1. GENERAL

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

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

After the restructuring as detailed in the prospectus of the Company dated 13 March 2005 ("Restructuring") which was approved by the State-owned Assets Supervision and Administration Commission of the State Council on 25 November 2004, the Company became the holding company of the companies transferred to the Company under the Restructuring.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 20. Hereinafter, the Company and its subsidiaries are collectively referred to as the "Group".

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new IFRSs had no material effect on how the results and financial positions for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

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

IAS 1 (Amendment)	Capital Disclosures[1]
IFRS 7	Financial Instruments: Disclosures[1]
IFRS 8	Operating Segments[8]
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies[2]
IFRIC 8	Score of IFRS 2[3]
IFRIC 9	Reassessment of Embedded Derivatives[4]
IFRIC 10	Interim Financial Reporting and Impairment[5]
IFRIC 11	IFRS 2 — Group and Treasury Share Transactions[6]
IFRIC 12	Service Concession Arrangements[7]

[1] *Effective for annual periods beginning on or after 1 January 2007*
[2] *Effective for annual periods beginning on or after 1 March 2006*
[3] *Effective for annual periods beginning on or after 1 May 2006*
[4] *Effective for annual periods beginning on or after 1 June 2006*
[5] *Effective for annual periods beginning on or after 1 November 2006*
[6] *Effective for annual periods beginning on or after 1 March 2007*
[7] *Effective for annual periods beginning on or after 1 January 2008*
[8] *Effective for annual periods beginning on or after 1 January 2009*

The directors anticipate that the adoption of these new standards, amendments and interpretations in the future will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

Business combinations

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

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

Goodwill arising on the acquisition represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or business recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combination *(Continued)*

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is not reversed in a subsequent period.

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

If, after reassessment, the Group's interest in the net fair value of the acquiree's identified assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Investments in associates

An associate is an entity over which the Group has significant influence and that is not a subsidiary. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not the control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interest that, in substance, forms part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Purchase of additional interests in subsidiaries

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

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

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

Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

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

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

Dividend income from investments is recognised when Group's right to receive payment has been established.

Construction contracts

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leasing

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

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

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

Foreign currencies

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

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Government subsidies

Government subsidies including value-added tax ("VAT") refund not attributable to property, plant and equipment are recognised as income when the conditions for the grants are met and there is a reasonable assurance that the grant will be received. Government subsidies relating to expense items are deferred and recognised as income over the period necessary to match the subsidy on a systematic basis to the expense items that are intended to compensate and reported separately as other income. Where the subsidy relates to an asset, it is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset.

Borrowing costs

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

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

Retirement benefits costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Cash-settled share-based payment transactions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation

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

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

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

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

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

Property, plant and equipment

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

Construction in progress represents property, plant and equipment in the course of construction for production or its own use purposes. Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects including borrowing costs capitalised and less any recognised impairment loss, if any. It is not depreciated until completion of construction. Costs of completed construction works are transferred to the appropriate categories of property, plant and equipment.

Depreciation is charged so as to write off the cost of assets, other than construction in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investment properties

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

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

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

Intangible assets

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

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

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

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

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

Land use rights

Land use rights represent prepaid lease payments on the use of land over respective lease periods and are accounted for as operating leases. The prepaid lease payment is amortised on a straight-line basis over the lease term. When there is impairment, it is expensed in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Inventories

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

Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Trade and other receivables, amounts due from related parties, pledged bank deposits and bank balances

Trade and other receivables, amounts due from related parties, pledged bank deposits and bank balances are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments are classified either as held-for-trading investments or as available-for-sale investments.

Held-for-trading investments are investments are held for trading purposes and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value of held-for-trading investments are included in profit or loss for the period.

Available-for-sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale investments are measured at subsequent reporting dates at fair value except those investments which do not have a quoted market price in an active market and whose fair value cannot be reliably measured and, in such cases, will be stated at cost less any accumulated impairment losses.

Borrowings

Interest-bearing bank loans and other borrowings are initially measured at fair value, and subsequently measured at amortised cost, using effective interest method. Any difference between the proceeds (net of transaction costs), and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

Trade and other payables and amounts due to related parties

Trade and other payables and amounts due to related parties are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of the recoverable amount calculation are disclosed in Note 18.

Allowances for bad and doubtful debts

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

5. FINANCIAL INSTRUMENTS

(a) Financial risk management objective and policies

The Group's major financial instruments include equity investments, borrowings, trade and other receivables, trade and other payables, amounts due from or to related companies, pledged bank deposits and bank balances and cash. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's principal financial assets are bank balances and cash, pledged bank deposits, trade and other receivables and amounts due from related parties, which represent the Group's maximum exposure to credit risk in relation to the financial assets.

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

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(a) Financial risk management objective and policies *(Continued)*

Credit risk *(Continued)*

The pledge bank deposits and bank balances and cash are with major state-owned banks governed by the PRC government and the directors of the Company consider the credit risk of these liquid funds is minimal.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

The Group is exposed to liquidity risk as a significant percentage of the Group's funding requirements is through short term bank borrowings. The directors intend to manage liquidity risk by maintaining adequate reserves, obtain banking facilities and issue domestic corporate bond of approximately RMB1 billion (Note 43(b)). As at 31 December 2006, the Group had unused short-term loan facilities with approximately RMB1,358,812,000.

Interest rate risk

Interest rate risk reflects the risk that the Group might expose through the impact of rate changes on interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly balances with banks and related parties which are all short term in nature. Interest-bearing financial liabilities are mainly bank loans and amounts due to related parties which carried fixed interest rates, thus exposing the Group to fair value interest rate risk. The management will consider hedging significant interest rate exposure should the need arises.

(b) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

The fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;

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

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

6. REVENUE

	2006 RMB'000	2005 RMB'000
Sales of goods	**5,406,585**	4,075,036
Provision of:		
— Engineering services	**981,313**	498,758
— Other services	**63,932**	152,750
	6,451,830	4,726,544

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Principal activities are as follows:

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Business segments *(Continued)*

Segment information about these businesses is presented below.

Year ended 31 December 2006

	Lightweight building materials *RMB'000*	Cement *RMB'000*	Engineering services *RMB'000*	Glass fiber and FRP products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
INCOME STATEMENT						
Revenue						
External sales	2,744,338	2,215,483	1,124,613	367,396	—	6,451,830
Inter-segment sales *(Note)*	—	—	157,266	—	(157,266)	—
	2,744,338	2,215,483	1,281,879	367,396	(157,266)	6,451,830
Segment results	243,357	381,424	167,361	66,987	(13,915)	845,214
Unallocated other income						141,749
Unallocated administrative expenses						(43,160)
Share of profit of associates	30,233	—	1,937	58,332	—	90,502
Finance costs						(220,072)
Loss arising from share conversion schemes						(275,007)
Profit before tax						539,226
Income tax expense						(50,066)
Profit for the year						489,160

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Business segments *(Continued)*

Year ended 31 December 2006

	Lightweight building materials *RMB'000*	Cement *RMB'000*	Engineering services *RMB'000*	Glass fiber and FRP products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
OTHER INFORMATION						
Capital expenditure in property, plant and equipment and intangible assets						
— Allocated	260,863	2,237,350	32,540	96,197		2,626,950
— Unallocated	—	—	—	—		4,176
Depreciation and amortisation of property, plant and equipment and intangible assets						
— Allocated	94,862	169,708	3,149	17,770		285,489
— Unallocated	—	—	—	—		671
Land use right releases to income	3,161	4,820	137	707		8,825
Allowance for bad and doubtful debts	2,082	4,490	4,036	3,286		13,894
Write-down of inventories	2,340	—	—	143		2,483

At 31 December 2006

	Lightweight building materials *RMB'000*	Cement *RMB'000*	Engineering services *RMB'000*	Glass fiber and FRP products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
ASSETS AND LIABILITIES						
ASSETS						
Segment assets	3,547,971	5,738,960	702,822	660,639		10,650,392
Interests in associates	242,057	—	16,855	595,492		854,404
Other corporate assets						2,485,518
Total consolidated assets						13,990,314
LIABILITIES						
Segment liabilities	598,430	875,415	434,342	194,704		2,102,891
Other corporate liabilities						6,173,169
Total consolidated liabilities						8,276,060

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Business segments *(Continued)*

Year ended 31 December 2005

	Lightweight building materials *RMB'000*	Cement *RMB'000*	Engineering services *RMB'000*	Glass fiber and FRP products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
INCOME STATEMENT						
Revenue						
External sales	2,326,925	1,268,617	813,928	317,074	—	4,726,544
Inter-segment sales *(Note)*	—	3,955	49,569	—	(53,524)	—
	2,326,925	1,272,572	863,497	317,074	(53,524)	4,726,544
Segment results	151,031	234,887	103,667	44,794	(5,083)	529,296
Unallocated other income						41,231
Unallocated administrative expenses						(7,755)
Share of profit (loss) of associates	39,581	—	(12)	68,969		108,538
Finance costs						(162,432)
Profit on disposal of subsidiaries						27,988
Profit before tax						536,866
Income tax expense						(44,747)
Profit for the year						492,119

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Business segments *(Continued)*

Year ended 31 December 2005

	Lightweight building materials *RMB'000*	Cement *RMB'000*	Engineering services *RMB'000*	Glass fiber and FRP products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
OTHER INFORMATION						
Capital expenditure in property, plant and equipment and intangible assets						
— Allocated	948,861	1,071,180	14,166	68,401		2,102,608
— Unallocated	—	—	—	—		1,807
Depreciation and amortisation of property, plant and equipment and intangible assets						
— Allocated	110,774	75,194	1,929	21,393		209,290
— Unallocated	—	—	—	—		121
Land use right releases to income	1,862	3,297	137	630		5,926
Allowance for bad and doubtful debts	2,342	465	817	486		4,110
Write-down of inventories	1,292	—	—	2,241		3,533
At 31 December 2005						
ASSETS AND LIABILITIES						
ASSETS						
Segment assets	3,396,862	3,160,938	390,147	493,470		7,441,417
Interests in associates	245,553	—	7,905	610,701		864,159
Other corporate assets						1,406,923
Total consolidated assets						9,712,499
LIABILITIES						
Segment liabilities	580,274	791,210	288,269	233,046		1,892,799
Other corporate liabilities						4,392,767
Total consolidated liabilities						6,285,566

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Geographical segment

The Group's operations and assets are principally located in the PRC. Accordingly, no geographical segment analysis is presented.

8. OTHER INCOME

	2006	2005
	RMB'000	*RMB'000*
Investment income:		
Interest on bank deposits	**41,710**	19,356
Interest arising from global offering of the Company's shares	**56,701**	—
Interest on loans receivable	**6,857**	—
Total interest income	**105,268**	19,356
Net gain on disposal of held-for-trading investments	**3,871**	20
Increase in fair value of held-for-trading investments	**650**	—
Dividend from available-for-sale investments	**153**	2,294
	109,942	21,670
Government subsidies:		
VAT refund *(Note (a))*	**121,649**	92,550
Government grants *(Note (b))*	**115,220**	47,199
Interest subsidy *(Note (b))*	**6,100**	2,280
	242,969	142,029
Technical and other service income	**32,180**	44,088

8. OTHER INCOME *(CONTINUED)*

	2006 *RMB'000*	2005 *RMB'000*
Net rental income from:		
Investment properties *(Note 17)*	**23,383**	16,255
Equipments	**2,180**	3,294
	25,563	19,549
Waiver of payables	**755**	5,914
Gain on disposal of investments in associates	**6,244**	—
Gain on disposal of property, plant and equipment	**3,365**	1,535
Promotion fee	**—**	17,724
Discount on acquisition released to income	**—**	10,850
Others	**—**	181
	421,018	263,540

Notes:

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

(b) Government grants including interest subsidies are awarded to the Group from time to time by Ministry of Finance or the local government agencies as an incentives in respect of certain environmental matters, primarily to encourage the Group to locate or relocate some of its operations to outside of Beijing, and as incentives to encourage technological innovations by the Group.

9. FINANCE COSTS

	2006 *RMB'000*	2005 *RMB'000*
Interest on bank borrowings wholly repayable		
— within five years	**263,529**	207,481
— over five years	**5,732**	—
	269,261	207,481
Less: interest capitalised to construction in progress	**(49,189)**	(45,049)
	220,072	162,432

Borrowing costs capitalised for the year ended 31 December 2006 arose on the general borrowing pool and were calculated by applying a capitalisation rate of 5.9% (2005: 5.4%) per annum to expenditure on the qualifying assets.

10. LOSS ARISING FROM SHARE CONVERSION SCHEMES

The financial effect from the share conversion schemes carried out by the subsidiary and associates of the Company during the year is summarised as follows:

	Decrease in share of net assets in the subsidiary and associates *RMB'000*	Capital contribution by the Parent *RMB'000* *(Note 34(a))*	Loss arising from share conversion schemes *RMB'000*
Subsidiary			
Beijing New Building Material Company Limited ("BNBM") *(Note (a))*	115,243	87,381	202,624
Associates			
Shanghai Yaohua Pilkington Glass Co., Ltd. ("Yaopi") *(Note (b))*	11,210	—	11,210
China Fiberglass Company Limited ("China Fiberglass") *(Note (c))*	31,131	30,042	61,173
	157,584	117,423	275,007

Notes:

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

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

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

11. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and supervisors' emoluments

Details of emoluments of directors and supervisors for the year ended 31 December 2006 and 31 December 2005 are as follows:

	Fees	Salaries, allowances and benefits — in-kinds	Discretionary bonuses	Retirement plan contributions	Share appreciation rights	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2006						
Executive directors						
Mr. Song Zhiping	—	—	—	—	177	177
Mr. Cao Jianglin	—	99	—	11	157	267
Mr. Li Yimin	—	271	—	19	81	371
Mr. Peng Shou	—	83	394	5	81	563
Non-executive directors						
Ms. Cui Lijun	—	36	—	—	—	36
Mr. Huang Anzhong	—	—	—	—	—	—
Mr. Zuo Fenggao	—	—	—	—	—	—
Mr. Guo Chaomin	—	—	—	—	—	—
Independent non-executive directors						
Mr. Zhang Renwei	—	—	—	—	—	—
Mr. Zhou Daojiong	—	—	—	—	—	—
Mr. Chi Haibin	—	—	—	—	—	—
Mr. Lau Ko Yuen, Tom	—	—	—	—	—	—
Supervisors						
Mr. Shen Anqin	—	—	—	—	—	—
Ms. Zhou Guoping	—	—	—	—	—	—
Mr. Bao Wenchun	—	36	—	—	—	36
Ms. Cui Shuhong	—	119	—	19	31	169
Mr. Zhang Zhaomin	—	—	—	—	—	—
Mr. Liu Chijin	—	—	—	—	—	—
	—	644	394	54	527	1,619

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

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

Details of emoluments of directors and supervisors for the year ended 31 December 2006 and 31 December 2005 are as follows: *(Continued)*

	Fees *RMB'000*	Salaries, allowances and benefits — in-kinds *RMB'000*	Discretionary bonuses *RMB'000*	Retirement plan contributions *RMB'000*	Share appreciation rights *RMB'000*	Total *RMB'000*
Year ended 31 December 2005						
Executive directors						
Mr. Song Zhiping	—	—	—	—	—	—
Mr. Cao Jianglin	—	36	—	—	—	36
Mr. Li Yimin	—	114	—	11	—	125
Non-executive directors						
Ms. Cui Lijun	—	36	—	—	—	36
Mr. Huang Anzhong	—	—	—	—	—	—
Mr. Zuo Fenggao	—	—	—	—	—	—
Mr. Guo Chaomin	—	—	—	—	—	—
Independent non-executive directors						
Mr. Zhang Renwei	—	—	—	—	—	—
Mr. Zhou Daojiong	—	—	—	—	—	—
Mr. Chi Haibin	—	—	—	—	—	—
Mr. Lau Ko Yuen, Tom	—	—	—	—	—	—
Supervisors						
Mr. Shen Anqin	—	—	—	—	—	—
Ms. Zhou Guoping	—	—	—	—	—	—
Mr. Bao Wenchun	—	36	—	—	—	36
Ms. Cui Shuhong	—	74	—	11	—	85
Mr. Zhang Zhaomin	—	—	—	—	—	—
Mr. Liu Chijin	—	—	—	—	—	—
	—	296	—	22	—	318

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

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

For the year ended 31 December 2005, the Parent and Beijing New Material (Group) Company Limited ("BNBMG"), a shareholder of the Company, bore RMB220,000 as part of the cost of the purchase of apartments by Mr. Guo Chaomin (resigned on 20 February 2006). The emoluments were paid by the Parent and BNBMG in respect of his services to the Group and the Parent. There was no similar arrangement for the year ended 31 December 2006.

(b) Employees' emoluments

The emoluments of the five highest paid individuals include a director for 2006 and did not include directors and supervisors of the Company for 2005. The emoluments of five highest paid individuals for the year are as follows:

	2006	2005
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**888**	966
Share appreciation rights	**242**	—
Discretionary bonuses	**2,390**	956
Retirement plan contributions	**74**	136
	3,594	2,058

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

	Number of the five highest paid individuals	
	2006	2005
Nil - HK$1,000,000 (equivalent to RMB1,004,700 (2005: RMB1,036,000))	**5**	5

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

12. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2006 RMB'000	2005 RMB'000
Depreciation of:		
— property, plant and equipment	**280,786**	207,218
— investment properties	**7,743**	4,476
	288,529	211,694
Amortisation of intangible assets (included in cost of sales)	**5,374**	2,193
Total depreciation and amortisation	**293,903**	213,887
Cost of inventories recognised as expenses	**3,716,536**	3,014,071
Land use rights released to income	**8,825**	5,926
Auditors' remuneration	**4,808**	5,056
Staff costs including directors' remuneration:		
Salaries, bonus and other allowances	**353,057**	260,738
Share appreciation rights	**1,156**	—
Retirement plan contributions	**31,556**	29,745
Total staff cost	**385,769**	290,483
Allowance for bad and doubtful debts	**13,894**	4,110
Write-down of inventories	**2,483**	3,533
Operating lease rentals	**8,994**	12,394
Share of income tax of associates	**27,467**	21,601

13. INCOME TAX EXPENSE

	2006 *RMB'000*	2005 *RMB'000*
Current income tax	**78,739**	46,210
Deferred income tax *(Note 32)*	**(28,673)**	(1,463)
	50,066	44,747

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

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

	2006 *RMB'000*	2005 *RMB'000*
Profit before tax	**539,226**	536,866
Tax at domestic income tax rate of 33% (2005: 33%)	**177,945**	177,166
Tax effect of:		
Share of profit of associates	**(29,866)**	(35,818)
Expenses that are not deductible	**34,640**	7,166
Unrecognised tax losses	**11,563**	14,205
Utilisation of tax losses not previously recognised	**(8,127)**	—
Income tax credits granted to subsidiaries on utilisation of industrial waste *(Note (a))*	**(31,091)**	(27,772)
Income tax credits granted to subsidiaries on acquisition of certain qualified equipment *(Note (b))*	**(50,537)**	(48,894)
Differential tax rate on subsidiaries' income	**(54,461)**	(41,306)
	50,066	44,747

Notes:

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

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

14. DIVIDENDS

	2006 RMB'000	2005 RMB'000
Dividend paid *(Note)*	—	135,637
Proposed final dividend — RMB0.0324 (2005:RMB0.0388) per share	**67,123**	80,382
	67,123	216,019

The final dividend of RMB0.0324 per share has been proposed by the directors and is subject to approval of the shareholders in the forthcoming annual general meeting.

Note: *Pursuant to the "Provisional Regulation relating to Corporate Restructuring of Enterprises and Related Management of State-owned Capital and Financial Treatment" which was issued by the PRC Ministry of Finance and became effective from 27 August 2002, the Company's profit for the period from 1 October 2004 to 27 March 2005 belongs to the then shareholders of the Company. A dividend of RMB135,637,000 ("Special Dividends") was declared to the then shareholders the Company on 28 March 2005.*

The rates of dividend and the number of shares ranking for the Special Dividends are not presented for those profit distributions as such information is not considered meaningful.

15. EARNINGS PER SHARE

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

	2006 RMB'000	2005 RMB'000
Earnings for the purposes of basic earnings per share	**298,146**	351,105

	2006 '000	2005 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,921,551**	1,387,607

The basic earnings per share for year ended 31 December 2005 is computed on the assumption that the Restructuring had been completed as at 1 January 2005.

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

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress *RMB'000*	Land and buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
COST					
At 1 January 2005	1,257,361	963,523	1,773,103	76,902	4,070,889
Additions	1,012,268	31,241	45,998	24,462	1,113,969
Acquisition of subsidiaries *(Note 35)*	279,317	267,580	429,321	13,296	989,514
Transfer	(1,204,223)	360,882	843,018	323	—
Disposals	(260)	(9,654)	(24,070)	(8,123)	(42,107)
Disposal of a subsidiary	(5,607)	(30,225)	(73,135)	(2,204)	(111,171)
Transfer to investment properties *(Note 17)*	(153,410)	—	—	—	(153,410)
At 31 December 2005	1,185,446	1,583,347	2,994,235	104,656	5,867,684
Additions	1,345,966	46,770	35,564	21,691	1,449,991
Acquisition of subsidiaries *(Note 35)*	3,833	507,410	636,677	17,469	1,165,389
Transfer	(841,583)	374,849	440,634	26,100	—
Transfer to construction in progress for reconstruction	22,158	—	(32,857)	—	(10,699)
Disposals	—	(43,569)	(23,933)	(5,648)	(73,150)
Disposal of a subsidiary	—	—	(1,651)	(8)	(1,659)
Transfer to investment properties *(Note 17)*	—	(11,054)	—	—	(11,054)
At 31 December 2006	1,715,820	2,457,753	4,048,669	164,260	8,386,502
DEPRECIATION AND IMPAIRMENT					
At 1 January 2005	—	226,094	675,443	23,195	924,732
Provided for the year	—	34,791	162,104	10,323	207,218
Eliminated on disposals	—	(8,548)	(22,062)	(4,993)	(35,603)
Elimination on disposal of a subsidiary	—	(3,354)	(16,756)	(646)	(20,756)
At 31 December 2005	—	248,983	798,729	27,879	1,075,591
Provided for the year	—	58,180	203,931	18,675	280,786
Eliminated on transfer to construction in progress for reconstruction	—	—	(10,699)	—	(10,699)
Eliminated on disposals	—	(2,821)	(15,932)	(3,528)	(22,281)
At 31 December 2006		304,342	976,029	43,026	1,323,397
CARRYING VALUES					
At 31 December 2006	1,715,820	2,153,411	3,072,640	121,234	7,063,105
At 31 December 2005	1,185,446	1,334,364	2,195,506	76,777	4,792,093

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

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

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

	2006	2005
	RMB'000	*RMB'000*
Land and buildings	**388,317**	161,847
Plant and machinery	**668,069**	391,937
Total	**1,056,386**	553,784

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

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

At 31 December 2006, land and buildings with net book value of RMB368,342,000 (2005: Nil) are still in the process of applying the title certificates.

17. INVESTMENT PROPERTIES

	2006 *RMB'000*	2005 *RMB'000*
COST		
At beginning of the year	**281,679**	122,538
Additions	**9,051**	156
Acquisition of subsidiaries (Note 35)	**—**	5,575
Transfer from property, plant and equipment (Note 16)	**11,054**	153,410
At end of the year	**301,784**	281,679
DEPRECIATION		
At beginning of the year	**13,035**	8,559
Provided for the year	**7,743**	4,476
At end of the year	**20,778**	13,035
CARRYING VALUES		
At end of the year	**281,006**	268,644

The cost of investment properties is depreciated over their estimated useful lives at an estimated rate of 2.38% (2005: 2.38%) per annum.

The fair value of the Group's investment properties as at 31 December 2006 was RMB347,388,000 (2005:RMB324,545,000). The fair value has been arrived at on the basis of a valuation carried out at that date by independent local valuers, who are not connected with the Group. The valuation was arrived at by making reference to comparable sale transactions as available in the relevant market.

The property rental income earned by the Group during the year from its investment properties, all of which are leased out under operating leases, amounted to RMB35,828,000 (2005: RMB25,147,000). Direct operating expenses arising on the investment properties amounted to RMB12,445,000 (2005: RMB8,892,000).

18. GOODWILL

	2006 *RMB'000*	2005 *RMB'000*
CARRYING VALUE		
At beginning of the year	**56,202**	1,604
Arising from acquisition of:		
— subsidiaries *(Note 35)*	**155,922**	51,174
— additional interest in a subsidiary	**41,783**	3,702
Elimination on disposal of a subsidiary	**—**	(278)
At end of the year	**253,907**	56,202

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

	2006 *RMB'000*	2005 *RMB'000*
Lightweight building materials	**79,654**	37,871
Cement	**174,191**	18,269
Engineering services	**62**	62
	253,907	56,202

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

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumption for the value in use calculations of the above CGUs are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the most recent financial budgets and extrapolates cash flows for the following five years assuming the existing level of sales and production remaining the same and a discount rate of 6% (2005: 5%) per annum.

19. INTANGIBLE ASSETS

	Mining right *RMB'000*	Patents and trademarks *RMB'000*	Total *RMB'000*
COST			
At 1 January 2005	—	25,885	25,885
Additions	—	932	932
At 31 December 2005	—	26,817	26,817
Additions	—	3,974	3,974
Acquisition of subsidiaries *(Note 35)*	11,772	—	11,772
At 31 December 2006	11,772	30,791	42,563
AMORTISATION			
At 1 January 2005	—	2,215	2,215
Provided for the year	—	2,193	2,193
At 31 December 2005	—	4,408	4,408
Provided for the year	2,590	2,784	5,374
At 31 December 2006	2,590	7,192	9,782
CARRYING VALUES			
At 31 December 2006	9,182	23,599	32,781
At 31 December 2005	—	22,409	22,409

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

20. PARTICULARS OF SUBSIDIARIES

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

Name of subsidiary	Nominal value of paid-in capital *(Note i)*	Attributable equity interest to the Company Direct %	Indirect %	Principal activities
BNBM *(Note ii)*	RMB575,150,000	52.40	—	Production and sale of lightweight building materials
China United Cement Group Corporation Limited ("China United") *(Note iii)*	RMB1,265,580,000	100.00	—	Production and sale of cement
Lunan China United Cement Company Limited	RMB200,000,000	—	80.34	Production and sale of cement
Huaihai China United Cement Company Limited	RMB139,820,000	—	88.79	Production and sale of cement
Qingzhou China United Cement Company Limited	RMB100,000,000	—	100.00	Production and sale of cement
China Composites Group Corporation Limited ("China Composites")	RMB200,000,000	77.00	—	Production and sale of FRP products
Lianyungang Zhongfu Lianzhong Composite Material Group Company Limited	RMB66,579,600	—	72.77	Production and sale of FRP products
Changzhou China Composites Liberty Company Limited	RMB50,000,000	—	61.60	Production and sale of PVC tiles
Changzhou China Composites Tianma Fiberglass Products Company Limited ("Zhongxin Tianma")	USD11,885,000	—	30.80 *(Note iv)*	Production and sale of glass fiber mats
China Triumph International Engineering Company Limited ("China Triumph")	RMB220,000,000 *(Note v)*	91.00	—	Provision of engineering services

20. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

Name of subsidiary	Nominal value of paid-in capital *(Note i)*	Attributable equity interest to the Company Direct %	Indirect %	Principal activities
CTIEC Shenzhen Triumph Scienotech Engineering Company Limited	RMB5,000,000	—	50.05	Provision of engineering services
China Triumph Nanjing Cement Technological and Engineering Company Limited	RMB7,820,000	—	46.55	Provision of engineering services
CTIEC BengBu Triumph Scienotech Engineering Company Limited	RMB5,000,000	—	50.05	Provision of engineering services
Shandong Taihe Dongxin Company Limited	RMB155,625,000	—	39.21 *(Note vi)*	Production and sales of lightweight building materials

Notes:

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

(ii) BNBM is a joint stock company listed on the Shenzhen Stock Exchange. On 28 August 2006, BNBM acquired 23% additional equity interests in an existing subsidiary, 山東泰和東新股份有限公司, at a cash consideration of RMB114,540,000.

(iii) On 30 September 2006, the Company acquired 3.93% additional equity interest in China United and China United has become the wholly-owned subsidiary of the Company since then. On 26 October 2006 the Company injected additional share capital with RMB850,000,000 into China United as registered capital.

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

(v) On 8 November 2006 the registered share capital of China Triumph was increased from RMB60,000,000 to RMB220,000,000. The additional registered capital was contributed by the Company and minority shareholder of China Triumph in the existing proportion of equity interests in China Triumph.

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

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

(viii) Unless otherwise specified in the above notes, the subsidiaries disclosed above are established under PRC Companies Law as domestic company with limited liability.

21. INTERESTS IN ASSOCIATES

	2006 *RMB'000*	2005 *RMB'000*
Cost of investment in associates		
— listed in the PRC	**156,728**	183,755
— unlisted	**170,010**	157,078
Share of post-acquisition profit, net of dividend received	**527,666**	523,326
	854,404	864,159
Fair value of listed investments	**1,638,184**	1,251,263

As at 31 December 2006, the cost of investment in associates included goodwill of associates of approximately RMB6,444,000 (2005: RMB6,444,000).

As at balance sheet date, the Group had interests in the following principal incorporated associates established in the PRC:

Name of associate	Nominal value of of registered capital	Attributable equity interest to the Group	Principal activities
China Fiberglass *(Note i)*	RMB427,392,000	36.15%	Production of glass fiber
Yaopi *(Note ii)*	RMB731,250,082	16.26%	Production of float glass

Notes:

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

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

21. INTERESTS IN ASSOCIATES *(CONTINUED)*

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

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

	2006 *RMB'000*	2005 *RMB'000*
Revenue	**5,316,824**	5,103,414
Profit for the year	**394,500**	459,813
Group's share of profit of associates for the year	**90,502**	108,538
Total assets	**12,114,138**	9,416,826
Total liabilities	**7,411,028**	5,036,395
Net assets attributable to the equity holders of the associates	**3,541,118**	3,478,506
Group's share of associates' net assets	**854,404**	864,159

22. INVESTMENTS

	2006 *RMB'000*	2005 *RMB'000*
Available-for-sale investments		
Unlisted equity shares, at cost *(Note)*	**52,897**	51,543
Held-for-trading investments at market values		
Quoted investment funds	**250**	15,383
Quoted listed equity share	**18,250**	—
	18,500	15,383

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

23. DEPOSITS

	2006 RMB'000	2005 RMB'000
Investment deposit	**5,000**	5,000
Deposits paid to acquire property, plant and equipment	**67,209**	26,928
	72,209	31,928

24. LAND USE RIGHTS

	2006 RMB'000	2005 RMB'000
CARRYING AMOUNT		
At beginning of the year	**313,317**	246,417
Additions	**23,663**	26,341
Acquisition of subsidiaries *(Note 35)*	**97,873**	47,533
Released to income statement	**(8,825)**	(5,926)
Disposal of subsidiaries	**—**	(1,048)
Disposals	**(5,628)**	—
At end of the year	**420,400**	313,317
The carrying amount of land use rights is analysed as follows:		
Non-current portion	**408,122**	306,182
Current portion included in other receivables, deposits and prepayments in Note 26	**12,278**	7,135
Land use rights	**420,400**	313,317

The amount represents the prepayment of rentals for land use rights situated in the PRC for a period of 38 to 50 years.

As at 31 December 2006, land use rights with carrying value of RMB94,055,000 (2005: Nil) are still in the process of applying the title certificates.

As at 31 December 2006, the Group has pledged land use rights having a carrying value of approximately RMB109,930,000 (2005: RMB95,370,000) to secure bank loans granted to the Group.

25. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	**335,353**	284,117
Work-in-progress	**150,963**	103,601
Finished goods	**339,059**	321,276
Consumables	**8,645**	12,558
	834,020	721,552

26. TRADE AND OTHER RECEIVABLES

	2006 RMB'000	2005 RMB'000
Trade receivable, net of allowances for bad and doubtful debts *(Note (a))*	**798,978**	721,866
Bills receivable *(Note (b))*	**111,681**	48,740
Amounts due from contract customers *(Note 28)*	**142,914**	47,577
Loans receivable *(Note (c))*	**110,000**	—
Other receivables, deposits and prepayments	**791,966**	619,485
	1,955,539	1,437,668

Notes:

(a) The Group normally allowed an average of credit period of 60-90 days to its trade customers.

Ageing analysis of trade receivable is as follows:

	2006 RMB'000	2005 RMB'000
Within two months	***361,452***	*398,659*
More than two months but within one year	***269,854***	*210,740*
Between one and two years	***116,618***	*77,586*
Between two and three years	***35,965***	*22,212*
Over three years	***15,089***	*12,669*
	798,978	*721,866*

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

(c) The amounts are carried interests at interest rates of 6.12% to 15.00% per annum and repayable within one year. Loan receivable of RMB50,000,000 is due from a minority shareholder of a subsidiary and is secured by its equity interest in that subsidiary. The remaining balance of RMB60,000,000 is due from independent party and is unsecured.

As at 31 December 2006, the Group has pledged bills receivable of approximately RMB63,228,000 (2005: trade receivables of approximately RMB13,020,000 and bills receivable of approximately RMB7,100,000) to secure bank loans granted to the Group.

27. AMOUNTS DUE FROM AND TO RELATED PARTIES

	2006	2005
	RMB'000	*RMB'000*
Amounts due from related parties		
Trading in nature:		
Fellow subsidiaries	**134,082**	101,670
Associates	**17,004**	2,858
Minority shareholders of subsidiaries	**3,468**	2,840
	154,554	107,368
Non-trading in nature:		
Fellow subsidiaries	**—**	27,293
Associates	**—**	17,417
Minority shareholders of subsidiaries	**—**	686
	—	45,396
	154,554	152,764
Amounts due to related parties		
Trading in nature:		
Fellow subsidiaries	**30,690**	57,506
Associates	**4,322**	8,477
Minority shareholders of subsidiaries	**2,878**	7,824
	37,890	73,807
Non-trading in nature:		
Fellow subsidiaries	**2,206**	5,562
Associates	**—**	4,000
Immediate holding company	**—**	6,000
Minority shareholders of subsidiaries	**35,280**	44,218
	37,486	59,780
	75,376	133,587

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

As at 31 December 2005, the amounts due from related parties were interest-free except for a portion of RMB13,364,000 which carried fixed interests of 5.58% per annum.

As at 31 December 2006, amounts due to related parties of RMB32,785,000 (2005: RMB37,270,000) carry fixed interests at rate of 6.03% (2005: 6.03%) per annum. The remaining balance of amounts due to related parties are interest-free.

28. CONSTRUCTION CONTRACTS

	2006	2005
	RMB'000	*RMB'000*
Contracts in progress at balance sheet date:		
Amounts due from contract customers *(Note 26)*	**142,914**	47,577
Amounts due to contract customers *(Note 30)*	**—**	(6,654)
	142,914	40,923
Contract costs incurred plus recognised profits less recognised losses to date	**1,928,588**	549,043
Less: progress billings	**(1,785,674)**	(508,120)
	142,914	40,923

As at 31 December 2006, advances received from customers for contract work amounted to RMB27,037,000 (2005: RMB53,590,000) are included in other payables. The retention receivable included in trade receivable, net of allowance for bad and doubtful debts, as set out in Note 26 amounted to RMB57,938,000 (2005: RMB21,367,000).

29. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

As at 31 December 2006, the Group pledged RMB425,262,000 (2005: RMB52,542,000) to bankers of the Group to secure the bank borrowings due within one year and the short term banking facilities granted to the Group.

The effective interest rates of pledged bank deposits and bank balances and cash are ranging from 1.80% to 2.52% (2005: 1.71% to 2.25%) per annum.

30. TRADE AND OTHER PAYABLES

An analysis of trade payables is as follows:

	2006 *RMB'000*	2005 *RMB'000*
Trade payables aged:		
Within two months	**534,105**	373,890
More than two months but within one year	**357,829**	325,519
Between one and two years	**91,121**	72,577
Between two and three years	**15,789**	6,003
Over three years	**8,328**	4,918
	1,007,172	782,907
Bills payable	**351,606**	314,094
Provision for share appreciation rights *(Note 42)*	**1,156**	—
Amounts due to contract customers *(Note 28)*	**—**	6,654
Other payables	**708,602**	716,366
	2,068,536	1,820,021

Bills payable is aged within six months.

31. BORROWINGS

	2006 RMB'000	2005 RMB'000
Bank loans	5,971,579	4,154,506
Other borrowings from non-financial institutions	76,665	82,100
	6,048,244	4,236,606

The borrowings are repayable as follows:

	2006 RMB'000	2005 RMB'000
On demand or within one year	3,595,734	3,231,996
Between one and two years	515,200	49,500
Between two and three years	887,810	502,050
Between three and four years	335,000	453,060
Between four and five years	553,000	—
Between five and six years	161,500	—
	6,048,244	4,236,606
Less: Amount due within one year shown under current liabilities	(3,595,734)	(3,231,996)
Amount due after one year	2,452,510	1,004,610

The analysis of the borrowings is as follows:

	2006 RMB'000	2005 RMB'000
Secured	766,839	264,575
Unsecured	5,281,405	3,972,031
	6,048,244	4,236,606

The bank loans at 31 December 2006 carry interests at fixed rates ranging from 4.69% to 11.16% (2005: 4.3% to 8.0%) per annum.

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

As at 31 December 2005, bank loans of RMB314,000,000 were guaranteed by independent third parties. Such guarantees have been released during the year.

32. DEFERRED TAXATION

The movements of deferred tax assets (liabilities) during the two years ended 31 December 2006 are summarised as follows:

	Fair value adjustments on acquisition of subsidiaries *RMB'000*	Loss on partial disposal of a subsidiary and associates *RMB'000*	Allowances on inventories and trade and other receivables *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2005	—	—	5,387	—	5,387
Credit to the income statement *(Note 13)*	—	—	1,463	—	1,463
At 31 December 2005	—	—	6,850	—	6,850
Arising from acquisition of a subsidiary *(Note 35)*	(37,104)	—	—	—	(37,104)
Credit to the income statement *(Note 13)*	638	20,909	4,608	2,518	28,673
At 31 December 2006	(36,466)	20,909	11,458	2,518	(1,581)

	2006 ***RMB'000***	2005 *RMB'000*
For presentation purpose:		
Deferred tax assets	**34,885**	6,850
Deferred tax liabilities	**(36,466)**	—
	(1,581)	6,850

At the balance sheet date, the Group has unused tax losses of RMB127,817,000 (2005: RMB118,337,000) available for offset against future profits. No deferred tax assets has been recognised in respect of these tax losses due to the unpredictability of future profits streams. The unused tax losses can be carried forward for five years from the year of the incurrence and an analysis of their expiry dates are as follows:

	2006 ***RMB'000***	2005 *RMB'000*
Unused tax losses expiring in:		
2006	**—**	934
2007	**6,027**	6,027
2008	**23,455**	28,582
2009	**32,892**	39,748
2010	**30,402**	43,046
2011	**35,041**	—
	127,817	118,337

33. SHARE CAPITAL

	Domestic Shares *(Note (a))* Number of shares	Amount RMB'000	H Shares *(Note (b))* Number of shares	Amount RMB'000	Total capital RMB'000
Registered shares of RMB1.0 each					
Capitalisaton of assets *(Note (c))*	1,387,110,000	1,387,110	—	—	1,387,110
Issue of shares *(Note (c))*	650,000	650	—	—	650
At 31 December 2005	1,387,760,000	1,387,760	—	—	1,387,760
Issue of H Shares on global offering *(Note (d))*	(59,474,000)	(59,474)	654,214,000	654,214	594,740
Issue of H Shares under over-allotment options *(Note (e))*	(8,920,000)	(8,920)	98,120,000	98,120	89,200
At 31 December 2006	1,319,366,000	1,319,366	752,334,000	752,334	2,071,700

Notes:

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

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

(c) *On 28 March 2005, the Company was converted to a joint stock company by capitalising the value of its net assets into 1,387,110,000 shares of RMB1.0 each and issue 650,000 shares of RMB1.0 each in the Company for a total cash consideration of RMB1,000,000 to a wholly-owned subsidiary of the Parent.*

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

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

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

34. RESERVES

(a) Capital reserves

	2006 RMB'000	2005 RMB'000
Arising from conversion as joint stock company	**387,401**	387,401
Contribution by the Parent under approved share conversion scheme of a subsidiary and associates *(Note 10)*	**117,423**	—
Other capital contribution	**2,694**	—
	507,518	387,401

(b) Statutory surplus reserve fund

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

(c) Statutory public welfare fund

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

(d) Retained earnings/shareholder's equity

The shareholder's equity prior to conversion as a joint stock company mainly represents the then capital of the companies acquired by the Company under Restructuring and the equity contributions from or distributions to the Parent.

35. ACQUISITION OF SUBSIDIARIES/BUSINESSES

On 27 June 2006, the Group acquired 100% of the registered capital of 徐州中聯水泥有限公司 ("Xuzhou China United") for consideration of RMB609,623,000 from independent third party. The acquired subsidiary group is principally engaged in the production, storage and sale of cement.

During year ended 31 December 2005, the Group acquired certain subsidiaries other than the Restructuring.

These acquisitions have been accounted for using the purchase method.

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

	2006			2005
	Acquirees' carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*	Fair value *RMB'000*
Net assets acquired:				
Property, plant and equipment *(Note 16)*	**1,081,251**	**84,138**	**1,165,389**	989,514
Investment properties *(Note 17)*	**—**	**—**	**—**	5,575
Intangible assets *(Note 19)*	**11,772**	**—**	**11,772**	—
Land use rights *(Note 24)*	**33,595**	**64,278**	**97,873**	47,533
Interests in associates	**—**	**—**	**—**	7,862
Available-for-sale investments	**—**	**—**	**—**	4,800
Inventories	**37,816**	**—**	**37,816**	94,588
Trade and other receivables	**29,809**	**—**	**29,809**	235,149
Held-for-trading investments	**—**	**—**	**—**	8,601
Bank balances and cash	**20,648**	**—**	**20,648**	257,417
Trade and other payables	**(349,892)**	**—**	**(349,892)**	(604,520)
Borrowings	**(518,290)**	**—**	**(518,290)**	(577,800)
Income tax payable	**(4,320)**	**—**	**(4,320)**	(1,033)
Deferred tax liabilities *(Note 32)*	**—**	**(37,104)**	**(37,104)**	—
Net assets	**342,389**	**111,312**	**453,701**	467,686
Minority interests			**—**	(219,565)
Share of net assets already recognised in interests in associates			**—**	(13,031)
Goodwill *(Note 18)*			**155,922**	51,174
Total consideration			**609,623**	286,264

35. ACQUISITION OF SUBSIDIARIES/BUSINESSES *(CONTINUED)*

	2006	2005
	RMB'000	*RMB'000*
Total consideration satisfied by:		
Cash	**609,623**	169,048
Investment deposit	—	50,000
Amounts due from fellow subsidiaries	—	54,176
Amounts due to related parties	—	4,667
Trade and other payables	—	8,373
Total consideration	**609,623**	286,264
Net cash inflow (outflow) arising on acquisition:		
Cash consideration paid	**(609,623)**	(169,048)
Less: Cash and cash equivalents acquired	**20,648**	257,417
	(588,975)	88,369

The goodwill arising on the acquisition of Xuzhou China United is attributable to the benefit of expected revenue growth and future market development in Huaihai District, the PRC and overseas and the synergies in consolidating the Group's cement operations. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Included in the profit for the year is RMB39,795,000 attributable to the additional business generated by Xuzhou China United.

Had these business combinations been effected at 1 January 2006, the revenue of the Group would be RMB7,103 million, and profit for the year of the Group would be RMB544 million. The directors of the Group consider these 'pro-forma' an approximate measure of the performance of the combined group on an annualised basis and reference point for comparison in future periods.

36. MAJOR NON-CASH TRANSACTIONS

Other than loss arising on share conversion scheme as set out in Note 10; the satisfaction of the purchase consideration on acquisition of subsidiaries/business as set out in Notes 35 by non-cash items and the transfer between property, plant and equipment and investment property as set out Notes 16 and 17, during the year ended 31 December 2005, the Group entered into significant non-cash transactions as follows:

(a) BNBM acquired 9.9% equity interest in China United for a total consideration of RMB51,761,000. The consideration was satisfied by the transfer of its entire 60% equity interest in BNBM Plastic Company Limited, certain assets and the remaining balance of RMB8,236,000 by increase in amount due to a fellow subsidiary of the Group.

(b) Dividend payable of RMB57,337,000 was offset against the same amount of amounts due from related parties.

37. CONTINGENT LIABILITIES

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

	2006 ***RMB'000***	2005 *RMB'000*
Guarantees given to banks in respect of banking facilities utilised by independent third parties	**—**	144,500

The above guarantees have been fully released during the year ended 31 December 2006.

38. COMMITMENTS

	2006 ***RMB'000***	2005 *RMB'000*
Capital expenditure of the Group contracted but not provided in the consolidated financial statements in respect of:		
— Acquisition of property, plant and equipment	**280,044**	526,404
— Acquisition of land use right	**13,591**	—

39. OPERATING LEASE COMMITMENTS

Lessee

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

	2006	2005
	RMB'000	*RMB'000*
Within one year	**13,730**	13,316
In the second to fifth year inclusive	**32,448**	31,314
Over five years	**97,283**	70,948
	143,461	115,578

Operating lease payments represent rentals payable by the Group for certain of its business premises. Leases are negotiated for an average term of sixteen (2005: seven) years and rentals are fixed for an average term of sixteen (2005: seven) years.

Lessor

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

	2006	2005
	RMB'000	*RMB'000*
Within one year	**42,642**	39,071
In the second to fifth year inclusive	**152,130**	157,336
Over five years	**436,336**	474,345
	631,108	670,752

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

40. RELATED PARTY TRANSACTIONS

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

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

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

	2006 *RMB'000*	2005 *RMB'000*
Provision of production supplies to		
— Parent Group	**75,343**	106,431
— Associates	**22,019**	7,029
— Minority shareholder of subsidiaries	**49,355**	52,798
	146,717	166,258
Provision of support services to Parent Group	**10,055**	16,713
Provision of technical consultation services to		
— Parent Group	**—**	2,888
— Minority shareholders of a subsidiary	**4,000**	19,120
	4,000	22,008
Rental income in respect of supply of equipment to Parent Group	**8,367**	4,788
Rental income received from an associate	**12,436**	10,777
Rendering of engineering services to Parent Group	**600**	567
Licensing of trademarks to Parent Group	**128**	242

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	2006	2005
	RMB'000	*RMB'000*
Supply of raw materials by		
— Parent Group	**77,935**	47,623
— Associates	**33,333**	50,176
— Minority shareholders of subsidiaries	**39,560**	61,832
	150,828	159,631
Provision of production supplies by		
— Parent Group	**24,575**	25,875
— Associates	**7,799**	685
— Minority shareholders of subsidiaries	**23,156**	36,785
	55,530	63,345
Provision of support services by		
— Parent Group	**26,329**	21,539
— Minority shareholders of subsidiaries	**3,839**	2,864
	30,168	24,403
Rendering of engineering services by Parent Group	**7,527**	8,823
Supply of equipment by Parent Group	**36,244**	32,649
Rental expenses paid to Parent Group	**180**	4,366

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Material transactions and balances with other state-owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (these enterprises other than the Parent Group and the Group are hereinafter collectively referred to as "State-Owned Enterprises"). During the year, the Group had material transactions with some of these State-Owned Enterprises in its ordinary and usual course of business. In establishing its pricing strategies and approval process for its products and services, the Group does not differentiate whether the counter-party is a State-Owned Enterprise or not. In the opinion of the directors, all such transactions were conducted in the ordinary course of business and on normal commercial terms.

While the directors of the Company consider State-Owned Enterprises are independent third parties so far as the Group's business transactions with them are concerned, for the purpose of this report, the Group has identified the nature and quantified the amounts of its material transactions with State-Owned Enterprises during the year as follows:

(i) Material transactions

	2006 ***RMB'000***	2005 *RMB'000*
Sales	**393,634**	283,157
Purchases	**1,039,599**	848,118
Interest expense	**269,261**	207,481

(ii) Material balances

	2006 ***RMB'000***	2005 *RMB'000*
Trade and other receivables	**41,100**	29,507
Trade and other payables	**64,389**	92,627

In addition, the Group has entered into various transactions, including borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Remuneration to key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly and indirectly, including directors and supervisors of the Group. The key management personnel compensations during the year are as follows:

	2006	2005
	RMB'000	*RMB'000*
Short-term benefits	**1,038**	296
Share-based payments	**527**	—
Post-employment benefits	**54**	22
	1,619	318

41. EMPLOYEE RETIREMENT BENEFITS PLAN

The PRC employees of the Group are members of state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The contributions payable to the scheme by the Group at rate specified in the rules of the scheme included in staff costs are disclosed in Note 13.

42. SHARE APPRECIATION RIGHTS PLAN

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

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

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

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

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

42. SHARE APPRECIATION RIGHTS PLAN *(CONTINUED)*

As the SA Rights vest at different amounts until the grantee have completed a specified period of service, the Company recognised the services received and a liability of RMB1,156,000 (2005: nil), being the estimated compensation paid for service rendered by the grantee during the year. The estimation is by reference to the valuation of the SA Rights using Black-Scholes pricing model with the following assumptions:

Weighted average share price	HK$5.03
Exercise price	HK$3.50
Expected volatility	22%
Expected life	4 years
Risk-free rate	2.6%
Expected dividend yield	0.77%

43. POST BALANCE SHEET EVENTS

(a) On 5 January 2007, the Company entered into an equity transfer and subscription agreement to subscribe 11.5% of enlarged registered capital in 巨石集團有限公司 ("Jushi") at a consideration of US$46,428,448. Jushi is a subsidiary of the associate of the Company, China Fiberglass, which manufactures and sells glass fiber and related product. After the acquisition, Jushi remains as an associate of the Company.

(b) On 9 April 2007, the Company issued RMB 1 billion bond with the maturity of 10 years and a coupon rate of 4.32% per annum. The bond is guaranteed by a PRC bank.

(c) On 16 April 2007, the Company entered into an agreement with two independent third parties to subscribe 40% equity interests in 湖北大冶尖峰水泥有限公司, a limited liability company incorporated under the laws of the PRC which is principally engaged in the production of cement in E'dong Cement Base in Hubei, the PRC at a cash consideration of RMB60 million.

(d) On 16 April 2007, China United entered into a conditional agreement with an independent third party to acquire 80% equity interests in 泰山水泥集團有限公司 ("Taishan Cement"), a limited liability company incorporated under the laws of the PRC which is principally engaged in the production and sales of cement and clinker and the provision of after-sales service. The purchase consideration will be satisfied by RMB307,180,000 in cash and by the assumption of the shareholders' loan in Taishan Cement which amounted to RMB623,550,000 as at 30 November 2006. As the date to control Taishan Cement is still subject to the fulfillment of the conditions set out in the conditional agreement, the directors of the Company consider it is impracticable to determine and to disclose the fair value of the assets and liabilities of Taishan Cement to be acquired by the Group at the date of approval of these financial statements.

(e) On 16 April 2007, the Company and China Fiberglass entered into an agreement pursuant to which the Company has agreed to acquire a 23% additional equity interest in China Composites at a consideration of RMB103,060,000. Upon completion of the agreement, China Composites will become a wholly-owned subsidiary of the Company.