

Management Discussion and Analysis



BUSINESS REVIEW

The business segments and the major operating entities of each business segment of the Group are summarised as follows:

Business segments	Major products and services	Major operating entities	Attributable direct and indirect equity interests held by the Company
Cement	Cement	China United	96.07%
Lightweight building materials	Dry wall and ceiling system	BNBM	60.33%
Glass fiber and FRP products	Glass fiber	China Fiberglass	40.17%
	Glass fiber mats and FRP pipes and tanks	China Composites	86.24% (1)
Engineering services	Design and engineering EPC services: Float glass production lines and NSP cement production lines	China Triumph	91.00%

Note:

(1) Including 77% equity interests directly held by the Company and 23% equity interests held by the China Fiberglass.

Cement Segment

Review on the cement industry of the PRC in 2005

In 2005, the output of cement in the PRC recorded a stable and moderate growth. For the whole year, approximately 1,064.0 million tonnes of cement were produced, representing a year-on-year increase of approximately 9.7 %. The emerging effect of the State's macro-control policy led to an expedite pace of industrial structure adjustment, merger and acquisition or reorganization among enterprises and concentration of the industry. In 2005, approximately 110 NSP cement production lines were completed and put into production with an additional production capacity of approximately 100.0 million tonnes. By the end of 2005, the proportion of NSP cement reached approximately 45.0%, increasing by approximately 12.0% as compared with last year. The production capacity of the top 10 manufacturers in the PRC cement industry represented nearly 15.0% of the national total in 2005, representing a further growth from 10.5% and 12.8% for 2003 and 2004, respectively.



CAO JIANGLIN
President



Management Discussion and Analysis

BUSINESS REVIEW (*CONTINUED*)

Review on the Company's cement business in 2005

A substantial growth of operating results

Despite the unfavourable environment in the industry, utilization ratio of production capacities of plants recorded gradual increases as a result of technology synergy of China United, a subsidiary of the Company. Procurement cost was reduced through centralized procurement. Meanwhile, integrated marketing led to enhanced management over regional markets. Furthermore, cost and expenses were controlled as a result of enhanced fund management, more efficient utilisation of capital and full enjoyment of tax preferences and subsidy from local government. Hence, the Company was able to improve both the gross and net profit margins of its cement products.

Smooth progress of projects under construction or preparation

The projects completed in 2004 and 2005 have all been put into normal production. Among them, the new line with a daily production capacity of 3,000 tonnes for Nanyang, the new lines each with a daily production capacity of 5,000 tonnes for Huaihai and Luhong and the new line with a daily production capacity of 2,500 tonnes for Zaozhuang Luhong have fulfilled their production targets in tandem. The Group's commercial concrete mixing station in Shandong Heze and Jining were also completed and put into production. The line with a daily production capacity of 6,000 tonnes for Qingzhou, the line with a daily production capacity of 6,000 tonnes for Nanyang, the grinding facility for Ziyang, the residual-heat power generation project for Huaihai and the grinding stations in Shandong Heze, Qingdao, Jiangsu Lianyungang, Suqian and Anhui Fuyang, etc. were all going on wheels in preparation and construction.

Lightweight Building Materials Segment

Review on the lightweight building materials industry of the PRC in 2005

The PRC gypsum board industry has experienced a significant development in 2005. The new wall materials industry, including gypsum board, was further boosted with the improved industrial policies, and regulations on construction energy-saving and development of environment-friendly products under the PRC's policy of promoting cycle economy. Through acquisition of 42% equity interests in Taihe, the Group realized the integration of material resources in the PRC gypsum board industry, with great contribution to industrial concentration and intensive industry chains for the PRC gypsum board industry.

Review on the Company's lightweight building materials business in 2005

Enhancing management and streamlining organizations to optimize business process

BNBM, a subsidiary of the Company, has shifted its management structure from a production-oriented basis to a market-oriented basis and set up functional divisions for five major product lines to integrate related resources and hence improved operating efficiency. It also implemented centralized management on procurement and general affairs to cut down operating cost. Furthermore, by enhancing quality control, safe production management and site management, BNBM kept exploring new revenue streams while implementing retrenchment to save energy and increase efficiency.

Steady project construction for new profit sources

The third gypsum boards production line in Zaozhuang with an annual capacity of 30.0 million square meters was completed and put into production in the third quarter of 2005. Both the fourth gypsum boards production line in Hebei Zhuozhou with an annual capacity of 50.0 million square meters and the GRC external wall board production line with annual capacity of 1.8 million square meters were put into pilot operation and are expected to commence operation in the second half year of 2006. In addition, the annual 20,000-tonne lightweight metal frames project in Jiangsu Suzhou came into smooth production in the second half year of 2005.

Management Discussion and Analysis



BUSINESS REVIEW (CONTINUED)

Glass Fiber and FRP Products Segment

Review on the glass fiber and FRP industries of the PRC in 2005

In 2005, the PRC glass fiber and FRP industries all recorded favourable progresses. In the FRP industry of the PRC, the total output increased by approximately 11.0% from 2004 and sales revenue increased by approximately 42.5% to approximately RMB14,933.0 million as compared with the previous year. As for the glass fiber industry of the PRC, approximately 950,000 tonnes of glass fiber products were produced in aggregation for 2005, increasing by approximately 32.8% from 2004, and sales revenue amounted to approximately RMB22,326.0 million, representing a year-on-year increase of approximately 32.2%.

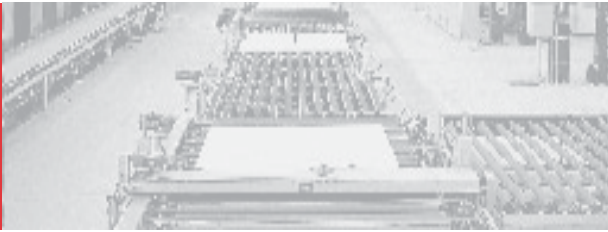
Review on the Company's glass fiber and FRP product business in 2005

FRP product business

Completion of new glass fiber mats production lines: The Company increased its production capacity for glass fiber mats. The technical requirements and market demands for high value-added products such as copper clad laminate mats were also satisfied. Optimization of product mix: Key projects and customers were developed for large-scale filament winding FRP tanks and FRP pipes. Meanwhile, various new glass fiber mats products and flooring materials were developed. Expansion into markets in the energy and environmental sectors: The project with an annual production capacity of 200 pieces 1.5MW fan blades for windmill-powered generators commenced production in March 2006.

Glass fiber business

With rapid expansion in its production capacity, both of China Fiberglass's direct-melt furnace production line for alkali-free glass fiber with an annual production capacity of 80,000 tonnes and the environmentally friendly direct-melt furnace production line for alkali-free glass fiber with an annual production capacity of 20,000 tonnes commenced operation in March 2006, thereby increasing its production capacity to over 300,000 tonnes in 2006. Meanwhile, the product quality and product mix were considerably optimized and improved, further securing the leading position of China Fiberglass in the industry.



Management Discussion and Analysis

BUSINESS REVIEW (*CONTINUED*)

Engineering Services Segment

Review on the PRC glass industry in 2005

In 2005, the output of sheet glass continued to increase. The aggregate output of the sheet glass in the PRC reached approximately 357.0 million weight cases boxes, representing a year-on-year increase of approximately 18.9%, of which float glass accounted for approximately 86.0%. A total of approximately 23 float glass production lines commenced production in 2005 in the PRC, approximately 50.0% of which were designed and/or constructed by the Group. The emerging new varieties such as low emissivity (Low-E) glass and insulating glass also increased the level of the China float glass technology as a whole.

Review on the Group's engineering services business in 2005

Development of EPC to expediate overseas expansion

China Triumph, a subsidiary of the Company, took efforts in the development of EPC business initiated by design and backed by core technologies. During the year, China Triumph signed 132 new contracts with a total contractual amount of over RMB900 million, of which EPC services contracts accounted for approximately 73.0%, and the amount of overseas EPC contracts accounted for approximately 28.0%. Meanwhile, China Triumph took initiatives to promote cooperation with international partners, laying a solid foundation for further globalization.

Enhancement of technology innovations and core competitiveness

Through the research of "comprehensive improvement of float glass technologies" in 2005, China Triumph completed the development of float glass technologies with a glass melt capacity of 1,000 tonnes per day, being the domestic current largest scale, and improved its design and EPC capabilities. The pilot achievement in online Low-E glass technologies laid a foundation for commercial production. Meanwhile, China Triumph developed the residual-heat power generating technology for glass plant and cement plant, taking the lead in application of residual-heat power generating technology for glass plant.

FINANCIAL REVIEW

For the year ended 31 December 2005, our consolidated revenue grew 63.1% to RMB4,726.5 million (RMB 2,898.1 million in 2004). Our profit attributable to equity holders of the Company increased by 81.8% from RMB193.1 million in 2004 to RMB 351.1 million in 2005.

Revenue

Our consolidated revenue for the year ended 31 December 2005 amounted to 4,726.5 million, representing an increase of 63.1% from RMB2,898.1 million in 2004, primarily due to an increase of RMB844.4 million in revenue from our lightweight building materials segment, an increase of RMB493.8 million in revenue from our cement segment, and an increase of RMB397.6 million in revenue from our engineering services segment.

Cost of sales

Our consolidated cost of sales in 2005 amounted to RMB 3,852.4 million, representing an increase of 64.4% from RMB 2,343.3 million in 2004, primarily due to an increase of RMB687.1 million in cost of sales from our lightweight building materials segment, an increase of RMB417.0 million in cost of sales from our cement segment, and an increase of RMB331.1 million in cost of sales from our engineering services segment.

Management Discussion and Analysis



FINANCIAL REVIEW (CONTINUED)

Other Income

Other income increased by 74.2% to RMB263.5 million in 2005 from RMB151.3 million in 2004, primarily due to an 108.4% increase in VAT refund to RMB92.6 million for the year 2005 (RMB44.4 million in 2004) as a result of increased sales of gypsum board and cement which enjoy VAT refund preference, and an 275.4% increase in our technical and other service income for 2005 to RMB44.1 million (RMB11.7 million in 2004). In addition, in connection with our acquisition of an additional 43.5% of equity interest in Zhongfu Lianzhong, a subsidiary in our glass fiber and FRP products segment, we recognized a release of discount on acquisition to income in the amount of RMB10.9 million, which reflected the discount of our acquisition consideration paid to the net asset value of Zhongfu Lianzhong represented by the 43.5% equity interest acquired.

Selling and Distribution Costs

Selling and distribution costs increased by 47.8% to RMB278.1 million in 2005 from RMB188.1 million in 2004, primarily due to an increase of RMB17.8 million in transportation cost, an increase of RMB15.0 million in storage fee, an increase of RMB12.7 million in packaging fee, an increase of RMB9.7 million in salary of sales staff, and an increase of RMB3.5 million in loading fee.

Administrative and other expenses

Administrative and other expenses increased by 34.0% to RMB296.8 million in 2005 from RMB221.5million in 2004, primarily due to an increase of RMB21.4 million in salary, an increase of RMB11.1 million in welfare and insurance for administrative staff, an increase of RMB7.5 million in rental fee, an increase of RMB5.9 million in general administrative expense, and an increase of RMB5.9 million in depreciation expense.

Finance costs

Finance costs increased by 64.4% to RMB 162.4 million in 2005 from RMB 98.8 million in 2004, primarily due to our increased short-term borrowings needed to support the increase in the business volume in each of our four business segments.

Share of profit of associates

Our share of profit of associates increased by 12.2% to RMB 108.5 million in 2005 from RMB 96.7 million in 2004, primarily due to increases in the profits of our associates China Fiberglass and Shenzhen B&Q, partially offset by a decrease in the profit of our associate Yaohua.

Income tax expense

Income tax expense increased by 79.1% to RMB 44.7million in 2005 from RMB 25.0 million in 2004, primarily due to an increase in profit before taxation.

Minority interests

Minority interests increased by 84.9% to RMB 141.0 million in 2005 from RMB 76.3 million in 2004 , primarily due to the increase in operating profit in each of our business segments.



Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Profit attributable to equity holders of the Company

As a result of the foregoing factors, profit attributable to the equity holders of the Company increased by RMB 158.0 million or 81.8% to RMB 351.1 million in 2005 from RMB 193.1 million in 2004. Our net profit margin increased to 7.4% in 2005 from 6.7% in 2004.

Cement Segment

Acquisition and addition of new production lines

We acquired Zaozhuang Luhong and Ziyan in April 2005. The operating results from these two plants are included in our financial results for the year ended December 31, 2005. The following table sets out the revenue, cost of sales, gross profit and operating profit arising from these two plants for the year ended 31 December 2005 and their respective contribution to our cement segment:

	Zaozhuang Luhong		Ziyan	
	RMB in millions	Percentage	RMB in millions	Percentage
Revenue	103.7	8.2	67.2	5.3
Cost of sales	92.0	9.4	55.1	5.7
Gross profit	11.7	4.0	12.1	4.1
Operating profit	6.9	2.9	15.3	6.4

In addition to the reasons stated below, the changes in the operating results of our cement segment for the year ended 31 December 2005 as compared with the year ended 31 December 2004 were also attributable to the inclusion of the results from our two newly added plants described above.

Revenue

Revenue for our cement segment increased by 63.4% to RMB 1,272.5 million for the year 31 December 2005 (or 41.5% to RMB1, 101.6 million excluding the two newly-added production facilities described above), from RMB 778.8 million for the year ended 31 December 2004 primarily due to the commencement of production of the new Nanyang production line in October 2004 and an increase in sales volume generated from our newly-added production lines in Luhong and Huaihai, partially offset by a decrease in the Average Realized Sales Price of our cement products. We added one 5,000 tonne clinker per day production line in each of Luhong and Huaihai in July 2005.

Cost of sales

Cost of sales for our cement segment increased by 74.7% to RMB 975.3 million for the year ended 31 December 2005 (or 48.3% to RMB 828.2 million excluding the two newly-added production facilities described above), from RMB 558.3 million for the year ended 31 December 2004, primarily due to the commencement of production of the new Nanyang production line in October 2004 and an increase in sales generated from our newly added production lines in Luhong and Huaihai and an increase in the price of coal.

Management Discussion and Analysis



FINANCIAL REVIEW (CONTINUED)

Cement Segment (Continued)

Gross profit and gross margin

Gross profit for our cement segment increased by 34.8% to RMB 297.2 million for the year ended 31 December 2005 (or 24.0% to RMB 273.4 million excluding the two newly-added production facilities described above) from RMB 220.5 million for the year ended 31 December 2004. Gross margin for our cement segment decreased to 23.4% for the year ended 31 December 2005 from 28.3% for the year ended 31 December 2004, the decrease in gross margin for our cement segment were primarily due to the increase in the price of coal and the decrease in the Average Realized Sales Price of our cement products.

Operating profit

Operating profit for our cement segment increased by 90.8% to RMB240.3 million for the year ended 31 December 2005 (or 73.2% to RMB 218.1 million excluding the two newly added plants described above) from RMB 125.9 million for the year ended 31 December 2004. Operating margin for the segment increased to 18.9% for the year ended 31 December 2005 from 16.2% for the year ended 31 December 2004, primarily due to an increase in refund in the amount of RMB 17.6 million resulting from an increase in the sales volume of cement products qualifying for VAT refund in the aggregate amount of approximately 2.0 million tonnes and an increase in government grants to several of our cement plants partially offset by the decrease of gross margin.

Lightweight Building Materials Segment

Acquisitions

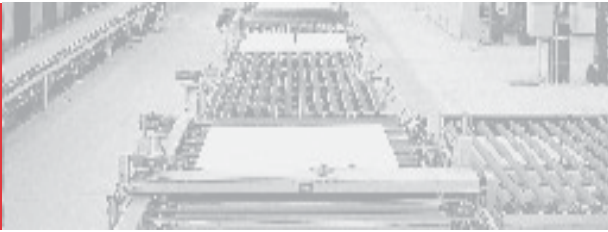
We acquired a 42% equity interest in Taihe in April 2005. According to the articles of association of Taihe, we have the right to nominate four of the seven directors of Taihe. As a result, Taihe is accounted for as a subsidiary of BNBK and Taihe's operating results were consolidated with ours from May 2005.

We acquired a 75% equity interest in Tianfeng in March 2005. As a result, Tianfeng's operating results were consolidated with ours from April 2005.

The table below sets out the revenue, cost of sales, gross profit and operating profit of Taihe and Tianfeng and their respective contribution to the lightweight building materials segment in 2005:

	For the year ended 31 December 2005 (RMB in millions, except for percentages)			
	Taihe	% of segment total	Tianfeng	% of segment total
Revenue	423.3	18.2	50.0	2.1
Cost of sales	329.4	16.6	42.5	2.1
Gross profit	93.9	27.8	7.5	2.2
Operating profit	72.1	40.8	4.9	2.8

In addition to the reasons stated below, the changes in the operating results of our lightweight building materials segment for the year ended 31 December 2005 as compared with the year ended 31 December 2004 also resulted from the consolidation of operating results of Taihe and Tianfeng.



Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Lightweight Building Materials Segment (Continued)

Revenue

Revenue for our lightweight building materials segment increased by 57.0% to RMB 2,326.9 million in 2005 (or 25.0% to RMB 1,853.7 million excluding Taihe and Tianfeng) from RMB 1,482.6 million in 2004 due to revenue increases from most of our major businesses, particularly the sales of our E-HOME stores prior to the sale of such stores in August 2005. Revenue generated from our E-HOME stores increased to RMB 237.6 million in 2005 from RMB 58.7 million in 2004 due to increase of our E-HOME stores business volume.

The table below sets out the revenue generated from the three principal products of our dry wall and ceiling systems in 2004 and 2005, respectively:

	For the year ended 31 December		Period on period change (%)
	2005 (RMB in millions)	2004	
Gypsum boards	684.3 ⁽¹⁾	255.2	168.1
Acoustical ceiling panels	145.6 ⁽²⁾	86.2	69.0
Lightweight metal frames	153.8	134.0	14.8
Total	983.7	475.4	106.9

Notes:

(1) Includes revenue from Taihe during the period from 1 May 2005 to 31 December 2005 in the amount of RMB421.4 million.

(2) Includes revenue from Tianfeng during the period from 1 April 2005 to 31 December 2005 in the amount of RMB50.0 million.

Management Discussion and Analysis



FINANCIAL REVIEW (CONTINUED)

Lightweight Building Materials Segment (Continued)

Cost of sales

Cost of sales for our lightweight building materials segment increased by 52.8% to RMB 1,989.1 million in 2005 (or 24.2% to RMB 1,617.3 million excluding Taihe and Tianfeng) from RMB 1,302.1 million in 2004, due to increases in cost of sales from most of our major business categories as a result of their respective increases in sales volume, particularly from an increase in cost of sales in our E-HOME stores. Cost of sales in our E-HOME stores increased by RMB175.1 million to RMB 225.3 million in 2005 (prior to the sale of such stores on 1 August 2005) from RMB 50.2 million in 2004.

The table below sets out the cost of sales of the three principal products of our dry wall and ceiling systems in 2004 and 2005, respectively:

	For the year ended 31 December		Period on period change (%)
	2005 (RMB in millions)	2004	
Gypsum boards	514.8 ⁽¹⁾	197.6	160.5
Acoustical ceiling panels	124.3 ⁽²⁾	90.6	37.3
Lightweight metal frames	124.0	113.6	9.1
Total	763.1	401.8	89.9

Notes:

(1) Includes cost of sales from Taihe during the period from 1 May 2005 to 31 December 2005 in the amount of RMB328.3 million.

(2) Includes cost of sales from Tianfeng during the period from 1 April 2005 to 31 December 2005 in the amount of RMB42.5 million.

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Lightweight Building Materials Segment (Continued)

Gross profit and gross margin

Gross profit for our lightweight building materials segment increased by 87.1% to RMB 337.8 million in 2005 (or 30.9% to RMB 236.4 million excluding Taihe and Tianfeng) from RMB 180.5 million in 2004, primarily due to an increase in gross profit of RMB46.5 million from increased sales of our gypsum boards, acoustical ceiling panels and lightweight metal frames from BNBM.

The table below sets out the gross profit generated from the three principal products of our dry wall and ceiling systems in 2004 and 2005, respectively:

	For the year ended 31 December		Period on period change (%)
	2005 (RMB in millions)	2004	
Gypsum boards	169.5 ⁽¹⁾	57.6	194.3
Acoustical ceiling panels	21.3 ⁽²⁾	(4.4)	—
Lightweight metal frames	29.8	20.4	46.3
Total	220.6	73.6	199.9

Notes:

(1) Includes gross profit from Taihe from 1 May 2005 to 31 December 2005 in the amount of RMB 93.1 million.

(2) Includes gross profit from Tianfeng from 1 April 2005 to 31 December 2005 in the amount of RMB7.5 million.

Gross margin for our lightweight building materials segment increased to 14.5% in 2005 from 12.2% in 2004, primarily due to an increase in the percentage of revenue from our three principal products, which have a higher gross margin than our other products in this segment, and the increased gross margins of those three principal products from the decreased average fixed cost as a result of the increase of production volumes.

Operating profit

Operating profit for our lightweight building materials segment increased by 80.0% to RMB 176.9 million in 2005 (or 1.6% to RMB 99.8 million excluding Taihe and Tianfeng) from RMB 98.2 million in 2004. Operating margin in this segment increased to 7.6% in 2005 from 6.6% in 2004 primarily due to the increase of gross margin of lightweight building materials segment.

Management Discussion and Analysis



FINANCIAL REVIEW (CONTINUED)

Glass Fiber and FRP Products Segment

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

Acquisitions

Zhongfu Liberty, a subsidiary of China Composites acquired an additional 35% interest in Liberty TOLI in January 2005. The acquisition increased Zhongfu Liberty's shareholding in Liberty TOLI to 60%, making Liberty TOLI one of our subsidiaries from January 2005.

China Composites also acquired a 51% equity interest in Zhongfu Xigang, a company in the business of manufacturing and selling fishing boats and yachts, in December 2004. As a result, Zhongfu Xigang's operating results were consolidated with ours from January 2005.

The following table sets out the revenue, cost of sales, gross profit and operating profit of Liberty TOLI and Zhongfu Xigang and their respective contribution to our glass fiber and FRP products segment in 2005:

	For the year ended 31 December 2005 (RMB in millions, except for percentages)			
	Liberty TOLI	% of segment total	Zhongfu Xigang	% of segment total
Revenue	35.6	11.2	15.1	4.8
Cost of sales	27.7	12.3	18.9	8.4
Gross profit	7.9	8.6	(3.8)	(4.1)
Operating profit	1.5	2.8	(6.2)	(12.0)

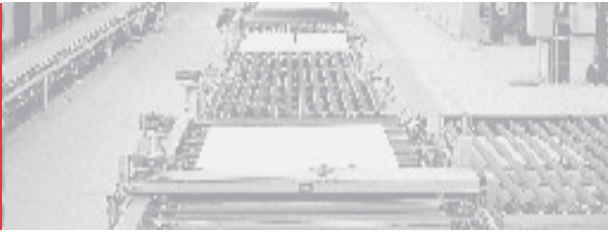
In addition to the reasons stated below, the changes in the operating results of our glass fiber and FRP products segment for the year ended 31 December 2005 as compared with the year ended 31 December 2004 also resulted from the consolidation of results from Liberty TOLI and Zhongfu Xigang.

Revenue

Revenue for our glass fiber and FRP products segment increased by 21.4% to RMB 317.1 million in 2005 (or 1.9% to RMB266.3 million excluding Liberty TOLI and Zhongfu Xigang), from RMB 261.2 million in 2004 primarily due to an increase of RMB 1.8 million in revenue from our FRP pipes and tanks and an increase of RMB 1.4 million in revenue from our technical services business.

Cost of sales

The cost of sales for our glass fiber and FRP products segment increased by 22.1% to RMB 225.4 million in 2005 from RMB184.6 million in 2004 (excluding Liberty TOLI and Zhongfu Xigang, the cost of sales decreased by 3.1% to RMB 178.8 million), primarily due to a decrease of RMB 6.0 million in cost of sales from our FRP pipes and tanks business.



Management Discussion and Analysis

FINANCIAL REVIEW (*CONTINUED*)

Gross profit and gross margin

Gross profit for our glass fiber and FRP products segment increased by 19.5% to RMB91.7 million in 2005 (or 14.2% to RMB 87.5 million excluding Liberty TOLI and Zhongfu Xigang) from RMB 76.6 million in 2004. Gross margin for our glass fiber and FRP products segment decreased to 28.9% in 2005 from 29.3% in 2004. The decreases in gross margin were primarily due to the lower margin of products from Liberty TOLI and Zhongfu Xigang, partially offset by an increase of the gross margin from the increased sales of higher margin products from our FRP pipes and tanks business. Excluding Liberty TOLI and Zhongfu Xigang, the gross margin for our glass fiber and FRP products segment increased to 32.9% in 2005 from 29.3% in 2004.

Operating profit

Operating profit for our glass fiber and FRP products segment increased by 116.7% to RMB 51.6 million in 2005 (or 136.5% to RMB 56.3 million excluding Liberty TOLI and Zhongfu Xigang) from RMB 23.8 million in 2004. The operating margin for the segment increased to 16.3% in 2005 from 9.1% in 2004, primarily due to the negative goodwill released to income of RMB 10.9 million, excluding that the operating margin would have been 15.9%. The increase in the operating margin was also due to increased sales of higher margin products from our FRP pipes and tanks business in our product mix.

Engineering Services Segment

Revenue

Revenue for our engineering services segment increased by 85.3% to RMB 863.5 million in 2005 from RMB 465.9 million in 2004, primarily due to a greater number of new and ongoing EPC projects for the glass industry in 2005. We performed services under 30 EPC contracts in 2005 as compared to 24 EPC contracts in 2004.

Cost of sales

The cost of sales for our engineering services segment increased by 87.2% to RMB 711.0 million in 2005 from RMB 379.8 million in 2004, primarily due to a greater number of new and ongoing EPC projects for the glass industry.

Gross profit and gross margin

Gross profit for our engineering services segment increased by 77.2% to RMB 152.5 million in 2005 from RMB 86.1 million in 2004, primarily due to the increase in the number of new and ongoing projects in 2005. Gross margin for our engineering services segment decreased to 17.7% in 2005 from 18.5% in 2004, primarily due to the increased percentage of EPC projects and decreased percentage of engineering design in our project mix. EPC projects typically have a higher per project revenue but a lower gross margin than engineering design projects.

Operating profit

Operating profit for our engineering services segment increased by 83.4% to RMB 105.3 million in 2005 from RMB 57.4 million in 2004, and operating margin for the segment decreased slightly to 12.2% in 2005 from 12.3% in 2004 primarily due to the decrease of gross margin for our engineering services segment

Management Discussion and Analysis



FINANCIAL REVIEW (CONTINUED)

Liquidity and financial resources

As at 31 December 2005, we had aggregate unused banking facilities of approximately RMB 778.0 million.

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

	As at 31 December (RMB in thousands)	
	2005	2004
Bank loans	4,154,506	2,660,832
Other borrowings from non-financial institutions	82,100	31,500
Total	4,236,606	2,692,332
Borrowings are repayable as follows:		
within one year or on demand	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 five years, inclusive	453,060	889,260
over five years	—	—
Total	4,236,606	2,692,332

As at 31 December 2005, bank loans in the amount of RMB 264.6 million were secured by certain assets of total carrying value of RMB 721.8 million.

As at 31 December 2004 and 31 December 2005, we had a debt-to-asset ratio, calculated by dividing our consolidated borrowings by our total consolidated assets, of 38.7% and 43.6% respectively. The increase in our financial leverage was primarily due to our increasing balance of short-term loans to finance our growing working capital needs and the expansion of our business, including both capital investments and acquisitions. As at 6 March 2006, we had obtained agreements from relevant creditors to renew a number of our outstanding short-term loans, for a year upon maturity, in an aggregate amount of approximately RMB 2,057.3 million. We have begun to take measures to lower our financial leverage and reduce our level of indebtedness through focusing on the cash-generating capabilities of our operations and through taking a prudent approach with respect to capital investments and implementing centralized controls over capital expenditures.



Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Exchange Risks

Most of the Group's transactions during the year were denominated in Renminbi. The Group is not exposed to any significant exchange risks.

Contingent Liabilities

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

	As at 31 December (RMB in thousands)	
	2005	2004
Guarantees given to banks in respect of banking facilities utilised by independent third parties	144,500	55,000

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

Capital Commitments

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

	As at 31 December (RMB in thousands)	
	2005	2004
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

Capital Expenditures

The following table sets out our capital expenditures in fixed assets investment for the year ended 31 December 2005 by segments:

	For the year ended 31 December 2005	
	(RMB in thousands)	% of total
Cement	1,071,180	50.8
Lightweight building materials	954,592	45.2
Glass fiber and FRP products	68,401	3.2
Engineering services	14,166	0.7
Others	1,807	0.1
Total	2,110,146	100

Management Discussion and Analysis



FINANCIAL REVIEW (*CONTINUED*)

Bank balances and cash

Our total bank balances and cash was RMB932.6 million as at 31 December 2005 and RMB826.3 million as at 31 December 2004.

Cash Flow from Operating Activities

In 2005, our net cash inflow generated from operating activities was RMB 150.6 million. Such inflow was primarily a result of a RMB751.8 million operating cash flow before movements in working capital, a RMB 375.8 million increase in trade payable and other payables, offset primarily by a RMB 449.5 million increase in trade receivable and other receivables and a RMB 214.2 million increase in inventories.

Cash Flow from Investing Activities

In 2005, our net cash outflow from investing activities was RMB 1,032.2 million, which was primarily as a result of property, plant and equipment purchases in a total amount of RMB987.3 million, primarily in the cement and lightweight building materials segment.

Cash Flow from Financing Activities

In 2005, we had a net cash inflow from financing activities in an amount of RMB988.9 million, primarily due to a total of RMB 3,751.0 million in new borrowings raised, offset by approximately RMB 2,748.6 million in the repayment of borrowings.