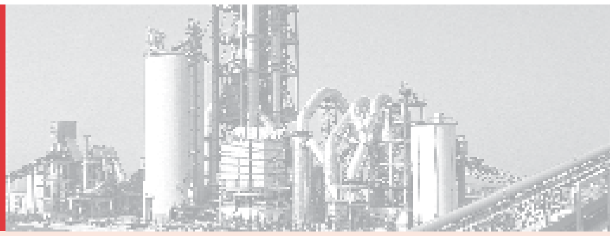
Notes to the Consolidated Financial Statements



1. GENERAL

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

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

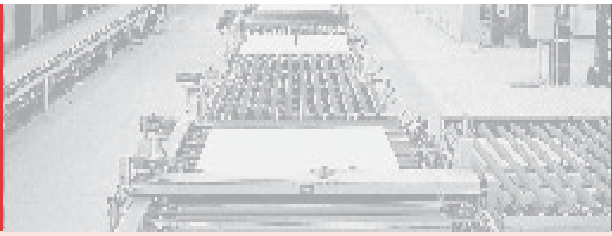
The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 19. Hereinafter, the Company and its subsidiaries collectively referred to as the "Group".

2. REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Pursuant to a restructuring ("Restructuring") which was approved by the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") on November 25, 2004, Parent underwent the Restructuring to rationalise the structure of the Group in preparation for the listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the " Stock Exchange "), China National Building Material and Equipment Import and Export Company ("CNBM Equipment") transferred all of its former operations, and the related assets and liabilities as part of the Restructuring, to a wholly-owned subsidiary of Parent effective December 31, 2003 at nil consideration. Accordingly, the Company is regarded as a new holding company in the Restructuring for the purpose of holding the companies now comprising the Group.

As part of the Restructuring, Parent effected the transfer of its interests in certain businesses which are engaged in the production and sale of cement, lightweight building materials, glass fiber and fiberglass reinforced plastics ("FRP") products and provision of engineering services, and its equity interest in Beijing New Building Material Company Limited ("BNBM") and China Fiberglass Company Limited ("China Fiberglass") (collectively the "Transferred Operations") and certain other relevant assets associated with the Transferred Operations to the Company effective September 30, 2004 at nil consideration.

As Parent controlled the Transferred Operations before the Restructuring and continues to control the Transferred Operations after the effective date of the Restructuring, the Restructuring is considered as a business combination under common control. Accordingly, the consolidated financial statements present the results, cash flows and financial position of the Group as if the current group structure had been in existence throughout the two years ended December 31, 2005, or since their respective dates of establishment and as if the Company had not owned and controlled business other than the Transferred Operations.



Notes to the Consolidated Financial Statements

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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]
IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
IAS 21 (Amendment)	New Investment in a Foreign Operation[2]
IAS 39 (Amendment)	Cash Flow Hedges of Forecast Intragroup Transactions[2]
IAS 39 (Amendment)	The Fair Value Option[2]
IAS 39 and IFRS 4 (Amendments)	Financial Guarantee Contracts[2]
IFRS 6	Exploration for and Evaluation of Mineral Resources[2]
IFRS 7	Financial Instruments: Disclosures[1]
IFRIC 4	Determining whether an Arrangement contains a lease[2]
IFRIC 5	Rights to Interests Arising form Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
IFRIC 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment[3]
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies[4]
IFRIC 8	Score of IFRS 2[5]
IFRIC 9	Reassessment of Embedded Derivatives[6]

[1] *Effective for annual periods beginning on of after January 1, 2007*

[2] *Effective for annual periods beginning on of after January 1, 2006*

[3] *Effective for annual periods beginning on of after December 1, 2005*

[4] *Effective for annual periods beginning on of after March 1, 2006*

[5] *Effective for annual periods beginning on of after May 1, 2006*

[6] *Effective for annual periods beginning on of after June 1, 2006*

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.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The principal accounting policies adopted are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation

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

The results of subsidiaries acquired or disposed of, other than the Restructuring, 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 on consolidation.

Minority interests in the net assets 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

The acquisition of subsidiaries/businesses, other than the Restructuring, is accounted for using the purchase method. The cost of the acquisition is measured at 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 are recognised at their fair values at the acquisition date.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's interest of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate 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 interest of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised 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.

Goodwill

Goodwill arising on the acquisition of a subsidiary 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 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.

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 recognised directly in profit or loss and is not reversed in a subsequent period.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

Value added tax ("VAT") refund is recognised as income when the Group's rights to receive the VAT refund has been established.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by 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.

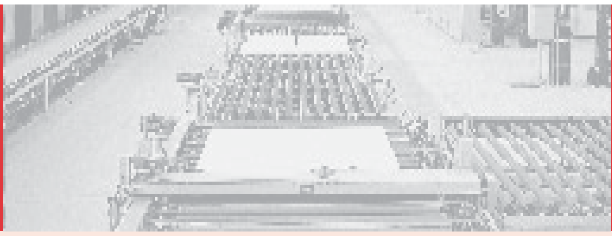
Leasing

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the 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.



4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as profit or loss in the period in which the foreign operation is disposed of.

Government subsidies

Government subsidies 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 subsidy relating to cost are deferred and recognised as income over the period necessary to match the subsidy on a systematic basis to the costs that it is 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 by equal annual installments.

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.

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.

4. 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 tax profit nor the accounting profit.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is 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 is stated at cost which includes all construction costs and other direct costs attributable to such projects including borrowing costs capitalised. 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 provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, as follows:

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

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.

4. 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, at 2.38%.

An investment property is derecognized 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.

Patents and trademarks

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 depreciation and any accumulated impairment losses.

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

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

Land use rights

The prepayment made on acquiring land use right represents prepaid lease payments and it is accounted for as an operating lease. The prepaid lease payment is amortised on a straight-line basis over the lease term, or when there is impairment, the impairment is expensed in the consolidated income statement.

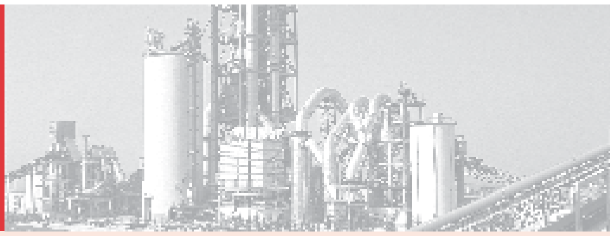
Impairment of tangible and intangible assets excluding goodwill

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. An intangible asset with an indefinite useful life is tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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.



4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provision of the instrument.

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.

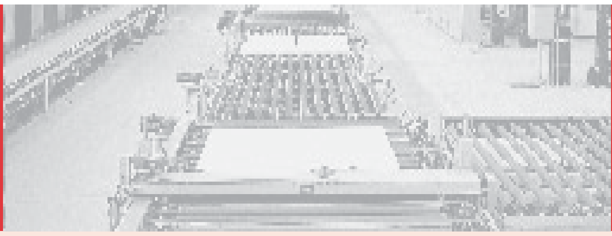
Investments

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 as either investments held-for-trading or as available-for-sale, and 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. Where securities are held-for-trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are 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.



4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 recorded at the proceeds received, net of direct issue costs.

5. 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.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such difference will impact the depreciation in the year in which such estimate has been changed and the future period.

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 17.

Allowances for bad and doubtful debts

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts 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.

6. REVENUE

	2005 *RMB'000*	2004 *RMB'000*
Sales of goods	**4,075,036**	2,526,933
Provision of engineering services	**498,758**	208,167
Rendering of services	**152,750**	162,972
	4,726,544	2,898,072

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 manufacturers and equipment procurement	—	Provision of engineering services to glass and cement
Glass fiber and FRP products	—	Production and sale of glass fiber and FRP products

Segment information about these businesses is presented below.

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*
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	176,868	240,349	105,316	51,571	(3,589)	570,515
Unallocated administrative expenses						(7,755)
Share of profit of associates	39,581	—	(12)	68,969		108,538
Finance costs						(162,432)
Profit on partial disposal of a subsidiary						12
Profit on disposal of a subsidiary						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)*

	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	954,592	1,071,180	14,166	68,401		2,108,339
Unallocated capital expenditure	—	—	—	—		1,807
Depreciation and amortisation	115,177	78,491	2,059	22,279		218,006
Unallocated depreciation and amortisation	—	—	—	—		807
Allowance for bad and doubtful debts	2,342	465	817	486		4,110
Write-down of inventories	1,292	—	—	2,241		3,533
BALANCE SHEET						
ASSETS						
Segment assets	4,219,956	3,401,514	554,839	629,246		8,805,555
Interests in associates	245,553	—	7,905	610,701		864,159
Unallocated assets	—	—	—	—		42,785
						9,712,499
LIABILITIES						
Segment liabilities	590,216	796,785	165,113	404,487		1,956,601
Unallocated liabilities	—	—	—	—		4,328,965
						6,285,566

Notes to the Consolidated Financial Statements

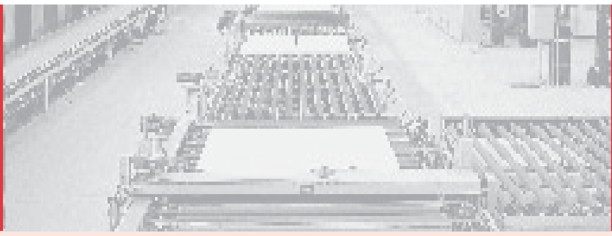
7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Business segments *(Continued)*

Year ended 31 December 2004

	Lightweight building materials RMB'000	Cement RMB'000	Engineering services RMB'000	Glass fiber and FRP products RMB'000	Eliminations RMB'000	Total RMB'000
Revenue						
External sales	1,482,574	778,802	375,418	261,278	—	2,898,072
Inter-segment sales (Note)	—	—	90,458	—	(90,458)	—
	1,482,574	778,802	465,876	261,278	(90,458)	2,898,072
Segment results	98,236	125,940	57,425	23,802	(8,933)	296,470
Share of profit of associates	27,578	—	(83)	69,213		96,708
Finance costs						(98,795)
Profit before tax						294,383
Income tax expense						(24,990)
Profit for the year						269,393
OTHER INFORMATION						
Capital expenditure	822,295	738,192	3,941	17,360		1,581,788
Depreciation and amortisation	84,658	34,095	474	14,747		133,974
Allowances for bad and doubtful debts	2,374	68	206	5,071		7,719
Write-down of inventories	1,788	—	—	1,411		3,199
BALANCE SHEET						
ASSETS						
Segment assets	2,867,382	2,413,367	307,549	563,826		6,152,124
Interests in associates	211,043	—	2,917	585,413		799,373
						6,951,497
LIABILITIES						
Segment liabilities	399,446	455,985	177,681	241,140		1,274,252
Unallocated liabilities						2,711,232
						3,985,484

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

	2005	2004
	RMB'000	*RMB'000*
Investment income		
– Dividend from available-for-sale investments	**2,294**	1,100
– Interest on bank deposits	**19,356**	17,653
– Net gain on disposal of held-for-trading investments	**20**	—
Government subsidies		
– Government grants	**47,199**	39,746
– VAT refund	**92,550**	44,404
– Interest subsidy	**2,280**	8,081
Net rental income	**19,549**	16,585
Discount on acquisition released to income	**10,850**	—
Gain on disposal of property, plant and equipment	**1,535**	—
Waiver of payables	**5,914**	2,472
Promotion fee	**17,724**	7,325
Technical and other service income	**44,088**	11,744
Net foreign exchange gain	**169**	2,187
	263,528	151,297

9. FINANCE COSTS

	2005	2004
	RMB'000	*RMB'000*
Interest on bank borrowings		
– wholly repayable within five years	**207,481**	125,273
Less: interest capitalised to construction in progress	**(45,049)**	(26,478)
	162,432	98,795

Borrowing costs capitalised for the year ended December 31, 2005 arose on the general borrowing pool and were calculated by applying a capitalisation rate of 5.4% (2004: 5.5%) to expenditure on the qualifying assets.

Notes to the Consolidated Financial Statements

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(1) Directors' and supervisors' emoluments

Details of emoluments of directors and supervisors for the year ended December 31, 2005 and December 31, 2004 are as follows:

Year ended December 31, 2005

	Fees RMB'000	Salaries, allowances and benefits in kinds RMB'000	Discretionary bonuses RMB'000	Retirement plan contributions RMB'000	Total RMB'000
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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(CONTINUED)*

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

Year ended December 31, 2004

	Fees *RMB'000*	Salaries, allowances and benefits in kinds *RMB'000*	Discretionary bonuses *RMB'000*	Retirement plan contributions *RMB'000*	Total *RMB'000*
Executive directors					
Mr. Song Zhiping	—	—	—	—	—
Mr. Cao Jianglin	—	36	—	—	36
Mr. Li Yimin	—	—	—	—	—
Non – executive directors					
Ms. Cui Lijun	—	36	50	—	86
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	—	270	216	14	500
Ms. Cui Shuhong	—	4	10	—	14
Mr. Zhang Zhaomin	—	—	20	—	20
Mr. Liu Chijin	—	—	—	—	—
	—	346	296	14	656

For the year ended December 31, 2005, Parent and Beijing New Material (Group) Company Limited ("BNBMG"), a shareholder of the Company, bore approximately RMB220,000 (2004: RMB920,000) as part of the cost of the purchase of apartments by Mr. Guo Chaomin (resigned on February 20,2006)(2004:Mr. Li Yimin). The emoluments were paid by Parent and BNBMG in respect of their services to the Group and Parent.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(CONTINUED)*

(2) Employees' emoluments

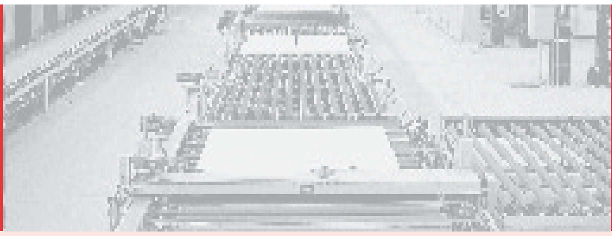
The emoluments of the five highest paid individuals did not include directors and supervisors of the Company for both 2005 and 2004. The emoluments of five highest paid individuals respectively for the year are as follows:

	2005	2004
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**966**	720
Discretionary bonuses	**956**	1,356
Retirement plan contributions	**136**	52
	2,058	2,128

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

Nil - RMB1,036,000 (equivalent to HK$1,000,000)	**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.



11. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2005	2004
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment and investment properties	211,694	127,661
Cost of inventories recognised as expenses	3,014,071	1,919,209
Amortisation of intangible assets (included in administrative expenses)	2,193	1,749
Land use rights released to income	5,926	4,564
Auditor's remuneration	5,056	1,046
Staff costs		
- Salaries and other allowances	260,738	185,628
- Retirement plan contributions	29,745	22,644
Loss on disposals of property, plant and equipment	—	2,566
Net loss on disposal of available-for-sales investments	—	4,540
Gain on fair value change on held-for-trading investments	1,528	—
Allowances for bad and doubtful debts	4,110	7,719
Write-down of inventories	3,533	3,199
Waiver of payables	5,914	2,472
Operating lease rentals	12,394	4,911

12. INCOME TAX EXPENSE

	2005	2004
	RMB'000	*RMB'000*
Current income tax	**46,210**	26,411
Deferred income tax (Note 34)	**(1,463)**	(1,421)
	44,747	24,990

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.

12. INCOME TAX EXPENSE *(CONTINUED)*

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

	2005 *RMB'000*	2004 *RMB'000*
Profit before tax	**536,866**	294,383
Tax at domestic income tax rate of 33%	**177,166**	97,146
Tax effect of share of profit of associates	**(35,818)**	(31,914)
Tax effect of expenses that are not deductible	**7,166**	9,782
Tax effect of unrecognised tax losses	**14,205**	13,117
Tax effect of income tax credits granted to subsidiaries on ultilisation of industrial waste (Note i)	**(27,772)**	(28,372)
Tax effect of income tax credits granted to subsidiaries on acquisition of certain qualified equipment (Note ii)	**(48,894)**	—
Tax effect of tax losses incurred by Shandong Lunan Cement Company Limited ("Lunan Cement") and Jiangsu Julong Cement Group Company Limited ("Julong Cement") (Note iii)	**—**	(21,772)
Effect of differential tax rate on subsidiaries' income	**(41,306)**	(12,997)
	44,747	24,990

Notes:

(i) *Pursuant to the relevant tax rules and regulations, tax credits were granted to BNBM including certain of its subsidiaries and China United Luhong Cement Company Limited ("Luhong") 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.*

(ii) *Pursuant to the relevant tax rules and regulations, Luhong,China United Julong Huaihai Cement Company Limited ("Huaihai") ,China United Nanyang Company ("Nanyang") and Shandong Taihe Dongxin Company Limited ("Taihe") can claim PRC income tax credits on 40% of the acquisition cost of certain qualified equipment manufactured in the PRC, to the extent to the PRC income tax expense in excess of that in 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.*

(iii) *Luhong and Huaihai were established for the purpose of taking over the cement produced using the clinker manufactured by the new suspension preheater dry process ("NSP Cement") operations of Lunan Cement and Julong Cement respectively pursuant to the Restructuring. Accordingly, Luhong and Huaihai was not a stand-alone tax paying entity in accordance with the relevant PRC tax rules and regulations and the assessable profit of Luhong and Huaihai as a whole was reduced by the tax losses incurred by the operations other than the NSP Cement operations of Lunan Cement and Julong Cement respectively prior to the Restructuring. As a result, the PRC income tax payable by Luhong and Huaihai was less than what it would have to pay had the NSP Cement operations been a stand-alone tax paying entity.*

Notes to the Consolidated Financial Statements

13. DISTRIBUTIONS

Set out below are the details of distributions made during the year ended December 31, 2005:

	2005	2004
	RMB'000	*RMB'000*
(I) Dividends	**135,637**	27,759
	(Note i)	(Note ii)
(II) Proposed dividend - RMB0.0388 per share	**80,382**	—
	216,019	27,759

The final dividend of RMB0.0388 per share has been proposed by the directors and is subject to approval of the shareholders in the forthcoming annual general meeting.

Notes:

(i) *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 August 27, 2002, the Company's profit for the period from October 1, 2004 (being the first date after the effective date of Restructuring) to March 27, 2005 (being the date immediately prior to the date of its conversion as a joint stock company) belongs to the then shareholders of the Company. A dividend of RMB135,637,000 was declared to the then shareholders of the Company on March 28, 2005.*

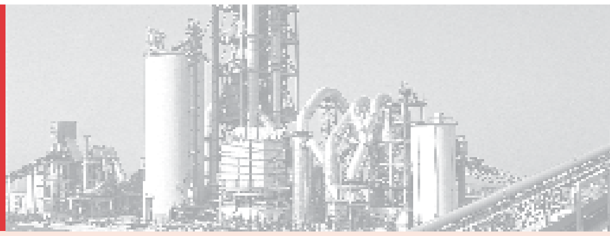
The rates of dividend and the number of shares ranking for dividends are not presented for those profit distributions as such information is not considered meaningful.

(ii) *The amount represented dividend paid by BNBM, the Company's subsidiary and its shares are listed on the Shenzhen Stock Exchange.*

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the year and on the weighted average number of 1,387,606,849 shares (2004: 1,387,110,000 shares) on the assumption that the Restructuring had been completed before January 1, 2004.

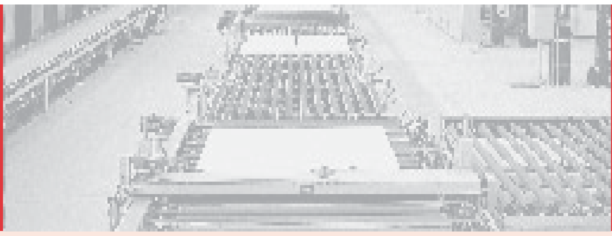
No diluted earnings per share is presented as the Company did not have any dilutive potential shares for both years or at each of the balance sheet dates.



15. 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 January 1, 2004	424,967	698,102	1,230,310	57,291	2,410,670
Additions	1,280,882	80,848	184,307	15,933	1,561,970
Acquired on acquisition of subsidiaries	3,547	60,125	42,962	5,968	112,602
Transfer	(452,035)	127,474	322,086	2,475	—
Disposals	—	—	(6,266)	(3,902)	(10,168)
Disposal of a subsidiary	—	—	(296)	(863)	(1,159)
Transfer to investment properties	—	(3,026)	—	—	(3,026)
At December 31, 2004	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
Acquired on acquisition of subsidiaries	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	(153,410)	—	—	—	(153,410)
At December 31, 2005	1,185,446	1,583,347	2,994,235	104,656	5,867,684
DEPRECIATION AND IMPAIRMENT					
At January 1, 2004	—	198,410	590,511	17,652	806,573
Provided for the year	—	28,000	89,080	8,608	125,688
Eliminated on disposals	—	—	(3,960)	(2,722)	(6,682)
Elimination on disposal of a subsidiary	—	—	(188)	(343)	(531)
Transfer to investment properties	—	(316)	—	—	(316)
At December 31, 2004	—	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 December 31, 2005	—	248,983	798,729	27,879	1,075,591
CARRYING VALUES					
At December 31, 2005	1,185,446	1,334,364	2,195,506	76,777	4,792,093
At December 31, 2004	1,257,361	737,429	1,097,660	53,707	3,146,157

The carrying amount of land and building shown above comprises lease hold interests in land situated in the PRC under medium term leases.



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

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:

	2005	2004
	RMB'000	*RMB'000*
Land and buildings	**161,847**	189,333
Plant and machinery	**391,937**	157,612
Total	**553,784**	346,945

16. INVESTMENT PROPERTIES

	RMB'000
COST	
At January 1, 2004	118,999
Addition	513
Transfer from property, plant and equipment	3,026
At December 31, 2004	122,538
Addition	156
Acquired on acquisition of subsidiaries	5,575
Transfer from construction in progress	153,410
At December 31, 2005	281,679
DEPRECIATION	
At January 1, 2004	6,270
Provided for the year	1,973
Transfer from property, plant and equipment	316
At December 31, 2004	8,559
Provided for the year	4,476
At December 31, 2005	13,035
CARRYING VALUES	
At December 31, 2005	268,644
At December 31, 2004	113,979

16. INVESTMENT PROPERTIES *(CONTINUED)*

The fair value of the Group's investment properties as at December 31, 2005 was RMB324,545,000. The fair value has been arrived at on the basis of a valuation carried out at that date by Sallmanns (Far East) Ltd., independent valuers not connected with the Group. The valuation, which conforms to the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors, was arrived at by making reference to comparable sale transactions as available in the relevant market.

Had the investment properties been stated at the valuation amount, additional depreciation of approximately RMB1,020,000 would have been charged for the year.

The property rental income earned by the Group during the year from its investment the properties, all of which are leased out under operating leases, amounted to RMB25,147,000 (2004: RMB22,285,000). Direct operating expenses arising on the investment properties amounted to RMB8,892,000 (2004: RMB5,700,000).

17. GOODWILL

	2005 ***RMB'000***	2004 *RMB'000*
CARRYING VALUE		
At beginning of the year	**1,604**	706
Additions on acquisition of subsidiaries	**51,174**	898
Addition on acquisition of additional interest in a subsidiary	**3,702**	—
Elimination on disposal of a subsidiary	**(278)**	—
At end of the year	**56,202**	1,604

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:

	2005 ***RMB'000***	2004 *RMB'000*
Lightweight building materials	**37,871**	1,542
Cement	**18,269**	—
Engineering services	**62**	62
	56,202	1,604

17. GOODWILL *(CONTINUED)*

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 based on steady growth rate of 5% and a discount rate of 5%. The growth rate used does not exceed the average long-term growth rate for the relevant markets.

18. INTANGIBLE ASSETS

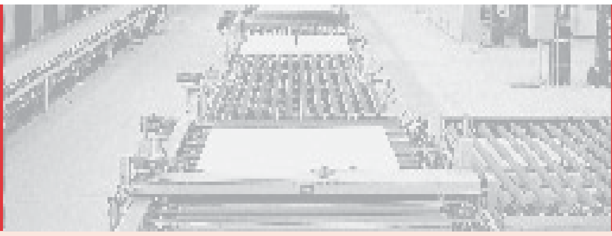
	Patents and trademarks *RMB'000*
COST	
At January 1, 2004	3,782
Additions	19,305
Acquired on acquisition of subsidiaries	2,798
At December 31, 2004	25,885
Additions	932
At December 31, 2005	26,817
AMORTISATION	
At January 1, 2004	466
Charged for the year	1,749
At December 31, 2004	2,215
Charged for the year	2,193
At December 31, 2005	4,408
CARRYING VALUES	
At December 31, 2005	22,409
At December 31, 2004	23,670

Trademarks have indefinite useful lives. Patents included above have finite useful lives, over which the assets are amortised. The average amortisation period for the patents is 9 years.

19. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries establishment in the PRC as at December 31, 2005, which are established in the PRC, are as follows:

Company	Date of establishment	Nominal value of registered and paid-up capital	Attributable equity interest to the Company Direct %	Indirect %	Principal activities
BNBM (Note i)	May 30, 1997	RMB575,150,000	60.33	—	Production and sale of lightweight building materials
China United	September 29, 1992	RMB415,580,000	90.10	5.97	Production and sale of cement
Luhong (Note ii)	September 28, 2004	RMB200,000,000	—	77.18	Production and sale of cement
Huaihai (Note ii)	September 29, 2004	RMB139,820,000	—	85.30	Production and sale of cement
China United Qingzhou Luhong Cement Company Limited	February 20, 2004	RMB100,000,000	—	92.29	Production and sale of cement
China Composites Group Corporation Limited ("China Composites")	June 28, 1988	RMB200,000,000	77	—	Production and sale of FRP products
Lianyungang Zhongfu Lianzhong Composite Material Group Company Limited ("Zhongfu Lianzhong")	October 26, 1989	RMB66,579,600	—	72.77	Production and sale of FRP products
Changzhou China Composites Liberty Company Limited ("Zhongfu Liberty")	December 18, 2003	RMB50,000,000	—	61.60	Production and sale of PVC tiles
Changzhou China Composites Tianma Fiberglass Products Company Limited ("Zhongxin Tianma")	December 11, 1995 (Note iii)	USD11,885,000	—	30.80	Production and sale of glass fiber mats
China Triumph International Engineering Company Limited	June 28, 1988	RMB60,000,000	91	—	Provision of engineering services
CTIEC Shenzhen Triumph Scienotech Engineering Company Limited	April 8, 2002	RMB5,000,000	—	50.05	Provision of engineering services
China Triumph Nanjing Cement Technological and Engineering Company Limited	December 26, 2001	RMB7,820,000	—	46.55	Provision of engineering services



Notes to the Consolidated Financial Statements

19. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

Notes:

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

(ii) *As part of the Restructuring, Luhong and Huaihai were established for the purpose of taking over the Transferred Operations from Lunan Cement and Julong Cement respectively effective December 31, 2003.*

(iii) *China Composites is entitled to nominate two directors to the five-member board of directors of Zhongxin Tianma in accordance with the joint venture agreement of Zhongxin Tianma. Pursuant to the agreement dated January 29, 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.*

(iv) *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.*

20. INTERESTS IN ASSOCIATES

	2005 *RMB'000*	2004 *RMB'000*
Cost of investment in associate		
- listed in the PRC	**183,755**	183,755
- unlisted	**157,078**	168,029
Share of post-acquisition profit, net of dividend received	**523,326**	447,589
	864,159	799,373
Fair value of listed investments	**1,251,263**	1,341,919

As at December 31, 2005, the cost of investment in associates included goodwill of associates of RMB6,444,000 (2004: RMB6,444,000).

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

Company	**Place and date of registration**	**Issued and fully paid capital**	**Attributable equity interest to the Group 2005**	**Principal activities**
China Fiberglass *(Note i)*	PRC April 16, 1999	427,392,000	40.17%	Production of glass fiber
Shanghai Yaohua Pilkington Glass Co., Ltd. ("Yaohua") *(Note ii)*	PRC December 9, 1993	731,250,082	12.96%	Production of float glass

20. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

Notes:

(i) China Fiberglass is a joint stock company listed on the Shanghai Stock Exchange. Although the Company has four non-independent directors on the China Fiberglass nine-member board, including the chairman, the Company holds less than 50% of the voting power in the shareholding meeting of China Fiberglass. As such, China Fiberglass is accounted for as an associate.

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

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

	2005 *RMB'000*	2004 *RMB'000*
Revenue	**5,103,414**	4,493,711
Profit for the year	**459,813**	476,064
Group's share of associates' profit for the year	**108,538**	96,708
Total assets	**9,416,826**	7,893,693
Total liabilities	**(5,036,395)**	(4,018,638)
Minority interests	**(901,925)**	(544,643)
Net assets	**3,478,506**	3,330,412
Group's share of associates' net assets	**864,159**	799,373

Notes to the Consolidated Financial Statements

21. INVESTMENTS

	2005	2004
	RMB'000	*RMB'000*
Available-for-sale Investments		
Unlisted equity shares, at cost *(Note)*	**51,543**	41,042
Investments held-for-trading		
Quoted investment funds	**15,383**	10,405
Quoted debt securities	**—**	907
	15,383	11,312
Investments held-for-trading, at market values based on the quoted market bid prices available in active markets	**15,383**	11,312

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.*

22. DEPOSITS

	2005	2004
	RMB'000	*RMB'000*
Investment deposit	**5,000**	50,000
Deposits paid to acquire property, plant and equipment	**26,928**	16,900
	31,928	66,900

23. LAND USE RIGHTS

	2005 RMB'000	2004 RMB'000
CARRYING AMOUNT		
At beginning of the year	**246,417**	113,739
Additions	**26,341**	108,261
Shareholder's contribution	**—**	28,981
Acquisition of subsidiaries	**47,533**	—
Released to income statement	**(5,926)**	(4,564)
Disposal of subsidiaries	**(1,048)**	—
At end of the year	**313,317**	246,417

Analysis of the carrying amount of land use rights is as follows:

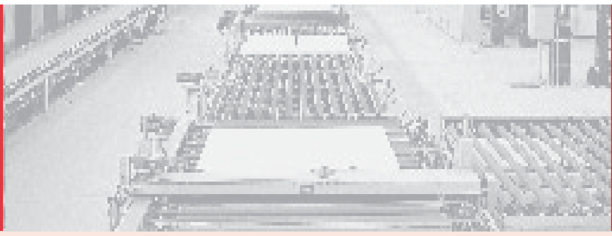
	2005 RMB'000	2004 RMB'000
Land use rights	**313,317**	246,417
Less: Portion to be charged to income statement in the coming twelve months included as prepayments under current assets	**(7,135)**	(6,199)
Amount due after one year	**306,182**	240,218

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

As at December 31, 2005, the Group has pledged land use rights having a carrying value of approximately RMB95,370,000(2004: Nil) to secure bank loans granted to the Group.

24. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	**284,117**	176,247
Work-in-progress	**103,601**	51,023
Finished goods	**321,276**	290,113
Consumables	**12,558**	12,839
	721,552	530,222



25. TRADE AND OTHER RECEIVABLES

	2005	2004
	RMB'000	*RMB'000*
Trade receivable, net of allowances for bad and doubtful debts	**721,866**	435,000
Bills receivable	**48,740**	109,845
Amounts due from contract customers	**47,577**	44,773
Other receivables, deposits and prepayments	**619,485**	332,005
	1,437,668	921,623

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:

	2005	2004
	RMB'000	*RMB'000*
Within two months	**398,659**	217,344
More than two months but within one year	**210,740**	148,018
Between one and two years	**77,586**	50,714
Between two and three years	**22,212**	12,425
Over three years	**12,669**	6,499
	721,866	435,000

The bills receivable is aged within six months.

As at December 31, 2005, the Group has pledged trade receivable and bill receivable approximately RMB13,020,000 (2004:Nil) and RMB7,100,000 (2004:Nil) to secure bank loans granted to the Group.

The directors consider that the carrying amount of trade and other receivables approximates its fair value.

Credit risk

The Group's principal financial assets are bank balances and cash, pledged 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.

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

25. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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. Except for using part of the net proceeds arising from the global offering of the Company's shares of approximately RMB1,800,000,000 for repayment of a portion of the Group's outstanding short term bank borrowings, the directors intend to refinance a significant portion of such short term bank borrowings each year. Up to approval date of the consolidated financial statements, the Group had obtained agreements form certain banks in which these banks agreed to renew the short term bank loans of approximately RMB2,057,300,000 for one year upon maturity. As at December 31, 2005, the Group had unused banking facilities of approximately RMB778,000,000.

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.

26. AMOUNTS DUE FROM AND TO RELATED PARTIES

	2005 ***RMB'000***	2004 *RMB'000*
Amounts due from related parties		
Trading in nature:		
Fellow subsidiaries	**101,670**	49,248
Associates	**2,858**	73
Minority shareholders of subsidiaries	**2,840**	7,244
	107,368	56,565
Non – trading in nature:		
Fellow subsidiaries	**27,293**	95,839
Associates	**17,417**	7,007
Immediate holding company	**—**	36,536
Minority shareholders of subsidiaries	**686**	27,731
	45,396	167,113
	152,764	223,678
Amounts due to related parties		
Trading in nature:		
Fellow subsidiaries	**57,506**	22,452
Associates	**8,477**	—
Minority shareholders of subsidiaries	**7,824**	12,185
	73,807	34,637

Notes to the Consolidated Financial Statements

26. AMOUNTS DUE FROM AND TO RELATED PARTIES *(CONTINUED)*

	2005	2004
	RMB'000	*RMB'000*
Non – trading in nature:		
Fellow subsidiaries	**5,562**	72,172
Associates	**4,000**	2
Immediate holding company	**6,000**	228
Minority shareholders of subsidiaries	**44,218**	52,691
	59,780	125,093
	133,587	159,730

Amounts are unsecured and repayable on demand.

As at December 31, 2005, amounts due from related parties of RMB13,364,000 (2004: RMB38,831,000) carry fixed interests at rates of 5.58%(2004:5.58%).

As at December 31, 2005, amounts due to related parties of RMB37,270,000 (2004: RMB41,691,000) carry fixed interests at rate of 6.03% (2004:5.58%).

As disclosed above, all other balances with related parties are interest free.

The directors confirm that except for the amount due to minority shareholders of a subsidiary of RMB 37,270,000, the non-trading balances with related parties have been fully settled subsequent to the balance sheet date.

The directors consider the carrying amount of amounts due from and to related parties approximates its fair value.

27. CONSTRUCTION CONTRACTS

	2005	2004
	RMB'000	*RMB'000*
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**47,577**	44,773
Amounts due to contract customers included in trade and other payables	**(6,654)**	—
	40,923	44,773
Contract costs incurred plus recognized profits less recognised losses to date	**549,043**	243,301
Less: progress billings	**(508,120)**	(198,528)
	40,923	44,773

As at December 31, 2005, advances received from customers for contract work amounted to RMB53,590,000 (2004:RMB85,269,000) are included in other payables. There was no retention receivable as at December 31, 2005 and December 31, 2004.

28. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits represent the Group's bank deposits pledged to banks to secure the bank facilities granted to the Group. The amount matures within one year and carries a fixed interest at 1.98% per annum.

Bank balance and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances receive interest at rates ranging from 0.77% to 1.98% in 2005 (2004: 0.72% to 1.46%).

The directors consider the carrying amount of the pledged bank deposits and bank balances and cash approximates its fair value.

29. TRADE AND OTHER PAYABLES

An analysis of trade payable is as follows:

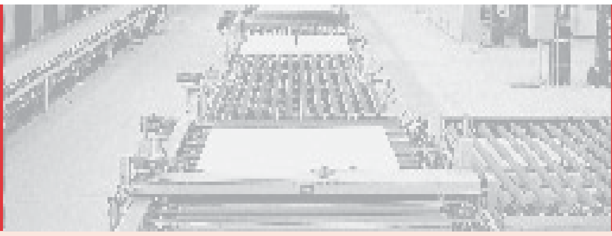
	2005	2004
	RMB'000	*RMB'000*
Within two months	**373,890**	216,606
More than two months but within one year	**325,519**	188,722
Between one and two years	**72,577**	19,358
Between two and three years	**6,003**	7,009
Over three years	**4,918**	7,033
Trade payable	**782,907**	438,728
Bills payable	**314,094**	100,112
Amounts due to contract customers	**6,654**	—
Other payables	**716,366**	570,320
	1,820,021	1,109,160

Bills payable is aged within six months.

The directors consider that the carrying amount of trade and other payables approximates its fair value.

30. BORROWINGS

	2005	2004
	RMB'000	*RMB'000*
Bank loans	**4,154,506**	2,660,832
Other borrowings from non-financial institutions	**82,100**	31,500
	4,236,606	2,692,332



30. BORROWINGS *(CONTINUED)*

The borrowings are repayable as follows:

	2005	2004
	RMB'000	*RMB'000*
Within one year	**3,231,996**	1,450,369
Between one and two years	**49,500**	318,203
Between two and three years	**502,050**	34,500
Between three and four years	**453,060**	431,200
Between four and five years	**—**	458,060
	4,236,606	2,692,332
Less: Amount due within one year shown under current liabilities	**(3,231,996)**	(1,450,369)
Amount due after one year	**1,004,610**	1,241,963

The analysis of the borrowings is as follows:

	2005	2004
	RMB'000	*RMB'000*
Secured	**264,575**	1,359,353
Unsecured	**3,972,031**	1,332,979
	4,236,606	2,692,332

The bank loans at December 31, 2005 carry interests at fixed rates ranging from 4.3% to 8.0% (2004: 4.8% to 8.3%)

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

The directors consider the carrying amount of borrowings approximate its fair value.

As at December 31, 2005, bank loans of RMB314,000,000 (2004:RMB84,600,000) were guaranteed by independent third parties. Such guarantees have been released subsequent to the balance sheet date.

Parent Group (as defined in Note 39(a)) provided guarantees to the Group on bank borrowings amounted to RMB465,000,000 as at December 31, 2004. The guarantees were released during the year.

31. SHARE CAPITAL

	As at December 31, 2005 *RMB'000*
Registered, issued and fully paid:	
1,387,760,000 shares of RMB1.0 each	1,387,760

On March 28, 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 each and issuing of 650,000 shares of RMB1 each in the Company for a total cash consideration of RMB1,000,000 to a wholly-owned subsidiary of Parent.

32. ACQUISITION OF SUBSIDIARIES/BUSINESSES

During the two years ended December 31, 2005, the Group acquired certain subsidiaries. These transactions have been accounted for by the purchase method of accounting.

Details of the acquired subsidiaries other than the Restructuring during the two years ended December 31, 2005 are as follows:

Name of subsidiaries	Date of acquisition	Percentage of interests acquired %	Nature of business acquired
Beijing Dragon Star Building Material Equipment Company Limited	May 2004	100.00	Production and sales of lightweight building materials
Beijing Dragon Technology Company Limited	May 2004	100.00	Provision of technical service lightweight building materials manufacturers
BNBM Delivery Company Limited	May 2004	100.00	Provision of transportation service
Beijing Haidian Chenlong Decoration Company Limited	May 2004	100.00	Provision of decoration service
BNBM Southwest Distribution Company Limited	May 2004	70.00	Sales of lightweight building materials
Weihai China Composites Xigang Boat Company Limited	December 2004	39.75	Production and sales of FRP products
Changzhou Liberty TOLI Building Material Company Limited	January 2005	35.00	Production and sales of lightweight building materials
Suzhou Tianfeng New Building Material Company Limited	March 2005	75.00	Production and sales of lightweight building materials
Xingtai China United Ziyan Company Limited	April 2005	67.71	Production and sales of cement
Zaozhuang China United Luhong Cement Company Limited	April 2005	100.00	Production and sales of cement
Shandong Luhong Hengjiu Concrete Company Limited	April 2005	54.30	Production and sales of cement
Shandong Heze Luhong Concrete Company Limited	April 2005	75.00	Production and sales of cement
Shandong Taihe Dongxin Company Limited	April 2005	42.00	Production and sales of lightweight building materials
Jiangyin Taishan Gypsum Building Material Company Limited	May 2005	57.50	Production and sales of lightweight building materials

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

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

	Carrying amount before acquisition and fair value Year ended December 31,	
	2005	2004
	RMB'000	*RMB'000*
Net assets of subsidiaries/businesses acquired:		
Property, plant and equipment	**989,514**	112,602
Land use rights	**47,533**	—
Investment properties	**5,575**	—
Intangible assets	**—**	2,798
Interests in associates	**7,862**	—
Available-for-sale investments	**4,800**	—
Inventories	**94,588**	35,535
Trade and other receivables	**235,149**	43,171
Investment held-for-trading	**8,601**	1,324
Bank balances and cash	**257,417**	**35,054**
Trade and other payables	**(604,520)**	(56,245)
Borrowings	**(577,800)**	(63,193)
Income tax payable	**(1,033)**	—
	467,686	111,046
Minority interests	**(219,565)**	(37,020)
Interests in associates	**(13,031)**	(18,207)
Goodwill	**51,174**	898
	286,264	56,717
Other assets acquired under asset exchange agreement: (Note 39c(i)):		
Additional equity interest in an existing subsidiary	**—**	2,062
Available-for-sale investments	**—**	2,665
Amount due from a fellow subsidiary	**—**	8,281
Total consideration	**286,264**	69,725
Satisfied by:		
Cash	**169,048**	10,420
Equity interests in a subsidiary/business	**—**	14,485
Investment deposit	**50,000**	—
Amounts due from fellow subsidiaries	**54,176**	42,320
Amounts due to related parties	**4,667**	2,500
Trade and other payables	**8,373**	—
	286,264	69,725
Net cash inflow arising on acquisition		
Cash consideration paid	**(169,048)**	(10,420)
Cash and cash equivalents acquired	**257,417**	35,054
	88,369	24,634

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

The goodwill arising on the acquisition is attributable to the anticipated profitability of the distribution of the Group's products and the anticipated future operating synergies from the combination.

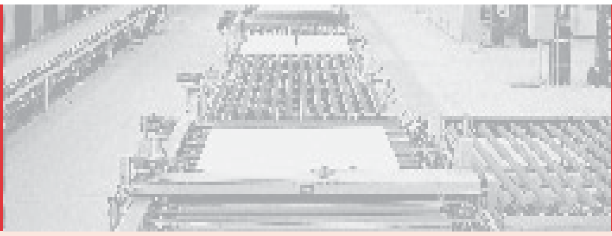
The acquirees' contributions to the revenue and the Group's profit before tax for the period between the date of acquisition and the balance sheet date are as follows:

	2005 ***RMB'000***	2004 *RMB'000*
Revenue	**695,073**	179,139
Group's profit before tax	**31,253**	8,993

If the acquisition had been completed at the beginning of the year, the total Group's revenue and profit before tax would have been as follows:

	2005 ***RMB'000***	2004 *RMB'000*
Revenue	**4,938,957**	2,925,865
Group's profit before tax	**530,198**	294,795

The above proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of actual results.



33. DISPOSAL OF SUBSIDIARIES

The net assets disposed of in the transactions are as follows:

	2005 RMB'000	2004 RMB'000
Net assets of subsidiaries disposed of:		
Property, plant and equipment	**90,415**	628
Land use rights	**1,048**	—
Inventories	**113,971**	9,642
Trade and other receivables	**165,440**	6,112
Investments held-for-trading	**251**	220
Bank balances and cash	**77,354**	2,577
Trade and other payables	**(363,679)**	(2,108)
Bank borrowings	**(36,000)**	(1,600)
	48,800	15,471
Minority interests	**(7,561)**	(986)
Release of goodwill	**278**	—
Profit on disposal of subsidiaries	**27,988**	—
	69,505	14,485
Other asset disposed of under asset exchange agreement (Note 39(c)(i)):		
Amount due from a fellow subsidiary	**—**	42,320
Total consideration	**69,505**	56,805
Satisfied by:		
Cash	**25,980**	—
Equity interests in subsidiaries/business	**—**	42,899
Additional equity interest in an existing subsidiary	**51,761**	2,062
Available-for-sale investments	**—**	2,665
Amount due from a fellow subsidiary	**—**	8,281
Amount due to a fellow subsidiary	**(8,236)**	—
Goodwill on acquisition of subsidiary/business	**—**	898
	69,505	56,805
Net cash outflow arising on disposal:		
Cash consideration received	**25,980**	—
Cash and cash equivalents disposal of	**(77,354)**	(2,577)
	(51,374)	(2,577)

34. DEFERRED TAX ASSET

The following is the major deferred tax asset recognised by the Group, and the movements thereon, during the year:

	Allowances for inventories and trade and other receivables *RMB'000*
At January 1, 2004	3,966
Credit to income for the year	1,421
At December 31, 2004	5,387
Credit to income for the year	1,463
At December 31, 2005	6,850

35. MAJOR NON-CASH TRANSACTIONS

Other term the restructuring the Group entered into significant non-cash transactions for the year:

(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.

(b) The Group disposed of its entire interest in a subsidiary and assigned the amount due from the subsidiary of approximately RMB141,000,000 for a total consideration of approximately RMB161,000,000. The consideration was satisfied by increase in other receivable of approximately RMB141,000,000 and the remaining balance of RMB20,000,000 in cash.

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

(d) For the year ended December 31, 2004, BNBM transferred its entire equity interest in two subsidiaries and amount due from a fellow subsidiary of RMB42,320,000 to BNBMG for a total consideration of RMB56,805,000. The consideration was satisfied by transfer of an available-for-sale investment of RMB2,665,000 and BNBMG's entire equity interests in certain subsidiaries to BNBM and the remaining balance of RMB8,281,000, by increase in amount due from a fellow subsidiary.

36. CONTINGENT LIABILITIES

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

	2005 *RMB'000*	2004 *RMB'000*
Guarantees given to banks in respect of banking facilities utilized by independent third parties	**144,500**	55,000

The above guarantees have been fully released subsequent to the balance sheet date.

(b) In connection with the Restructuring, CNBM Equipment transferred to China National Building Material Import and Export Company ("CNBM Trading"), a shareholder of the Company, certain liabilities (1) in the amount of approximately RMB25,910,000 plus accrued interest arising from a bank debt incurred by it prior to the Restructuring, and (2) in the amount of RMB28,000,000 plus penalty and accrued interest as a result of a legal proceeding that was decided prior to the Restructuring. Based on the advice of the Company's PRC legal counsel, the Company may remain liable if CNBM Trading fails to fulfill its obligations in respect of these transferred liabilities. Pursuant to an indemnification undertaking, Parent has agreed to indemnify the Company in respect of any loss or damage incurred by the Company relating to its obligations in respect of these transferred liabilities (the "Transferred Liabilities") prior to the Restructuring.

37. COMMITMENTS

	2005 *RMB'000*	2004 *RMB'000*
Capital expenditure of the Group in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**526,404**	649,205

38. OPERATING LEASE COMMITMENTS

Lessee

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

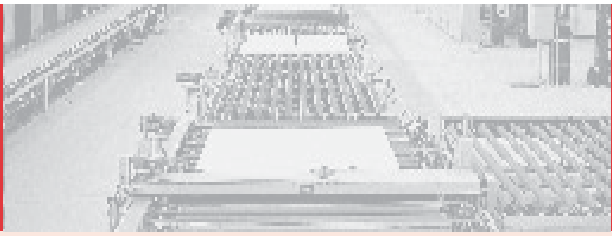
	2005 RMB'000	2004 RMB'000
Within one year	**13,316**	14,513
In the second to fifth year inclusive	**31,314**	45,328
Over five years	**70,948**	18,887
	115,578	78,728

Operating lease payments represent rentals payable by the Group for certain of its business premises. Leases are negotiated for an average term of seven (2004: three) years and rentals are fixed for an average term of seven (2004: three) years.

Lessor

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

	2005 RMB'000	2004 RMB'000
Within one year	**39,071**	12,566
In the second to fifth year inclusive	**157,336**	43,240
Over five years	**474,345**	131,446
	670,752	187,252



39. RELATED PARTY TRANSACTIONS

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

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

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

	2005 ***RMB'000***	2004 *RMB'000*
Provision of production supplies to		
– Parent Group	**106,431**	55,424
– Associates	**7,029**	3,926
– Minority shareholder of subsidiaries	**52,798**	7,584
	166,258	66,934
Provision of support services to Parent Group	**16,713**	6,202
Provision of technical consultation services to		
– Parent Group	**2,888**	1,920
– Minority shareholders of a subsidiary	**19,120**	2,500
	22,008	4,420
Rental income in respect of supply of equipment to Parent Group	**4,788**	—
Rental income received from an associate	**10,777**	10,391
Rendering of engineering services to Parent Group	**567**	4,658
Licensing of trademarks to Parent Group	**242**	—
Supply of raw materials by		
– Parent Group	**47,623**	8,422
– Associates	**50,176**	8,448
– Minority shareholders of subsidiaries	**61,832**	72,093
	159,631	88,963

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

	2005	2004
	RMB'000	*RMB'000*
Provision of production supplies by		
– Parent Group	**25,875**	45,341
– Associates	**685**	23,635
– Minority shareholders of subsidiaries	**36,785**	—
	63,345	68,976
Provision of support services by		
– Parent Group	**21,539**	54,085
– Minority shareholders of subsidiaries	**2,864**	2,882
	24,403	56,967
Rendering of engineering services by Parent Group	**8,823**	10,824
Supplying of equipment by Parent Group	**32,649**	76,070
Rental expenses paid to Parent Group	**4,366**	1,495
Licensing of trademarks by Parent Group	**—**	500

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (these enterprises other than CNBM 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

	2005	2004
	RMB'000	*RMB'000*
Sales	**283,157**	187,927
Purchases	**848,118**	449,738
Interest expense	**207,481**	125,273

(ii) Material balances

	Year ended December 31,	
	2005	2004
	RMB'000	*RMB'000*
Trade and other receivables	**29,507**	28,325
Trade and other payables	**92,627**	35,065

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

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

39. RELATED PARTY TRANSACTIONS*(CONTINUED)*

(c) The Group acquired of subsidiaries from Parent Group during the year ended December 31, 2005. The details were as follows:

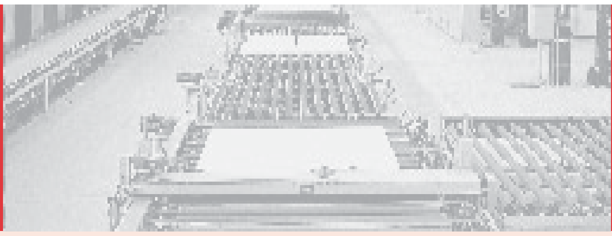
(i) Pursuant to an asset exchange agreement dated February 25, 2005 entered into between BNBM and BNBMG, BNBM acquired 9.9% equity interest in China United for a total consideration of RMB51,760,000. The consideration was satisfied by the transfer of its entire 60% equity interest in BNBM Plastic Pipe Company Limited, certain assets and the remaining balance of RMB8,236,000, by increase in amount due to a fellow subsidiary. The consideration was determined by reference to the net assets acquired.

(ii) Pursuant to debt restructuring agreement dated April 20, 2005 entered into between China United and Xingtai Xinlei Building Material (Group) Co. Ltd. ("Xinlei") a fellow subsidiary of the Company, China United acquired 67.71% equity interest in Xingtai China United Ziyan Company Limited ("Ziyan") for a total consideration of RMB34,176,000 to set off Xinlei's debts to China United. The consideration was determined by reference to the net assets of Ziyan as at April 20, 2005.

(d) 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:

	2005	2004
	RMB'000	*RMB'000*
– Short-term benefits	**296**	642
– Post-employment benefits	**22**	14
	318	656



40. EMPLOYEE BENEFITS PLAN

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

The contributions payable to the scheme by the Group at rate specified in the rules of the scheme included in staff costs are disclosed in Note 11.

On February 28, 2006, the Company's board of directors approved a long-term incentive plan of stock appreciation rights for senior management officers, senior experts and specialists who make important contributions to the Group with a term of ten years. The rights will be granted in units with each unit representing one H Share of the Company and may be granted once in every two more financial years after its global offering as determined by the directors or the remuneration committee of the Company.

The rights to the units will have an exercise period of six years from the date of grant and can be exercised after the second, third and fourth years of the date of grant and the total number of the rights exercised by an individual may not in aggregate exceed one third, two thirds and 100% respectively.

41. SUBSEQUENT EVENTS

Pursuant to the prospectus of the Company dated 16th March, 2006 (the "Prospectus"), the Company issued and placed 683,940,000 H Shares (taking into account over-allotment option has been exercised in full) of RMB1.00 each at HK$2.75 per H Share. The Company's shares were listed on the Stock Exchange on 23 March 2006.