehouse	RMB716,541.54	15/12/2005 – 14/12/2025
xii	Level 4 No. 999 Sanxiang Road Suzhou Jiangsu Province The PRC	Landlord: Suzhou Design and Research Institute of Non-Metallic Minerals Industry (蘇州非金屬礦工業設計研究院), which is wholly owned by Parent Tenant: Suzhou Sinoma Design & Research Institute of Non-metallic Minerals Industry Co., Ltd. (蘇州中材非金屬礦工業設計研究院有限公司), an indirectly held subsidiary of the Company, which is held as to 75% by Sinoma Science & Technology	420	Office	RMB201,600	1/1/2006 – 31/12/2010
xiii	No. 5 Xisan Lane Liuquan Road Zhangdian District Zibo Shandong Province The PRC	Landlord: Shandong Research and Design Institute & Industrial Ceramics (山東工業陶瓷研究設計院), which is wholly owned by Parent Tenant: Sinoma Advanced Materials, a 94.49% subsidiary of the Company	1,130	Office	RMB144,749.72	25/12/2000 – 24/12/2020
xiv	Level 3 of Office Building and Levels 2 to 4 of Research Centre No. 1 Hongsongyuan Chaoyang District Beijing The PRC	Landlord: Sinoma Synthetic Crystals Research Centre (中材人工晶體研究院), which is wholly owned by Parent Tenant: Beijing Sinoma Synthetic Crystals Co., Ltd. (北京中材人工晶體有限公司), an indirectly held subsidiary of the Company, which is held as to 76.67% by Sinoma Advanced Materials	4,200	Office and production	RMB330,000	12/9/2005 – 12/8/2025

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(1) Leasing of Property (Continued)

(b) Leasing of Buildings *(Continued)*

	Address	Contracting parties	Approximate gross floor area (sqm)	Intended use	Annual rental	Term
xv	Room 2101, No. 11 Beishuncheng Street Xizhimennei Beijing The PRC	Landlord: Geological Exploration Centre, which is wholly owned by Parent Tenant: Sinoma Cement, a wholly owned subsidiary of the Company	93.32	Office	RMB85,154.5	1/10/2005 – 31/12/2007
xvi	No. 18 Luoqiao Road Shangrao Jiangxi Province The PRC	Landlord: Shangrao Automobile Maintenance Plant of China Building Material Industry Construction Co. (中國建築材料工業建設總公司上饒汽車修理廠), which is wholly owned by Parent Tenant: Sinoma Shangrao, a wholly owned subsidiary of the Company	3,863.8	Production	RMB176,189	1/4/2007 – 31/3/2010

Under the Listing Rules, the counterparties to the transactions set out in the above table are the connected persons of the Company.

The lease listed as item (b)(xii) above is for a term of five years, the lease listed as item b(v) is for a term of ten years, the leases listed as item (a)(ii), (a)(iii), (a)(iv), (a)(vi), a(vii), (b)(xi), (b)(xiii) and (b)(xiv) above are for a term of approximately 20 years, and the lease listed as item (a)(ix) is for a term of approximately 40 years. For items (a)(ii), (a)(iv) and (a)(vi), according to the internal restructuring of the respective company, the respective building ownership rights were transferred to the respective tenants, but the respective land use rights remained with the landlord. Therefore, to maintain the stability of the businesses of the respective tenants, a long term land lease was entered into between the parties. For items (a)(iii), (a)(vii), (b)(v), (b)(xi), (b)(xii), (b)(xiii) and (b)(xiv), a long term lease agreement was entered into between the parties to maintain the stability of the operations of the Group. We believe that the long term lease period enables the Group to secure relatively more favourable rental rates, to avoid unnecessary disruption of the Group's operations and to minimize relocation costs.

For the year ended 31 December 2007, the cap on the aggregate rents payable by the Group to its connected persons for 2007 under the respective lease agreements listed in the table above was approximately RMB17.182 million and the actual rental expense incurred for such properties was approximately RMB16.942 million in aggregate.

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(2) *Mutual Supply of Equipment and Parts, Provision of Maintenance, Repair and Installation Services Agreement with Parent Group*

The Company entered into an agreement for the mutual supply of equipments and parts, provision of maintenance, repair and installation services ("Mutual Supply of Equipment and Parts, Provision of Maintenance, Repair and Installation Services Agreement with Parent Group") with Parent on 23 November 2007, whereby the Group agreed to provide to Parent Group cement production equipment, parts and concrete production equipment parts, whereas Parent Group agreed to provide to the Group cement production equipment parts. Moreover, Tianshan Group had been supplying cement production equipment parts and providing maintenance, repair and installation services for cement plants and equipment to the Group prior to the Reorganization and will continue to do so after the Listing. The Group provide cement production equipment and parts to China Building-Materials Industrial Corporation for Foreign Econo – Technical Cooperation and/or its subsidiaries, a wholly owned subsidiary of Parent. The cement production equipment and parts provided to CBMC and/or its subsidiaries are produced by the subsidiaries of the Group, namely CEMTECH Group Co., Ltd., Handan Technology and Equipment Branch Co. of Sinoma International Engineering Co., Ltd. and Sinoma Shangrao. After completion of the existing projects, CBMC will cease to be engaged in cement equipments and engineering businesses, but Parent Group will still acquire cement production equipments and parts from us for its cement production plants in Zimbabwe.

Under the Mutual Supply of Equipment and Parts, Provision of Maintenance, Repair and Installation Services Agreement with Parent Group, the price shall be determined in accordance with the following pricing principles: 1) state-prescribed price; 2) where there is no state-prescribed price, then according to relevant state-recommended price; 3) where there is no state-recommended price, then according to relevant market price; d) where there is no relevant market price, then according to the contracted price.

The Mutual Supply of Equipment and Parts, Provision of Maintenance, Repair and Installation Services Agreement with Parent Group is for a term commencing from 31 July 2007 and ending on 31 December 2009. Upon expiry of the term, the Mutual Supply of Equipment and Parts, Provision of Maintenance, Repair and Installation Services Agreement with Parent Group will, subject to the requirements of the Stock Exchange, be automatically renewed for further periods of three years.

During the reporting period, a) the annual cap on revenue from the Group's provision of cement production equipments, parts and concrete production equipment parts to Parent Group was approximately RMB70.713 million for 2007 and the actual revenue was approximately RMB47.557 million; b) the annual cap on expenditure from the provision of cement production equipment, parts and the maintenance, repair and installation services provided to the Group by the Parent Group was approximately RMB7.906 million for 2007 and the actual expenditure was approximately RMB5.975 million.

(3) *Provision of Cement Equipment and Engineering Services Agreements*

In the past, CBMC and CNBMEC conducted their cement equipment and engineering services businesses by outsourcing contracts by tender process involving independent third parties. The Group generally prices to bids based on the anticipated cost plus a reasonable profit margin according to the Group's internal policy. Accordingly, CBMC and CNBMEC have engaged the Group to provide certain cement equipment and engineering services. CBMC and CNBMEC are merely contracting parties, and the services are provided by the Group which has the ability to provide such services. The terms of the sub-contracts relating to the four existing projects were arrived at by the parties on an arm's length basis. Upon completion of the four existing projects, CBMC and CNBMEC will cease to be engaged in any cement equipment and engineering services projects. Accordingly there will not be any provision of cement equipments and engineering services from the Group to CBMC and/or CNBMEC.

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(3) Provision of Cement Equipment and Engineering Services Agreements (Continued)

Among the four existing projects, the two cement equipment and engineering services projects of CBMC are still under progress. The two projects are both undertaken in Pakistan. The contract amount of one of the projects is approximately 382,228,664 Rupiah (equivalent to approximately US$6 million) and the project has been completed in April 2008. The contract amount of the other project is approximately US$53.6 million and the project is expected to be completed in June 2008.

In addition, the two cement equipment and engineering services projects of CNBMEC are still under progress. The contract amount of one of the projects is US$58.7 million and the project is expected to be completed in June 2008. The contract amount of the other project is approximately US$145 million and the project is expected to be completed by the end of 2009.

Under the Listing Rules, CBMC and CNBMEC are both wholly-owned subsidiaries of the Parent and are connected persons of the Company.

During the reporting period, the annual cap on revenue from the provision of cement equipment and engineering services to CBMC and CNBMEC by the Group was approximately RMB262.120 million for 2007 and the actual revenue was approximately RMB192.959 million.

(4) Mutual Supply of Raw Materials, Products and Services Agreement with Hengda Hongkong Group

We have received raw materials and services from, and provided products to Hengda Hongkong Group prior to the Reorganization and will continue to do so after the Listing Date. To regulate such business relationships, we entered into a mutual supply of raw materials, products and services agreement with Hengda Hongkong ("Mutual Supply of Raw Materials, Products and Services Agreement with Hengda Hongkong Group") on 23 November 2007, pursuant to which:

(a) Hengda Hongkong Group agreed to provide the Group raw materials and services such as:

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

(b) the Group may provide to Hengda Hongkong Group clinker.

Under the Mutual Supply of Raw Materials, Products and Services Agreement with Hengda Hongkong Group, the price shall be determined in accordance with the following pricing principles: (1) state-prescribed price; (2) where there is no state-prescribed price, then according to relevant state-recommended price; (3) where there is no state-recommended price, then according to relevant market price; (4) where there is no relevant market price, then according to the contracted price.

The Mutual Supply of Raw Materials, Products and Services Agreement with Hengda Hongkong Group is for a term commencing from 31 July 2007 and ending on 31 December 2009. Upon expiry of the term, the Mutual Supply of Raw Materials, Products and Services Agreement with Hengda Hongkong Group will, subject to the requirements of the Stock Exchange, be automatically renewed for further periods of three years.

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(4) *Mutual Supply of Raw Materials, Products and Services Agreement with Hengda Hongkong Group (Continued)*
Sinoma Hengda Cements Co., Ltd (中材亨達水泥有限公司) ("Sinoma Hengda") is held as to 70% by Sinoma Cement, and as to 25% by Hengda Hong Kong International Investment Company (亨達(香港)國際投資公司) ("Hengda Hongkong"). Hengda Hongkong is a substantial shareholder of Sinoma Hengda, one of our subsidiaries, and therefore its subsidiaries and Associates ("Hengda Hongkong Group") are our connected persons according to the Listing Rules.

During the reporting period, (a) the annual cap on revenue from the provision of clinker to Hengda Hongkong Group by the Group was approximately RMB68.000 million for 2007 and the actual revenue was approximately RMB42.299 million; (b) the expenditure from the provision of raw materials and services as set out in 1) by Hengda Hongkong Group to the Group was approximately RMB85.910 million for 2007 and the actual expenditure was RMB58.520 million.

(5) *Mutual Comprehensive Services Agreement with Parent Group*
The Group has received services from, and provided services to Parent Group prior to the Reorganization and will continue to do so after the Listing Date. To regulate such business relationships, we entered into a mutual comprehensive services agreement ("Mutual Comprehensive Services Agreement with Parent Group") with Parent on 23 November 2007, pursuant to which:

1) Parent Group agreed to provide to the Group:

- supply of electricity, water and heating;
- property management and maintenance services;
- equipment maintenance and repair;
- site preparation, exploration and exploitation services;
- equipment leasing services (precious metal such as platinum, which has a very high carrying value);
- design, consultancy and technology services;
- transportation services; and
- other related and ancillary services;

2) the Group agreed to provide Parent Group:

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

Under the Mutual Comprehensive Services Agreement with Parent Group, the price shall be determined in accordance with the following pricing principles: 1) state-prescribed price; 2) where there is no state-prescribed price, then according to relevant state-recommended price; 3) where there is no state-recommended price, then according to relevant market price; 4) where there is no relevant market price, then according to the contracted price.

The Mutual Comprehensive Services Agreement with Parent Group is for a term commencing from 31 July 2007 and ending on 31 December 2009. Upon expiry of the term, the Mutual Comprehensive Services Agreement with Parent Group will, subject to the requirements of the Stock Exchange, be automatically renewed for further periods of three years.

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(5) *Mutual Comprehensive Services Agreement with Parent Group (Continued)*

During the reporting period, a) the annual cap for 2007 with respect to the revenue generated for the Group's provision to the Parent Group of the comprehensive services stated in 2) was RMB6.574 million while the actual revenue generated amounted to RMB21.908 million; b) the annual cap for 2007 with respect to the expenses incurred for the Parent Group's provision to the Group of the comprehensive services stated in 1) was RMB59.646 million while the actual expenses incurred amounted to RMB27.586 million.

The Company was not able to accurately estimate the annual cap and transaction volume under the rapid growth of the Group's business and scale of operation. The Company, after having noticed that the income generated from comprehensive services provided by the parent company has exceeded the cap for the year 2007, issued an announcement in compliance with the requirements of rule 14A.47 of the Listing Rules and has revised the respective annual cap for the year 2008 and 2009. The details are set out in the Company's announcement dated 14 April 2008.

(6) *Mutual Supply of Raw Materials and Products Agreement with Tianshan Group*

As disclosed in the section "Connected Transaction – Continuing Connected Transaction" in the prospectus, the Company and Tianshan Group entered into a mutual supply of raw materials and products agreement on 23 November 2007, pursuant to which:

(1) the Group agreed to provide cement to Tianshan Group and/or its subsidiaries and/or associates; and

(2) Tianshan Group agreed to and shall procure its subsidiaries and/or associates to provide raw materials for cement production and products such as ceramics products and pipes to our Group.

The Master Raw Materials and Products Supply Agreement is for a term commencing from 31 July 2007 and ending on 31 December 2009. Upon expiry of the term, the Master Supply of Raw Materials and Products Agreement with Tianshan Group will, subject to the requirements of the Stock Exchange, be automatically renewed for further periods of three years.

Under the Mutual Supply of Raw Materials and Products Agreement, the price shall be determined in accordance with the following pricing principles:

a) state-prescribed price; b) where there is no state-prescribed price, then according to relevant state-recommended price; c) where there is no state-recommended price, then according to relevant market price; d) where there is no relevant market price, then according to the contracted price.

Pursuant to the Listing Rules, Tianshan Group, being the promoter of the Company, is a connected party of the Company.

During the reporting period, a) the actual revenue generated from the Group's provision of cement to Tianshan Building Materials was approximately RMB5.155 million; b) the actual expenses incurred for the products stated at 2) provided by the Tianshan Group to the Group amounted to RMB26.204 million. The Company has issued an announcement pursuant to the Listing Rules 14A.47 and has applied for the respective annual caps for 2008 and 2009. For details, please refer to the announcement issued on 14 April 2008.

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(7) *Mutual Supply of Products and Services Agreement entered into between CTG and* Shandong Taishan Composite Materials Co., Ltd.

On 14 April 2008, CTG entered into Mutual Supply of Products and Services Agreement with Shandong Taishan Composite Materials Co., Ltd., and pursuant to which:

(1) CTG agreed to provide Shandong Taishan Composite Materials Co., Ltd. with electricity, water and gas; and

(2) Shandong Taishan Composite Materials Co., Ltd. agreed to provide CTG with blended yarns (合股紗), direct draw (直接紗), yarns for fabrication felt (毡用紗) and wet-processed mat (濕用氈).

The Mutual Supply of Products and Services Agreement was effective from 1 January 2007 and shall be expired on 31 December 2009. Upon expiry of the term, the Products and Services Agreement will, subject to the requirements of the Stock Exchange, be automatically renewed for further periods of three years.

Under the Mutual Supply of Products and Services Agreement, the price shall be determined in accordance with the following pricing principles: a) state-prescribed price; b) where there is no state-prescribed price, then according to relevant state-recommended price; c) where there is no state-recommended price, then according to relevant market price; d) where there is no relevant market price, then according to the contracted price.

Under the Listing Rules, Shandong Taishan Composite Materials Co., Ltd. is the substantial shareholder of Taian Huatai Non-Metal Fine Dust Co., Ltd., a subsidiary of the Company and hence a connected party of the Company.

During the reporting period, a) the actual revenue generated from CTG's provision of electricity, water and gas to Shandong Taishan Composite Materials Co., Ltd. was approximately RMB27.991 million; b) the actual expenses incurred for the products stated at 2) provided by Shandong Taishan Composite Materials Co., Ltd. to the CTG amounted to RMB73.235 million. The Company has issued an announcement pursuant to the Listing Rules 14A.47 and has applied for the respective annual caps for 2008 and 2009. For details, please refer to the announcement issued on 14 April 2008.

(8) *Surplus Energy Electricity Generation Sub-contract between TCDRI and CEC*

On 14 April 2008, TCDRI, a subsidiary of the Company, entered into the Surplus Energy Electricity Generation Sub-contract with CEC, pursuant to which TCDRI agreed to subcontract the project of power generation using waste heat to CEC.

The Surplus Energy Electricity Generation Sub-contract between TCDRI and CEC was effective from 31 July 2007 and shall be expired on 31 December 2008. Upon expiry of the term, Surplus Energy Electricity Generation Sub-contract between TCDRI and CEC will, subject to the requirements of the Stock Exchange, be automatically renewed for further periods of three years.

Connected Transactions *(Continued)*

Non-exempted Continuous Connected Transactions *(Continued)*

(8) Surplus Energy Electricity Sub-contract between TCDRI and CEC (Continued)

Under the Surplus Energy Electricity Sub-contract between TCDRI and CEC, the price shall be determined in accordance with the following pricing principles: a) state-prescribed price; b) where there is no state-prescribed price, then according to relevant state-recommended price; c) where there is no state-recommended price, then according to relevant market price; d) where there is no relevant market price, then according to the contracted price.

Under the Listing Rules, CEC is subsidiary of the Parent, and hence a connected party of the Company.

During the reporting period, the actual expenses incurred for the power generation using waste heat subcontracted to CEC by TCDRI amounted to RMB92.656 million. The Company has issued an announcement pursuant to the Listing Rules 14A.47 and has applied for the respective annual caps for 2008. For details, please refer to the announcement issued on 14 April 2008.

The Directors of the Company (including the independent non-executive Directors) confirmed with the Board that they have reviewed the non-exempted continuing connected transactions under (1) to (8) and confirmed that such non-exempted continuing connected transactions have been (A) entered into in the ordinary and usual course of business of the Group; (B) on normal commercial terms, or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and (C) in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

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

(1) The above continuous connected transactions have received the approval of the Board;

(2) The pricing of the continuous connected transactions involving provisions of goods and services by the Group, on a samples basis, are in accordance with the pricing policies of the Company as disclosed in Note 47 of the financial statements;

(3) The continuous connected transactions, on a samples selected, have been entered into in accordance with the terms of the agreements governing such transactions;

(4) Except for the transactions as disclosed in (5) to (8), which have exceeded the percentage ratio for exempted continuous connected transaction under Rule 14A.33(3) of the Listing Rule or the relevant annual cap, the Group's continuous connected transactions did not exceed the relevant annual caps as disclosed in the Company's prospectus dated 7 December 2007.

Exemption

The Company has acquired the waiver from the Stock Exchange prior to the listing of the Company with respect to the above connected transaction (1) to (4) and is not required to comply with the requirements of announcement and/or independent shareholders' approval under the Listing Rules for the year ended 31 December 2007.

Save as disclosed above, the connected transaction or continuing connected transaction not set out in note 47 to the financial statements fall into the category of connected transaction or continuing connected transaction under the Listing Rules. The Company has complied with the requirements under Chapter 14A of the Listing Rules and other disclosure requirements with respect to the connected transaction and continuing connected transaction.

Pre-emptive Rights

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

Taxation

For the year ended 31 December 2007, foreign shareholders who are not Chinese residents are not required to pay any domestic individual or corporate income tax, stamp duties or estate duties with respect to the shares of the Company held. Shareholders are recommended to consult their own tax consultant with respect to the tax implication in the PRC, Hong Kong and otherwise for the H shares held and disposed.

Material Legal Matters

During the year, Sinoma International, a subsidiary of the Company, was involved in a pending arbitration in relation to a cement construction contract. In 17 January 2008, the Shanghai Sub-Commission of the China International Economic and Trade Arbitration Commission handed down the judgement in favour of the Company. Details of the litigation was set out in note 50(e) of the financial statements.

Auditors

PricewaterhouseCoopers ("PwC") and Reanda Certified Public Accountants Co., Ltd. ("Reanda") were appointed as the Hong Kong and PRC auditors respectively for the year ended 31 December 2007. PwC has audited the accompanying financial statements, which have been prepared in accordance with the Hong Kong Financial Reporting Standards. PwC and Reanda have been retained by the Company since the preparation of its listing.

By order of the Board of Directors

TAN Zhongming
Chairman

Beijing, 22 April 2008

Report of the Supervisory Committee

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

During the reporting period, the Supervisory Committee has convened two meetings. In the first meeting held by the first session of the Supervisory Committee on 26 July 2007, Ms. Xu Weibing was elected Chairman of the Supervisory Committee. In the second meeting held by the first session of the Supervisory Committee on 23 November 2007, rules of procedure of the Supervisory Committee were reviewed and approved. All supervisors have attended the two aforementioned meetings. During the reporting period, members of the Supervisory Committee attended all the general meetings of the Company convened during the year and attended all the Board meetings as non-voting participants during the year. The members also reviewed the resolutions which have been submitted to the Board of Directors for consideration. Attending such meetings as non-voting participants, the supervisors supervised the Company's major decision-making processes and the performance of duties by the members of the Board of Directors and the senior management.

During the reporting period, the supervisory committee has inspected the implementation of the financial management system of the Group, regularly reviewed the relevant financial information of the Group, the auditor's report on the Group and confirmed that the accounts and audit work of the Group were in compliance with the requirements of Accounting Law of the People's Republic of China, accounting system issued by the Ministry of Finance of the People's Republic of China and the Hong Kong Financial Reporting Standards and it was not aware of any incompliance.

The Supervisory Committee has duly reviewed the financial statements for 2007 to be submitted by the Board to the general meeting and the auditor's report thereon with unqualified opinion. It considered that the financial statements accurately, truly and fairly presented the financial position and the results of operations of the Company on a consistent basis.

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

The Supervisory Committee is confident with the development prospects of the Company. In 2008, the Supervisory Committee will continue to perform all its duties to protect the interests of the shareholders in strict accordance with the Articles of Association of the Company and relevant requirements.

Corporate Governance Report

Corporate Governance

The Company is committed to maintaining its corporate governance at a high standard to enhance the shareholders' value in the long run. Our first priority is to consistently maintain a sound, stable and reasonable corporate governance structure. The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited on 20 December 2007. Currently, the Code of Corporate Governance Practices of the Company includes but are not limited to the following:

1. Articles of Association
2. Rules of Procedures for General Meetings
3. Rules of Procedures for Board of Directors
4. Rules of Procedures for Supervisory Committee
5. Rules of Procedures for Strategy Committee
6. Rules of Procedures for Audit Committee
7. Rules of Procedures for Remuneration Committee
8. Rules of Procedures for Nomination Committee

The Board of Directors of the Company has reviewed the documents concerning the adoption of relevant corporate governance and is of the view that the requirements listed in the documents have complied with all the code provisions as set out in the "Code of Corporate Governance Practices" of the Listing Rules.

Compared with the code provisions as set out in the "Code of Corporate Governance Practices", the codes of corporate governance adopted by the Company are even more stringent in the following areas:

1. Apart from the Audit Committee and Remuneration Committee, the Company has also established a Strategy Committee and a Nomination Committee.

2. Independent non-executive Directors are required by the Rules of Procedures of the Company's Board of Directors to review, at least once for every year, information provided by the Company's controlling shareholders in relation to the compliance with and performance of the non-competitive agreements.

Code of Corporate Governance Practices

From the date of listing to 31 December 2007, the Company has complied with the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

Securities Transactions by Directors

The Company has adopted stringent procedures governing directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All directors and chief executives of the Company have confirmed that they have complied with the required standards as set out in the Model Code from the date of listing to 31 December 2007.

Board of Directors

The composition of the Company's Board of Directors and other information are set out as follows:

Name	Position	Gender	Age	Term
TAN Zhongming	Chairman of the Board of Directors and Executive Director	M	54	26 July 2007 to 25 July 2010
YU Shiliang	Executive Director and President	M	53	26 July 2007 to 25 July 2010
LIU Zhijiang	Non-executive Director	M	50	26 July 2007 to 25 July 2010
ZHOU Yuxian	Non-executive Director	M	44	26 July 2007 to 25 July 2010
CHEN Xiaozhou	Non-executive Director	M	45	26 July 2007 to 25 July 2010
YANG Yuzhong	Independent Non-executive Director	M	63	26 July 2007 to 25 July 2010
ZHANG Lailiang	Independent Non-executive Director	M	60	26 July 2007 to 25 July 2010
ZHANG Qiusheng	Independent Non-executive Director	M	39	26 July 2007 to 25 July 2010
LEUNG Chong Shun	Independent Non-executive Director	M	42	26 July 2007 to 25 July 2010

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

The Board of Directors mainly decides on the following:

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

It is the responsibility of the Board of Directors to prepare the financial statements for each accounting year to give a true and fair view of the financial status of the Company and the results and cashflows during the relevant period. When preparing the financial statements for the year ended 31 December 2007, the Board of Directors has selected and applied appropriate accounting policies and made prudent, fair and reasonable judgement and estimates to prepare the financial statements on the basis of going concern. The Board of Directors is responsible for maintaining the accounting records properly, such records should be able to reasonably and accurately disclose the financial status of the Company at any time. The Board of Directors will convene meetings at least four times a year and whenever important decisions have to be made.

Mr. Tan Zhongming and Mr. Yu Shiliang serve as the Chairman and President of the Company respectively. Chairman and President are two different positions which are clearly separated. The Chairman shall not concurrently serve as the President. The division of the responsibilities between the Chairman and the President shall be made clearly in the written terms of reference. The Chairman is responsible for managing the operation of the Board of Directors while the President is responsible for the business operation of the Company. The Articles of the Company has described in detail the respective responsibilities of the Chairman and President. Senior management is responsible for the daily business operation of the Company. Their duties have been set out in the section "Biography of Directors, Supervisors and Senior Management" in the annual report.

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

A total of four Board meetings were convened during 2007. The attendance of the individual members in the Board meetings is as follows:

Directors	**Number of Attendance**	**Number of Attendance by proxy**	**Attendance Rate**
TAN Zhongming	4	0	100%
YU Shiliang	4	0	100%
LIU Zhijiang	3	1	75%
ZHOU Yuxian	4	0	100%
CHEN Xiaozhou	2	2	50%
YANG Yuzhong	4	0	100%
ZHANG Lailiang	4	0	100%
ZHANG Qiusheng	4	0	100%
LEUNG Chong Shun	4	0	100%

Since the establishment of the Company on 31 July 2007, the Board of Directors has been complying with Rule 3.10(1) of the Listing Rules, which requires a minimum of 3 independent non-executive directors, and Rule 3.10(2), which requires that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise.

As required by the Stock Exchange of Hong Kong, the Company made the following confirmation as to the independence of the Independent Directors: the Company has accepted the confirmation letter from each of the Independent Non-executive Directors and confirms their compliance with the independence requirements as set out in Rule 3.13 of the Listing Rules. The Company also confirms that all the Independent Non-executive Directors are independent parties.

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

Other than their own service contracts, the Directors and Supervisors of the Company do not have any direct or indirect personal material interest in the contracts of significance entered into by the Company or any of its subsidiaries in 2007.

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

Strategy Committee

The Strategic Committee under the Board of Directors of the Company comprises Mr. Tan Zhongming, Mr. Yu Shiliang, Mr. Liu Zhijiang, Mr. Zhou Yuxian, Mr. Yang Yuzhong and Mr. Chen Xiaozhou. Mr. Tan Zhongming is the Chairman. The strategy committee considers, evaluates, reviews and recommends to the Board proposed major investments, acquisitions and disposals and conducts post-investment evaluation of investment projects, and reviews and considers the overall strategic direction of the Company and business developments of the Company.

In the fourth meeting of the first session of the Board of Directors convened by the Company on 23 November 2007, the "Rules of procedures of the Strategy Committee under the Board of Directors of China National Materials Company Limited" were approved.

Audit Committee

The Audit Committee comprising two independent non-executive Directors, namely Mr. Zhang Qiusheng and Mr. Zhang Lailiang as well as one non-executive Director, namely Mr. Liu Zhijiang, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing internal controls and financial reporting matters. The Group's consolidated financial statements have been reviewed and approved by the Audit Committee, which is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

In the fourth meeting of the first session of the Board of Directors convened by the Company on 23 November 2007, the "Rules of procedures of the Audit Committee under the Board of Directors of China National Materials Company Limited" were approved.

The Directors of the Company are responsible for supervising the preparation of the financial statements for each financial period, to ensure the financial statements give a true and fair view of the business, results and cashflow of the Company during the period. When preparing the financial statements for the year ended 31 December 2007, the Directors have selected appropriate accounting policies and applied them on a consistent basis. The Directors have also approved the adoption of all the standards which are consistent with the Hong Kong Financial Reporting Standards, made prudent and reasonable judgement and estimates and prepared the financial statements on the basis of going concern.

Remuneration Committee

The Remuneration Committee of the Company comprises Mr. Tan Zhongming, Mr. Zhou Yuxian, Mr. Zhang Lailiang, Mr. Zhang Qiusheng and Mr. Leung Chong Shun. Mr. Tan Zhongming is the Chairman. The Committee is of the view that external professional consultant will be employed when necessary to provide assistance and/or opinion on relevant matters.

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

In the fourth meeting of the first session of the Board of Directors convened by the Company on 23 November 2007, the "Rules of procedures of the Remuneration Committee under the Board of Directors of China National Materials Company Limited" were approved.

Nomination Committee

The Nomination Committee of the Company comprises Mr. Tan Zhongming, Mr. Yu Shiliang, Mr. Liu Zhijiang and Mr. Zhou Yuxian. Mr. Tan Zhongming is the Chairman. The nomination committee is responsible for conducting periodical review over the structure, size and composition (including the expertise, knowledge and experience of the members) and making recommendations to the Board on any changes, and review and making recommendations on the candidates for Directors and senior management.

In the fourth meeting of the first session of the Board of Directors convened by the Company on 23 November 2007, the "Rules of procedures of the Nomination Committee under the Board of Directors of China National Materials Company Limited" were approved.

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

An Independent Non-executive Director has a term of office of 3 years and is eligible for re-election and re-appointment. Independent Non-executive Directors shall not be removed without reasonable ground prior to the expiry of their term of office. The Company shall make special disclosure for any early removal of an Independent Non-executive Director.

Auditors' Remuneration

The Company has engaged PricewaterhouseCoopers and Reanda Certified Public Accountants as its reporting accountants and local auditor respectively for its initial public offering of H shares and listing on the Stock Exchange. At the second extraordinary general meeting in 2007 convened by the Company on 23 November 2007, the appointment of PricewaterhouseCoopers and re-appointment of Reanda Certified Public Accountants Co., Ltd. as the external auditors of the Company for 2007 were approved. The Company's annual audit fee for the year ended 31 December 2007 amounted to approximately RMB22.5 million.

Shareholders' Right

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

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

Internal Control System

In order to fulfill the relevant regulatory requirements of the places where the Company is listed and strengthen the internal control management of the Company, the Company has established a range of internal control management systems, including audit management system. After continuous discussion and modification, the "Information Disclosure Management System for China National Materials Company Limited", the "Connected Transaction Management System for China National Materials Company Limited", the "Investors Management System for China National Materials Company Limited", the "Independent Directors' Duty System for China National Materials Company Limited" the "Rules for Senior Management of China National Materials Company Limited", the "Administrative Measures of Remuneration of China National Materials Company Limited" and the "Financial Management System for China National Materials Company Limited" were reviewed and approved in the ninth meeting of the first session of the Board of Directors held on 22 April 2008.

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

Review for the Year

In 2007, the management has reviewed the internal control of the Company, which covered: financial control, operation control, compliance control and risk management function. Based on the target set by the Company, the management identified and assessed the internal and external risks to which the Company was exposed, in order to identify the major risks of the Company and further determine the substantial risks. According to the above procedure, the Company's major management and control procedures and the risk involved in such procedures were analyzed, the key control activities were identified and the control measures were improved or perfected along the key control points. Officers were delegated to conduct tests on recognised key control procedures and key control activities, and based on the testing results, ascertained whether the internal control is functioning and improved the weaknesses.

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

Internal Audit Unit

In the second meeting held by the Company's first session of the Board of Directors, the establishment of the Company's audit department was reviewed and approved. The department is responsible for internal audit duties. In the fourth meeting of the first session of Board of Directors convened by the Company on 23 November 2007, the "Internal Audit Rules for China National Materials Company Limited" were approved. Such rules regulate the duties and authorities of the internal audit unit and the working procedures and requirements of internal audit.

Independent Auditor's Report

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Independent Auditor's Report

To the shareholders of China National Materials Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China National Materials Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 70 to 185, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of 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.

Opinion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 April 2008

Balance Sheets

As at 31 December 2007

		Group		Company
		As at 31 December		As at 31 December
		2007	2006	**2007**
	Note	**RMB'000**	RMB'000 (Restated)	**RMB'000**
ASSETS				
Non-current assets				
Property, plant and equipment	7	**8,992,861**	7,438,976	**1,726**
Land use rights	8	**1,271,266**	1,136,496	**–**
Investment properties	9	**98,093**	15,468	**–**
Intangible assets	10	**97,693**	104,951	**2,882**
Mining rights	11	**44,531**	21,656	**–**
Investments in subsidiaries	12	**–**	–	**3,000,700**
Investments in jointly controlled entities	13	**–**	–	**24,636**
Investments in associates	14	**632,369**	168,648	**394,727**
Available-for-sale financial assets	16	**39,153**	424,338	**611**
Deferred income tax assets	27	**131,664**	137,456	**–**
Trade and other receivables	17	**202,832**	93,665	**–**
Other non-current assets		**108,615**	3,764	**–**
		11,619,077	9,545,418	**3,425,282**
Current assets				
Inventories	18	**2,432,879**	2,455,752	**–**
Trade and other receivables	17	**4,928,132**	4,040,471	**307,372**
Amounts due from customers for contract work	19	**357,930**	615,737	**–**
Restricted cash	20	**1,476,117**	1,130,815	**–**
Cash and cash equivalents	21	**8,443,176**	3,699,784	**3,836,173**
Other current assets		**166,586**	–	**–**
		17,804,820	11,942,559	**4,413,545**
Total assets		**29,423,897**	21,487,977	**7,568,827**

Balance Sheets *(Continued)*

As at 31 December 2007

		Group		Company
		As at 31 December		As at 31 December
		2007	2006	2007
	Note	RMB'000	RMB'000 (Restated)	RMB'000
EQUITY				
Share capital	22	3,431,708	2,303,810	3,431,708
Reserves	23	2,556,268	(359,828)	2,255,509
Shareholders' equity		5,987,976	1,943,982	5,687,217
Minority interests		3,039,283	2,600,591	–
Total equity		9,027,259	4,544,573	5,687,217
LIABILITIES				
Non-current liabilities				
Borrowings	26	3,840,527	2,909,902	–
Deferred income	24	312,775	252,154	–
Early retirement and supplemental benefit obligations	28	130,101	179,228	22,935
Trade and other payables	25	13,469	44,336	–
Deferred income tax liabilities	27	135,252	139,053	–
		4,432,124	3,524,673	22,935
Current liabilities				
Trade and other payables	25	11,309,180	8,785,389	295,296
Dividends payable	40	553,834	–	553,834
Amounts due to customers for contract work	19	204,387	323,975	–
Current income tax liabilities		246,172	175,647	14,034
Borrowings	26	3,612,081	3,992,010	993,000
Early retirement and supplemental benefit obligations	28	13,629	17,030	2,511
Provisions	29	25,231	124,680	–
		15,964,514	13,418,731	1,858,675
Total liabilities		20,396,638	16,943,404	1,881,610
Total equity and liabilities		29,423,897	21,487,977	7,568,827
Net current assets/(liabilities)		1,840,306	(1,476,172)	2,284,870
Total assets less current liabilities		13,459,383	8,069,246	5,710,152

TAN Zhongming
Director

YU Shiliang
Director

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

Consolidated Income Statement

Year ended 31 December 2007

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000 (Restated)
Turnover	30	19,647,094	13,012,866
Cost of sales	33	(16,578,563)	(11,040,800)
Gross profit		3,068,531	1,972,066
Other gains	31	309,285	67,704
Selling and marketing expenses	33	(515,845)	(243,168)
Administrative expenses	33	(1,169,091)	(837,977)
Other expenses	32	(32,379)	(80,533)
Operating profit		1,660,501	878,092
Interest income	35	85,644	46,471
Finance costs	35	(387,894)	(193,268)
Share of profit of associates	14	49,973	8,233
Profit before income tax		1,408,224	739,528
Income tax expense	36	(383,376)	(211,982)
Profit for the year		1,024,848	527,546
Attributable to:			
Equity holders of the Company		472,668	281,909
Minority interests		552,180	245,637
		1,024,848	527,546
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)	39	0.20	0.13
Dividends	40	572,633	N/A

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

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Note	Attributable to equity holders of the Company				
		Share Capital	Reserves	Subtotal	Minority interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007		2,303,810	(359,828)	1,943,982	2,600,591	4,544,573
Profit for the year		–	472,668	472,668	552,180	1,024,848
Dividends declared to minority interests		–	–	–	(166,562)	(166,562)
Special Distribution (defined in Note 40(a))	40(a)	–	(482,701)	(482,701)	–	(482,701)
Cash contributions received from minority interests	2.5(a)	–	–	–	148,534	148,534
Attributable to acquisition of subsidiaries	43	–	–	–	8,382	8,382
Attributable to disposal of subsidiaries	44	–	–	–	(150)	(150)
Transaction with minority interests arising from further capital contributions to subsidiaries by the Group and/or minority interests	2.5(a)	–	5,566	5,566	(5,566)	–
Acquisition of additional equity interests in subsidiaries from minority interests	2.5(b)	–	(11,359)	(11,359)	(102,135)	(113,494)
Acquisition of an associate achieved in stages	14(c)	–	21,692	21,692	–	21,692
Exchange differences arising on translation of the financial statements of subsidiaries and jointly controlled entities		–	3,068	3,068	4,009	7,077
Transfer of certain assets and liabilities to the SINOMA Group upon completion of the Reorganisation	2.2	–	44,401	44,401	–	44,401
Deferred tax assets arising from the assets revaluation surplus during the Reorganisation	27(c)	–	6,040	6,040	–	6,040
Cash contributions received from the Other Promoters (defined in Note 1.2(b))	1.2(b)	196,190	103,810	300,000	–	300,000
Deemed contribution from SINOMA	23(a)	–	98,700	98,700	–	98,700
Issuance of new shares upon listing	22(b)	931,708	2,744,143	3,675,851	–	3,675,851
Special Dividend (defined in Note 40(b))	40(b)	–	(89,932)	(89,932)	–	(89,932)
At 31 December 2007		3,431,708	2,556,268	5,987,976	3,039,283	9,027,259

Consolidated Statement of Changes in Equity *(Continued)*
Year ended 31 December 2007

		Attributable to equity holders of the Company				
		Share Capital	Reserves	Subtotal	Minority interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006		2,236,433	(758,245)	1,478,188	1,029,744	2,507,932
Profit for the year		–	281,909	281,909	245,637	527,546
Dividends declared to the SINOMA Group and the State-owned Promoters		–	(14,760)	(14,760)	–	(14,760)
Dividends declared to minority interests		–	–	–	(96,120)	(96,120)
Cash contributions received from the SINOMA Group		–	4,000	4,000	–	4,000
Contribution of equity interest in Tianshan Cement from one of the State-owned Promoters (defined in Note 1.2(b))		67,377	63,244	130,621	(67,770)	62,851
Cash contributions received from minority interests	2.5(a)	–	–	–	155,181	155,181
Transaction with minority interests arising from further capital contributions to subsidiaries by the Group and/or minority interests	2.5(a)	–	885	885	(885)	–
Distribution to minority interests upon liquidation of subsidiaries		–	–	–	(51)	(51)
Attributable to disposal of subsidiaries		–	–	–	(908)	(908)
Attributable to acquisition of subsidiaries	43	–	–	–	1,115,759	1,115,759
Acquisition of additional equity interests in subsidiaries from minority interests	2.5(b)	–	–	–	(42,904)	(42,904)
Initial public offering of new shares of a subsidiary	2.5(c)	–	112,037	112,037	210,127	322,164
Transaction with minority interests arising from implementation of share reform scheme by a subsidiary	2.5(c)	–	(53,429)	(53,429)	53,429	–
Revaluation surplus arising from business combination achieved in stages		–	5,800	5,800	–	5,800
Exchange differences arising from translation of the financial statements of subsidiaries and jointly controlled entities		–	(981)	(981)	(648)	(1,629)
Others		–	(288)	(288)	–	(288)
At 31 December 2006		2,303,810	(359,828)	1,943,982	2,600,591	4,544,573

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

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Cash generated from operations	42	**3,090,076**	1,172,007
Interest paid		**(369,139)**	(187,307)
Income tax paid		**(258,200)**	(184,157)
Net cash generated from operating activities		**2,462,737**	800,543
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,919,045)**	(1,731,292)
Purchase of land use rights		**(162,665)**	(65,398)
Purchase of investment properties		**(2,200)**	–
Purchase of intangible assets		**(10,663)**	(10,848)
Purchase of mining rights		**(26,543)**	(6,641)
Proceeds from disposals of property, plant and equipment	42	**31,723**	244,592
Proceeds from disposals of land use rights	42	**9,402**	–
Net cash inflow on acquisition of subsidiaries	43	**282**	335,056
Net cash (outflow)/ inflow on disposals of subsidiaries	44	**(14,996)**	2,193
Distribution to minority interests upon liquidation of subsidiaries		**–**	(10,386)
Purchase of available-for-sale financial assets		**(3,460)**	–
Increase in investment in associates		**(85,621)**	(11,000)
Proceeds from disposals of available-for-sale financial assets		**13,833**	–
Proceeds from disposals of investment in associates		**18,970**	–
Proceeds from collection of held-to-maturity financial assets		**–**	100,000
Dividends received on available-for-sale financial assets		**14,779**	435
Dividends received from associates		**5,253**	5,974
Acquisition of additional equity interests in subsidiaries from minority interests		**(156,398)**	(22,828)
Proceeds from government grants relating to purchase of property, plant and equipment		**11,836**	63,380
Interest received on bank deposits and loans		**59,578**	51,933
Deposits paid for acquisition of additional equity interests in a subsidiary		**–**	(206,123)
Collection of deposits for acquisition of additional equity interests in a subsidiary		**206,123**	–
Prepayment for acquisition of a subsidiary		**(100,000)**	–
Other cash used in investing activities		**–**	(288)
Net cash used in investing activities		**(2,109,812)**	(1,261,241)

Consolidated Cash Flow Statement *(Continued)*

Year ended 31 December 2007

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		**5,227,087**	4,538,666
Repayments of borrowings		**(4,614,253)**	(3,476,949)
Contributions received from the SINOMA Group		**–**	4,000
Contributions received from minority interests	2.5(a)	**148,534**	155,181
Initial public offering of new shares by a subsidiary	2.5(c)	**–**	322,164
Dividends paid to minority interests		**(242,105)**	(72,343)
Dividends paid to the SINOMA Group and the State-owned Promoters		**–**	(14,760)
Repayment of contributions prepaid by BBMG Group Co., Ltd. to a subsidiary		**(100,000)**	–
Capital contributions received from the Other Promoters		**300,000**	–
Gross proceeds from issuance of new shares upon listing		**3,958,483**	–
Interest received on deposits relating to share subscription proceeds from the initial public offering of the Company		**26,066**	–
Disbursement of incremental costs directly attributable to issuance of shares upon listing		**(192,991)**	(15,340)
Transfer to the SINOMA Group upon completion of the Reorganisation		**(67,475)**	–
Net cash generated from financing activities		**4,443,346**	1,440,619
Net increase in cash and cash equivalents		**4,796,271**	979,921
Cash and cash equivalents at beginning of the year		**3,699,784**	2,744,073
Exchange losses on cash and cash equivalents		**(52,879)**	(24,210)
Cash and cash equivalents at end of the year		**8,443,176**	3,699,784

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

Notes to the Financial Statements

Year ended 31 December 2007

1. General information and Reorganisation

1.1 General information

China National Materials Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 31 July 2007 as a joint stock company with limited liability under the Company Law of the PRC as a successor of China National Non-Metallic Materials Corporation ("CNNMC"), a wholly owned subsidiary of China National Materials Group Corporation ("SINOMA"). The Company has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") since 20 December 2007. The address of its registered office is 11, Beishuncheng Street, Xizhimennei, Beijing, the PRC.

The Company and its subsidiaries (collectively, the "Group") is principally engaged in cement equipment and engineering services and manufacturing of cement, glass fibre and other high-tech materials.

1.2 Reorganisation

(a) Pursuant to the reorganisation (the "Reorganisation") of SINOMA and its subsidiaries (collectively, the "SINOMA Group") in preparation for a listing of the Company's shares on the Hong Kong Stock Exchange, the Company issued 1,565,202,629 ordinary shares of RMB1.00 each to SINOMA and consequently became the holding company of certain companies/operations previously owned by the SINOMA Group, including CNNMC and other subsidiaries of SINOMA. SINOMA and its subsidiaries, including CNNMC, are state-owned enterprises under the control of the State Council. The principal reorganising transactions include:

(i) transfer of CNNMC and most of its subsidiaries/operations, equity interests in associates and jointly controlled entities (the "CNNMC Core Business") into the Group, after transferring certain subsidiaries/operations (the "Excluded Business") from CNNMC to the SINOMA Group which are not strategically complementary to the Group's operations or provide only auxiliary facilities to the Group, including real estate management and property leasing business, mine construction and other minor non-metallic materials business;

(ii) transfer of an additional 8.5% equity interest in Sinoma Cement Co., Ltd. ("Sinoma Cement"), an additional 3.54% equity interest in Sinoma International Engineering Co., Ltd. ("Sinoma International"), an additional 1% equity interest in Sinoma Zhuzhou Cement Co. Ltd., an additional 20% equity interest in Beijing Composite Materials Co., Ltd. and an additional 25% equity interest in Suzhou Sinoma Design & Research Institute of Non-metallic Minerals Industry Co., Ltd., which were subsidiaries of CNNMC, as well as a 51% equity interest in Xiamen ISO Standard Sand Co., Ltd. and a 0.85% equity interest in Taishan Fibreglass Inc. ("CTG") from the SINOMA Group to the Company;

(iii) transfer of certain assets and liabilities of CNNMC and its subsidiaries to the SINOMA Group which were not retained by the Group but were related to the CNNMC Core Business.

1. General information and Reorganisation *(Continued)*

1.2 Reorganisation *(Continued)*

(b) In addition, as a result of the Reorganisation, four other state-owned enterprises (the "State-owned Promoters") contributed their equity interests in the following three companies to the Company as directed by the relevant governmental authorities in exchange for an aggregate of 738,607,544 shares of RMB1.00 each in the Company:

(i) a 99.15% equity interest in CTG.

(ii) a 14.72% equity interest in Xinjiang Tianshan Cement Co. Ltd. ("Tianshan Cement"), in which the Group had a 21.56% equity interest prior to the contribution;

(iii) a 17.24% equity interest in Sinoma Advanced Materials Co., Ltd. ("Sinoma Advanced Materials"), in which the Group had a 68.42% equity interest prior to the contribution.

On the same date, an aggregate of 196,189,827 shares of RMB1.00 each in the Company were issued to two other entities (the "Other Promoters") for a cash consideration of RMB300,000,000.

(c) Upon completion of the aforementioned Reorganisation and the share subscriptions on 31 July 2007, the Company was incorporated with a total of 2,500,000,000 shares issued and a share capital of RMB2,500,000,000.

(d) The financial statements have been approved for issue by the Board of Directors on 22 April 2008.

2. Basis of presentation

2.1 As the Company, the SINOMA Group and the State-owned Promoters are all state-owned enterprises under the control of the State Council, the Reorganisation has been accounted for as a reorganisation of businesses under common control in a manner similar to a uniting of interests. These include interests in companies now comprising the Group transferred from the SINOMA Group as described in Note 1.2(a) above, as well as those contributed by the State-owned Promoters pursuant to various government directed transactions as described in Note 1.2(b)(i) to (iii) above.

The consolidated income statement, statement of changes in equity and cash flow statement have been presented as if the current group structure had been in existence since the beginning of the earliest period presented (i.e. 1 January 2006), or since the date when the combining entities first came under the control of the State Council, where this is a shorter period.

2.2 The assets and liabilities which were not retained by the Group but were related to the CNNMC Core Business, as described in Note 1.2(a)(iii) above, were included in the consolidated financial statements before the Reorganisation, because the operations of these assets and liabilities could not be clearly distinguished from the CNNMC Core Business and were not managed separately. These assets and liabilities, together as a net liability of RMB44,401,000 (2006: RMB49,484,000), were accounted for as an contribution from the SINOMA Group upon the Reorganisation.

2. Basis of presentation *(Continued)*

2.3 The consolidated financial statements have not included the assets, liabilities and results of operations of the Excluded Business as described in Note 1.2(a)(i) above, on the basis that these companies are engaged in dissimilar businesses from those of the Group, have separate management personnel and accounting records and have no more than incidental common facilities and costs shared with the Group.

2.4 The Company was established on 31 July 2007, and accordingly no comparative figures were presented in the company balance sheet.

2.5 Significant changes in the group structure during the year ended 31 December 2007 which are regarded as transactions with minority interests are as follows:

(a) Further capital contributions to subsidiaries by the Group and/or minority interests

During the year ended 31 December 2007, minority interests in the Group made cash capital contributions to the Group's subsidiaries amounting to RMB148,534,000 (2006: RMB155,181,000). In connection with certain of these capital contributions, the Group and certain minority interests contributed additional capital to certain subsidiaries not in the same proportion as their respective equity interests before the contribution. During the year ended 31 December 2007, the increase in the Group's shares in the subsidiaries' net assets over the capital contributions by the Group, amounting to RMB5,566,000 (2006: RMB885,000), is recorded as an increase of shareholders' equity. Material contributions to these subsidiaries during the year ended 31 December 2007 are as follows:

(i) In April 2007, CTG and the minority interests of Taishan Fibreglass Zoucheng Co., Ltd. ("CTG Zoucheng") contributed additional capital to CTG Zoucheng amounting to RMB91,800,000 and RMB39,600,000, respectively. In June 2007, CTG and the minority interests further contributed additional capital to CTG Zoucheng amounting to RMB43,950,000 and RMB4,650,000, respectively. After these two capital contributions, the equity interest in CTG Zoucheng held by CTG increased from 51% to 64% while the equity interest in CTG Zoucheng held by minority interests decreased from 49% to 36%. The excess of the increase of CTG's share in CTG Zoucheng' net assets over the capital contribution, amounting to RMB5,202,000, was resulted which was recorded as an increase of shareholders' equity.

(ii) In October 2007, the Company contributed additional capital of RMB122,880,000 to Sinoma Advanced Materials. Following the capital contribution, the Company's equity interest in Sinoma Advanced Materials increased from 92.22% to 94.49%. A deemed loss of RMB2,883,000 was resulted which was recorded as a deduction of shareholders' equity.

(iii) In December 2007, Sinoma International and the minority interests of Jiangsu Sinoma Cement Technique Equipment Co., Ltd. ("Jiangsu Sinoma") contributed additional capital to Jiangsu Sinoma amounting to RMB27,358,000 and RMB29,110,000, respectively. The excess of the increase of Sinoma International's share in the net assets of Jiangsu Sinoma over the capital contribution, amounting to RMB3,429,000, was resulted which was recorded as an increase of shareholders' equity.

2. Basis of presentation *(Continued)*

(b) *Acquisition of additional equity interests in subsidiaries from minority interests*

The Group acquired additional equity interests in several subsidiaries from minority interests for total cash consideration of RMB113,494,000 (2006: RMB42,904,000). The net difference between the consideration and the net assets acquired of RMB11,359,000 (2006: Nil) were recorded as a deduction of shareholders' equity. Material acquisitions during the year ended 31 December 2007 are as follows:

(i) In June 2007, Tianshan Cement acquired a 10% equity interest in Jiangsu Tianshan Cement Group Co., Ltd. ("Jiangsu Tianshan") from minority interests for a cash consideration of RMB40,900,000 and its equity interest in Jiangsu Tianshan increased from 56.01% to 66.01%. The excess of the consideration over the acquired net assets in Jiangsu Tianshan, amounting to RMB3,586,000, was recorded as a deduction of shareholders' equity.

(ii) In July 2007 and September 2007, Sinoma Cement acquired 11% and 8% equity interests in Sinoma Hengda Cement Co., Ltd. ("Sinoma Hengda") from minority interests for cash considerations of RMB22,137,000 and RMB15,788,000, respectively. The equity interest of Sinoma Cement in Sinoma Hengda increased from 51% to 70%. The excess of the consideration over the acquired net assets in Sinoma Hengda, amounting to RMB573,000, was recorded as a deduction of shareholders' equity.

(iii) In September 2007, the Company acquired a 6.56% equity interest in Sinoma Advanced Materials for a cash consideration of RMB19,511,000 and its equity interest in Sinoma Advanced Materials increased from 85.66% to 92.22%. The excess of the consideration over the acquired net assets in Sinoma Advanced Materials, amounting to RMB8,277,000, was recorded as a deduction of shareholders' equity.

(iv) In December 2007, the Company acquired a 45.61% equity interest in Henan Sinoma Environmental Protection Co., Ltd. ("Henan Sinoma Environmental") for a cash consideration of RMB13,000,000 and its equity interest in Henan Sinoma Environmental increased from 54.39% to 100%. The excess of the acquired net assets in Henan Sinoma Environmental over the consideration, amounting to RMB38,000, was recorded as an increase of shareholders' equity.

(c) *Initial public offering of new shares of a subsidiary and implementation of share reform scheme by Sinoma International*

In November 2006, Sinoma Science & Technology Co., Ltd. ("Sinoma Science & Technology"), a subsidiary of the Group, completed its initial public offering and listing of its A shares on the Shenzhen Stock Exchange of the PRC. Net proceeds of RMB322,164,000 were received from public shareholders and the Group's equity interest in Sinoma Science & Technology was reduced from 63.79% to 47.67%. The increase in the Group's share in the net assets of Sinoma Science & Technology after the initial public offering, amounting to RMB112,037,000, was recorded as an increase of shareholders' equity.

In June 2006, pursuant to the rules and regulations promulgated by the relevant authorities in the PRC, Sinoma International implemented its share reform scheme. Through the share reform scheme, the Group distributed 8.09% equity interest in Sinoma International to the public shareholders for nil consideration and the Group's equity interest in Sinoma International was reduced from 61.40% to 53.31%. Decrease in the Group's shares in the net assets of Sinoma International after the share reform, amounting to RMB53,429,000, was recorded as a deduction of shareholders' equity.

3. Principal accounting policies

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

3.1 Basis of preparation

The financial statements of the Company and the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit and loss, which are carried at fair value, as well as the revaluation for business combinations achieved in stages.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5 below.

At the date of this report, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued the following standards, amendments and interpretations.

(a) Amendments and interpretations to published standards effective in 2007 and relevant to the Group

HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

HK(IFRIC) – Interpretation 8, 'Scope of HKFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

HK(IFRIC) – Interpretation 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

3. Principal accounting policies *(Continued)*

3.1 Basis of preparation *(Continued)*

(b) *Standards, amendments and interpretations effective in 2007 but not relevant to the Group's operations*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) – Interpretation 7, 'Applying the restatement approach under HKAS 29 Financial reporting in hyper-inflationary economies'; and

- HK(IFRIC) – Interpretation 9, 'Reassessment of embedded derivatives'.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Revised), 'Borrowing costs', effective for annual periods beginning on or after 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. Since the Group has chosen to capitalise borrowing cost relating to qualifying assets as described in Note 3.18, HKAS 23 (Revised) is not expected to have any material impact on the Group's financial statements.

- HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14 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 HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the manner in which the segments are reported will not change materially since current disclosure of operating segments is consistent with the internal reporting provided to the chief operating decision-maker.

3. Principal accounting policies *(Continued)*

3.1 Basis of preparation *(Continued)*

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

- HK(IFRIC) – Interpretation 11, 'HKFRS 2 – Group and treasury share transactions', effective for annual periods beginning on or after 1 March 2007. This interpretation 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 or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have any material impact on the Group's financial statements.

- HK(IFRIC) – Interpretation 12, 'Service concession arrangements', effective for annual periods beginning on or after 1 January 2008. The interpretation applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. This interpretation is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

- HK(IFRIC) – Interpretation 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. The interpretation clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- HK(IFRIC) – Interpretation 14, 'HKAS19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', effective for annual periods beginning on or after 1 January 2008. The interpretation provides guidance on assessing the limit in HKAS 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 affected by a statutory or contractual minimum funding requirement. This interpretation is not relevant to the Group's operation since there are no plan assets or minimum funding requirement in the defined benefit plan of the Group.

- HKAS 32 and HKAS 1 Amendments, 'Puttable financial instruments and obligations arising on liquidation', effective for annual periods beginning on or after 1 January 2009. The amendment requires some puttable financial instruments and some financial 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 to be classified as equity. The Group will apply HKAS 32 and HKAS 1 Amendments from 1 January 2009, but it is not expected to have any material impact on the Group's financial statements.

3. Principal accounting policies *(Continued)*

3.1 Basis of preparation *(Continued)*

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

- HKAS 27 (Revised), 'Consolidated and separate financial statements', effective for annual period beginning on or after 1 July 2009. The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010, but it is not expected to have any material impact on the Group's financial statements.

- HKFRS 3 (Revised), 'Business combination', effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010, but it is not expected to have any material impact on the Group's financial statements.

3.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. If the Group has de facto control over an entity, such an entity is also considered to be a subsidiary of the Group even though it has less than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that the Group ceases to have control.

3. Principal accounting policies *(Continued)*

3.2 Consolidation *(Continued)*

(a) Subsidiaries (Continued)

Except for the transfer/acquisition of equity interests in subsidiaries which are regarded as common control combinations and thus accounted for using the principles of merger accounting, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 3.9(a)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses, if any (Note 3.11). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The existence of significant influence by the Group is usually evidenced in one or more of the following ways such as representation on the board of directors or equivalent governing body of the investee, participation in policy-making processes, including participation in decisions about dividends or other distributions, material transactions between the investor and the investee, interchange of managerial personnel or provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 3.9(a)).

3. Principal accounting policies *(Continued)*

3.2 Consolidation *(Continued)*

(c) Associates (Continued)

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses, if any (Note 3.11). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

3.3 Jointly controlled entities

A jointly controlled entity is a joint venture where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group consolidates its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other ventures. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the Group's purchase of assets from the joint controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses, if any (Note 3.11). The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

3.4 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.

3. Principal accounting policies *(Continued)*

3.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the entities within the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

3. Principal accounting policies *(Continued)*

3.5 Foreign currency translation *(Continued)*

(c) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less accumulated impairment loss of each asset to its residual value over its estimated useful life, as follows:

– Buildings	20-40 years
– Plant and machinery	5-15 years
– Motor vehicles	5-10 years
– Furniture, office and other equipment	5-10 years

Construction-in-progress represents buildings under construction and plant and machinery pending installation and is stated at cost. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the period of construction or installation and testing. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

3. Principal accounting policies *(Continued)*

3.7 Land use rights

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

3.8 Investment properties

Investment property is held for long-term rental yields or for capital appreciation or both and is not occupied by the Group. Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met and the related operating lease is accounted for as if it were a finance lease. Investment properties are stated at cost including related transaction costs, less accumulated depreciation and impairment losses.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment or land use rights. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

Depreciation is calculated using the straight-line method to write off the cost of the asset over a period ranging from 20 to 40 years.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and recognised in the income statement.

3.9 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, jointly controlled entity or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

3. Principal accounting policies *(Continued)*

3.9 Intangible assets *(Continued)*

(b) Patent and proprietary technologies

Patents and proprietary technologies are carried at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis over their useful lives as stated in the contracts.

(c) Customer relationships

Purchased customer relationships are capitalised on the basis of the costs incurred to acquire the specific customer relationship. Customer relationships acquired through acquisitions of subsidiaries are recognised according to the fair value on the acquisition date. The costs are amortised over their estimated useful lives of three to five years based on management's estimates on how long the Group could retain the customers.

(d) Trademarks

Trademarks of the Group have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 20 to 30 years.

(e) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to five years.

3.10 Mining rights

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

3.11 Impairment of investments in subsidiaries, jointly controlled entities, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3. Principal accounting policies *(Continued)*

3.12 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Note 3.14 and Note 3.15).

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value or at cost less provision for impairment if their fair values cannot be measured reliably. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method.

3. Principal accounting policies *(Continued)*

3.12 Financial assets *(Continued)*

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 3.14.

3.13 Inventories

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

3. Principal accounting policies *(Continued)*

3.14 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

3.15 Cash and cash equivalents

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

3.16 Share capital

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

3.17 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.18 Borrowings and borrowing costs

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

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

Borrowing costs that are directly attributable to the acquisition, construction or production of any qualifying asset are capitalised as part of the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed in the period in which they are incurred.

3. Principal accounting policies *(Continued)*

3.19 Current and deferred income tax

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

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

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

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

3.20 Employee benefits

(a) *Pension obligations*

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

The Group also provided supplementary pension subsidies to its employees in the PRC who retired prior to 31 December 2006. Such supplementary pension subsidies are considered to be defined benefit plans as they oblige the Group to provide post-employment benefits to set amounts of employees. The liability recognised in the balance sheet in respect of these defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

3. Principal accounting policies *(Continued)*

3.20 Employee benefits *(Continued)*

(a) Pension obligations (Continued)

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

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

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

(b) Other post-employment obligations

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

(c) Termination and early retirement benefits

Termination and early retirement benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination and early retirement benefits when it is demonstrably committed to either (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (ii) providing termination and early retirement benefits as a result of an offer made to encourage voluntary redundancy. The specific terms vary among the terminated and early retired employees depending on various factors including position, length of service and location of the employee concerned. Benefits falling due more than 12 months after balance sheet date are discounted to present value. After 31 December 2006, the Company will not allow early retirement, nor provide such termination benefits to employees who are terminated after then.

(d) Housing funds

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

(e) Bonus entitlements

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

3. Principal accounting policies *(Continued)*

3.21 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.22 Government grants

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

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

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

3.23 Construction contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

Costs incurred in the year in connection with the future activity of a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

3. Principal accounting policies *(Continued)*

3.23 Construction contract *(Continued)*

Contract work-in-progress is valued at the cost price of the work done, plus a part of the expected profit upon completion of the project in proportion to the progress made and less progress billings and provisions. Provisions are recognised for expected losses on contract work-in-progress, as soon as they are foreseen, and deducted from the cost price. The cost price includes direct project costs, consisting of direct payroll costs, materials, costs of subcontracted work, borrowing costs directly attributable to the relevant contracts, rental charges, maintenance costs for the equipment used and other direct costs. The progress of a project is determined on the basis mentioned in the preceding paragraph. Profits are not recognised unless a reliable estimate can be made of the result on completion of the project. The balance of the value of contract work-in-progress and progress billings is determined on a project to project basis. For projects where the progress billings exceed the value of contract work-in-progress, the balance is recognised under current liabilities instead of under current assets. The respective balance sheet items are 'amounts due from customers for contract work' and 'amounts due to customers for contract work'.

3.24 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Revenue from cement equipment and engineering services*

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

Variation in contract work, claims and incentive payments are included in the contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured.

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

(b) *Other services rendered*

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

3. Principal accounting policies *(Continued)*

3.24 Revenue recognition *(Continued)*

(c) *Sales of products*

Sales of products are recognised when significant risks and rewards of ownership of the goods are transferred to the customer, and the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(d) *Rental income*

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

(e) *Interest income*

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

(f) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

3.25 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(a) *As a lessee*

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) *As a lessor*

Assets leased out under operating leases are included in property, plant and equipment and investment properties on the balance sheets. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

3.26 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
(ii) management intends to complete the intangible asset and use or sell it;
(iii) there is an ability to use or sell the intangible asset;
(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;
(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

3. Principal accounting policies *(Continued)*

3.26 Research and development *(Continued)*

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually, in accordance with HKAS 36 'Impairment of Assets'.

3.27 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.

3.28 Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently amortised to the income statement over the period of the underlying borrowings, unless the Group has incurred an obligation to reimburse the recipient for an amount higher than the unamortised amount, in which case, the financial guarantee contracts shall be carried at the expected amount payable to the recipient.

4. Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

(a) *Foreign exchange risk*

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

The Group's exposure to foreign exchange risk relates principally to its trade and other receivables (except for prepayments to suppliers and subcontractors), restricted cash, cash and cash equivalents, trade and other payables (except for prepayments from customers) and borrowings as at 31 December 2007 denominated in foreign currencies, mainly United States Dollars ("US$") and Hong Kong Dollars ("HK$"). Analysis of these assets and liabilities by currency are disclosed in Notes 17, 20, 21, 25 and 26 respectively.

To mitigate the impact of exchange rate fluctuations, the Group continually assesses and monitors the exposure to foreign exchange risk. During the year, however, management of the Group did not consider it was necessary to hedge the exposure to foreign exchange risk.

4. Financial risk management *(Continued)*

4.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk (Continued)

As at 31 December 2007, if RMB had strengthened by 7% against US$ with all other variables held constant, which was considered reasonably possible at that date by management, the profit for the year would have been approximately RMB37,553,000 higher (2006: RMB15,466,000 higher) , mainly as a result of foreign exchange gains on translation of US$-denominated trade and other receivables (except for prepayments to suppliers and subcontractors), restricted cash, cash and cash equivalents, trade and other payables (except for prepayments from customers) and borrowings.

As at 31 December 2007, if RMB had strengthened by 7% against HK$ with all other variables held constant, which was considered reasonably possible at that date by management, the profit for the year would have been approximately RMB154,100,000 lower (2006: RMB105,000 lower) , mainly as a result of foreign exchange losses on translation of HK$-denominated trade and other receivables (except for prepayments to suppliers and subcontractors) and cash and cash equivalents.

(b) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its restricted cash, cash and cash equivalents and borrowings. Restricted cash, cash and cash equivalents and borrowings at variable rates expose the Group to cash flow interest-rate risk, and those at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2007, approximately RMB795,991,000 of the Group's restricted cash (2006: RMB715,231,000), approximately RMB2,699,583,000 of the Group's cash and cash equivalents (2006: RMB485,684,000) and approximately RMB2,552,952,000 (2006: RMB3,091,810,000) of the Group's borrowings were at fixed rates, respectively. The interest rates and maturities of the Group's restricted cash, cash and cash equivalents and borrowings are disclosed in Notes 20, 21 and 26 respectively.

To mitigate the impact of interest rate fluctuations, the Group continually assesses and monitors the exposure to interest rate risk. During the year, however, management of the Group did not consider it necessary to use interest rate swaps to hedge their exposure to interest rate risk.

As at 31 December 2007, if the interest rate on borrowings had been 100 basis points higher with all other variables held constant, which was considered reasonably possible at that date by management, profit for the year would has been RMB31,435,000 lower (2006: RMB14,179,000 lower) , mainly as a result of higher interest expenses on bank borrowings.

4. Financial risk management *(Continued)*

4.1 Financial risk factors *(Continued)*

(c) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, available-for-sale financial assets, trade and other receivables (except for prepayments to suppliers and subcontractors, staff advances and prepayment/deposit for acquisition), represent the Group's maximum exposure to credit risk in relation to financial assets. Substantially all of the Group's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group has policies in place to ensure that services are rendered and products are sold to customers with appropriate credit history and the Group performs periodic assessment on the credit quality of the customers, taking into account its financial position, past experience and other factors. Normally the Group does not hold any collaterals as security. The Directors consider the Group does not have a significant concentration of credit risk. Contributions from the largest customer accounted for approximately 13% of the Group's total revenues for the year ended 31 December 2007 (2006: 9%).

(d) Liquidity risk

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

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

The maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in Note 26(c). Generally there is no specific credit period granted by the suppliers but the related trade payables are normally expected to be settled within one year after receipt of goods or services.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

4. Financial risk management *(Continued)*

4.1 Financial risk factors *(Continued)*

(d) Liquidity risk (Continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
As at 31 December 2006				
Borrowings	4,217,030	533,826	1,573,751	1,640,421
Trade and other payables	4,159,795	29,820	4,367	–
	8,376,825	563,646	1,578,118	1,640,421
As at 31 December 2007				
Borrowings	3,905,823	992,540	2,391,913	1,338,178
Trade and other payables	5,092,070	2,055	2,054	–
	8,997,893	994,595	2,393,967	1,338,178
Company				
As at 31 December 2007				
Borrowings	993,000	–	–	–
Trade and other payables	287,837	–	–	–
	1,280,837	–	–	–

4.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date. Other techniques, such as estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade and other receivables, cash and cash equivalents, restricted cash, trade and other payables and current borrowings are a reasonable approximation of their fair value due to their short maturities. The fair value of non-current borrowings for disclosure purposes Note 26(f) is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4. Financial risk management *(Continued)*

4.3 Capital risk management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as the total borrowings (including current and non-current borrowings as shown in the balance sheet), less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the balance sheet, plus net debt. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios of the Group and the Company as at 31 December 2006 and 2007 are as follows:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Total borrowings (Note 26)	**7,452,608**	6,901,912	**993,000**
Less: Cash and cash equivalents (Note 21)	**(8,443,176)**	(3,699,784)	**(3,836,173)**
Net (cash)/debt	**(990,568)**	3,202,128	**(2,843,173)**
Total equity	**9,027,259**	4,544,573	**2,555,509**
Total capital	**8,036,691**	7,746,701	**(587,664)**
Gearing ratio	**–**	41%	**–**

The decrease in the gearing ratio during on the year ended 31 December 2007 resulted primarily from the increase in cash and cash equivalents resulting from the initial public offering of the Company's shares on the Hong Kong Stock Exchange.

5. Critical accounting estimates and judgments

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

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

(a) Construction contracts

Revenue from individual contracts is recognised under the percentage of completion method which requires estimation by management. Anticipated losses are fully provided on contracts when identified. Management estimates the amount of foreseeable losses of construction work based on the estimation prepared for the construction contracts. Because of the nature of the activity undertaken in construction and engineering businesses, the contract activity will usually last for a period over one year and therefore fall into different accounting periods.

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

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

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

(c) Current and deferred income tax

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

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

5. Critical accounting estimates and judgments *(Continued)*

(d) Provision for impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables with the accounting policy stated in Note 3.14. Such provision for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Management reassesses the adequacy of any such provision on a regular basis.

(e) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 3.9(a). The recoverable amounts of cash-generating units have been determined based on the higher of the CGU's fair value less costs to sell and its value-in-use. These calculations require the use of estimates which are disclosed in Note 10(b).

Further details of the results of the review undertaken by management as at 31 December 2007 are set out in Note 10(b).

(f) Impairment of available-for sale financial assets

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

(g) Provision for guarantees

The Group follows the guidance of HKAS 37 'Provisions, Contingent Liabilities and Contingent Assets' in determining the provision for guarantees. Provisions have been made based on management's best estimates and judgments if it is probable that an outflow of resources will be required to settle the defaulted guarantees and the amount of such provision can be measured reliably.

(h) Contingent liabilities in respect of litigations and claims

The Group has been engaged in a number of litigations and claims in respect of certain construction work. Contingent liabilities arising from these litigations and claims have been assessed by management with reference to legal advice. Provisions on the possible obligation have been made based on management's best estimates and judgments.

(i) De facto control over subsidiaries

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

6. Segment information

6.1 Primary reporting format – business segments

The Group's business is organised into four main business segments: (i) cement equipment and engineering services; (ii) glass fibre; (iii) cement; and (iv) high-tech materials.

Inter-segment sales were conducted at prices no less than cost and with terms mutually agreed amongst those business segments.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated costs.

Segment assets consist primarily of property, plant and equipment, land use rights, investment properties, mining rights, intangible assets, investment in associates, other non-current assets, inventories, trade and other receivables, amount due from customers for contract work, cash and cash equivalents, restricted cash and other current assets. Unallocated assets comprise deferred income tax, available-for-sale financial assets and corporate assets.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation and corporate liabilities.

Capital expenditure comprises mainly additions to property, plant and equipment (Note 7), land use rights (Note 8), investment properties (Note 9), intangible assets (Note 10) and mining rights (Note 11), including additions resulting from acquisitions through business combination (Note 43).

Turnover generated by the segment of cement equipment and engineering services is disclosed as turnover from cement equipment and engineering services in Note 30. Turnover generated by the segments of glass fibre, cement and high-tech materials is disclosed as turnover from sales of products in Note 30.

6. Segment information *(Continued)*

6.1 Primary reporting format – business segments *(Continued)*

(a) *As at and for the year ended 31 December 2007*

The segment results for the year ended 31 December 2007 and other segment items included in the consolidated income statement and capital expenditure are as follows:

	Cement equipment and engineering services	Glass fibre	Cement	High-tech materials	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total gross segment turnover	12,928,398	1,743,830	3,842,626	1,166,766	(34,526)	19,647,094
Inter-segment turnover	(5,940)	(3,401)	–	(25,185)	34,526	–
Turnover	12,922,458	1,740,429	3,842,626	1,141,581	–	19,647,094
Segment result	637,602	329,276	635,687	138,262	4,913	1,745,740
Unallocated costs						(85,239)
Operating profit						1,660,501
Interest income						85,644
Finance costs						(387,894)
Share of (loss)/profit of associates	(3,058)	–	50,387	2,644	–	49,973
Profit before income tax						1,408,224
Income tax expense						(383,376)
Profit for the year						1,024,848

	Cement equipment and engineering services	Glass fibre	Cement	High-tech materials	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation	97,636	155,736	264,611	39,597	257	557,837
Amortisation	6,908	6,976	30,170	6,236	–	50,290
Provision for impairment of property, plant and equipment	–	4,234	–	591	–	4,825
(Reversal of)/provision for impairment of inventories	–	(525)	(435)	678	–	(282)
Foreseeable losses on construction contracts	1,818	–	–	–	–	1,818
Provision for impairment on trade and other receivables	376	7,601	63,592	2,720	979	75,268
Capital expenditure	289,199	1,278,675	623,516	274,627	1,249	2,467,266

Capital expenditure for the year ended 31 December 2007 includes additions resulting from acquisitions through business combinations, amounting to RMB13,219,000.

6. Segment information *(Continued)*

6.1 Primary reporting format – business segments *(Continued)*

(a) *As at and for the year ended 31 December 2007 (Continued)*

The segment assets and liabilities as at 31 December 2007 are as follows:

	Cement equipment and engineering services	Glass fibre	Cement	High-tech materials	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	**10,940,649**	**5,008,093**	**7,546,126**	**1,883,736**	**(603,038)**	**24,755,566**
Investments in associates	**40,200**	**–**	**536,784**	**55,385**	**–**	**632,369**
Unallocated assets						**4,015,962**
Total assets						**29,423,897**
Segment liabilities	**9,429,891**	**3,376,525**	**5,281,483**	**922,488**	**(686,824)**	**18,323,563**
Unallocated liabilities						**2,073,075**
Total liabilities						**20,396,638**

(b) *As at and for the year ended 31 December 2006 (Restated)*

The segment results for the year ended 31 December 2006 and other segment items included in the consolidated income statement and capital expenditure are as follows:

	Cement equipment and engineering services	Glass fibre	Cement	High-tech materials	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total gross segment turnover	9,949,323	1,622,096	622,750	875,380	(56,683)	13,012,866
Inter-segment turnover	(38,338)	(1,444)	–	(16,901)	56,683	–
Turnover	9,910,985	1,620,652	622,750	858,479	–	13,012,866
Segment result	554,834	262,643	52,880	74,420	(734)	944,043
Unallocated costs						(65,951)
Operating profit						878,092
Interest income						46,471
Finance costs						(193,268)
Share of profit of associates	2,092	–	3,813	2,328	–	8,233
Profit before income tax						739,528
Income tax expense						(211,982)
Profit for the year						527,546

6. Segment information *(Continued)*

6.1 Primary reporting format – business segments *(Continued)*

(b) As at and for the year ended 31 December 2006 (Restated) (Continued)

	Cement equipment and engineering services	Glass fibre	Cement	High-tech materials	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation	101,230	142,051	46,060	27,741	350	317,432
Amortisation	4,708	9,141	4,690	5,111	7	23,657
Provision for impairment of property, plant and equipment	–	6,740	3,723	664	–	11,127
Reversal of provision for impairment of inventories	(822)	(137)	(112)	(3,940)	–	(5,011)
Foreseeable losses on construction contracts	8,396	–	–	–	–	8,396
Provision for impairment of trade and other receivables	56,088	12,348	2,412	9,523	–	80,371
Capital expenditure	402,145	476,087	3,929,758	258,716	363	5,067,069

Capital expenditure for the year ended 31 December 2006 includes additions resulting from acquisitions through business combinations, amounting to RMB3,255,904,000.

The segment assets and liabilities as at 31 December 2006 are as follows:

	Cement equipment and engineering services	Glass fibre	Cement	High-tech materials	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	9,258,627	3,532,443	6,786,420	1,461,865	(671,212)	20,368,143
Investments in associates	15,824	11,000	119,814	22,010	–	168,648
Unallocated assets						951,186
Total assets						21,487,977
Segment liabilities	8,172,057	2,467,609	4,903,145	668,532	(481,061)	15,730,282
Unallocated liabilities						1,213,122
Total liabilities						16,943,404

6. Segment information *(Continued)*

6.2 Secondary reporting format – geographical segments

(a) *Turnover*

Turnover is allocated based on the country in which the customers are located.

	2007	2006
	RMB'000	RMB'000 (Restated)
The PRC	**11,813,310**	7,414,648
Middle East	**4,921,187**	3,462,705
Other Asian countries	**1,548,497**	776,192
Europe	**581,060**	521,447
Africa	**482,708**	395,251
Others	**300,332**	442,623
	19,647,094	13,012,866

(b) *Total assets*

Total assets are allocated based on where the assets are located.

	2007	2006
	RMB'000	RMB'000
The PRC	**21,931,713**	17,595,533
Middle East	**2,068,312**	2,610,082
Other Asian countries	**465,124**	38,008
Others	**310,417**	124,520
	24,775,566	20,368,143
Investment in associates	**632,369**	168,648
Unallocated assets	**4,015,962**	951,186
	29,423,897	21,487,977

(c) *Capital expenditure*

Capital expenditure is allocated based on where the assets are located.

	2007	2006
	RMB'000	RMB'000 (Restated)
The PRC	**2,451,355**	5,035,992
Middle East	**5,715**	24,729
Other Asian countries	**–**	2,804
Others	**10,196**	3,544
	2,467,266	5,067,069

7. Property, plant and equipment – Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, office and other equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
At 1 January 2006						
Cost	1,011,851	2,681,248	185,781	178,213	589,769	4,646,862
Accumulated depreciation	(208,079)	(571,858)	(70,310)	(87,141)	–	(937,388)
Accumulated impairment provision	(9,351)	(15,956)	(71)	(129)	–	(25,507)
Net book amount	794,421	2,093,434	115,400	90,943	589,769	3,683,967
Year ended 31 December 2006						
Opening net book amount	794,421	2,093,434	115,400	90,943	589,769	3,683,967
Additions	145,188	326,786	45,952	36,009	1,174,343	1,728,278
Attributable to acquisition of subsidiaries	1,092,590	1,176,132	77,118	11,619	251,100	2,608,559
Disposals	(55,774)	(175,631)	(11,241)	(3,550)	–	(246,196)
Attributable to disposal of subsidiaries	(5,332)	(2,273)	–	–	(60)	(7,665)
Reclassification upon completion	454,432	554,439	–	–	(1,008,871)	–
Depreciation charge	(70,937)	(199,696)	(23,965)	(22,242)	–	(316,840)
Impairment charge	(3,100)	(5,585)	–	(2,442)	–	(11,127)
Closing net book amount	2,351,488	3,767,606	203,264	110,337	1,006,281	7,438,976
At 31 December 2006						
Cost	2,635,655	4,481,423	280,263	216,224	1,006,281	8,619,846
Accumulated depreciation	(272,040)	(697,186)	(76,999)	(103,418)	–	(1,149,643)
Accumulated impairment provision	(12,127)	(16,631)	–	(2,469)	–	(31,227)
Net book amount	2,351,488	3,767,606	203,264	110,337	1,006,281	7,438,976
Year ended 31 December 2007						
Opening net book amount	2,351,488	3,767,606	203,264	110,337	1,006,281	7,438,976
Additions	99,455	450,863	78,951	82,228	1,524,672	2,236,169
Attributable to acquisition of a subsidiary	5,090	3,889	218	71	3,951	13,219
Reclassification from investment properties	4,916	–	–	–	–	4,916
Disposals	(17,530)	(4,818)	(12,168)	(2,626)	–	(37,142)
Reclassification to investment property	(78,080)	–	–	–	(3,176)	(81,256)
Reclassification upon completion	469,879	1,090,475	–	–	(1,560,354)	–
Transfer to the SINOMA Group upon completion of the Reorganisation	(20,262)	(296)	(160)	(639)	–	(21,357)
Depreciation charge	(129,158)	(337,411)	(57,787)	(31,483)	–	(555,839)
Impairment charge	–	(4,450)	(25)	(70)	(280)	(4,825)
Closing net book amount	2,685,798	4,965,858	212,293	157,818	971,094	8,992,861
At 31 December 2007						
Cost	3,051,551	5,954,028	291,173	268,799	971,094	10,536,645
Accumulated depreciation	(363,861)	(977,335)	(78,855)	(110,883)	–	(1,530,934)
Accumulated impairment provision	(1,892)	(10,835)	(25)	(98)	–	(12,850)
Net book amount	2,685,798	4,965,858	212,293	157,818	971,094	8,992,861

7. Property, plant and equipment – Group *(Continued)*

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

	2007 RMB'000	2006 RMB'000
Cost of sales	**487,941**	274,429
Selling and marketing expenses	**13,513**	1,438
Administrative expenses	**54,385**	40,973
	555,839	316,840

(b) As at 31 December 2007, borrowings are secured by certain property, plant and equipment of the Group with an aggregate carrying value of approximately RMB1,933,492,000 (2006: RMB2,545,755,000) (Note 26).

8. Land use rights – Group

	2007 RMB'000	2006 RMB'000
At 1 January		
Cost	**1,172,643**	539,428
Accumulated amortisation	**(36,147)**	(22,476)
Net book amount	**1,136,496**	516,952
For the year		
Opening net book amount	**1,136,496**	516,952
Additions	**178,472**	65,398
Attributable to acquisition of subsidiaries	**–**	567,817
Disposals	**(1,288)**	–
Attributable to disposal of a subsidiary	**(2,113)**	–
Reclassification to investment properties	**(6,123)**	–
Transfer to the SINOMA Group upon completion of the Reorganisation	**(5,414)**	–
Amortisation charge	**(28,764)**	(13,671)
Closing net book amount	**1,271,266**	1,136,496
At 31 December		
Cost	**1,333,215**	1,172,643
Accumulated amortisation	**(61,949)**	(36,147)
Net book amount	**1,271,266**	1,136,496

8. Land use rights – Group *(Continued)*

(a) Land use rights represent the Group's interests in land which are held on leases between 30 to 50 years, all located in the PRC.

(b) Amortisation of land use rights has been charged in cost of sales.

(c) As at 31 December 2007, borrowings are secured by certain land use rights of the Group with an aggregate carrying value of approximately RMB152,286,000 (2006: RMB171,317,000) (Note 26).

9. Investment properties – Group

	2007 RMB'000	2006 RMB'000
At 1 January		
Cost	19,606	19,606
Accumulated depreciation	(4,138)	(3,546)
Net book amount	15,468	16,060
For the year		
Opening net book amount	15,468	16,060
Additions	2,200	–
Reclassification from property, plant and equipment	81,256	–
Reclassification from land use rights	6,123	–
Reclassification to property, plant and equipment	(4,916)	–
Transfer to the SINOMA Group upon completion of the Reorganisation	(40)	–
Depreciation charge	(1,998)	(592)
Closing net book amount	98,093	15,468
At 31 December		
Cost	104,135	19,606
Accumulated depreciation	(6,042)	(4,138)
Net book amount	98,093	15,468
Fair value at 31 December (b)	107,802	18,841

9. Investment properties – Group *(Continued)*

(a) The investment properties are situated on pieces of land which are held on leases between 40 to 50 years, all of which are located in the PRC.

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(b) The fair value of investment properties is based on the valuations performed by Greater China Appraisal Limited(「漢華評值有限公司」), an independent qualified valuer. Valuations are based on current price in an active market for all investment properties, except for those located in areas where such information is not available, where discounted cash flow projections are used.

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

	2007	2006
	RMB'000	RMB'000
Rental income recorded as other gains	11,291	2,107
Depreciation recorded as other expenses	1,998	592

(d) As at 31 December 2007, borrowings are secured by certain investment properties of the Group with an aggregate carrying value of approximately RMB27,287,000 (2006: RMB9,900,000) (Note 26).

10. Intangible assets – Group

	Goodwill	Patent and proprietary technologies	Customer relationships	Trademarks	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006						
Cost	–	36,537	19,127	3,269	7,288	66,221
Accumulated amortisation	–	(19,628)	(4,977)	(181)	(3,371)	(28,157)
Accumulated impairment provision	–	(1,515)	–	–	–	(1,515)
Net book amount	–	15,394	14,150	3,088	3,917	36,549
Year ended 31 December 2006						
Opening net book amount	–	15,394	14,150	3,088	3,917	36,549
Additions	–	7,911	–	–	2,937	10,848
Reclassification from investment in associates	2,852	–	–	–	–	2,852
Attributable to acquisition of subsidiaries	–	29	11,800	50,868	2,905	65,602
Attributable to disposal of subsidiaries	–	(1,292)	–	–	–	(1,292)
Amortisation charge	–	(3,483)	(4,157)	(165)	(1,803)	(9,608)
Closing net book amount	2,852	18,559	21,793	53,791	7,956	104,951
At 31 December 2006						
Cost	2,852	42,477	30,927	54,137	13,130	143,523
Accumulated amortisation	–	(22,403)	(9,134)	(346)	(5,174)	(37,057)
Accumulated impairment provision	–	(1,515)	–	–	–	(1,515)
Net book amount	2,852	18,559	21,793	53,791	7,956	104,951
Year ended 31 December 2007						
Opening net book amount	2,852	18,559	21,793	53,791	7,956	104,951
Additions	–	4,491	–	–	6,172	10,663
Impairment charge	–	(63)	–	–	–	(63)
Amortisation charge	–	(4,026)	(5,273)	(3,262)	(5,297)	(17,858)
Closing net book amount	2,852	18,961	16,520	50,529	8,831	97,693
At 31 December 2007						
Cost	2,852	46,968	30,927	54,137	19,302	154,186
Accumulated amortisation	–	(26,429)	(14,407)	(3,608)	(10,471)	(54,915)
Accumulated impairment provision	–	(1,578)	–	–	–	(1,578)
Net book amount	2,852	18,961	16,520	50,529	8,831	97,693

10. Intangible assets – Group *(Continued)*

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

(b) Goodwill is allocated to the Group's CGUs identified according to business segment. The carrying amount of goodwill as at 31 December 2007 is in respect of the CGU of Tianshan Cement. The goodwill impairment assessment is based on the recoverable amount of the CGU which is explained in Note 5(e) above.

The recoverable amount of Tianshan Cement is determined based on fair value less costs to sell calculations. The fair value less costs to sell calculations primarily use the market price of the A share of Tianshan Cement with consideration for a control premium and a lack-of-marketability discount. As at 31 December 2007, the Directors were of the view that there was no impairment of goodwill.

11. Mining rights – Group

	2007	2006
	RMB'000	RMB'000
At 1 January		
Cost	**22,234**	1,667
Accumulated amortisation	**(578)**	(200)
Net book amount	**21,656**	1,467
For the year		
Opening net book amount	**21,656**	1,467
Additions	**26,543**	6,641
Attributable to acquisition of subsidiaries	**–**	13,926
Amortisation charge	**(3,668)**	(378)
Closing net book amount	**44,531**	21,656
At 31 December		
Cost	**48,777**	22,234
Accumulated amortisation	**(4,246)**	(578)
Net book amount	**44,531**	21,656

Amortisation of mining rights has been charged in cost of sales.

12. Investments in subsidiaries – Company

	2007 RMB'000
Investments at cost	
– Unlisted equity interests	**1,975,672**
– Shares in companies listed in the PRC	**1,025,028**
	3,000,700

Particulars of the Group's principal subsidiaries are set out in Note 48(a).

Shares in companies listed in the PRC comprise:

(i) A 36.28% equity interest in Tianshan Cement, a company listed on the Shenzhen Stock Exchange of the PRC. The Company's equity interest in Tianshan Cement represents 75,464,321 A shares which are only tradable in the stock market by stages, of which 20,802,240 shares have been tradable since 26 May 2007, 20,802,240 shares will be tradable after 26 May 2008 and 33,859,841 shares will be tradable after 26 May 2009. The market value of the 20,802,240 tradable shares as at 31 December 2007 is RMB353,222,035. The market value of these shares as at 31 December 2006 is not presented as the shares were not tradable at that date.

(ii) A 53.31% equity interest in Sinoma International, a Company listed on the Shanghai Stock Exchange of the PRC. The Company's equity interest in Sinoma International represents 89,556,948 A shares which are not tradable in the stock market until 6 July 2009. The market value of these shares as at 31 December 2006 and 2007 is not presented as the shares were not tradable at these dates.

(iii) A 47.67% equity interest in Sinoma Science & Technology, a company listed on the Shenzhen Stock Exchange of the PRC. The Company's equity interest in Sinoma Science & Technology represents 71,566,800 A shares which are not tradable in the stock market until 3 November 2009. The market value of these shares as at 31 December 2006 and 2007 is not presented as the shares were not tradable at these dates.

13. Investments in jointly controlled entities

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

	2007	2006
	RMB'000	RMB'000
Assets:		
Non-current assets	281,798	262,615
Current assets	197,088	164,395
	478,886	427,010
Liabilities:		
Non-current liabilities	85,753	110,407
Current liabilities	186,850	143,730
	272,603	254,137
Net assets	206,283	172,873

	2007	2006
	RMB'000	RMB'000
Turnover	383,309	175,075
Cost of sales	(287,616)	(135,383)
Selling and marketing expenses	(16,231)	(7,728)
Administrative expenses	(31,539)	(16,769)
Finance costs, net	(4,212)	(4,999)
Profit before income tax	43,711	10,196
Income tax expense	(5,687)	(2,709)
Profit for the year	38,024	7,487

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

Particulars of the Group's principal jointly controlled entities are set out in Note 48(b).

13. Investments in jointly controlled entities *(Continued)*

The Company's interest in jointly controlled entities is stated at cost less provision for impairment losses, if any.

	2007
	RMB'000
Company	
Unlisted equity interests at cost	**24,636**

14. Investments in associates

(a) Movements of investments in associates are set out as follows:

	2007	2006
	RMB'000	RMB'000
Group		
Share of net assets	**632,369**	168,648

	2007
	RMB'000
Company	
Unlisted equity interests, at cost	**394,727**

14. Investments in associates *(Continued)*

(a) Movements of investments in associates are set out as follows *(Continued)*:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
At 1 January/31 July 2007, date of the establishment of the Company	**168,648**	292,261	**409,142**
Share of pre-tax results	**75,072**	11,439	**–**
Share of taxation	**(25,099)**	(3,206)	**–**
Share of post-tax results	**49,973**	8,233	**–**
Dividend distributions	**(13,045)**	(6,852)	**–**
Additions	**85,621**	11,000	**–**
Attributable to acquisition of subsidiaries	**–**	116,498	**–**
Disposals	**(15,936)**	–	**(14,415)**
Dilution loss arising from implementation of share reform schedule (Note 32(a))	**–**	(64,125)	**–**
Reclassification to subsidiaries (Note 43)	**(11,000)**	–	**–**
Recognised as subsidiaries			
– Share of net assets	**–**	(185,515)	**–**
– Goodwill	**–**	(2,852)	**–**
Acquisition of an associate achieved in stages (c)			
– Reclassification from available-for-sale financial assets	**350,000**	–	**–**
– Share of profits and equity movements relating to the previously held interest	**21,692**	–	**–**
Reclassification to available-for-sale financial assets	**(3,584)**	–	**–**
At 31 December	**632,369**	168,648	**394,727**

14. Investments in associates *(Continued)*

(b) The Group's share of assets and liabilities and results of its associates are as follows:

	2007	2006
	RMB'000	RMB'000
Total assets	**2,953,060**	395,111
Total liabilities	**(2,230,533)**	(226,463)
Minority interests	**(90,158)**	–
	632,369	168,648

	2007	2006
	RMB'000	RMB'000
Revenue for the year	**1,144,403**	589,986
Profit for the year	**49,973**	8,233

(c) Since December 2005, the Group has a 13.31% equity interest in BBMG Co., Ltd., which was classified as available-for-sale financial assets up to 27 March 2007. On 27 March 2007, BBMG Co., Ltd increased its total number of directors from 11 to 12 and the Group appointed an additional director to the Board of BBMG Co., Ltd. Taking into consideration that 3 out of the 12 directors of BBMG Co., Ltd are appointed by the Group and the evaluating criteria to determine whether the Group has significant influence over an entity as set out in Note 3.2(c) above, the management considers that the Group has obtained significant influence over BBMG Co., Ltd since 27 March 2007. The equity investment in BBMG Co., Ltd of RMB350,000,000 has therefore been accounted for as an investment in associate since that date. Share of profits and equity movements relating to the previously held equity interest, amounting to RMB21,692,000, was also recorded as an addition to the investment in BBMG Co., Ltd. and an increase of shareholders' equity.

(d) Particulars of the Group's principal associates are set out in Note 48(c).

15. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Group

	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Assets as per consolidated balance sheet			
As at 31 December 2007			
Available-for-sale financial assets (Note 16)	–	39,153	39,153
Trade receivables and retentions (Note 17)	2,585,401	–	2,585,401
Loans, deposits and other receivables (Note 17)	561,196	–	561,196
Restricted cash (Note 20)	1,476,117	–	1,476,117
Cash and cash equivalents (Note 21)	8,443,176	–	8,443,176
	13,065,890	39,153	13,105,043
As at 31 December 2006			
Available-for-sale financial assets (Note 16)	–	424,338	424,338
Trade receivables and retentions (Note 17)	2,059,923	–	2,059,923
Loans, deposits and other receivables (Note 17)	435,823	–	435,823
Restricted cash (Note 20)	1,130,815	–	1,130,815
Cash and cash equivalents (Note 21)	3,699,784	–	3,699,784
	7,326,345	424,338	7,750,683

	2007 Financial liabilities measured at amortised cost	2006 Financial liabilities measured at amortised cost
	RMB'000	RMB'000
Liabilities as per consolidated balance sheet		
Borrowings (Note 26)	**7,452,608**	6,901,912
Trade payables (Note 25)	**4,428,978**	3,393,305
Deposits, accruals and other payables (Note 25)	**667,201**	800,677
	12,548,787	11,095,894

15. Financial instruments by category *(Continued)*

Company

	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Assets as per balance sheet			
As at 31 December 2007			
Available-for-sale financial assets (Note 16)	–	611	611
Other receivables (Note 17)	307,300	–	307,300
Cash and cash equivalents (Note 21)	3,836,173	–	3,836,173
	4,143,473	611	4,144,084

	Financial liabilities measured at amortised cost
	RMB'000
Liabilities as per balance sheet	
As at 31 December 2007	
Borrowings (Note 26)	993,000
Other payables (Note 25)	287,837
	1,280,837

16. Available-for-sale financial assets

	Group		Company
	2007	2006	2007
	RMB'000	RMB'000	RMB'000
Listed equity securities, at fair value			
– PRC	301	301	301
– Hong Kong	405	405	–
	706	706	301
Unlisted equity investment, at cost	38,447	423,632	310
	39,153	424,338	611

16. Available-for-sale financial assets *(Continued)*

(a) Movements of available-for-sale financial assets are set out as follows:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
At 1 January/31 July 2007, date of establishment of the Company	**424,338**	383,016	**611**
Additions	**3,460**	–	**–**
Attributable to acquisition of subsidiaries	**–**	41,322	**–**
Reclassification from subsidiaries (Note 44(b))	**2,850**	–	**–**
Reclassification from investments in associates	**3,584**	–	**–**
Disposals	**(33,833)**	–	**–**
Transfer to the SINOMA Group upon completion of the Reorganisation	**(11,246)**	–	**–**
Reclassification as investments in associates (Note 14(c))	**(350,000)**	–	**–**
As at 31 December	**39,153**	424,338	**611**

(b) The above unlisted equity investments are measured at cost less provision for impairment because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair value cannot be measured reliably. As at 31 December 2007, there was no impairment provision on available-for-sale financial assets since the Directors consider that the underlying values of these investments were not less than their carrying amounts.

16. Available-for-sale financial assets *(Continued)*

(c) The Group's available-for-sale financial assets comprised:

	Group	
	2007	2006
	RMB'000	RMB'000
8.33% equity investment in Luquan Dong Fang Zenith Co., Ltd.	**–**	10,000
13.31% equity investment in BBMG Co., Ltd.	**–**	350,000
3.85% equity investment in Xinjiang Leasing Limited Liability Company	**–**	20,000
13% equity investment in Zaozhuang Dongyuan Cement Plant	**9,100**	9,100
8.46% equity investment in West Construction Co., Ltd.	**8,000**	8,000
0.13% equity investment in Guotai Junan Securities Co., Ltd.	**8,345**	5,367
10% equity investment in Centech Specialty Vehicles Co., Ltd.	**3,584**	–
0.95% equity investment in Tianjin Sinoma Energy Conservation Co., Ltd.	**2,850**	–
7% equity investment in Nanjing Tontech Scientific & Technical Industry Co., Ltd.	**2,000**	2,000
Others	**5,274**	19,871
	39,153	424,338

(d) All available-for-sale financial assets are denominated in RMB.

(e) All available-for-sale financial assets are equity investments. None of the available-for-sale financial assets is impaired.

17. Trade and other receivables

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Trade receivables and retentions			
Trade receivables	**2,353,115**	1,893,611	**–**
Retentions	**232,286**	166,312	**–**
	2,585,401	2,059,923	**–**
Less: Provision for impairment	**(319,735)**	(258,212)	**–**
Trade receivables and retentions net	**2,265,666**	1,801,711	**–**
Loans, prepayments, deposits, staff advances and other receivables			
Prepayments to suppliers and subcontractors	**2,179,882**	1,684,565	**–**
Staff advances	**97,997**	85,793	**1,428**
Deposits	**28,767**	57,229	**–**
Prepayment for acquisition of a subsidiary (a)	**100,000**	–	**–**
Deposit for acquisition of additional equity interest in a subsidiary (b)	**–**	206,123	**–**
Loans	**23,999**	95,296	**–**
Other receivables	**508,430**	283,298	**307,300**
	2,939,075	2,412,304	**308,728**
Less: Provision for impairment	**(73,777)**	(79,879)	**(1,356)**
Loans, prepayments, deposits, staff advances and other receivables - net	**2,865,298**	2,332,425	**307,372**
Total trade and other receivables	**5,130,964**	4,134,136	**307,372**
Less: Non-current portion			
Retentions	**102,832**	92,765	**–**
Loans		900	**–**
Prepayment for acquisition of a subsidiary	**100,000**	–	**–**
	202,832	93,665	**–**
Current portion	**4,928,132**	4,040,471	**307,372**

Refer to Note 47(b) for details of receivables due from related parties.

17. Trade and other receivables *(Continued)*

(a) The Group completed an acquisition of a third-party company in March 2008 for a cash consideration of approximately RMB174.8 million (Note 50(f)). As at 31 December 2007, RMB100,000,000 had been paid as prepayment.

(b) This represents a deposit paid to Tai'an State-owned Assets Management Co., Ltd. ("Tai'an State-owned Assets"), an equity holder in CTG, for a proposed acquisition of additional equity interest in CTG from Tai'an State-owned Assets. The proposed acquisition was subsequently cancelled in 2007 since Tai'an State-owned Assets became one of the State-owned Promoters and the Company obtained all the equity interests in CTG owned by Tai'an State-owned Assets through the contribution described in Note 1.2(b). The entire amount was refunded in June 2007.

(c) Ageing analysis of the Group's trade receivables and retentions are as follows:

	2007	2006
	RMB'000	RMB'000
Less than 6 months	**1,596,338**	1,145,986
6 months to 1 year	**373,148**	267,477
1 year to 2 years	**222,716**	312,865
2 years to 3 years	**154,067**	159,950
Over 3 years	**239,132**	173,645
	2,585,401	2,059,923

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

(d) Non-current receivables are stated at amortised cost using the effective interest rate method. The weighted average effective interest rates as at 31 December 2007 is 7.56% per annum (2006: 6.30%).

(e) The carrying amounts of the current trade and other receivables approximate their fair value. In addition, as the effective interest rates of the Group's non-current trade and other receivables are close to market borrowing interest rates, the carrying amounts of non-current trade and other receivables approximate their fair value.

(f) All non-current receivables are due within two years from the respective balance sheet dates.

(g) Credit risk of trade and other receivables categorised as financial assets, including trade receivables and retentions, deposits, loans and other receivables, is analysed by class of financial assets in below Note 17(h), (i) and (j).

17. Trade and other receivables *(Continued)*

(h) As at 31 December 2007, RMB876,624,000 of the Group's trade and other receivables (2006: RMB670,053,000) were fully performing. As at 31 December 2007, none of the Company's trade and other receivables was fully performing. Trade and other receivables that were fully performing mainly represent those due from customers with good credit history and low default rate or bank acceptance notes receivables. None of the trade and other receivables that were fully performing has been renegotiated during the year.

(i) As at 31 December 2007, RMB566,545,000 of the Group's trade and other receivables (2006: RMB615,986,000) were impaired. The amount of the related provision for impairment of these receivables was RMB393,512,000 at 31 December 2007 (2006: RMB338,091,000). As at 31 December 2007, the Company's other receivables of RMB1,356,000 were impaired, which were fully provided for. The individually impaired receivables mainly related to customers that are in unexpected difficult economic situations or of poor credit history. The factors considered by management in determining the impairment are described in Note 3.14. It was assessed that a portion of the receivables is expected to be recovered. The aging of these receivables is as follows:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Less than 6 months	**54,782**	46,957	**–**
6 months to 1 year	**10,863**	27,479	**–**
1 year to 2 years	**125,658**	249,087	**1,356**
2 years to 3 years	**129,632**	124,776	**–**
Over 3 years	**245,610**	167,687	**–**
	566,545	615,986	**1,356**

(j) As at 31 December 2007, RMB1,703,428,000 of the Group's trade and other receivables (2006: RMB1,209,707,000) were past due but not impaired. The Company's trade and other receivables of RMB305,944,000 was past due but not impaired. The aging analysis of these receivables is as follows:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Less than 6 months	**1,182,101**	717,213	**275,352**
6 months to 1 year	**431,657**	309,810	**–**
1 year to 2 years	**37,665**	84,900	**30,592**
2 years to 3 years	**21,216**	54,623	**–**
Over 3 years	**30,789**	43,161	**–**
	1,703,428	1,209,707	**305,944**

17. Trade and other receivables *(Continued)*

(k) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
RMB	**4,731,151**	3,729,210	**307,372**
US$	**139,389**	184,976	**–**
HK$	**54,276**	120,359	**–**
EUR	**114,685**	18,419	**–**
Others	**91,463**	81,172	**–**
	5,130,964	4,134,136	**307,372**

(l) Movement on the provision for impairment of trade and other receivables are as follows:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
At 1 January/31 July 2007, date of the establishment of Company	**338,091**	264,743	**1,045**
Provision for impairment, net of unused amount reversed	**75,268**	80,371	**980**
Receivables written off as uncollectible	**(19,847)**	(7,023)	**(669)**
At 31 December	**393,512**	338,091	**1,356**

18. Inventories – Group

	2007	2006
	RMB'000	RMB'000
Raw materials	**1,239,690**	1,447,848
Work-in-progress	**905,029**	737,376
Finished goods	**297,653**	283,706
	2,442,372	2,468,930
Less: Provision for impairment of inventories	**(9,493)**	(13,178)
	2,432,879	2,455,752

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB12,273,810,000 (2006: RMB8,239,936,000).

The Group has recognised provisions of RMB322,000 (2006: RMB2,413,000) for inventory impairment and reversed RMB604,000 (2006: RMB7,424,000) of previous provisions when the corresponding inventories were sold or used during the year ended 31 December 2007. The amount has been included in cost of sales. The Group has written off RMB3,403,000 of previous provisions when the subsidiary that held the corresponding inventories was disposed of during the year ended 31 December 2007.

19. Contract work-in-progress – Group

	2007 RMB'000	2006 RMB'000
Contract cost incurred plus recognised profit less recognised losses	**18,800,869**	13,509,163
Less: Progress billings	**(18,647,326)**	(13,217,401)
Contract work-in-progress	**153,543**	291,762
Representing:		
Amounts due from customers for contract work	**357,930**	615,737
Amounts due to customers for contract work	**(204,387)**	(323,975)
	153,543	291,762

	2007 RMB'000	2006 RMB'000
Contract revenue recognised as turnover	**9,621,692**	6,509,786

20. Restricted cash – Group

	As at 31 December	
	2007 RMB'000	2006 RMB'000
Restricted cash denominated in the following currencies:		
– RMB	**1,432,596**	1,077,760
– US$	**21,473**	38,944
– EUR	**21,999**	13,810
– Others	**49**	301
	1,476,117	1,130,815

Restricted cash is held in dedicated bank accounts under the name of the Group for the issuance of performance bonds and letter of credits to customers or bank acceptance notes to suppliers.

As at 31 December 2007, the effective interest rate on restricted cash, with maturities ranging from 6 months to 1 year, were 0.72% to 4.14% (2006: 0.72% to 2.52%) per annum.

21. Cash and cash equivalents

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Cash at bank and in hand	**5,743,593**	3,214,100	**1,682,982**
Bank deposits			
– Term deposits with initial term of over three months	**378,083**	384,034	**–**
– Other bank deposits	**2,321,500**	101,650	**2,153,191**
	2,699,583	485,684	**2,153,191**
Cash and cash equivalents	**8,443,176**	3,699,784	**3,836,173**
Denominated in:			
– RMB	**4,544,780**	3,126,716	**606,738**
– US$	**285,148**	424,606	**106**
– HK$	**3,231,433**	2,238	**3,229,329**
– EUR	**279,969**	63,661	**–**
– Others	**101,846**	82,563	**–**
	8,443,176	3,699,784	**3,836,173**

(a) As at 31 December 2007, the effective interest rate on term deposits with initial term of over three months, which are of maturities ranging from 6 months to 1 year, were 2.88% to 3.87% (2006: 2.25% to 2.52%) per annum.

As at 31 December 2007, the effective interest rate on other bank deposits were 2.88% to 3.33% (2006: 1.80%) per annum.

(b) Cash at bank denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

22. Share capital

	Number of shares	**Nominal value**
	(Thousands)	**RMB'000**
Registered, issued and fully paid		
– Domestic shares of RMB 1.00 each	2,419,405	2,419,405
– H shares of RMB 1.00 each	1,012,303	1,012,303
As at 31 December 2007	3,431,708	3,431,708

22. Share capital *(Continued)*

A summary of the movement in the Company's issued share capital for the period from 31 July 2007, date of the establishment of the Company, to 31 December 2007 is as follows:

	Domestic shares RMB'000	H shares RMB'000	Total RMB'000
Establishment on 31 July 2007 (a)	2,500,000	–	2,500,000
Domestic shares converted into H shares (b)	(80,595)	80,595	–
Issue of new shares upon listing (b)	–	931,708	931,708
At 31 December 2007	2,419,405	1,012,303	3,431,708

(a) The Company was incorporated on 31 July 2007, with an initial registered share capital of RMB2,500,000,000 divided into 2,500,000,000 shares ("Domestic Shares") with a nominal value of RMB1.00 each. These shares were issued to SINOMA and the State-owned Promoters pursuant to the Reorganisation as well as to the Other Promoters for a cash consideration.

(b) In December 2007, the Company issued 931,708,000 H shares of RMB1.00 each at HK$4.5 (equivalent to RMB4.25) per share pursuant to the initial public offering and listing of the Company's H shares on the Hong Kong Stock Exchange, and raised net proceeds of RMB3,675,851,000.

Pursuant to the "Provisional Measures Concerning the Sale of State-owned Shares to Finance Social Welfare Funds" and "The Circular of Relevant Problems of Decreasing State-owned Shares held by Financial Assets Management Company and State-owned Bank", upon the completion of the H share listing, 80,595,000 Domestic Shares were converted into H shares and transferred to the National Social Security Fund of the PRC.

The Domestic Shares rank pari passu, in all material respects, with the H shares. However, under the PRC Company Law, Domestic Shares cannot be transferred within one year from 20 December 2007, the listing date of the Company's shares on the Hong Kong Stock Exchange.

(c) The comparative share capital presented as at 31 December 2006 represents 2,303,810,173 shares issued to SINOMA and the State-owned Promoters upon the establishment of the Company in connection with the Reorganisation:

(i) RMB2,236,433,093, comprising 1,565,202,629 Domestic Shares of RMB1.00 each issued to SINOMA and 671,230,464 Domestic Shares of RMB1.00 each issued to three of the State-owned Promoters that contributed their equity interests in CTG and Sinoma Advanced Materials to the Company, which is deemed to have been in issue since the beginning of the earliest period presented (i.e. 1 January 2006).

(ii) RMB67,377,080, representing 67,377,080 Domestic Shares of RMB1.00 each issued to one of the State-owned Promoters which contributed its equity interests in Tianshan Cement to the Company, which is deemed to have been in issue since 20 December 2006 when Tianshan Cement first came under control of the State Council and consolidated into the Group's financial statements.

The difference between the nominal value of these shares and the net value of the interests in the subsidiaries, jointly controlled entities and associates transferred to the Company from SINOMA and the State-owned Promoters is accounted for as capital reserve as at 31 December 2006.

23. Reserves

Group	Note	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Foreign exchange reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2007		–	(359,828)	–	–	–	–	(359,828)
Profit for the year		–	189,238	–	–	–	283,430	472,668
Special Distribution (defined in Note 40(a))	40(a)	–	(482,701)	–	–	–	–	(482,701)
Deemed gain arising from further capital contributions to subsidiaries by the Group and/or minority interests	2.5(a)	–	5,020	–	–	546	–	5,566
Goodwill arising from acquisition of additional equity interests in subsidiaries from minority interests	2.5(b)	–	(4,049)	–	–	(7,310)	–	(11,359)
Acquisition of an associate achieved in stages	14(c)	–	21,692	–	–	–	–	21,692
Exchange differences arising on translation of the financial statements of subsidiaries and jointly controlled entities		–	1,497	–	1,571	–	–	3,068
Transfer of certain assets and liabilities to the SINOMA Group upon completion of the Reorganisation	2.2	–	44,401	–	–	–	–	44,401
Deferred tax assets arising from assets revaluation surplus during the Reorganisation	27(c)	–	6,040	–	–	–	–	6,040
Cash contributions from the Other Promoters	1.2(b)	103,810	–	–	–	–	–	103,810
Deemed contribution from SINOMA (a)		–	–	–	–	98,700	–	98,700
Issuance of new shares upon listing	22(b)	2,744,143	–	–	–	–	–	2,744,143
Special Dividend (defined in Note 40(b))	40(b)	–	–	–	–	–	(89,932)	(89,932)
Appropriation (b)		–	–	13,607	–	–	(13,607)	–
At 31 December 2007		2,847,953	(578,690)	13,607	1,571	91,936	179,891	2,556,268

Group	Note	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Foreign exchange reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2006		–	(758,245)	–	–	–	–	(758,245)
Profit for the year		–	281,909	–	–	–	–	281,909
Dividends declared to the SINOMA Group and the State-owned Promoters		–	(14,760)	–	–	–	–	(14,760)
Cash contributions received from the SINOMA Group		–	4,000	–	–	–	–	4,000
Contribution of equity interest in Tianshan Cement from one of the State-owned Promoters		–	63,244	–	–	–	–	63,244
Deemed gain arising from further capital contributions to subsidiaries by the Group and/or minority interests	2.5(a)	–	885	–	–	–	–	885
Initial public offering of new shares of a subsidiary	2.5(c)	–	112,037	–	–	–	–	112,037
Deemed disposal arising from implementation of share reform scheme by a subsidiary	2.5(c)	–	(53,429)	–	–	–	–	(53,429)
Revaluation surplus arising from business combination achieved in stages		–	5,800	–	–	–	–	5,800
Exchange differences arising from translation of the financial statements of subsidiaries and jointly controlled entities		–	(981)	–	–	–	–	(981)
Others		–	(288)	–	–	–	–	(288)
At 31 December 2006		–	(359,828)	–	–	–	–	(359,828)

23. Reserves *(Continued)*

Company	Note	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Foreign exchange reserve RMB'000	Other reserves RMB'000	Retained earnings equity RMB'000	Total RMB'000
At 31 July 2007, date of the establishment of the Company		103,810	(546,272)	–	–	–	–	(442,462)
Loss for the period from 31 July 2007 to 31 December 2007		–	–	–	–	–	(54,940)	(54,940)
Deemed contribution from SINOMA (a)		–	–	–	–	98,700	–	98,700
Issuance of new shares upon listing	22(b)	2,744,143	–	–	–	–	–	2,744,143
Special Dividend (defined in Note 40(b))	40(b)	–	–	–	–	–	(89,932)	(89,932)
Appropriation (b)		–	–	13,607	–	–	(13,607)	–
At 31 December 2007		2,847,953	(546,272)	13,607	–	98,700	(158,479)	2,255,509

(a) In October 2007, SINOMA entered into an irrevocable guarantee agreement with the Ministry of Commerce of the PRC ("MOC"), which released a guarantee previously provided by the Company to a subsidiary of SINOMA on a special foreign aid fund loans lent by MOC to such subsidiary. According to the agreement, SINOMA will assume the responsibility as the guarantor of the loans. The provision made by the Company for such guarantee, amounting to RMB98,700,000, was reversed and accounted for as an equity contribution from SINOMA.

(b) Statutory surplus reserve

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to appropriate 10% of its profit after tax as determined in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP") and regulations applicable to the Company, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company. The appropriation to the reserve must be made before any distribution of dividends to equity holders.

The statutory surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

For the year ended 31 December 2007, the Board of Directors proposed appropriation of 10% of profit after tax as determined under the PRC GAAP, amounting to RMB13,607,000, to the statutory surplus reserve.

(c) Other reserves mainly comprise of reserves arising from transactions with minority interests and deemed contributions from shareholders.

24. Deferred income – Group

	Government grants relating to research and development expenditure	Government grants relating to property, plant and equipment	Government grants relating to land use rights	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2006	49,463	62,221	52,454	164,138
Additions	40,272	54,705	–	94,977
Attributable to acquisition of subsidiaries	–	21,774	–	21,774
Utilised/amortised during the year	(21,887)	(4,169)	(2,679)	(28,735)
As at 31 December 2006	67,848	134,531	49,775	252,154
Additions	48,163	50,098	15,807	114,068
Utilised/amortised during the year	(35,239)	(16,486)	(1,722)	(53,447)
As at 31 December 2007	80,772	168,143	63,860	312,775

25. Trade and other payables

	Group 2007 RMB'000	Group 2006 RMB'000 (Restated)	Company 2007 RMB'000
Trade payables	**4,428,978**	3,393,305	**–**
Deposits, advances, accruals and other payables			
Prepayment from customers	**5,805,759**	4,225,516	**–**
Accrued payroll and welfare	**195,961**	132,291	**1,517**
Accrued social security costs	**74,918**	103,297	**509**
Other taxes	**132,578**	80,821	**5,433**
Accrued expenses	**64,652**	74,879	**–**
Deposits payable	**51,897**	40,864	**–**
Dividends payable to minority interests by subsidiaries	**17,524**	93,818	**–**
Other payables	**550,652**	684,934	**287,837**
	6,893,671	5,436,420	**295,296**
Total trade and other payables	**11,322,649**	8,829,725	**295,296**
Less: Non-current portion:			
– Trade payables	**4,109**	6,551	**–**
– Accrued payroll and welfare (c)	**9,360**	10,149	**–**
– Other payables	**–**	27,636	**–**
	13,469	44,336	**–**
Current portion	**11,309,180**	8,785,389	**295,296**

Refer to Note 47(b) for details of payables due to related parties.

(a) Ageing analysis of trade payables are as follows:

	Group 2007 RMB'000	Group 2006 RMB'000
Within 6 months	**2,632,022**	2,007,766
6 months to 1 year	**1,259,454**	846,584
1 year to 2 years	**354,333**	437,589
2 years to 3 years	**116,238**	56,059
Over 3 years	**66,931**	45,307
	4,428,978	3,393,305

25. Trade and other payables *(Continued)*

(b) The carrying amounts of trade and other payables are denominated in the following currencies:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
RMB	**9,385,873**	7,861,597	**295,296**
US$	**1,717,551**	937,794	**–**
EUR	**107,605**	3,173	**–**
Others	**111,620**	27,161	**–**
	11,322,649	8,829,725	**295,296**

(c) Non-current portion of accrued payroll and welfare represents the portion of accrued employee housing allowances, payable to employees over their years of service to the Group, expected to be settled over one year from the balance sheet date.

26. Borrowings

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Non-current			
Long-term bank borrowings			
– Secured (a)	**3,810,422**	2,904,602	**–**
– Unsecured	**25,305**	–	**–**
	3,835,727	2,904,602	**–**
Other borrowings			
– Unsecured	**4,800**	5,300	**–**
	4,800	5,300	**–**
Total non-current borrowings	**3,840,527**	2,909,902	**–**
Current			
Current portion of long-term bank borrowings			
– Secured (a)	**488,138**	374,555	**–**
– Unsecured	**1,970**	498	**–**
	490,108	375,053	**–**
Other borrowings			
– Secured (a)	**8,200**	14,951	**–**
– Unsecured	**–**	159,151	**–**
	8,200	174,102	**–**
Short-term bank borrowings			
– Secured (a)	**1,400,508**	2,180,871	**–**
– Unsecured	**1,713,265**	1,261,984	**993,000**
	3,113,773	3,442,855	**993,000**
Total current borrowings	**3,612,081**	3,992,010	**993,000**
Total borrowings	**7,452,608**	6,901,912	**993,000**

(a) Secured borrowings of the Group were secured by the Group's property, plant and equipment (Note 7), land use rights (Note 8), investment properties (Note 9) and guarantees provided by certain related parties and other third parties who were provided guarantees by the Group.

26. Borrowings *(Continued)*

(b) The exposure of borrowings to interest rate changes and contractual re-pricing are as follows:

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000
6 months or less	**6,184,357**	5,598,682	**743,000**
6 to 12 months	**703,118**	1,012,183	**250,000**
1 year to 5 years	**464,000**	285,747	**–**
Over 5 years	**101,133**	5,300	**–**
	7,452,608	6,901,912	**993,000**

(c) The maturities of total borrowings are set out as follows:

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000
Within 1 year	**3,612,081**	3,992,010	**993,000**
1 year to 2 years	**761,026**	382,582	**–**
2 years to 5 years	**1,955,332**	1,152,494	**–**
Wholly repayable within 5 years	**6,328,439**	5,527,086	**993,000**
Over 5 years	**1,124,169**	1,374,826	**–**
	7,452,608	6,901,912	**993,000**

(d) The carrying amounts of borrowings are denominated in the following currencies:

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000
RMB	**7,131,138**	6,315,326	**993,000**
US$	**321,470**	506,803	**–**
Others	**–**	79,783	**–**
	7,452,608	6,901,912	**993,000**

26. Borrowings *(Continued)*

(e) The weighted effective interest rates (per annum) at the respective balance sheet dates are as follows:

	Group		Company
	2007	2006	**2007**
Bank borrowings			
– RMB	**6.68%**	5.78%	**6.42%**
– US$	**5.57%**	5.92%	**–**
– Others	**–**	4.61%	**–**
Other borrowings			
– RMB	**2.14%**	3.49%	**–**

(f) The carrying amounts of the current portion of long-term and short-term bank borrowings approximate their fair values. The carrying value and fair value of non-current borrowings are set out as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Carrying amount	**3,840,527**	2,909,902
Fair value	**3,775,417**	2,902,847

The fair values of non-current borrowings are estimated based on discounted cash flows using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date.

(g) The undrawn borrowing facilities are as follows:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Floating rate			
– Expiring within 1 year	**1,269,000**	289,600	**1,150,000**
– Expiring beyond 1 year	**56,256**	141,402	**–**
Fixed rate			
– Expiring within 1 year	**629,058**	297,000	**100,000**
– Expiring beyond 1 year	**122,500**	–	**100,000**
	2,076,814	728,002	**1,350,000**

26. Borrowings *(Continued)*

(h) The Group's borrowings as at 31 December 2007 included borrowings of RMB181,811,000 of Sinoma Hanjiang Cement Co., Ltd. ("Sinoma Hanjiang", a subsidiary of the Group) which have been restructured pursuant to debt restructuring agreements entered into among two banks, Sinoma Cement and Sinoma Hanjiang, effective on 27 November 2007 and 30 November 2007, respectively.

Pursuant to an agreement, the principal amount of RMB140,764,000, including an overdue principal amount of RMB136,240,000 becomes repayable within 5 years from 1 January 2008 to 31 December 2012. Pursuant to the other agreement, the principal amount of RMB72,857,000, including an overdue principal amount of RMB13,201,000, becomes repayable within 4 years from 1 January 2008 to 31 December 2011. The overdue interest payable amount on the underlying borrowings covered by these two debt restructuring agreements will be waived on the condition that the Group repays the principal and interest in accordance with the revised repayment schedules. The Directors believe that the Group has the ability to fulfill such condition and a debt restructuring gain, representing the excess of the book carrying value of the principals and the overdue interest payables of aforementioned borrowings at the date of the debt restructuring and the fair value of the finally agreed obligations, totaling RMB56,524,000, is recorded as other gains in the Group's consolidated income statement for the year ended 31 December 2007.

(i) The Group's borrowings as at 31 December 2007 included borrowings of RMB2,131,641,000 (2006: RMB2,184,345,000) of Tianshan Cement and its subsidiaries which have been restructured pursuant to a debt restructuring agreement entered into among twelve banks, CNNMC and Tianshan Cement and its subsidiaries, effective on 1 December 2005.

Under the debt restructuring agreement, the above borrowings are repayable within 11 years from 1 December 2005. Certain restrictions were imposed on Tianshan Cement and its subsidiaries with regard to their use of operating cash flows for the purposes of loan principal and interest payments and repayments, capital expenditure and dividend payments. In addition, CNNMC has committed to remain as the largest shareholder of Tianshan Cement throughout the loan repayment period, injecting certain cement manufacturing plants to Tianshan Cement, providing working capital to Tianshan Cement of not less than RMB150,000,000 when necessary and providing technical support to Tianshan Cement to enhance its operational effectiveness and efficiency. Such commitments have been assumed by the Company upon completion of the Reorganisation.

27. Deferred income tax – Group

(a) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Deferred tax assets		
– Deferred tax assets to be recovered after more than 12 months	**95,301**	104,048
– Deferred tax assets to be recovered within 12 months	**36,363**	33,408
	131,664	137,456
Deferred tax liabilities		
– Deferred tax liabilities to be recovered after more than 12 months	**(129,319)**	(132,870)
– Deferred tax liabilities to be recovered within 12 months	**(5,933)**	(6,183)
	(135,252)	(139,053)
Deferred tax liabilities – net	**(3,588)**	(1,597)

The gross movements on the deferred income tax are as follows:

	2007	2006
	RMB'000	RMB'000
At 1 January	**(1,597)**	101,552
Attributable to acquisition of subsidiaries	**–**	(114,770)
Credited/(charged) to the consolidated income statement (Note 36(a))		
– Effect of changes in tax rates on deferred income tax assets and liabilities	**4,450**	3,701
– Other deferred income tax	**(12,258)**	7,920
Attributable to disposal of subsidiaries	**(223)**	–
Credited to equity (c)	**6,040**	–
At 31 December	**(3,588)**	(1,597)

27. Deferred income tax – Group *(Continued)*

(b) The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets

	Provision for impairment of assets	Assets revaluation surplus during the Reorganisation	Tax losses	Deferred income arising from government grants	Unrealised profit on inter-company transactions	Provision for early retirement and supplemental benefit obligations	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	60,449	–	32,986	13,418	9,054	19,219	12,043	147,169
Credited/(charged) to the consolidated income statement	6,076	–	(12,254)	2,719	9,255	(2,380)	2,544	5,960
At 31 December 2006	66,525	–	20,732	16,137	18,309	16,839	14,587	153,129
Credited/(charged) to the consolidated income statement	11,554	(120)	(20,732)	(520)	(664)	10,017	(4,116)	(4,581)
Attributable to disposal of subsidiaries	(223)	–	–	–	–	–	–	(223)
Credited to equity (c)	–	6,040	–	–	–	–	–	6,040
At 31 December 2007	77,856	5,920	–	15,617	17,645	26,856	10,471	154,365

Deferred income tax liabilities

The deferred income tax liabilities of the Group mainly arise from taxable temporary differences when the fair values of property, plant and equipment, land use rights, intangible assets and mining rights exceed the corresponding carrying values arising from revaluation surplus in business combinations, or when the fair values of borrowings is below the corresponding carrying values arising from revaluation in business combinations or reassessment in debt restructurings and no equivalent adjustments are made for tax purposes.

	Assets revalutation surplus in business combinations	Borrowings reassessed in debt Restructurings	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	41,066	4,551	45,617
Attributable to acquisition of subsidiaries	114,770	–	114,770
Credited to the consolidated income statement	(1,110)	(4,551)	(5,661)
At 31 December 2006	154,726	–	154,726
(Credited)/charged to the consolidated income statement	(7,816)	11,043	3,227
At 31 December 2007	146,910	11,043	157,953

27. Deferred income tax – Group *(Continued)*

(c) As required by the relevant PRC rules and regulations with respect to the Reorganisation and the establishment of the Company, all the Group's assets and liabilities as at 30 June 2006 were revalued by an independent and qualified valuer in the PRC. The Group has applied to the Ministry of Finance and the State Administration of Taxation of the PRC to obtain formal approval for deduction of the additional depreciation and amortisation on the asset revaluation surplus for the PRC income tax purposes. Such asset revaluation surplus is not recognised in the consolidated financial statement prepared in accordance with HKFRS. Accordingly, a deferred tax asset of RMB6,040,000 relating to the revaluation surplus, resulted and is credited to equity. Such deferred tax asset would be charged to income tax expense during each year based on the depreciation and amortisation charges on the asset revaluation surplus.

(d) Deferred income tax liabilities have not been recognised in respect of temporary differences associated with the Group's underlying investments in subsidiaries amounting to RMB38,346,000 as at 31 December 2007 (2006: RMB50,617,000), because the Group is able to control the timing of the reversal of the temporary difference by controlling the time of disposal of underlying investments in these subsidiaries, and it is probable that the temporary difference will not reverse in the foreseeable future. These amounts mainly comprised:

(i) Deemed disposal of the Group's share in net assets of Sinoma International arising from the issuance of shares by Sinoma International in connection with its initial public offering on the Shanghai Stock Exchange of the PRC in the year ended 31 December 2005. As a result, the Group's equity interest in Sinoma International decreased from 93.78% to 61.40% as at 31 December 2005. In addition, pursuant to the share reform scheme undertaken by Sinoma International, the Group's equity interest in Sinoma International decreased further to 53.31% as at 31 December 2006;

(ii) Deemed disposal of the Group's share in net assets of Sinoma Science & Technology arising from the issuance of shares by Sinoma Science & Technology in connection with its initial public offering on the Shenzhen Stock Exchange of the PRC in the year ended 31 December 2006; and

(iii) Share reform scheme undertaken by Tianshan Cement. Pursuant to the share reform, the Group's equity interest in Tianshan Cement decreased from 29.42% to 21.56% in May 2006.

27. Deferred income tax – Group *(Continued)*

(e) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces the corporate income tax rate for domestic enterprises from 33% to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As a result of the new CIT Law, the carrying value of deferred income tax assets and deferred income tax liabilities have been reduced by RMB16,743,000 and RMB21,193,000 respectively as at 31 December 2007, respectively.

Some subsidiaries of the Group, which have been granted the status of technologically-advanced enterprise, are subject to enterprise income tax at a preferential rate of 15% before 1 January 2008. Pursuant to the new CIT Law, enterprises that have applied and been granted High/New Technology status ("HNTE") will be able to enjoy a reduced tax rate of 15%. However, as of 31 December 2007, the detailed implementation rules relating to obtaining the HNTE status had not been published. Consequently, when recognising deferred taxes as at 31 December 2007, the Group applied a tax rate of 25% on temporary differences of these subsidiaries. The Directors are of the view that some of these subsidiaries will be granted HNTE status and will apply for the status as soon as the criteria and process become clear. If these subsidiaries had been granted HNTE status as at 31 December 2007, deferred taxes would have been recognised at a rate of 15% and deferred tax assets would have been decreased by RMB5,787,000.

(f) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2007, the Group did not recognise deferred tax assets of RMB120,561,000 (2006: RMB68,803,000) in respect of tax losses amounting to RMB482,244,000 (2006: RMB 208,494,000), as management believes it is more likely than not that such tax losses would not be realised before they expire. The expiry of the unrecognised deferred income tax assets relating to tax losses are analysed as follows:

	2007	2006
	RMB'000	RMB'000
Within 1 year	**1,910**	18,162
Between 1 to 2 years	**7,945**	8,555
Between 2 to 3 years	**10,143**	25,055
Between 3 to 4 years	**7,278**	10,941
Between 4 to 5 years	**93,285**	6,090
	120,561	68,803

28. Early retirement and supplemental benefit obligations

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

The amounts of early retirement and supplemental benefit obligations recognised in the balance sheets are determined as follows:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Present value of defined benefit obligations	**143,730**	196,258	**25,446**
Liability in the consolidated balance sheet	**143,730**	196,258	**25,446**
Less: Current portion	**(13,629)**	(17,030)	**(2,511)**
	130,101	179,228	**22,935**

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

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
At 1 January/31 July 2007, date of the establishment of the Company	**196,258**	173,345	**27,082**
For the year			
– Service cost (Note 34)	**–**	28	**–**
– Interest cost (Note 34)	**5,156**	5,328	**478**
– Actuarial losses/ (gains) (Note 34)	**14,721**	(1,033)	**(934)**
– Attributable to acquisition of subsidiaries	**–**	32,322	**–**
– Transfer to the SINOMA Group upon completion of the Reorganisation	**(57,282)**	–	**–**
– Payments	**(15,123)**	(13,732)	**(1,180)**
At 31 December	**143,730**	196,258	**25,446**

28. Early retirement and supplemental benefit obligations *(Continued)*

The above obligations were determined based on actuarial valuations performed by an independent and qualified actuarial firm, Mercer Consulting (Shanghai) Limited, using the projected unit credit method. The material actuarial assumptions used in valuing these obligations are as follows:

(a) Discount rates adopted (per annum):

	2007	2006
Discount rate	**4.5%**	3.3%

The effect of above changes in discount rates was reflected as actuarial gains and losses and charged to the consolidated income statement in the period of change.

(b) Early-retirees' salary and retirees' supplemental pension subsidies increase rate: 0%

(c) Early-retirees' and retirees' (where applicable) pension contributions increase rate: 0% or 10%, depending on whether the pension contributions are subject to the change of the minimum social security contribution stipulated by the government.

(d) Medical cost trend rate: 10%;

(e) Mortality: Average life expectancy of residents in the PRC; and

(f) Medical costs paid to certain early-retirees' and retirees' are assumed to continue until the death of the retirees.

29. Provisions – Group

	Guarantees	**Others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
As at 1 January 2006	98,700	–	98,700
Additional provisions	–	980	980
Attributable to acquisition of subsidiaries	25,000	–	25,000
As at 31 December 2006	123,700	980	124,680
Reversed during the year (Note 23(a))	(98,700)	–	(98,700)
Utilised during the year	–	(749)	(749)
As at 31 December 2007	25,000	231	25,231

Provisions for guarantees are made based on management's best estimates and judgments, as described in Note 5(g) above.

30. Turnover

	2007 RMB'000	2006 RMB'000 (Restated)
Turnover from cement equipment and engineering services rendered	**12,922,458**	9,910,985
Turnover from sales of products	**6,724,636**	3,101,881
Total	**19,647,094**	13,012,866

31. Other gains – Group

	2007 RMB'000	2006 RMB'000 (Restated)
Dividend income on available-for-sale financial assets (a)	**14,779**	435
Gain on disposals of subsidiaries	**12,582**	5,646
Gain on disposals of associates	**3,034**	–
Excess of fair value of the Group's share of the identifiable net assets acquired over the cost of acquisition (Note 43)	**326**	20,498
Net foreign exchange losses (Note 37)	**(13,812)**	(42,621)
Gain on disposals of property, plant and equipment	**11,829**	4,037
Gain on disposals of land use rights	**8,114**	–
Rental income	**19,310**	8,404
Gain on liabilities forgiven	**12,926**	1,387
Debt restructuring gain (Note 26(h))	**56,524**	–
Government grants (b)	**162,207**	47,712
Others	**21,466**	22,206
	309,285	67,704

(a) All the dividend income from available-for-sale financial assets for the year ended 31 December 2007 (2006: All) are from unlisted investments.

(b) Majority of the government grants represents refunds of value-added tax paid by certain subsidiaries since these subsidiaries produce certain specific cement products.

32. Other expenses – Group

	2007 RMB'000	2006 RMB'000 (Restated)
Dilution loss from share reform of Tianshan Cement (a)	**–**	64,125
Loss on disposals of property, plant and equipment	**5,651**	5,641
Rental expenses	**12,300**	4,056
Others	**14,428**	6,711
	32,379	80,533

32. Other expenses – Group *(Continued)*

(a) In June 2006, pursuant to the rules and regulations promulgated by the relevant authorities in the PRC, Tianshan Cement implemented its share reform scheme. Through the share reform scheme, the Group distributed 7.86% equity interest in Tianshan Cement to the public shareholders for nil consideration and the Group's equity interest in Tianshan Cement was reduced from 29.42% to 21.56%. The dilution loss arising from the share reform scheme, amounting to RMB64,125,000, was recorded as other expenses for the year ended 31 December 2006.

33. Expense by nature – Group

	2007 RMB'000	2006 RMB'000 (Restated)
Raw materials, equipments and consumables used	**10,675,804**	7,301,439
Subcontracting charges	**2,358,961**	1,856,843
Employee benefit expense (Note 34)	**1,605,624**	981,629
Changes in inventories of finished goods and work-in-progress	**(185,003)**	72,667
Depreciation of property, plant and equipment (Note 7)	**555,839**	316,840
Fuel and heating expenditure	**983,856**	338,361
Business tax and other transaction taxes	**198,986**	117,104
Travelling expenses	**169,925**	135,243
Office expenses	**137,479**	94,529
Transportation costs	**611,568**	278,273
Operating lease rentals	**354,209**	197,728
Provision for impairment of trade and other receivables	**75,268**	80,371
Research and development costs	**44,011**	45,987
Repairs and maintenance	**111,078**	36,972
Advertising and entertainment expenditure	**66,044**	38,748
Foreseeable losses on construction contracts	**1,818**	8,396
Amortisation of intangible assets (Note 10)	**17,858**	9,608
Amortisation of mining rights (Note 11)	**3,668**	378
Amortisation of land use rights (Note 8)	**28,764**	13,671
Provision for impairment of property, plant and equipment (Note 7)	**4,825**	11,127
Provision for impairment on intangible assets (Note 10)	**63**	–
Insurance expenditure	**37,531**	24,157
Reversal of provision for impairment of inventories (Note 18)	**(282)**	(5,011)
Professional and technical consulting fees	**117,538**	11,277
Bank charges relating to operating activities	**25,537**	30,476
Others	**262,530**	125,132
Total cost of sales, selling and marketing expenses and administrative expenses	**18,263,499**	12,121,945

34. Employee benefits – Group

	2007	2006
	RMB'000	RMB'000 (Restated)
Salaries, wages and bonuses	**1,236,935**	780,880
Contributions to pension plans (a)	**118,501**	54,223
Early retirement and supplemental pension benefits (Note 28 and (b))	**19,877**	4,323
Housing benefits (c)	**53,571**	33,709
Welfare, medical and other expenses	**176,740**	108,494
	1,605,624	981,629

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

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

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

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

35. Finance costs, net – Group

	2007 RMB'000	2006 RMB'000 (Restated)
Interest expense		
– Bank borrowings wholly repayable within 5 years	**372,526**	219,500
– Bank borrowings not wholly repayable within 5 years	**45,523**	–
– Other borrowings	**9,888**	2,086
	427,937	221,586
Less: Amounts capitalised as construction in progress (a)	**(33,559)**	(29,032)
	394,378	192,554
Net foreign exchange gains on borrowings (Note 37)	**(26,699)**	(8,025)
Discount charges on bank acceptance notes	**20,215**	8,739
Total finance costs	**387,894**	193,268
Interest income on bank deposits	**(57,063)**	(42,213)
Interest income on deposits relating to share subscription proceeds from the initial public offering of the Company (b)	**(26,066)**	–
Interest income on held-to-maturity financial assets	**–**	(3,940)
Interest income on loans to related parties and third parties	**(2,515)**	(318)
Total interest income	**(85,644)**	(46,471)
Finance costs, net	**302,250**	146,797

(a) Interest expenses were capitalised as construction in progress at the weighted average rate of 6.74% per annum for the year ended 31 December 2007 (2006: 5.75%).

(b) In accordance with the share subscription agreement relating to its initial public offering, the Group is entitled to the interest income earned from bank deposits relating to the share subscription proceeds, including over subscription, during the subscription period.

36. Taxation – Group

(a) Income tax expense

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

Certain of the companies now comprising the Group are subject to the PRC enterprise income tax, which has been provided for based on the statutory income tax rates of 27% to 33% (2006: 27% to 33%) on the assessable income of each of these companies during the year as determined in accordance with the relevant PRC income tax rules and regulations except that certain subsidiaries and jointly controlled entities which were exempted from tax or taxed at preferential rates of 15% (2006: 15%).

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

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

	2007	2006
	RMB'000	RMB'000
Current income tax:		
– PRC enterprise income tax	**370,623**	218,382
– Overseas taxation	**4,945**	5,221
	375,568	223,603
Deferred income tax (Note 27)		
– Effect of changes in tax rates on deferred income tax assets and liabilities	**(4,450)**	(3,701)
– Other deferred income tax	**12,258**	(7,920)
	7,808	(11,621)
	383,376	211,982

36. Taxation – Group *(Continued)*

(a) Income tax expense *(Continued)*

The difference between the actual income tax expense in the consolidated income statement and the amounts which is calculated based on the statutory tax rate of 33% is as follows:

	2007	2006
	RMB'000	RMB'000 (Restated)
Profit before income tax	**1,408,224**	739,528
Less: Share of profit of associates	**(49,973)**	(8,233)
	1,358,251	731,295
Tax calculated at the statutory tax rate of 33%	**448,223**	241,327
Income not subject to tax	**–**	(7,015)
Expenses not deductible for tax purposes	**63,600**	92,138
Tax losses for which no deferred income tax asset was recognised	**123,137**	1,203
Utilisation of previously unrecognised tax loss	**(3,753)**	–
Reorganisation of deferred income tax assets for previously unrecognised temporary differences	**(12,980)**	(777)
Additional deduction arising from research and development expenditure	**(807)**	(1,331)
Effect of differences in tax rates applicable to certain domestic subsidiaries and jointly controlled entities	**(229,594)**	(109,862)
Effect of changes in tax rates on deferred income tax assets and liabilities	**(4,450)**	(3,701)
Income tax expense	**383,376**	211,982

(b) Business tax (''BT'') and related taxes

Revenues generated from engineering and construction services and other services provided by the Group are subject to BT at rates ranging from 3% to 5% of the service fee income received and receivable. In addition, the Group is subject to city construction tax (''CCT'') and educational surcharge (''ES'') at rates ranging from 5% to 7% and 3% of BT payable, respectively.

(c) Value-added tax (''VAT'') and related taxes

Revenues generated from sales of goods by the Group are subject to output VAT generally calculated at 17% of the product selling prices. For certain special products, such as sands, the applicable rate is 13%. An input credit is available whereby input VAT previously paid on purchases of raw materials or semi-finished products can be used to offset the output VAT to determine the net VAT payable. Certain products of the subsidiaries are subject to output VAT calculated at 6% of the product selling prices with no input credit. The Group is also subject to CCT and ES at rates ranging from 5% to 7% and 3% of net VAT payable, respectively.

37. Net foreign exchange gains/(losses) – Group

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

	2007	2006
	RMB'000	RMB'000
Other losses, net (Note 31)	(13,812)	(42,621)
Finance costs, net (Note 35)	26,699	8,025
	12,887	(34,596)

38. Profit attributable to equity holders of the company

The profit attributable to equity holders of the Company for the year ended 31 December 2007 has incorporated a loss of RMB54,940,000 arising from the financial statements of the Company.

39. Earnings per share

(a) Basic

Basic earning per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The comparative basic earnings per share for the year ended 31 December 2006 is calculated based on the profit attributable to the equity holders of the Company during the year and on the assumption that 2,236,433,093 Domestic Shares and 67,377,080 Domestic Shares had been in issue since 1 January 2006 and 20 December 2006, respectively (Note 22(c)).

	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	472,668	281,909
Weighted average number of ordinary shares in issue	2,411,436,712	2,238,304,679
Basic earnings per share (RMB)	0.20	0.13

(b) Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during the year ended 31 December 2007 (2006: Nil).

40. Dividends

	2007 RMB'000
Special Distribution (a)	**482,701**
Special Dividend (b)	**89,932**
	572,633

(a) Pursuant to the Reorganisation and the applicable PRC financial regulations, the Company is required to make a distribution to SINOMA and the State-owned Promoters ("Special Distribution") in an amount equal to the difference between the Group's shareholders' equity as at 30 June 2006 and that as at 31 July 2007 (the date of the establishment of the Company), as determined based on the audited financial statements for that period prepared in accordance with the PRC GAAP. Special Distribution of RMB482,701,000 was recorded as at 31 December 2007 as liabilities to SINOMA and the State-owned Promoters.

(b) Pursuant to the resolution of the shareholders' meeting held on 1 August 2007, it is resolved that SINOMA and the State-owned Promoters and the Other Promoters are entitled to a special dividend in an amount equal to the distributable profit of the Group generated from 1 August 2007 to 30 November 2007 (the last day of the month prior to the listing of the Company's shares) ("Special Dividend''), which is the lower of the respective amounts of net profit for that period determined under the PRC GAAP and HKFRS. Based on the audited financial statements of the Company prepared under the PRC GAAP, Special Dividend, amounting to RMB89,932,000, was recorded as at 31 December 2007 as liabilities to SINOMA, the State-owned Promoters and the Other Promoters.

(c) As at 31 December 2007, none of the above Special Distribution and Special Dividend was paid except that RMB18,799,000 of the Special Distribution had been settled by offsetting receivables due from one of the State-owned Promoters.

41. Directors', supervisors' and senior management's emoluments

(a) Directors' and supervisors' emoluments

	2007 RMB'000	2006 RMB'000
Directors and supervisors		
– Fee for directors and supervisors	**417**	–
– Basic salaries, housing allowances and other allowances	**1,601**	903
– Contributions to pension plans	**95**	57
– Discretionary bonuses	**1,369**	1,053
	3,482	2,013

41. Directors', supervisors' and senior management's emoluments *(Continued)*

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

(i) The emoluments of every Director and supervisor for the year ended 31 December 2007 is set out below:

Name	Fee for directors and supervisors	Basic salaries, housing allowances and other allowances	Contributions to pension plans	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
– Mr. Tan Zhongming	–	–	–	–	–
– Mr. Yu Shiliang	–	–	–	–	–
Non-executive directors					
– Mr. Liu Zhijiang	25	–	–	–	25
– Mr. Zhou Yuxian	25	–	–	–	25
– Mr. Chen Xiaozhou	25	–	–	–	25
Independent non-executive directors					
– Mr. Yang Yuzhong	75	–	–	–	75
– Mr. Zhang Lailiang	75	–	–	–	75
– Mr. Zhang Qiusheng	75	–	–	–	75
– Mr. Leung Chong Shun	75	–	–	–	75
Supervisors					
– Ms. Xu Weibing	6	–	–	–	6
– Mr. Wang Jianguo	6	–	–	–	6
– Mr. Yu Xingmin	6	315	26	537	884
– Mr. Wang Baoguo	6	251	25	–	282
– Mr. Wang Wei	6	446	22	539	1,013
– Mr. Wang Jijun	6	436	11	143	596
– Ms. Zhang Lirong	6	153	11	150	320
	417	1,601	95	1,369	3,482

41. Directors', supervisors' and senior management's emoluments *(Continued)*

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

(ii) The emoluments of every Director and supervisor for the year ended 31 December 2006 is set out below:

Name	Fee for directors and supervisors	Basic salaries, housing allowances and other allowances	Contributions to pension plans	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Supervisors					
– Mr. Wang Baoguo	–	169	19	233	421
– Mr. Wang Wei	–	420	19	360	799
– Mr. Yu Xingmin	–	314	19	460	793
	–	903	57	1,053	2,013

In addition to the directors' emoluments disclosed above, certain directors of the Company receive emoluments from the SINOMA which totaled approximately RMB198,000 for the year ended at 31 December 2007 (2006: RMB1,026,000), part of which is in respect of their services to the Group. No apportionment has been made as it is impracticable to apportion this amount between their services to the Group and their services to SINOMA.

During the year, no directors, supervisors or senior management of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office (2006: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2007 include two supervisors (2006: two supervisors) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

	2007	2006
	RMB'000	RMB'000
Basic salaries, housing allowances and other allowances	**1,900**	792
Contributions to pension plans	**44**	39
Discretionary bonuses	**491**	2,084
	2,435	2,915

41. Directors', supervisors' and senior management's emoluments *(Continued)*

(b) Five highest paid individuals *(Continued)*

The emoluments of the above individuals fell within the following bands:

	2007	2006
Below HK$1,000,000 (equivalent to approximately RMB936,380)	**2**	3
HK$1,000,001 to HK$1,500,000 (equivalent to approximately RMB936,381 to RMB1,404,570)	**1**	–
	3	3

42. Cash generated from operations

	2007 RMB'000	2006 RMB'000
Profit for the year	**1,024,848**	527,546
Adjustments for:		
– Income tax expense	**383,376**	211,982
– Share of profit from associates	**(49,973)**	(8,233)
– Dividend income on available-for-sale financial assets	**(14,779)**	(435)
– Excess of fair value of the Group's share of the identifiable net assets acquired over the cost of acquisition	**(326)**	(20,498)
– Dilution loss arising from share reform of Tianshan Cement	**–**	64,125
– Interest income	**(85,644)**	(46,471)
– Gain on disposals of subsidiaries	**(12,582)**	(5,646)
– Gain on disposals of associates	**(3,034)**	–
– Debt restructuring gain	**(56,524)**	–
– Interest expense	**394,378**	192,554
– Net foreign exchange gains on borrowings	**(26,699)**	(8,025)
– Exchange losses on cash and cash equivalents	**52,879**	24,210
– Provision for impairment of trade and other receivables	**75,268**	80,371
– Reversal of impairment of inventories	**(282)**	(5,011)
– Provision for impairment of property, plant and equipment	**4,825**	11,127
– Provision for impairment of intangible assets	**63**	–
– Depreciation of property, plant and equipment and investment properties	**557,837**	317,431
– Amortisation of intangible assets	**17,858**	9,608
– Amortisation of land use rights	**28,764**	13,671
– Amortisation of mining rights	**3,668**	378
– Amortisation of government grants relating to property, plant and equipment and land use rights	**(18,208)**	(6,848)
– Net (gain)/loss on disposals of property, plant and equipment (see below)	**(6,178)**	1,604
– Gain on disposals of land use rights (see below)	**(8,114)**	–
	2,261,421	1,353,440
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Inventories	**23,662**	166,881
– Trade and other receivables	**(1,241,437)**	(248,381)
– Contract work-in-progress	**138,219**	246,481
– Restricted cash	**(485,900)**	(239,687)
– Early retirement and supplemental benefit obligations	**4,754**	(9,409)
– Trade and other payables	**2,648,619**	(138,595)
– Provisions	**(749)**	980
– Other current and non-current assets	**(271,437)**	21,912
– Government grants relating to research and development expenditure	**12,924**	18,385
Cash generated from operations	**3,090,076**	1,172,007

42. Cash generated from operations *(Continued)*

In the consolidated cash flow statement, proceeds from disposals of property, plant and equipment comprise:

	2007 RMB'000	2006 RMB'000
Net book amount (Note 7)	37,142	246,196
Net gain/(loss) on disposals of property, plant and equipment	6,178	(1,604)
Changes in receivables arising from disposals of property, plant and equipment	(11,597)	–
Proceeds from disposals of property, plant and equipment	31,723	244,592

In the consolidated cash flow statement, proceeds from disposals of land use rights comprise:

	2007 RMB'000	2006 RMB'000
Net book amount (Note 8)	1,288	–
Gain on disposals of land use rights	8,114	–
Proceeds from disposals of land use rights	9,402	–

43. Business combinations other than common control combinations

(a) Business combinations for the year ended 31 December 2007

In December 2007, one of the shareholders of Tai'an Advanced Heating Power Co., Ltd. ("Advanced Heating Power") withdrew its equity interest in Advance Heating Power and the Group's equity interest in Advanced Heating Power increased from 50% to 57.47%. Advanced Heating Power, previously an associate of the Group, became a subsidiary of the Group thereafter. If the increase in shareholding had occurred on 1 January 2007, the Group's turnover for the year ended 31 December 2007 would have been RMB19,661,834,000 and the Group's profit for the year ended 31 December 2007 would have been RMB1,025,490,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied from 1 January 2007, together with the related tax effects.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
– Carrying value of investment in associate prior to the acquisition	11,000
Less: Fair value of net assets acquired – as shown below	(11,326)
Excess of fair value of the Group's share of the identifiable net assets acquired over the cost of acquisition	(326)

43. Business combinations other than common control combinations *(Continued)*

The assets and liabilities at the date of acquisition are as follows:

	Fair value	Acquiree's carrying amount
	RMB'000	RMB'000
Cash and cash equivalents	282	282
Property, plant and equipment	13,219	13,219
Inventories	507	507
Trade and other receivables	7,144	7,144
Trade and other payables	(1,444)	(1,444)
Net assets	19,708	19,708
Less: Minority interests	(8,382)	
Net assets acquired	11,326	
Purchase consideration settled in cash		–
Less: Cash and cash equivalents of subsidiary acquired		282
Net cash inflow on acquisition		282

(b) Business combinations for the year ended 31 December 2006

(i) Tianshan Cement

On 20 December 2006, a shareholders' meeting was held by Tianshan Cement. Several shareholders' resolutions were approved during the meeting which increased the number of directors from 11 to 15, appointed 4 new directors nominated by the Group, revised the articles of associations and delegated to the board of directors and the chairman more authority in making decisions on operational and financial policies of Tianshan Cement. Taking into consideration the evaluating criteria to determine whether the Group has de facto control over an entity as set out in Note 5(i) above, the approval of the above resolutions together with the contribution of 14.72% equity interest in Tianshan Cement by one of the State-owned Promoters pursuant to the Reorganisation as described in Note 1.2(b), management considers that the Group has obtained de facto control over Tianshan Cement since 20 December 2006. Tianshan Cement became a subsidiary of the Group and the results, assets and liabilities of Tianshan Cement were therefore consolidated into the Group's consolidated financial statement since that date.

The business combination was accounted for using the purchase method of accounting as at the business combination date. If the business combination had occurred on 1 January 2006, the Group's turnover for the year ended 31 December 2006 would have been RMB15,001,652,000 and the Group's profit for the year ended 31 December 2006 would have been RMB668,108,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied from 1 January 2006, together with the related tax effects.

43. Business combinations other than common control combinations *(Continued)*

(b) Business combinations for the year ended 31 December 2006 *(Continued)*

(i) Tianshan Cement (Continued)

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
– Purchase consideration for the 29.42% equity interest in Tianshan Cement which was previously held by the Group	245,450
– Share of profits of Tianshan Cement	7,042
– Dilution loss arising from distribution of a 7.86% equity interest in Tianshan Cement upon the execution of its share reform scheme (Note 32(a))	(64,125)
– Restated carrying value of the 21.56% equity interest in Tianshan Cement	188,367
– Contribution of a 14.72% equity interest in Tianshan Cement by one of the State-owned Promoters to the Group	130,621
	318,988
Less: Fair value of net assets acquired as shown below	(316,136)
Goodwill	2,852

43. Business combinations other than common control combinations *(Continued)*

(b) Business combinations for the year ended 31 December 2006 *(Continued)*

(i) Tianshan Cement (Continued)

The assets and liabilities at the date of acquisition are as follows:

	Fair value RMB'000	Acquiree's carrying amount RMB'000
Cash and cash equivalents	375,947	375,947
Restricted cash	751	751
Property, plant and equipment	2,475,543	2,654,515
Land use rights	546,533	62,328
Trademarks, customer relationships and others (included in intangible assets)	65,602	10,229
Mining rights	13,926	13,702
Investments in associates	184,268	183,821
Available-for-sale financial assets	30,220	30,220
Inventories	368,588	363,468
Trade and other receivables	611,712	611,712
Other non-current assets	1,861	4,628
Trade and other payables	(655,913)	(655,913)
Current income tax liabilities	(37,138)	(37,138)
Dividends payable	(13,430)	(13,430)
Retirement benefit obligations	(32,322)	(32,322)
Borrowings	(2,351,111)	(2,478,639)
Provisions	(25,000)	(25,000)
Deferred income	(21,774)	(21,774)
Deferred income tax liabilities	(112,104)	–
Net assets	1,426,159	1,047,105
Less: Minority interests	(1,104,223)	
Less: Revaluation surplus arising from business combination achieved in stages	(5,800)	
Net assets acquired	316,136	
Purchase consideration settled in cash		–
Less: Cash and cash equivalents of subsidiary acquired		375,947
Net cash inflow on acquisition		375,947

Investments in associates in the table above included a 30.95% equity interest in Yunfu Tianshan Cement Co., Ltd. ("Yunfu Tianshan") held by Tianshan Cement. Yunfu Tianshan has been a subsidiary of the Group since May 2005 in which the Group held a 51% equity interest. Such interest held by Tianshan Cement was accounted for as minority interests of the Group until December 2006 when Tianshan Cement became a subsidiary of the Group. The then carrying value of such minority interests of the Group amounting to RMB67,770,000 was eliminated upon consolidation of the assets and liabilities of Tianshan Cement by the Group in December 2006.

43. Business combinations other than common control combinations *(Continued)*

(b) Business combinations for the year ended 31 December 2006 *(Continued)*

(i) Tianshan Cement (Continued)

In addition, as the identifiable assets, liabilities and contingent liabilities of Tianshan Cement were recognised by the Group at their fair values on 20 December 2006, an adjustment to those fair values relating to the 21.56% interests previously held by the Group amounting to RMB5,800,000 was recognised directly in equity attributable to equity holders of the Company as a revaluation surplus arising from this business combination achieved in stages.

(ii) Tai'an Xincheng Thermoelectric Power Co., Ltd. ("Tai'an Xincheng") and Chengdu Jixin Technology Co., Ltd. ("Chengdu Jixin")

In January 2006 and June 2006, the Group acquired a 86.36% equity interests in Tai'an Xincheng for a cash consideration of RMB69,090,000 and 100% equity interest in Chengdu Jixin for a cash consideration of RMB13,722,000, respectively. These subsidiaries contributed revenue of RMB20,367,000 and net loss of RMB564,000 to the Group for the period from the dates of acquisitions to 31 December 2006. If the acquisition had occurred on 1 January 2006, the Group's turnover for the year ended 31 December 2006 would have been RMB13,027,629,000 and the Group's profit for the year ended 31 December 2006 would have been RMB527,089,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied from 1 January 2006, together with the related tax effects.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
– Cash paid	82,812
Less: Fair value of net assets acquired – as shown below	103,310
Excess of fair value of the Group's share of the identifiable net assets acquired over the cost of acquisitions	(20,498)

The excess of fair value of the Group's share of the identifiable net assets acquired over the cost of acquisition, which arose from the excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the purchase a cash consideration, is attributable to a bargain deal.

43. Business combinations other than common control combinations *(Continued)*

(b) Business combinations for the year ended 31 December 2006 *(Continued)*

(ii) Tai'an Xincheng Thermoelectric Power Co., Ltd. ("Tai'an Xincheng") and Chengdu Jixin Technology Co., Ltd. ("Chengdu Jixin") (Continued)

The assets and liabilities at the date of acquisition are as follows:

	Fair value	**Acquiree's carrying amount**
	RMB'000	**RMB'000**
Cash and cash equivalents	14,631	14,631
Property, plant and equipment	133,016	131,853
Land use rights	21,284	12,157
Available-for-sale financial assets	11,102	11,102
Inventories	17,916	17,916
Trade and other receivables	58,772	58,772
Borrowings	(36,173)	(36,173)
Trade and other payables	(103,036)	(103,036)
Deferred tax liabilities	(2,666)	–
Net assets	114,846	107,222
Less: Minority interests	(11,536)	
Net assets acquired	103,310	
Purchase consideration settled in cash		(13,722)
Less: Cash and cash equivalents of subsidiary acquired		14,631
Net cash inflow on acquisition		909

44. Disposal of subsidiaries

(a) Hanjiang Caiban Door and Window Co., Ltd. ("Hanjiang Door and Window")

In June 2007, Sinoma Hanjiang disposed of its entire 75% equity interest in Hanjiang Door and Window for a cash consideration of RMB14,220,000.

Details of net liabilities disposed and gain on disposal are as follows:

	RMB'000
Cash and cash equivalents received as consideration	14,220
Add: Net liabilities disposed- as shown below	61,369
Less: Waiver of receivables due from Hanjiang Door and Window	(63,007)
Gain on disposal	12,582

The effect of above disposal is as follows:

	RMB'000
Land use rights	2,113
Trade and other payables	(63,482)
Net liabilities disposed	(61,369)
Disposal consideration settled in cash	14,220
Less: Cash and cash equivalents of subsidiaries disposed	–
Net cash inflow on disposal of subsidiaries	14,220

44. Disposal of subsidiaries *(Continued)*

(b) Tianjin NengDa Technology Development Co., Ltd. ("Tianjin NengDa")

In July 2007, in connection with the capital contribution by certain new investors, CEMTECH Group Co., Ltd. ("CEMTECH", a subsidiary of the Group) diluted its equity interest in Tianjin NengDa from 95% to 0.95%. The Group's equity investment in Tianjin NengDa was then reclassified from investment in subsidiaries to available-for-sale financial assets accordingly.

The assets and liabilities at the date of disposal are as follows:

	RMB'000
Cash and cash equivalents	29,216
Trade and other receivables	10,179
Deferred income tax assets	223
Trade and other payables	(9,493)
Current income tax liabilities	(6,712)
Dividend Payable	(20,413)
Net assets	3,000
Less: Minority interests	(150)
Net assets disposed	2,850
Less: Available-for-sale financial assets retained	(2,850)
Gain on disposal	–
Net cash outflow on disposal of subsidiary	(29,216)

45. Contingencies – Group

	Group	
	2007	2006
	RMB'000	RMB'000
Pending lawsuits/arbitrations (a)	**80,821**	69,466
Outstanding guarantees (b)	**637,418**	505,996
	718,239	575,462

(a) The Group has been named in certain lawsuits and other legal proceedings arising in the ordinary course of business. Provision as set out in Note 29 have been made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits based on management's judgments and the legal advice. No provision has been made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or management believes the outflow of resources is not probable.

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

46. Commitments

(a) Capital commitments – Group

	Group	
	2007	2006
	RMB'000	RMB'000
Approved but not contracted for		
– Property, plant and equipment	**374,480**	564,579
Contracted but not yet incurred		
– Property, plant and equipment	**626,920**	565,430
– Land use right	**7,020**	–
	633,940	565,430
	1,008,420	1,130,009

(b) Operating lease commitments – where the Group is the leasee

The Group leases various offices, warehouses, residential properties and machinery under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
No later than 1 year	**11,426**	5,813	**4,449**
Later than 1 year and no later than 5 years	**19,557**	13,989	**6,674**
Later than 5 years	**33,946**	36,660	**–**
	64,929	56,462	**11,123**

(c) Lease payment receivables – where the Group is the leasor

The Group rents out various investment properties and equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payment receivables under non-cancellable operating leases are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
No later than 1 year	**13,239**	6,503
Later than 1 year and no later than 5 years	**12,195**	9,371
Later than 5 years	**2,120**	10
	27,554	15,884

47. Related party disclosures

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. SINOMA, the immediate parent of the Company, is owned and controlled by the State-owned Assets Supervision and Administration Commission of the State Council. The State Council is the Company's ultimate controlling party, which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the "state-owned enterprises"). Neither SINOMA nor the State Council published financial statements available for public use.

In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government are regarded as related parties of the Group ("other state-owned enterprises"). For the purpose of related party disclosures, to the extent practical, the Group has in place procedures to identify the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. However, management believes that meaningful information relating to related party transactions has been adequately disclosed.

In addition to the related party information disclosed elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the year and balances as at 31 December 2007 arising from related party transactions.

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

47. Related party disclosures *(Continued)*

(a) Significant related party transactions

The Group had the following significant transactions with related parties:

	2007 RMB'000	2006 RMB'000
Transaction with SINOMA and fellow subsidiaries		
Revenue		
– Sales of goods or provision of services	**278,355**	836,936
– Interest income	**–**	318
– Other gains	**1,599**	3,350
Expenses		
– Purchases of goods or services	**152,228**	22,747
– Rental expense	**19,162**	8,746
Others		
– Outstanding guarantees provided by the Group	**–**	151,193
– Outstanding guarantees provided by SINOMA and fellow subsidiaries	**–**	938,000
Transaction with jointly controlled entities (after elimination of the Group's proportionate interest in those jointly controlled entities)		
Revenue		
– Sales of goods or provision of services	**60,924**	7,527
Expenses		
– Purchases of goods or services	**56,276**	2,087
– Rental income	**3,989**	–
Transaction with associates		
Revenue		
– Sales of goods or provision of services	**17,501**	115,509
– Disposals of plant, property and equipment and land use rights	**57,107**	–
Others		
– Outstanding guarantees provided by the Group	**–**	3,200
Transaction with minority interests		
Revenue		
– Sales of goods or provision of services	**16,638**	45,535
Expenses		
– Purchases of goods or services	**2,157**	1,999
– Purchase of land use rights	**21,621**	–
– Rental expense	**1,000**	–
Others		
– Outstanding guarantees provided by the Group	**–**	3,000
– Outstanding guarantees provided by minority interests	**–**	162,365

47. Related party disclosures *(Continued)*

(a) Significant related party transactions *(Continued)*

	2007 RMB'000	2006 RMB'000
Transaction with joint venture partners of jointly controlled entities		
Revenue		
– Sales of goods or provision of services	**69,721**	–
Expenses		
– Purchases of goods or services	**41,653**	32,047
Transaction with other state-owned enterprises		
Revenue		
– Sales of goods or provision of services	**625,640**	423,600
– Interest income from bank deposits	**75,382**	36,580
Expenses		
– Purchases of goods or services	**493,802**	325,699
– Interest expense of bank borrowings	**406,783**	193,472
– Impairment charges of receivables due from joint venture partners of jointly controlled entities		
Others		
– Outstanding guarantees provided by the Group	**124,280**	112,370
– Outstanding guarantees provided by other state-owned enterprises	**209,415**	323,495
Transaction with the State-owned Promoters		
Revenue		
– Other gains	**6,733**	12,066
Expenses		
– Interest expense	**–**	1,815
Others		
– Outstanding guarantees provided by the State-owned Promoters	**–**	464,420

47. Related party disclosures *(Continued)*

(b) Balances with related parties

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Trade and other receivables			
Trade receivables due from			
– SINOMA and fellow subsidiaries	**63,059**	86,527	**–**
– Jointly controlled entities	**13,161**	4,487	**–**
– Associates	**–**	50,441	**–**
– Minority interests	**10,405**	8,901	**–**
– Joint venture partners of jointly controlled entities	**3,295**	–	**–**
– Other state-owned enterprises	**140,452**	298,252	**–**
– Less: Provision for impairment	**(3,018)**	(8,519)	**–**
	227,354	440,089	**–**
Other receivables due from			
– SINOMA and fellow subsidiaries	**121,726**	19,877	**332**
– Jointly controlled entities	**17,240**	14,578	**–**
– Associates	**–**	5,294	**–**
– Minority interests	**36,368**	15,235	**–**
– State-owned Promoters	**–**	218,189	**–**
– Other state-owned enterprises	**13,162**	4,260	**–**
– Less: Provision for impairment	**(1,302)**	(39,932)	**–**
	187,194	237,501	**332**
	414,548	677,590	**332**

47. Related party disclosures *(Continued)*

(b) Balances with related parties *(Continued)*

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Trade and other payables			
Trade payables due to			
– SINOMA and fellow subsidiaries	**131,587**	50,460	**–**
– Jointly controlled entities	**31,823**	4,131	**–**
– Associates	**–**	8,100	**–**
– Minority interests	**4,266**	15,067	**–**
– Joint venture partners of jointly controlled entities	**6,373**	8,320	**–**
– Other state-owned enterprises	**132,760**	128,664	**–**
	306,809	214,742	**–**
Other payables due to			
– SINOMA and fellow subsidiaries	**10,420**	75,136	**2,356**
– Associates	**–**	4,068	**–**
– Minority interests	**6,661**	731	**–**
– Joint venture partners of jointly controlled entities	**4,369**	8,705	**–**
– Other Promoters	**250,000**	350,000	**–**
– Other state-owned enterprises	**46,990**	1,584	**–**
	318,440	440,224	**2,356**
	625,249	654,966	**2,356**

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

47. Related party disclosures *(Continued)*

(b) Balances with related parties *(Continued)*

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Borrowings			
– SINOMA and fellow subsidiaries	**–**	81,409	**–**
– Other state-owned enterprises	**6,889,859**	6,345,699	**963,000**
	6,889,859	6,427,108	**963,000**
Other balances with other state-owned enterprises			
– Restricted cash	**1,326,265**	845,593	**–**
– Cash and cash equivalents	**7,782,243**	2,986,751	**3,833,996**
	9,108,508	3,832,344	**3,833,996**

Restricted cash, cash and cash equivalents and borrowings with related parties mainly represent balances with state-owned banks, which constitute of majority of restricted cash, cash and cash equivalents and borrowings. Detailed information of restricted cash, cash and cash equivalents and borrowings are disclosed in Note 20, 21 and 26.

The weighted average effective interest rate of borrowings from related parties is 6.58% per annum as at 31 December 2007 (2006: 5.74%).

(c) Key management compensation

	2007	2006
	RMB'000	RMB'000
Basic salaries, housing allowances and other allowances	**2,274**	1,869
Contributions to pension plans	**137**	119
Discretionary bonuses	**691**	1,738
Fee for directors	**375**	–
	3,477	3,726

47. Related party disclosures *(Continued)*

(d) Loans to related parties

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Loans to associates:			
– At 1 January	**3,905**	–	**–**
– At 31 December	**–**	3,905	**–**
Loans to minority interests			
– At 1 January	**27,294**	34,724	**–**
– At 31 December	**–**	27,294	**–**
Loans to other state-owned enterprises:			
– At January 1	**43,279**	3,985	**–**
– At 31 December	**4,369**	43,279	**–**

Loans to related parties are included in trade and other receivables in the balance sheet. The weighted average effective interest rate of loans to related parties is 7.56% per annum as at 31 December 2007 (2006: 2.64%).

48. Particulars of principal subsidiaries, jointly controlled entities and associates

(a) Subsidiaries

As at 31 December 2007, the Company has direct and indirect equity interests in the following principal subsidiaries:

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital RMB'000	Attributable equity interest Directly held	Indirectly held	Principal activities and place of operation
Listed –					
Sinoma International Engineering Co., Ltd (中國中材國際工程股份有限公司)	PRC 28 December 2001 Joint stock company	168,000	53.31%	–	Construction and engineering services; PRC, Saudi Arabia and other Asian Countries
Sinoma Science & Technology Co., Ltd. (中材科技股份有限公司)	PRC 28 December 2001 Joint stock company	150,000	47.67%	–	High-tech materials operations; PRC
Xinjiang Tianshan Cement Co., Ltd. (新疆天山水泥股份有限公司)	PRC 18 November 1998 Joint stock company	208,022	36.28%	–	Cement operations; PRC
Unlisted –					
CBMI Construction Co., Ltd. (中材建設有限公司)	PRC 13 November 2002 Limited liability company	72,580	–	76.58%	Construction and engineering services; PRC and Africa
Chengdu Design & Research Institute of Building Materials Industry Co., Ltd. (成都建築材料工業設計研究院有限公司)	PRC 28 November 2002 Limited liability company	50,000	–	53.12%	Construction and engineering services; PRC
Chengdu Jixin Technology Industry Co., Ltd. (成都集信科技產業有限公司)	PRC/ 16 March 2001 Limited liability company	12,000	–	100%	Manufacture of cement equipment; PRC
Sinoma Tangshan Heavy Machinery Co., Ltd. (唐山中材重型機械有限公司)	PRC 27 January 2003 Limited liability company	44,166	–	55%	Manufacture of cement equipment; PRC

48. Particulars of principal subsidiaries, jointly controlled entities and associates
(Continued)

(a) Subsidiaries *(Continued)*

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital RMB'000	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities and place of operation
Unlisted – *(Continued)*					
Sinoma (Suzhou) Construction Co., Ltd. (蘇州中材建設有限公司)	PRC 19 December 2002 Limited liability company	50,080	–	81.91%	Construction and engineering services; PRC
Sinoma (Handan) Construction Co., Ltd. (邯鄲中材建設有限公司)	PRC 17 December 2002 Limited liability company	15,650	–	82.43%	Construction and engineering services; PRC
Tianjin Cement Industry Design and Research Institute Co., Ltd. (天津水泥工業設計研究院有限公司)	PRC 13 December 2006 Limited liability company	200,000	–	93%	Construction and engineering services; PRC and other Asian Countries
China National Building Material Equipment Corp., Ltd. (中國建材裝備有限公司)	PRC 3 June 1988 Limited liability company	22,000	–	65%	Construction and engineering services; PRC and United Arab Emirates
CEMTECH Group Co., Ltd. (中天仕名科技集團有限公司)	PRC 7 April 2000 Limited liability company	55,280	–	55%	Manufacture of cement equipment; PRC
CEMTECH Xuzhou Heavy Machinery Co., Ltd. (中天仕名(徐州)重型機械有限公司)	PRC 16 December 2002 Limited liability company	38,000	–	91%	Manufacture of cement equipment; PRC
CEMTECH Zibo Heavy Machinery Co., Ltd. (中天仕名(淄博)重型機械有限公司)	PRC 8 January 2002 Limited liability company	22,800	–	53%	Manufacture of cement equipment; PRC
Sinoma Nanjing Mining Engineering Co., Ltd. (中國非金屬材料南京礦山工程有限公司)	PRC 29 June 2007 Limited liability company	20,000	100%	–	Construction and engineering services; PRC

48. Particulars of principal subsidiaries, jointly controlled entities and associates *(Continued)*

(a) Subsidiaries *(Continued)*

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital	Attributable equity interest		Principal activities and place of operation
			Directly held	Indirectly held	
		RMB'000			
Unlisted – *(Continued)*					
Sinoma Shangrao Machinery Co., Ltd. (上饒中材機械有限公司)	PRC 19 April 2007 Limited liability company	12,457	100%	–	Construction and engineering services; PRC
Sinoma Tianjin Mining Engineering Co., Ltd. (天津礦山工程有限公司)	PRC 26 June 2007 Limited liability company	20,000	100%	–	Construction and engineering services; PRC
Sinoma Yanzhou Mining Engineering Co., Ltd. (兗州中材建設工程有限公司)	PRC 14 August 2007 Limited liability company	20,000	100%	–	Construction and engineering services; PRC
Henan Sinoma Environmental Protection Co., Ltd. (河南中材環保有限公司)	PRC 17 November 2003 Limited liability company	28,500	100%	–	Manufacture of Cement equipment; PRC
Sinoma Cement Co., Ltd. (中材水泥有限責任公司)	PRC 20 November 2003 Limited liability company	463,483	100%	–	Cement operations; PRC
Sinoma Hanjiang Cement Co., Ltd. (中材漢江水泥股份有限公司)	PRC 25 August 1994 Limited liability company	107,658	–	73.40%	Cement operations; PRC
Sinoma Hengda Cement Co., Ltd. (中材亨達水泥有限公司)	PRC 6 February 2006 Limited liability company	199,608	–	70%	Cement operations; PRC
Yunfu Tianshan Cement Co., Ltd. (雲浮天山水泥有限公司)	PRC 4 April 2003 Limited liability company	180,000	–	81.94%	Cement operations; PRC

48. Particulars of principal subsidiaries, jointly controlled entities and associates *(Continued)*

(a) Subsidiaries *(Continued)*

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital RMB'000	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities and place of operation
Unlisted – *(Continued)*					
Xinjiang Tianshan Zhuyou Concrete Co., Ltd. (新疆天山築友混凝土有限責任公司)	PRC 20 April 2003 Limited liability company	19,513	–	88.64%	Cement operations; PRC
Xinjiang Hejing Tianshan Cement Co., Ltd. (新疆和靜天山水泥有限責任公司)	PRC 16 January 1996 Limited liability company	27,360	–	74.63%	Cement operations; PRC
Korla Tianshan Shenzhou Concrete Co., Ltd. (庫爾勒天山神州混凝土有限責任公司)	PRC 28 January 2003 Limited liability company	24,253	–	60%	Cement operations; PRC
Aksu Tianshan Duolang Cement Co., Ltd. (阿克蘇天山多浪水泥有限責任公司)	PRC 25 April 2001 Limited liability company	135,250	–	62.29%	Cement operations; PRC
Xinjiang Tunhe Cement Co., Ltd. (新疆屯河水泥股份有限責任公司)	PRC 16 October 2000 Limited liability company	350,000	–	51%	Cement operations; PRC
Suzhou Tianshan Cement Co., Ltd.(蘇州天山水泥有限公司)	PRC 6 November 2003 Limited liability company	30,000	–	100%	Cement operations; PRC
Wuxi Tianshan Cement Co., Ltd. (無錫天山水泥有限公司)	PRC 28 February 2003 Limited liability company	80,000	–	100%	Cement operations; PRC
Jiangsu Tianshan Cement (Group) Co., Ltd. (江蘇天山水泥集團有限公司)	PRC 11 November 2002 Limited liability company	311,353	–	66.01%	Cement operations; PRC

48. Particulars of principal subsidiaries, jointly controlled entities and associates *(Continued)*

(a) Subsidiaries *(Continued)*

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital	Attributable equity interest		Principal activities and place of operation
			Directly held	Indirectly held	
		RMB'000			
Unlisted – *(Continued)*					
Suhzou Tianshan Concrete Co., Ltd. (蘇州天山商品混凝土有限公司)	PRC 26 July 2002 Limited liability company	40,000	–	75%	Cement operations; PRC
Sinoma Advanced Materials Co., Ltd. (中材高新材料股份有限公司)	PRC 25 December 2000 Joint stock company	82,000	94.49%	–	High-tech materials operations; PRC
Jiangxi Sinoma New Solar Materials Co. , Ltd. (江西中材太陽能新材料有限公司)	PRC 30 April 2007 Limited liability company	50,000	–	64%	Manufacture of new solar materials; PRC
Beijing Sinoma Synthetic Crystals Co., Ltd. (北京中材人工晶體有限公司)	PRC 22 April 2005 Limited liability company	18,000	–	76.67%	High-tech materials operations; PRC
Beijing Composite Materials Co., Ltd. (北京玻鋼院複合材料有限公司)	PRC 2 January 2003 Limited liability company	60,000	20%	80%	High-tech materials operations; PRC
Sinoma Science & Technology (Suzhou) Co., Ltd. (中材科技(蘇州)有限公司)	PRC 26 October 2004 Limited liability company	100,000	–	100%	High-tech materials operations; PRC
Taishan Fibreglass Inc. (泰山玻璃纖維有限公司)	PRC 17 September 1999 Joint stock company	784,712	100%	–	Glass fibre operations; PRC
Taishan Fibreglass Zoucheng Co., Ltd. (泰山玻璃纖維鄒城有限公司)	PRC 26 July 2001 Limited liability company	340,000	–	63.93%	Glass fibre operations; PRC

48. Particulars of principal subsidiaries, jointly controlled entities and associates *(Continued)*

(a) Subsidiaries *(Continued)*

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital RMB'000	Attributable equity interest Directly held	Indirectly held	Principal activities and place of operation
Unlisted – *(Continued)*					
CTG International Inc. (CTG北美貿易有限公司)	U.S. 16 April 2004 Limited liability company	13,457	–	100%	Trading of glass fibre; United States
Tai'an Huatai nonmetal micronization Co., Ltd. (泰安華泰非金屬微粉有限公司)	PRC 4 January 2002 Limited liability company	18,980	–	50.05%	Production and sale of non-metallic crystal; PRC
Tai'an Xin'cheng thermoelectric power plant. (泰安新城熱電有限公司)	PRC 2 January 2004 Limited liability company	80,000	–	86.37%	Provision of electricity and heating; PRC
Sinoma Jinjing Fibre Glass Co., Ltd. (中材金晶玻纖有限公司)	PRC 17 January 2004 Limited liability company	200,000	51%	–	Glass fibre operations; PRC
Xiamen ISO Standard Sand Co., Ltd. (廈門艾思歐標準砂有限公司)	PRC 22 December 1999 Limited liability company	25,000	51%	–	Manufacture of Chinese ISO standard sands; PRC

48. Particulars of principal subsidiaries, jointly controlled entities and associates *(Continued)*

(b) Jointly controlled entities

As at 31 December 2007, the Company has direct and indirect equity interests in the following principal jointly controlled entities (all are unlisted):

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital RMB'000	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities and place of operation
Sinoma HangHuo Science Park Development Co., Ltd. (中材恒和科技園開發有限公司)	PRC 5 September 2003 Limited liability company	50,000	51%	–	Technology park development and management; PRC
CEMTECK Changshu Heavy Machinery Co., Ltd. (常熟仕名重型機械有限公司)	PRC 23 October 2003 Limited liability company	20,000	–	50%	Manufacture of cement equipment; PRC
PPG Sinoma Jinjing Fibre Glass Co., Ltd. (龐貝捷中材金晶玻纖有限公司)	Hong Kong 24 March 2006 Limited liability company	216,567	–	50%	Glass fibre operations; Hong Kong
PPG Sinoma Zibo Jinjing Fibre Glass Co., Ltd. (淄博中材龐貝捷金晶玻纖有限公司)	PRC 19 April 2006 Limited liability company	212,394	–	50%	Glass fibre operations; PRC
Dongguan Taiguang Fibreglass Ltd. (東莞泰廣玻璃纖維有限公司)	PRC 10 June 2003 Limited liability company	6,710	–	50%	Glass fibre operations; PRC
Shangdong Taishan-PDO Fibre Products Co., Ltd. (山東泰山－彼迪奧薩茨玻璃纖維製品有限公司)	PRC 14 February 2001 Limited liability company	3,989	–	50%	Glass fibre operations; PRC
Shandong Taishan Fiberex Fiberglass Co., Ltd. (山東泰山發博瑞克玻璃纖維有限公司)	PRC 31 October 2006 Limited liability company	23,620	–	50%	Glass fibre operations; PRC

48. Particulars of principal subsidiaries, jointly controlled entities and associates

(Continued)

(c) Associates

As at 31 December 2007, the Company has direct and indirect equity interests in the following principal associates (all are unlisted):

Name	Place and date of incorporation and type of legal entities	Issued/ paid-in capital RMB'000	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities and place of operation
Nanjing Chunhui Science & Technology Industry & Commerce Co., Ltd. (南京春輝科技實業有限公司)	PRC 24 January 1997 Limited liability company	8,043	–	20.59%	Glass fibre operations; PRC
Hangzhou Qiangshi Engineering & Materials Co., Ltd. (杭州強士工程材料有限公司)	PRC 30 July 2000 Limited liability company	17,750	–	30%	Glass fibre operations; PRC
Hanjiang Concrete Co., Ltd. (漢中市漢江混凝土有限責任公司)	PRC 24 March 2000 Limited liability company	15,000	–	26.67%	Cement operations; PRC
Sinomatech Wind Power Blade Co., Ltd. (中材科技風電葉片股份有限公司)	PRC 14 June 2007 Joint stock company	85,000	–	42.35%	Sales of wind power blade; PRC
BBMG Co., Ltd (北京金隅股份有限公司)	PRC 22 December 2005 Joint stock company	1,800,000	13.31%	–	Manufacture and sales of cement products; PRC
Jiangsu Jiashi Engineering & Construction Co., Ltd. (江蘇嘉實工程建設有限公司)	PRC 15 November 2007 Limited liability company	6,000	–	45%	Construction and engineering services; PRC
Beijing Tongda Refractory Technologies Co., Ltd. (北京通達耐火技術有限公司)	PRC 10 May 2006 Limited liability company	119,060	–	25%	Cement operation, real estate, import and export trade PRC

48. Particulars of principal subsidiaries, jointly controlled entities and associates *(Continued)*

(c) Associates *(Continued)*

The operations of the principal subsidiaries, jointly controlled entities and associates are principally located in the PRC, Middle East and other Asian Countries.

Except for Sinoma International, Sinoma Science & Technology and Tianshan Cement which are listed companies in the PRC, all subsidiaries, jointly controlled entities and associates have substantially the same characteristics as a Hong Kong incorporated private company.

The English names of certain subsidiaries, jointly controlled entities and the associates referred to in these financial statements represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

49. Comparatives

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

50. Subsequent events

The following events took place subsequent to 31 December 2007 and up to the date of approval of these financial statements:

(a) In January 2008, the Company issued and allotted 139,756,000 H shares at HK$4.5 each with the full exercise of over-allocation option by the joint global coordinators on behalf of the international underwriters for the Company's initial public offering as described in Note 22(b). Net proceeds of approximately RMB565 million were raised. Pursuant to relevant PRC regulations as described in Note 22(b), upon the completion of the exercise of over-allocation option, 12,022,787 Domestic Shares were converted into H shares and transferred to the National Social Security Fund of the PRC.

(b) In January 2008 and April 2008, Sinoma Cement entered into two co-operation framework agreements with Guangdong Luoding Municipal People's Government and Jiangxi Shangli County People's Government, respectively. Pursuant to these agreements, Sinoma Cement agreed to invest by stages in the construction of cement production lines with the total investments of approximately RMB1,500 million in Luoding, Guangdong Province, the PRC and RMB1,000 million in Shangli, Jiangxi Province, the PRC, respectively. As at 31 December 2007, there was no capital commitment incurred yet regarding these agreements.

(c) In January 2008, Tianshan Cement entered into an agreement to acquire the 100% interest in Yixing Henglai Construction Materials Co., Ltd., which will take over the cement manufacturing business of Jiangsu Henglai Construction Materials Co., Ltd.. The purchase consideration will be the fair value of the aforementioned assets and liabilities to be determined by an independent valuer, but will be limited to RMB340 million and will be settled in cash.

50. Subsequent events *(Continued)*

(d) In January 2008, Tianshan Cement entered into an agreement with the minority shareholders of Aksu Tianshan Duolang Cement Co., Ltd. ("Tianshan Duolang") to acquire a 37.71% equity interest in Tianshan Duolang for a cash consideration of approximately RMB99 million. This acquisition was completed in March 2008, pursuant to which Tianshan Cement's equity interest in Tianshan Duolang increased from 62.29% to 100%. The excess of the carrying value of the acquired net assets in Tianshan Duolang over the consideration, amounting to approximately RMB7 million, would be recorded as an increase of shareholders' equity in the year ending 31 December 2008.

(e) As at 31 December 2007, Sinoma International had a pending arbitration proceeding in relation to a cement construction contract with a third-party customer. Sinoma International claimed against the customer for payment under the construction contract while the customer counter-claimed Sinoma International for default in the contract with a compensation amount of approximately RMB69 million. In January 2008, the committee of arbitration awarded Sinoma International the winning party of the arbitration and dismissed the counterclaim filed by the customer.

(f) In March 2008, CTG acquired the 100% equity interest in Shandong Taishan Composite Materials Co., Ltd., a third-party company, for a cash consideration of approximately RMB174.8 million.

Definition

"Articles of Association" or "Articles"	the articles of association of our Company, adopted on 1 August 2007
"BBMG"	BBMG Group Co., Ltd. (北京金隅集團有限責任公司), one of the promoters of the Company
"CEC"	China Energy Conservative Co., Ltd. (中材節能發展有限公司), a subsidiary of the Parent
"Cinda"	China Cinda Asset Management Corporation (中國信達資產管理公司), one of the promoters of the Company
"Company", "our Company", "we" or "us"	China National Materials Co., Ltd. (中國中材股份有限公司), a joint stock limited company incorporated on 31 July 2007 under the laws of the PRC
"CTG"	Taishan Fiberglass Inc. (泰山玻璃纖維有限公司), a wholly-owned subsidiary of the Company
"Domestic Shares"	ordinary shares in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and credited as fully paid up in Renminbi by PRC nationals and/or PRC incorporated entities
"Global Offering"	the Hong Kong Public Offer and the International Offer
"Group"	the Company and its subsidiaries
"H Shares"	overseas listed Foreign Shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and for which an application has been made for permission to deal in and the grant of listing on the Stock Exchange
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"Henan Sinoma Environmental"	Henan Sinoma Environmental Protection Co., Ltd. (河南中材環保有限公司), a wholly-owned subsidiary of the Company
"Independent Third Parties"	persons or companies which are independent of and not connected with any Directors, Chief Executives, substantial shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries or any of their restrictive associates
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Main Board"	the main board of the Stock Exchange

"Nanjing Mining Engineering"	Sinoma Nanjing Mining Engineering Co., Ltd. (中國非金屬材料南京礦山工程有限公司), a wholly-owned subsidiary of the Company
"NSSF"	The National Council for Social Security Fund of the PRC (中國全國社會保障基金理事會)
"Parent"	China National Materials Group Corporation (中國中材集團公司), one of the promoters of the Company
"Parent Group"	collectively, Parent and its subsidiaries (excluding the Group)
"PPG Sinoma Jinjing"	PPG Sinoma Jinjing Fiber Glass Co., Limited (龐貝捷中材金晶玻纖有限公司), a joint venture entity established by Sinoma Jinjing and PPG Industries Inc.
"PRC" or "China"	the People's Republic of China, which for the purposes of this annual report only (unless otherwise indicated) excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Sinoma Advanced Materials"	Sinoma Advanced Materials Co., Ltd. (中材高新材料股份有限公司), a subsidiary of the Company
"Sinoma Cement"	Sinoma Cement Co., Ltd. (中材水泥有限責任公司), a wholly-owned subsidiary of the Company
"Sinoma Hanjiang"	Sinoma Hanjiang Cement Co., Ltd. (中材漢江水泥股份有限公司), a subsidiary of Sinoma Cement
"Sinoma Hengda"	Sinoma Hengda Cement Co., Ltd. (中材亨達水泥有限公司), a subsidiary of Sinoma Cement
"Sinoma Hanghuo"	Sinoma Hanghuo Science Park Development Co., Ltd. (中材恒和科技園開發有限公司), a subsidiary of the Company
"Sinoma International"	Sinoma International Engineering Co., Ltd. (中國中材國際工程股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (Stock code: 600970), a subsidiary of the Company
"Sinoma Jinjing"	Sinoma Jinjing Fiber Glass Co., Ltd. (中材金晶玻纖有限公司), a subsidiary of the Company
"Sinoma Science & Technology"	Sinoma Science & Technology Co., Ltd. (中材科技股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (Stock code: 002080), a subsidiary of the Company
"Sinoma Shangrao"	Sinoma Shangrao Machinery Co., Ltd. (上饒中材機械有限公司), a wholly-owned subsidiary of the Company

Definition *(Continued)*

"Sinoma Zhuzhou"	Sinoma Zhuzhou Cement Co., Ltd. (中材株洲水泥有限責任公司), a subsidiary of the Sinoma Cement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder"	has the meaning ascribed to it under the Listing Rules
"Taian State-owned Assets"	Taian State-owned Assets Management Co., Ltd. (泰安市國有資產經營有限公司), one of the promoters of the Company
"TCDRI"	Tianjin Cement Industry Design and Research Institute Co., Ltd. (天津水泥工業設計研究院有限公司), a subsidiary of Sinoma International
"Tianjin Cement Institute"	Tianjin Cement Industry Design & Research Institute (天津水泥工業設計研究院), a wholly-owned subsidiary of the Parent
"Tianjin Mining Engineering"	Sinoma Tianjin Mining Engineering Co., Ltd. (天津礦山工程有限公司), a wholly-owned subsidiary of the Company
"Tianshan Cement"	Xinjiang Tianshan Cement Co., Ltd. (新疆天山水泥股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (Stock code: 000877), a subsidiary of the Company
"Tianshan Group"	Xinjiang Tianshan Building Materials (Group) Company Limited (新疆天山建材（集團）有限責任公司), one of the promoters of the Company
"Well Kent"	Well Kent International Holdings Company Limited (華建國際集團有限公司), one of the promoters of the Company
"Xiamen Standard Sand"	Xiamen ISO Standard Sand Co., Ltd. (廈門艾思歐標準砂有限公司), a subsidiary of the Company
"Yanzhou Mining Engineering"	Sinoma Yanzhou Mining Engineering Co., Ltd. (兗州中材建設有限公司), a wholly-owned subsidiary of the Company
"Zibo Hi-Tech"	Zibo New & Hi-Tech Venture Capital Co., Ltd., one of the promoters of the Company

中國中材股份有限公司
China National Materials Company Limited