Management Discussion and Analysis

SONG ZHIPING
Chairman

The Group is mainly engaged in cement, lightweight building materials, glass fiber and FRP products and engineering services businesses. The Group is committed to becoming a world-class building materials producer through development, management and acquisition of main businesses to create long-term value for its shareholders. In terms of the current market positions, the Group is:

- the largest cement producer in the Huaihai Economic Zone of the PRC;
- the largest gypsum board producer in the PRC;
- the largest glass fiber producer in Asia through China Fiberglass, an associate of the Company;
- an international engineering firm that designed and/or constructed approximately 50% of the float glass production lines in the PRC and expanded EPC business of overseas glass and cement projects actively.

INDUSTRY SUMMARY AND BUSINESS REVIEW

Thanks to the staff's efforts as led by the management following its listing in Hong Kong, the Group's major business segments maintained a sound momentum through innovations in keen market competitions. The Group's cement segment acquired the technologically leading clinker production line with daily production capacity of 10,000 tonnes through the acquisition of Xuzhou Conch, thereby strengthening its predominating position in Huaihai Economic Zone. The Group's lightweight building materials segment benefited from the synergy between BNBM and Taihe, which resulted in an increase in major product sales. For the Group's glass fiber and FRP products segment, two new glass fiber production lines with a total capacity of 70,000 tonnes commenced operation in June 2006. The pilot production for rotor blades was completed successfully and the first batch of the products have been delivered to the customers. The engineering services segment secured new orders mainly from overseas which resulted in a significant increase in sales, and we successfully secured a bid for an international EPC project involving large clinker production lines.

Cement Segment

Review on the cement industry of the PRC in the first half of 2006

Among the steadily increasing investments in the PRC during the first half of 2006, the national urban fixed assets investment amounted to RMB3.64 trillion, representing a year-on-year increase of 31.3%. Such growth became a driving force to the rapidly growing cement industry, and cement market price had remained strong since the end of 2005. According to the China Cement Association, the total national cement production volume reached approximately 544 million tonnes for the first half of 2006, representing an increase of 20.78% over the same period last year. According to China Building Materials Daily, the total national clinker production volume reached approximately 400 million tonnes for the first half of 2006, representing an increase of 21.5% over the same period last year. Of which, NSP cement production accounted for 44.5%, representing an increase of 5.6% over the same period last year.

INDUSTRY SUMMARY AND BUSINESS REVIEW *(CONTINUED)*

Cement Segment *(Continued)*

Review on the cement industry of the PRC in the first half of 2006 *(Continued)*

In April 2006, the State Development and Reform Commission and other authorities co-promulgated the Directive on Accelerating Cement Industry Restructuring to define the PRC's cement industry's direction and restructuring goal for the 11th Five-year Plan period. Pursuant to the directive, the PRC government will take initiatives including enhancing macro control, implementing sector guideline, developing and perfecting policies, adopting stricter market entry controls, establishing phasing-out mechanism, improving structure adjustment, supporting the development of large-sized enterprises and speeding up industry concentration, so as to implement policies for defining the industry structure.

Review on the Group's cement business in the first half of 2006

Acquisition of Xuzhou Conch to strengthen predominating position

On 27 June 2006, the Company's subsidiary China United entered into a share transfer agreement to acquire the entire equity interest in Xuzhou Conch for a consideration of RMB602,657,000. Details of the acquisition are set out in note 23 to the interim financial report and the circular date 19 July 2006 issued by the Company. Xuzhou Conch owns an advanced clinker production line with a daily capacity of 10,000 tonnes and an annual cement grinding capacity of 1,500,000 tonnes. The acquisition has therefore further strengthened the Group's influence and control over Huaihai Economic Zone market.

Progress of projects under construction

During the first half of 2006, projects under construction included Qingzhou's and Nanyang's clinker production lines, each of which having a daily capacity of 6,000 tonnes. Both projects have made good progress.

A clinker production line with a daily production capacity of 10,000 tonnes for Xuzhou China Limited

INDUSTRY SUMMARY AND BUSINESS REVIEW *(CONTINUED)*

CAO JIANGLIN
President

Cement Segment *(Continued)*

Review on the Group's cement business in the first half of 2006 *(Continued)*

Effect of management enhancement

The Group took proactive measures to cut down costs. Centralized procurement of staple raw materials and fuels (e.g.coal) was enhanced to reduce procurement costs. Meanwhile, the Group rationalized its marketing system and pricing management to strictly control product price revisions by subsidiaries. A floor-price policy was adopted for sale of homogeneous products across overlapped markets; Luhong and Zaozhuang Luhong have consolidated their sales; Huaihai, Luhong and Zaozhuang Luhong cooperated on key constructions and major projects. Furthermore, the Group introduced centralized budget management, capital management and strict procedures for result assessment have been adopted.

Lightweight Building Materials Segment

Review on the lightweight building material industry in the first half of 2006

According to China Building Materials Daily, the total national gypsum board production volume grew continuously for the first half of 2006, by over 20% over the same period last year. Sales-output ratio was approximately 99.8%.

Review on the Group's lightweight building materials business in the first half of 2006

Enhancing marketing system to achieve robust growth in major product markets

BNBM conducted a detailed analysis of the market environment, market capacity and competitive products, for the purpose of formulating a market-oriented sales strategy. Various strategies were introduced in different regional markets and tailor-made products were rolled out to cater for different customers' needs in order to improve our competitiveness. Furthermore, BNBM continued to improve its distribution network, taking measures including adopting a stringent market entry mechanism for supervising the distributing network. Major products recorded significant increases in sales during the first half of 2006. In particular, our gypsum boards were exported to Europe and America in bulk as a result of our efforts to expand into international markets.

Advancing industry and corporate resource integration to expand principal business

Through integrating internal resources more efficiently, BNBM increased operating efficiency and benefited from the synergy brought by Taihe. Moreover, BNBM identified new project sites across the PRC with a view to expanding its gypsum board business.

INDUSTRY SUMMARY AND BUSINESS REVIEW *(CONTINUED)*

Glass Fiber and FRP Products Segment

Review on the glass fiber and FRP products industry in the first half of 2006

FRP product industry

According to the China FRP Industry Association, the first half of 2006 saw a strong growth in total output, sales revenue and gross profit in the PRC's FRP industry when compared to the same period last year. The FRP production technology and market are shifting to the high end sector such as rotor blade, demonstrating the rising standards of technology and market advancement of the PRC's FRP industry.

Glass fiber industry

According to the China Fiber Glass Industry Association, the PRC's glass fiber industry continued its steady growth in the first half of 2006, with a healthy momentum in output expansion and a stable enhancement in economic efficiency. The output of glass fiber of the PRC increased year-on-year by approximately 24.5% to approximately 564,900 tonnes, while sales-output ratio increased year-on-year by approximately 2.6% to approximately 99.1%, and inventory level decreased. Exports increased by approximately 28.5%. Profit for the whole industry achieved a year-on-year growth of approximately 24.8%.

Due to the increased concentration of the sector, the total output of the major three domestic glass fiber manufacturers as led by China Fiberglass accounted for approximately 51.29% of the total industry output.

Review on the Group's glass fiber and FRP products business in the first half of 2006

FRP product business

Taking measures to overcome unfavorable business factors

Revenue in the first half of 2006 decreased due to more intensified market competition, decrease in average selling price of products and adjustments to product mix. The Group reduced product costs, focused on product market development and marketing activities, increased the proportion of added-value products and cut down operating expenses to improve profitability.

Satisfactory progress of the rotor blade project

In March 2006, the Group produced its first 1.5MW rotor blade, which was awarded the GL (Germanischer Lloyd) certification. As at the end of June 2006, a total of 11 rotor blades were produced, of which 2 sets (6 rotor blades) were put into operation, and the remaining 5 rotor blades will be delivered in line with customer's installation schedule.

INDUSTRY SUMMARY AND BUSINESS REVIEW *(CONTINUED)*

Glass fiber business

Steady progress in production and operation

Focusing on revenue enhancing and expenditure control with attrition reduction, the Group's glass fiber business overcame impact from unfavourable factors including rising prices of energy and freight.

Satisfactory progress of new projects

Two direct-melt furnace production lines for alkali-free glass fiber with a total annual capacity of 100,000 tonnes commenced production in March 2006. Currently, our production capacity has exceeded our target by 10%.

Our environmentally friendly alkali-free glass fiber direct-melt furnace production line with an annual capacity of 30,000 tonnes in Jiujiang and the mid-alkali glass fiber direct-melt furnace production line with an annual capacity of 40,000 tonnes in Chengdu also commenced production in June 2006. The electronic glass fabric production line with an annual capacity of 50,000,000 square meters we jointly invested with German P-D group has commenced equipment installation and testing, and pilot production is expected to commence in December 2006.

Engineering Services Segment

Review on the Group's engineering services segment in the first half of 2006

Active expansion of international markets

During the first half of 2006, China Triumph signed new contracts with a total value of approximately RMB1,080 million, increasing by approximately 56% from the same period last year, of which approximately RMB1,050 million was derived from new overseas project contracts, accounting for approximately 97% of the total contract value. China Triumph also won a bid for a project relating to a clinker production line with a daily production capacity of 6,000 tonnes in Turkey. This project is a large-scale cement engineering project that adopts European standards.

Strengthened international cooperation

CTIEC-TECO American Technology, Inc., our joint venture with Teledo Engineering Co., Inc. of the United States ("TECO"), commenced its operation and expanded the channel to undertake international glass projects, especially orders from developed countries. It also entered into strategic cooperation with Siemens and Mitsubishi.

Management Discussion and Analysis

OUTLOOK FOR THE SECOND HALF OF 2006

In the second half of 2006, as a result of PRC's enhanced macro economic control and industry infrastructure, the building materials industry became more centralized. In the second half of 2006, it is expected that the State will formulate policies to support the development of large-sized enterprises. Capitalizing on its leading position in the industry, its integrated services and competitive advantages. The Company plans to seize the opportunities to secure satisfactory returns for its shareholders.

Cement Segment

The Group will procure the smooth operation of Xuzhou China United to reinforce the centralized procurement and market integration of Huaihai Economic Zone and establish a local price linkage system to strengthen its bargaining power.

The Group will enhance project management to procure satisfactory progress of new projects of Qingzhou and Nanyang and prepare for the construction of ancillary milling stations.

Lightweight Building Materials Segment

With continuous growth in production and sales volume, the Group strives to enhance its competitiveness and influence in the gypsum board market. It will expedite the construction of its local production lines of gypsum board, with a view to commencing the construction this year. As a leader in the industry, it will capitalize on its brand recognization to enhance its marketing efforts and competitive position.

The Group will consider increasing its shareholding in Taihe at appropriate time.

Glass Fiber and FRP Products Segment

The Group will improve the operation of its FRP products business through adjusting product mix, monitoring production costs and strengthening marketing efforts, while steadily enlarging the production scale of added-value products such as rotor blades.

For the glass fiber business, the Group will consolidate its leading position through China Fiberglass and expand its production capacity through newly established production lines. The electronic glass fabric project is expected to be completed as scheduled, which is expected to diversify product range and add more value to the products.

Engineering Services Segment

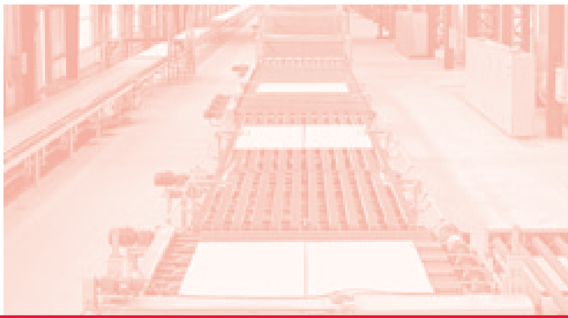
The Group will put into more efforts in technological innovation to expand its EPC business. The Group will promote both glass and cement engineering services businesses in the overseas market while maintaing its leading position in the domestic market.

FINANCIAL REVIEW

For the six months ended 30 June 2006, our unaudited consolidated revenue grew by 43.3% to RMB2,703.5 million (RMB1,886.4 million for the six months ended 30 June 2005). Our unaudited profit attributable to equity holders of the Company dropped from RMB86.3 million for the six months ended 30 June 2005 to RMB-2.3 million for the six months ended 30 June 2006. However, this has taken into account the loss of RMB202.6 million from the consideration paid by the Company for the share conversion of BNBM, and the loss of RMB11.2 million from the consideration paid by China Composites for the share conversion of Yaohua. Excluding such losses, our profit attributable to equity holders of the Company would be RMB193.0 million, representing an increase of 123.5%.

Revenue

Our revenue for the six months ended 30 June 2006 amounted to RMB2,703.5 million, representing an increase of 43.3% from RMB1,886.4 million for the six months ended 30 June 2005, which was primarily attributable to an increase of RMB260.3 million in revenue from our lightweight building materials segment, an increase of RMB316.0 million in revenue from our cement segment and an increase of RMB254.8 million in revenue from our engineering services segment.



FINANCIAL REVIEW *(CONTINUED)*

Cost of sales

Our cost of sales for the six months ended 30 June 2006 amounted to RMB2,203.4 million, representing a growth of 40.3% from RMB1,570.8 million for the six months ended 30 June 2005, which was primarily attributable to an increase of RMB205.1 million in cost of sales from our lightweight building materials segment, an increase of RMB253.8 million in cost of sales from our cement segment and an increase of RMB192.8 million in cost of sales from our engineering services segment.

Other income

The Group's other income increased by 124.5% to RMB191.4 million for the six months ended 30 June 2006 from RMB85.2 million for the six months ended 30 June 2005, mainly due to interest income of RMB56.7 million arising from over-subscription of public offering of the Company's shares. The Group's VAT refund increased by 137.3% to RMB56.5 million for the six months ended 30 June 2006 (RMB23.8 million for the six months ended 30 June 2005) , and interests on bank deposits increased by 194.0% to RMB21.7 million for the six months ended 30 June 2006 (RMB7.4 million for the six months ended 30 June 2005). In addition, the Group's net rental income recorded an increase of 104.5% to RMB12.8 million for the six months ended 30 June 2006 (RMB6.3 million for the six months ended 30 June 2005).

Selling and distribution costs

Selling and distribution costs increased by 14.8% to RMB148.4 million for the six months ended 30 June 2006 from RMB129.3 million for the six months ended 30 June 2005, primarily due to an increase of RMB15.9 million in transportation costs and an increase of RMB12.7 million in packaging costs as sales volume and engineering services increased.

Administrative and other expenses

Administrative and other expenses increased by 31.9% to RMB174.7 million for the six months ended 30 June 2006 from RMB132.4 million for the six months ended 30 June 2005, primarily attributable to an increase of RMB11.8 million in salary, an increase of RMB4.9 million in labor insurance fee, and an increase of RMB2.8 million in audit fee.

Finance costs

Finance costs increased by 88.7% to RMB107.6 million for the six months ended 30 June 2006 from RMB57.0 million for the six months ended 30 June 2005, primarily attributable to increased short-term borrowings for supporting increased business volume in each of our four business segments.

Share of profit of associates

Our share of profit of associates decreased by 42.4% to RMB23.1 million for the six months ended 30 June 2006 from RMB40.1 million for the six months ended 30 June 2005, as our share of profit from Yaohua and China Fiberglass decreased. The decrease in net profit of Yaohua was mainly due to declined product selling price, rising prices of heavy oil and natural gas and other raw materials, while the decrease in net profit of China Fiberglass was mainly due to rising prices of heavy oil and natural gas and other fuel and power.

Loss from share conversion

Our loss from share conversion was RMB213.8 million for the six months ended 30 June 2006. This mainly included a loss of RMB202.6 million relating to the share conversion of BNBM, and a loss of RMB11.2 million relating to the share conversion of Yaohua.

FINANCIAL REVIEW *(CONTINUED)*

Income tax expense

For the six months ended 30 June 2006, income tax expense amounted to RMB8.0 million, representing a decrease of 29.2% from RMB11.3 million for the six months ended 30 June 2005. This is mainly due to the decrease in profit before taxation and increase in tax rebate relating to the use of locally made equipment in the cement segment.

Minority interests

Minority interests increased by 162.2% to RMB64.3 million for the six months ended 30 June 2006 from RMB24.5 million for the six months ended 30 June 2005, primarily due to the increase in operating profit in each of our business segments.

Profit attributable to equity holders of the Company

As a result of the share conversion of BNBM and Yaohua, profit attributable to the equity holders of the Company decreased to RMB-2.3 million for the six months ended 30 June 2006 from RMB86.3 million for the six months ended 30 June 2005. Our net profit margin decreased to -0.1% for the six months ended 30 June 2006 from 4.6% for the six months ended 30 June 2005. If the effects of the share conversion of BNBM and Yaohua were excluded, the profit attributable to the equity holders of the Company would increase by 123.5% to RMB193.0 million for the six months ended 30 June 2006 from RMB86.3 million for the six months ended 30 June 2005, while our net profit margin would increase to 7.1% for the six months ended 30 June 2006 from 4.6% for the six months ended 30 June 2005.

Cement Segment

The Group's cement segment acquired Zaozhuang Luhong and Ziyan on 30 April 2005. As a result, the business results for the six months ended 30 June 2005 only covered those of Zaozhuang Luhong and Ziyan for the two months from 1 May 2005 till 30 June 2005. Unless otherwise specified, this accounts for the change in the following operating results for the six months ended 30 June 2006 as compared with the six months ended 30 June 2005. The table below sets out revenue, cost of sales, gross profit and operating profit of such two subsidiaries respectively for the two periods.

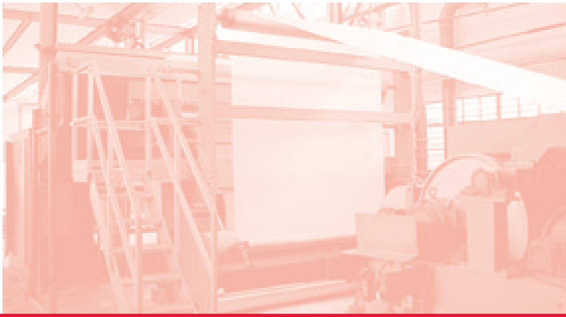
	Zaozhuang Luhong		**Ziyan**	
	For the six months ended 30 June			
	2006	2005	**2006**	2005
	(RMB in millions)			
Revenue	**82.1**	29.1	**51.7**	14.6
Cost of sales	**67.6**	27.0	**45.4**	14.3
Gross profit	**14.5**	2.1	**6.3**	0.3
Operating profit	**9.9**	1.5	**7.9**	0.7

Revenue

Revenue from our cement segment increased by 63.2% to RMB815.9 million for the six months ended 30 June 2006 from RMB499.9 million for the six months ended 30 June 2005, primarily due to an increase in sales volume generated from our newly-established one 5,000-tonne clinker per day production line in each of Huaihai and Luhong in July 2005, as well as a slight increase in average selling price of our cement products.

Cost of sales

Cost of sales for our cement segment increased by 63.2% to RMB655.4 million for the six months ended 30 June 2006 from RMB401.6 million for the six months ended 30 June 2005, primarily due to an increase in cost of sales generated from our newly-established production lines in Huaihai and Luhong, an increase in procurement cost of major raw materials resulting from increased freight, and an increase in price of electricity, which were partially offset by a decrease in coal prices.



FINANCIAL REVIEW *(CONTINUED)*

Gross profit and gross margin

Gross profit of our cement segment increased by 63.4% to RMB160.5 million for the six months ended 30 June 2006 from RMB98.2 million for the six months ended 30 June 2005. Gross profit margin of our cement segment during the two periods was 19.7%. Notwithstanding the increased selling price and the decrease in coal prices during the six months ended 30 June 2006 as compared with the same period last year, these factors were offset by an increase in procurement cost of major raw materials as freight changes coupled with rising electricity costs. As a result, gross margin remained unchanged.

Operating profit

Operating profit for our cement segment increased by 61.5% to RMB88.6 million for the six months ended 30 June 2006 from RMB54.9 million for the six months ended 30 June 2005. Operating margin for the segment decreased to 10.9% for the six months ended 30 June 2006 from 11.0% for the six months ended 30 June 2005, primarily due to a slight increase in selling expenses including freight and packaging expenses arising from business expansion.

Lightweight Building Materials Segment

The Group's lightweight building materials segment acquired Taihe on 30 April 2005 and Tianfeng on 31 March 2005. As a result, the operating results of our lightweight building materials segment for the six months ended 30 June 2005 only covered those of Taihe and Tianfeng recorded during the two months from 1 May 2005 till 30 June 2005 and during the three months from 1 April 2005 till 30 June 2005 respectively. Unless otherwise specified, this accounts for the change in the following operating results for the six months ended 30 June 2006 as compared with the six months ended 30 June 2005. The table below sets out revenue, cost of sales, gross profit and operating profit of such two subsidiaries respectively for the two periods.

	Taihe		**Tianfeng**	
	For the six months ended 30 June			
	2006	2005	**2006**	2005
	(RMB in millions)			
Revenue	**335.8**	88.3	**28.4**	21.0
Cost of sales	**253.0**	68.4	**25.2**	20.8
Gross profit	**82.8**	19.9	**3.2**	0.2
Operating profit	**57.9**	11.2	**0.7**	(0.9)

FINANCIAL REVIEW *(CONTINUED)*

Revenue

Revenue for our lightweight building materials segment increased by 26.2% to RMB1,254.2 million for the six months ended 30 June 2006 from RMB993.9 million for the six months ended 30 June 2005. This is attributable to increased operating revenue for most businesses in the segment except for BND. The decrease in revenue of BND was due to the fact that E-HOME stores (disposed in August 2005) contributed a revenue of RMB177.6 million for the six months ended 30 June 2005. If the effects of E-HOME stores were excluded, revenue of BND would increase by RMB125.2 million over the same period last year.

The table below sets out revenues for the three major products of the Group's dry wall and ceiling system respectively for the six months ended 30 June 2005 and 2006:

	For the six months ended 30 June		
	2006	2005	**Change**
	(RMB in millions)		*(%)*
Gypsum board	**513.3** [(1)]	207.3 [(2)]	**147.6**
Mineral wool board	**70.1** [(3)]	58.6 [(4)]	**19.6**
Lightweight steel joist	**84.1**	72.0	**16.8**
Total	**667.5**	337.9	**97.5**

Notes:

(1) Including revenue of Taihe amounting to RMB334.5 million for the period from 1 January 2006 to 30 June 2006.

(2) Including revenue of Taihe amounting to RMB88.3 million for the period from 1 May 2005 to 30 June 2005.

(3) Including revenue of Tianfeng amounting to RMB28.4 million for the period from 1 January 2006 to 30 June 2006.

(4) Including revenue of Tianfeng amounting to RMB21.0 million for the period from 1 April 2005 to 30 June 2005.

FINANCIAL REVIEW *(CONTINUED)*

Cost of sales

Cost of sales for our lightweight building materials segment increased by 24.2% to RMB1,053.7 million for the six months ended 30 June 2006 from RMB848.6 million for the six months ended 30 June 2005. This is mainly due to increased cost of sales for most principal businesses of the segment except for BND. The decrease in cost of sales of BND was due to the fact that E-HOME stores (disposed in August 2005) contributed a cost of sales of RMB158.1 million for the six months ended 30 June 2005. If the effects of E-Home stores were excluded, cost of sales of sales of BND would increased by RMB123.8 million.

The table below sets out cost of sales for the three major products of the Group's dry wall and ceiling system respectively for the six months ended 30 June 2005 and 2006:

	For the six months ended 30 June		
	2006	2005	**Change**
	(RMB in millions)		*(%)*
Gypsum board	**390.6** (1)	154.3 (2)	**153.1**
Mineral wool board	**62.7** (3)	55.6 (4)	**12.8**
Lightweight steel joist	**62.6**	60.4	**3.6**
Total	**515.9**	270.3	**90.9**

Notes:

(1) Including cost of sales of Taihe amounting to RMB252.2 million for the period from 1 January 2006 to 30 June 2006.

(2) Including cost of sales of Taihe amounting to RMB68.4 million for the period from 1 May 2005 to 30 June 2005.

(3) Including cost of sales of Tianfeng amounting to RMB25.2 million for the period from 1 January 2006 to 30 June 2006.

(4) Including cost of sales of Tianfeng amounting to RMB20.8 million for the period from 1 April 2005 to 30 June 2005.

FINANCIAL REVIEW *(CONTINUED)*

Gross profit and gross margin

Gross profit for our lightweight building materials segment increased by 38.0% to RMB200.5 million for the six months ended 30 June 2006 from RMB145.3 million for the six months ended 30 June 2005.

The table below sets out gross profit for the three major products of the Group's dry wall and ceiling system respectively for the six months ended 30 June 2005 and 2006:

	For the six months ended 30 June		
	2006	2005	**Change**
	(RMB in millions)		*(%)*
Gypsum board	**122.7** [(1)]	53.0 [(2)]	**131.5**
Mineral wool board	**7.4** [(3)]	3.0 [(4)]	**146.7**
Lightweight steel joist	**21.5**	11.6	**85.3**
Total	**151.6**	67.6	**124.3**

Notes:

(1) Including gross profit of Taihe amounting to RMB82.3 million for the period from 1 January 2006 to 30 June 2006.

(2) Including gross profit of Taihe amounting to RMB19.9 million for the period from 1 May 2005 to 30 June 2005.

(3) Including gross profit of Tianfeng amounting to RMB3.2 million for the period from 1 January 2006 to 30 June 2006.

(4) Including gross profit of Tianfeng amounting to RMB0.2 million for the period from 1 April 2005 to 30 June 2005.

Gross profit margin for our lightweight building materials segment increased to 16.0% for the six months ended 30 June 2006 from 14.6% for the six months ended 30 June 2005, primarily attributable to the increased proportion of revenue from gypsum boards (a major product with a higher gross margin than that of other products in our lightweight building materials segment), and a decrease in average fixed costs as a result of increased production volume of our major products.

Operating profit

Operating profit for our lightweight building materials segment increased by 160.3% to RMB144.4 million for the six months ended 30 June 2006 from RMB55.5 million for the six months ended 30 June 2005. Operating margin for this segment increased to 11.5% for the six months ended 30 June 2006 from 5.6% for the six months ended 30 June 2005, primarily attributable to improving gross profit margin and an increase in VAT refund resulting from increased sales of products which enjoy VAT refund preference.

Glass Fiber and FRP Products Segment

Revenue

Revenue for our glass fiber and FRP products segment decreased by 3.5% to RMB137.7 million for the six months ended 30 June 2006 from RMB142.7 million for the six months ended 30 June 2005. This was primarily attributable to a decrease of RMB7.1 million in revenue resulting from adjustments made to FRP pipes and tanks businesses involving products with a complex product mix, low selling prices and high gross profit margin, a decrease of RMB3.4 million in revenue from our glass fiber mats businesses and a decrease of RMB3.3 million in revenue resulting from adjustments made to our plastic floorboard products business on products with a complex product mix, low selling prices and high gross profit margin, which were partially offset by a RMB8.8 million increase in revenues derived from technology development and shipping business.

FINANCIAL REVIEW *(CONTINUED)*

Cost of sales

Cost of sales for our glass fiber and FRP products segment decreased by 9.9% to RMB95.7 million for the six months ended 30 June 2006 from RMB106.2 million for the six months ended 30 June 2005. This was primarily attributable to a decrease of RMB6.2 million in cost of sales of our FRP pipes and tanks businesses, a decrease of RMB3.6 million in cost of sales of our plastic floorboard products business and a decrease of RMB1.9 million in cost of sales of our glass fiber mats business, which was offset by a RMB1.2 million increase in cost of sales in shipping business.

Gross profit and gross profit margin

Gross profit for our glass fiber and FRP products segment increased by 15.1% to RMB42.0 million for the six months ended 30 June 2006 from RMB36.5 million for the six months ended 30 June 2005. Gross profit margin for our glass fiber and FRP products segment increased to 30.5% for the six months ended 30 June 2006 from 25.6% for the six months ended 30 June 2005. The increase in gross margin was primarily attributable to improved gross profit margin of our FRP pipes and tanks businesses and plastic floorboard products business.

Operating profit

Operating profit for our glass fiber and FRP products segment increased by 7.4% to RMB18.2 million for the six months ended 30 June 2006 from RMB17.0 million for the six months ended 30 June 2005. Operating margin for the segment increased to 13.2% for the six months ended 30 June 2006 from 11.9% for the six months ended 30 June 2005, primarily attributable to higher gross profit margin of the segment.

Engineering Services Segment

Revenue

Revenue for our engineering services segment increased by 90.9% to RMB535.2 million for the six months ended 30 June 2006 from RMB280.4 million for the six months ended 30 June 2005, primarily attributable to a greater number of new and ongoing projects in 2006. The Group performed services under 52 contracts for the six months ended 30 June 2006 as compared to 36 contracts for the six months ended 30 June 2005.

Cost of sales

Cost of sales for our engineering services segment increased by 80.0% to RMB433.7 million for the six months ended 30 June 2006 from RMB240.9 million for the six months ended 30 June 2005, primarily attributable to a greater number of new and ongoing projects in 2006.

Gross profit and gross margin

Gross profit for our engineering services segment increased by 157.1% to RMB101.6 million for the six months ended 30 June 2006 from RMB39.5 million for the six months ended 30 June 2005, primarily attributable to the lager number of new and ongoing projects in 2006. Gross margin for our engineering services segment increased to 19.0% for the six months ended 30 June 2006 from 14.1% for the six months ended 30 June 2005, primarily due to a higher proportion of our EPC projects in our product mix as well as improved gross profit margin of EPC projects.

Operating profit

Operating profit for our engineering services segment increased by 243.2% to RMB66.0 million for the six months ended 30 June 2006 from RMB19.2 million for the six months ended 30 June 2005. Operating profit margin for the segment increased to 12.3% for the six months ended 30 June 2006 from 6.9% for the six months ended 30 June 2005, primarily attributable to the growth in gross profit margin for the segment.

FINANCIAL REVIEW *(CONTINUED)*

Engineering Services Segment *(Continued)*

Liquidity and financial resources

As at 30 June 2006, the Group had aggregate unused banking facilities of approximately RMB1,163.0 million.

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

	30 June 2006	31 December 2005
	(RMB in millions)	
Bank loans	**4,945.6**	4,154.5
Other unsecured borrowings from non-financial institutions	**274.1**	82.1
Total	**5,219.7**	4,236.6

Borrowings are repayable as follows:

	30 June 2006	31 December 2005
	(RMB in millions)	
Borrowings are repayable as follows:		
within one year or on demand	**3,589.5**	3,232.0
between one and two years	**389.4**	49.5
between two and three years	**679.7**	502.0
between three and five years (inclusive of both years)	**381.1**	453.1
over five years	**180.0**	—
Total	**5,219.7**	4,236.6

As at 30 June 2006, bank loans in the amount of RMB839.1 million were secured by certain assets of total carrying value of RMB1,206.9 million.

As at 31 December 2005 and 30 June 2006, we had a debt-to-asset ratio, calculated by dividing our consolidated borrowings by our total consolidated assets, of 43.6% and 38.8% respectively, which decreased due to our listing for raising proceeds.

Exchange Risks

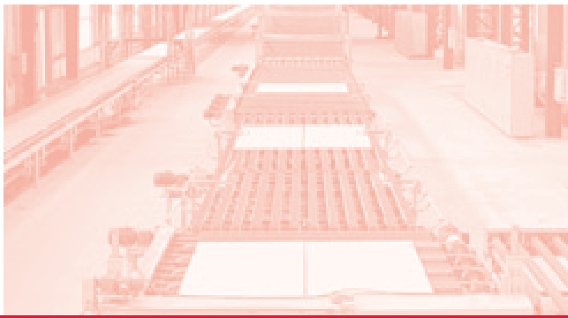
Most of the Group's transactions are denominated in Renminbi. Therefore, the Group is not exposed to any significant exchange risks. However, the Group may be exposed to exchange risks arising from repatriation of the remaining proceeds from the listing of the Company.

Contingent liabilities

As at the balance sheet date, the Group's maximum discounted cash amount for a future potential repayable guaranteed liabilities is as follows:

	30 June 2006	31 December 2005
	(RMB in millions)	
A guarantee provided to a bank in respect of bank facilities used by an independent party	**—**	144.5

The guarantees at 31 December 2005 were released during the six months ended 30 June 2006.



FINANCIAL REVIEW *(CONTINUED)*

Engineering Services Segment *(Continued)*

Capital commitments

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

	For the six months ended 30 June 2006 *(RMB in millions)*
Capital expenditure of the Group in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**382.0**
Capital expenditure of the Group in respect of establishment of a subsidiary contracted for but not provided in the financial statements	**3.4**

Capital expenditures

The following table sets out our capital expenditures in fixed assets investment for the six months ended 30 June 2006 by segment:

	For the six months ended 30 June 2006 *(RMB in millions)*	*% of the total*
Cement	**327.0**	62.9
Lightweight building materials	**139.8**	26.9
Glass fiber and FRP products	**21.1**	4.1
Engineering services	**31.4**	6.0
Others	**0.7**	0.1
Total	**520.0**	100

Net proceeds from Global Offering

Net proceeds from Global Offering of the Company amounted to HK$1,740 million in aggregate. The Company has utilized and intends to continue to utilize the proceeds based on the use of proceeds as disclosed in the prospectus of the Company dated 13 March 2006.

Bank balances and cash

Our total bank balances and cash was RMB1,707.8 million as at 30 June 2006 and RMB932.6 million as at 31 December 2005.

Cash Flow from Operating Activities

For the six months ended 30 June 2006, our net cash inflow generated from operating activities was RMB162.5 million. Such inflow was primarily a result of a RMB385.3 million operating cash flow before movements in working capital, a RMB370.9 million increase in trade payable and other payables, offset primarily by a RMB450.8 million increase in trade receivable and other receivables and a RMB56.1 million increase in inventories.

Cash Flow from Investing Activities

For the six months ended 30 June 2006, our net cash outflow from investing activities was RMB1,494.0 million, primarily including a RMB554.4 million increase in pledged bank deposit, expenditure of RMB479.4 million for acquisition of subsidiaries, and expenditure of RMB427.3 million for acquisition of property, plant and equipment mainly used for the cement and lightweight building materials segments.

FINANCIAL REVIEW *(CONTINUED)*

Engineering Services Segment *(Continued)*

Cash Flow from Financing Activities

For the six months ended 30 June 2006, we had a net cash inflow from financing activities in an amount of RMB2,105.1 million, primarily attributable to a total of RMB3,357.4 million in new borrowings, partially offset by RMB2,892.6 million for repayment of borrowings. In addition, the Group raised RMB1,754.1 million through the issuance of new shares (An interest income of RMB56.7 million arising from over-subscription of public offering of the Company's shares was presented in Cash Flow from Operating Activities).

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2006.

CONNECTED TRANSACTIONS

Details of connected transactions are set out in note 27 to the interim financial report. For details of connected transactions and relevant exemptions, please see the prospectus of the Company dated 13 March 2006 and the Company's 2005 annual report dated 21 April 2006.

The Group's transactions with the Parent Group cover mineral supply, mutual provision of production supplies and support services, supply of equipment and mutual provision of engineering services.

The Group also provides products and support services and engineering services to BNBM Homes, technical consultation services to Liberty Group Company and cement to Hengzhijiu Trade.

The ChangZhou Group receives PVC from Beijing Chemical Company Limited, raw materials, water and electricity for the production of glass fiber products from Tianma Group Company Limited, raw materials for the production of glass fiber products from Jushi Group, raw materials for the production of gypsum from Shandong Aobao Chemical Group Company Limited and coal from Hengzhijiu Trade.

For the six months ended 30 June 2006, the Group's income from its supply of products and services to Parent Group amounted to approximately RMB54.7 million, representing approximately 2.0% of the total revenue of the Group for the corresponding period. The Group's expenses incurred from its receipt of products and services from Parent Group amounted to RMB57.4 million, representing approximately 2.6% of its total cost of sales for the corresponding period.

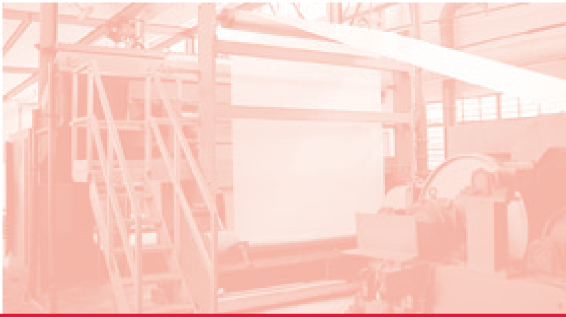
For the six months ended 30 June 2006, the Group's income from its supply of products and services to other connected parties amounted to approximately RMB29.4 million, representing approximately 1.1% of the total revenue of the Group for the corresponding period. The Group's expenses incurred from its receipt of products and services from other connected parties amounted to approximately RMB37.4 million, representing approximately 1.7% of its total cost of sales for the corresponding period.

CORPORATE GOVERNANCE

As at the date of this report, the Company has complied with the code provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules.

1. The Board

The Board comprises 11 directors, including 4 executive directors, 3 non-executive directors and 4 independent non-executive directors. On 20 June 2006, the Company held the 2005 annual general meeting to approve the appointment of Mr. Peng Shou as executive director, with a term of office from the date of such general meeting and expiring till the expiry of the next annual general meeting. Save as disclosed herein, there is no business relationship or any other connection between our directors, including between the chairman and the chief executive.



CORPORATE GOVERNANCE *(CONTINUED)*

1. The Board *(Continued)*

As at the date of the report, the Board of the Company has held 5 Board meetings and 1 extraordinary general meeting to consider and determine significant events including the corporate strategy, overseas listing, 2005 annual report and 2006 interim reports, operating plan and investment projects. All directors attended the meetings in person or by proxy.

2. Supervisory Committee

The supervisory committee comprises 6 members, including 2 independent supervisors, 1 staff representative supervisor and 3 shareholder representatives. Each supervisor shall discharge his supervisory duty on the Company's business.

As at the date of the report, the supervisory committee has held 2 meetings. All supervisors attended the meetings in person.

3. Audit Committee

The audit committee comprises 3 non-executive directors, including 2 independent non-executive directors, with appropriate professional qualification or accounting or related financial management experience. The principal duties of the audit committee include reviewing the Company's financial reporting procedures, internal control and risk management.

As at the date of this report, the audit committee held its first meeting on 20 April 2006 to consider the audited financial reports and results of the Company for the year ended 31 December 2005. On 24 August 2006, the second meeting of the audit committee was held to discuss, review and consider the unaudited interim report of the Company for the six months ended 30 June 2006.

4. Remuneration Committee

The remuneration committee comprises 3 directors, including 2 independent non-executive directors. It is mainly responsible for determining and reviewing specific remuneration and performance of the directors and senior management, mainly based on the remuneration and performance management policy and structure for directors and senior management as formulated by the Board.

5. Internal Control

The Company has formulated and implemented a series of internal controls with a view to proactively improving the corporate governance and steadily developing the internal control system of the Company. In order to facilitate further consideration by directors, supervisors and the management on the relevant rules and regulations with a view to enabling themselves to carry out their duties more effectively and allowing the Company to achieve its operating goals, on 10 August 2006, the Company provided training for its directors, supervisors, senior management and staff responsible for matters relating to finance, legal and compliance and investment of the Company and its subsidiaries, covering areas such as duties of directors, company secretary and qualified accountants, connected transactions, the Code on Corporate Governance Practices and other disclosure requirements under the Listing Rules

6. Model Code

The Company has adopted a set of code of practice on terms no less exacting than the standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules ("Model Code"). Having made specific enquiry with all directors of the Company, the Company confirms that each of the directors has complied with the required standards set out in the Model Code during the reporting period.