Management Discussion and Analysis

I. ANALYSIS OF THE OPERATION AND FINANCIAL POSITION FOR 2006

1. Overview of the Group's operations

Looking back in 2006, the Group developed its export sales market and successfully sold its products to the United States, New Zealand, the Middle East and Africa. The low alkali and high-grade cement produced with advanced technology is a product only a few manufacturers in the PRC are able to produce, and its quality is approved by the CTL laboratory of the United States. The Group has also been placing emphasis on the optimization and efficiency of the domestic market. Since April 2006, it has been developing the domestic trading of cement, which has become an important option for the Group to achieve a win-win situation for export sales and domestic sales.

The Group's two cement silos and second deep-water jetty with berthing capacity of 30,000 tonnes, which began construction in the end of 2005, began operation in June and August 2006 respectively, greatly increasing the loading rate. Moreover, the Group exercised its option to acquire Union Cement to increase its clinker and cement capacity. The acquisition is still in progress and once completed will bring forth synergies in purchasing, operations, sales, branding and marketing.

2. Production and sales of the Group

In 2006, the Group produced a total of 3,070,000 tonnes of cement and 2,045,000 tonnes of clinker, which were more or less the same as in 2005. The actual sales of cement and clinker amounted to approximately 3,842,000 tonnes in aggregate, an increase of 10.0% from 2005.

For the first three quarters, the domestic market remained grim. The Group continued its export strategy which resulted in a breakthrough increase in export volume. In 2006, a total export sales of 2,158,000 tonnes of cement and clinker had been achieved, representing an increase of 163.5% over the previous year and accounting for 56.1% of the total sales. In line with the Group's export strategy, the Group has modified its production to include Type II/V cement as a product in the third quarter to meet the demands of the United States, which helped to promote the rapid growth in the export business. In terms of export regions, in addition to securing the market of the United States, the Middle East, Africa, Australia, Asia, etc, the Group expanded to Europe and South America markets, which made its structure of oversea business more extensive and balanced.

In the fourth quarter, the domestic market for cement began to recover after the trough of two years, particularly in the Eastern China market where the prices of cement surged. The Group then increased the proportion of domestic sales; it also made use of the cement trading license to purchase cement from a group of selected suppliers for sales in order to meet the demand from domestic customers. On the basis of an intricate sales network and domestic sales capabilities, the Group is able to adjust the sales to different regions for regional sales and further optimize its product mix, thereby increasing the proportion of sales for high grade cement.

Furthermore, the Group has been working hard towards strengthening its own logistics and storage capabilities. In 2006, the construction of a deep-water jetty of 280 meters in length and 30 meters in breath was completed with a throughput capacity of 3.82 million tonnes, thereby lifting the Group's total throughput capacity to over 8 million tonnes. New cement silos were constructed, each of 15,000 tonnes, to meet the diversified sales and product mix. By increasing its handling and storage capabilities, the Group is laying a foundation for future expansion.

3. Financial highlights

In 2006, the Group achieved a revenue of approximately US$127,229,000, an increase of 39.1% from 2005, and our annual profit amounted to approximately US$6,517,000, representing 62.3 times over the previous year. Basic and diluted earnings per share amounted to US cents 0.57.

4. Analysis of the Group's financial performance

4.1 Changes in major items of profit and loss

	2006	2005	Increase/ decrease
	US$'000	US$'000	%
Revenue	**127,229**	91,485	39.1
Less: Cost of sales	**(104,294)**	(77,731)	34.2
Operating costs and other expenses	**(14,089)**	(13,466)	4.6
Finance costs	**(6,256)**	(4,787)	30.7
Add: Other income	**5,061**	4,749	6.6
Profit before tax	**7,651**	250	2,960.4
Less: Income tax expense	**(1,134)**	(147)	671.4
Profit for the year	**6,517**	103	6,227.2

4.2 Revenue

Set out in the following table is the Group's revenue in terms of products in 2006:

	2006		2005	
Type	**Revenue**	**Percentage**	Revenue	Percentage
	US$'000	**%**	US$'000	%
Domestic sales				
52.5 cement	**23,274**	**18.3**	14,239	15.6
42.5 cement	**21,367**	**16.7**	38,504	42.1
32.5 cement	**1,511**	**1.2**	10,257	11.2
Clinker	**2,130**	**1.7**	2,030	2.2
	48,282	**37.9**	65,030	71.1
Export sales				
52.5 cement	**76,845**	**60.4**	21,288	23.3
Clinker	**2,102**	**1.7**	5,167	5.6
	78,947	**62.1**	26,455	28.9
Total	**127,229**	**100.0**	91,485	100.0

The Group's revenue in 2006 increased by 39.1% from 2005. Sales volume increased by 10.0%, and the average unit sales price was US$33.1/tonne which went up by 26.5% from 2005. Increase in sales volume was mainly attributable to the Group's use of its cement trading license to purchase cement and clinker for direct sales according to the specific needs of customers. While the Group has maintained the established relationship with customers in doing so, it has also increased its sales volume. In terms of unit sales price, the Group exercised its flexibility in sales to adjust its markets, including exports vs. domestic sales, and product mix to obtain a higher unit sales price. In addition, domestic prices have improved significantly in the fourth quarter of 2006 as well.

Revenue of the largest customer and the five largest customers:

In 2006, revenue of the Groups' largest customer accounted for 26.4% of the Group's total sales, and revenue of the five largest customers accounted for 56.6% of the Group's total sales.

During the reporting period, both the Directors and their associates (as defined in the Listing Rules) or any shareholders (which to the knowledge of the Directors interested in over 5% of the share capital of the Company) had not interested in any of our five largest customers.

Set out below is the Group's revenue in terms of sales regions in 2006:

	2006		2005	
Region	**Revenue US$'000**	**Percentage %**	Revenue US$'000	Percentage %
Jiangsu Province	**21,591**	**17.0**	29,500	32.3
Zhejiang Province	**15,207**	**12.0**	23,125	25.3
Shanghai Municipality	**4,516**	**3.4**	6,253	6.8
Fujian Province	**6,968**	**5.5**	6,152	6.7
Total domestic sales	**48,282**	**37.9**	65,030	71.1
United States	**33,654**	**26.5**	15,729	17.2
Japan	**19,920**	**15.7**	—	—
Europe	**18,319**	**14.4**	5,232	5.7
Other export regions	**7,054**	**5.5**	5,494	6.0
Total export sales	**78,947**	**62.1**	26,455	28.9
Total	**127,229**	**100.0**	91,485	100.0

In 2006, the prices of cement for export sales were higher than those for domestic sales. The Group continued to expand the export sales market, increasing it from 28.9% in 2005 to 62.1% in 2006, of which predominantly went to the United States. The Group also expanded sales to Japan and adjusted its domestic sales to achieve better returns.

4.3 Cost of sales

4.3.1 Effects of changes in the prices of major energy source and raw materials

Coal:

In 2006, the cost of raw coal accounted for approximately 17.9% of the cost of sales. The Group has been closely monitoring the changes in the price of raw coal and has adopted effective measures to control the cost of purchase of raw coal. The average cost of purchase of raw coal decreased by approximately 7.2% from 2005, which in turn reduced the cost of clinker slightly.

Electricity:

In 2006, the cost of electricity accounted for approximately 16.0% of the cost of sales. Changes in the cost of electricity have a material effect on profit, and inadequate supply of electricity will have a direct effect on our production volume. The Group continued to adopt effective measures to ensure the supply of electricity. However, power tariff rose by 2.0% in 2006.

Limestone:

In 2006, the cost of limestone accounted for approximately 3.3% of the cost of sales. The Group currently owns a limestone mine with a reserve of 320,000,000 tonnes. The mined limestone is carried by a convey or belt to the plant, thereby ensuring that the Group has a stable supply of limestone at stable prices.

Purchases from the largest supplier and the five largest suppliers:

In 2006, the Group's purchases from the largest supplier accounted for 19.4% of our total purchase, and the five largest suppliers accounted for 67.1% of our total purchase.

During the reporting period, Union Cement was the largest supplier, and Chia Hsin Pacific Limited ("CHPL"), its major shareholder indirectly controls Union Cement, which constitutes a connected person (as defined in the Listing Rules) of the Group. Other than Union Cement, both the Directors and their associates (as defined in the Listing Rules) or any shareholder (which to the knowledge of the Directors are interested in over 5% of the share capital of the Company) had not interested in any of its five larges suppliers.

4.3.2Structure of the cost of sales

In 2006, unit cost of sales was US$27.2/tonne. Set out in the following table is the structure of the cost of sales:

	2006		2005	
Item of cost	**Amount**	**Percentage**	Amount	Percentage
	US$'000	**%**	US$'000	%
Raw material (Note 1)	**30,474**	**29.2**	24,251	31.2
Energy	**35,341**	**33.9**	33,701	43.4
Depreciation and amortization	**7,325**	**7.0**	6,441	8.3
Cost of labor	**1,682**	**1.6**	1,591	2.0
Others (Note 2)	**29,472**	**28.3**	11,747	15.1
Total	**104,294**	**100.0**	77,731	100.0

Note:

1. *The cost of external purchases of clinker were used in the production of cement has been included in the raw materials.*

2. *Other items included maintenance expense, other manufacturing expenses and cost of external purchase of cement.*

In 2006, the unit cost of sales increased by 22.0% from 2005. The Group has been emphasizing on the control of maintenance expense and capital expenditures incurred during normal operations. Reasons for the rise in the average unit cost of sales from 2005 include outsourcing more clinker for production of cement for export; increase in production of high grade cement; and direct trading of purchased cement to meet customer demands.

4.4 Gross profit

In 2006, gross profit amounted to US$22,935,000, an increase of 66.8% from 2005. Gross profit margin in 2006 was 18.0%, of which the gross profit margin for domestic sales was 15.4% and the gross profit margin for export sales was 19.7%, an increase of 3.0 percentage points from 2005. The rise in gross profit margins was attributable to the fact that increase in the average sales price was higher than the increase in the average cost of sales.

The gross profit margins in terms of products are set out in the following table:

	2006			2005		
Products	**Gross profit US$'000**	**Percentage %**	**Gross profit margin %**	Gross profit US$'000	Percentage %	Grossprofit margin %
Domestic sales						
52.5 cement	**3,883**	**16.9**	**16.7**	2,377	17.3	16.7
42.5 cement	**3,417**	**14.9**	**16.0**	4,610	33.5	12.0
32.5 cement	**106**	**0.5**	**7.0**	1,323	9.6	12.9
Clinker	**15**	**0.1**	**0.7**	214	1.6	10.6
Sub-total	**7,421**	**32.4**	**15.4**	8,524	62.0	13.1
Export sales						
52.5 cement	**15,142**	**66.0**	**19.7**	4,333	31.5	20.4
Clinker	**372**	**1.6**	**17.7**	897	6.5	17.4
Sub-total	**15,514**	**67.6**	**19.7**	5,230	38.0	19.8
Total	**22,935**	**100.0**	**18.0**	13,754	100.0	15.0

4.5 Operating costs and other expenses

In 2006, the Group's distribution expenses and administrative expenses amounted to US$13,736,000 in aggregate, an increase of 3.4% from 2005, which was far less than the increase in revenue and which has shown that control of the operating costs was effective.

4.6 Finance costs

In 2006, the Group's finance costs amounted to US$6,256,000, which was 30.7% higher than in 2005. This was mainly attributable to the significant increase in the LIBOR for the year causing interest expense of the Group based on LIBOR to increase substantially. Also, the newly raised loans in US dollars increased the base on which the interest was calculated.

4.7 Other income

Other income was mainly from exchange rate gains. With the appreciation of the Renminbi, loans denominated in US dollars yielded an exchange rate gain of US$2,911,000.

4.8 Income tax expense

Pursuant to the requirements of the Enterprise Income Tax Law for Foreign Investment of the PRC, Jingyang Cement, our wholly-owned subsidiary, began to enjoy its reduction by 50% in income tax from 2005 for a term of six years, and the effective taxation rate is 12%.

4.9 Basic and diluted earnings per share

The Group's earnings per share for 2006 amounted to US cents 0.57, a more evident increase from 2005. This was mainly attributable to the larger increase in the Group's profit from 2005.

5. Capital and financial status

5.1 Condensed Cash Flow Statement

	2006 US$'000	2005 US$'000
Net cash from operating activities	**19,452**	10,592
Net cash used in investing activities	**(12,487)**	(6,182)
Net cash from (used in) financing activities	**4,522**	(20,733)
Effect of foreign exchange rate change	**(1,195)**	(957)
Bank balance and cash at the beginning of the year	**42,098**	59,378
Bank balance and cash at the end of the year	**52,390**	42,098

Cash from operating activities

The Group's cash flow from operating activities amounted to US$19,452,000, an increase of US$8,860,000 from 2005, which was mainly attributable to the increase in operating profit.

Cash used in investing activities

The Group's cash used in investing activities amounted to US$12,487,000, which mainly comprised the expenditure in the investment in fixed assets of US$14,344,000. The amount was used in the construction of No. 2 jetty, the cement silos and other facilities, and interest income of US$1,109,000.

Cash from financing activities

The Group's cash from financing activities in 2006 amounted to US$4,522,000, of which the principal repayment of long-term loans according to the loan contracts amounted to US$21,040,000 and of short-term loans decreased by US$860,000, and interest payment on the loans amounted to US$6,139,000. In order to balance the source of bank borrowings, the Group took a new loan of US$30,000,000 from banks including non-domestic banks.

5.2 Changes and analysis of major items of assets and liabilities

	2006 US$'000	2005 US$'000	Increase/ decrease %
Fixed assets and land use rights (Note 1)	**244,627**	231,418	5.7
Bank balance and cash	**52,390**	42,098	24.4
Other current assets (Note 2)	**39,569**	38,477	2.8
	336,586	311,993	7.9
Share capital	**11,429**	11,429	0.0
Share premium and reserves	**206,086**	192,924	6.8
Capital and reserves	**217,515**	204,353	6.4
Bank borrowings (Note 3)	**106,471**	95,810	11.1
Other liabilities	**12,600**	11,830	6.5
Total liabilities	**119,071**	107,640	10.6
Total equity and liabilities	**336,586**	311,993	7.9

As at 31 December 2006, the Group's total assets amounted to US$336,586,000, an increase of US$24,593,000 from 2005; its total liabilities amounted to US$119,071,000, an increase of US$11,431,000 from 2005, and shareholders' equity amounted to US$217,515,000, an increase of US$13,162,000 from 2005. Increase in total assets was mainly attributable to the increase in the total liabilities from the increase in bank borrowings, the increase in profit for the year, and the increase in assets denominated in US dollars as a result of the changes in the rate of foreign exchange of Renminbi, which also contributed to the increase in shareholders' equity.

Note 1 Fixed assets and land use rights

As at 31 December 2006, the net asset value of the Group's fixed assets and land use rights included as long-term assets amounted to US$244,627,000, of which property amounted to US$68,777,000, plants and equipment amounted to US$151,467,000, construction-in-progress amounted to US$933,000, the net value of other fixed assets amounted to US$5,767,000 and the net value of land use rights included as long-term assets amounted to US$17,683,000. Increase in fixed assets was attributable to the investment in the No. 2 jetty, cement silos and other facilities for the period and the increase in assets denominated in US dollars as a result of the changes in the rate of foreign exchange of Renminbi.

Note 2 Current assets and current liabilities

As at 31 December 2006, the Group's current assets amounted to US$91,959,000, which mainly comprised of inventory of US$18,774,000, trade receivables (including receivables from fellow subsidiaries) of approximately US$15,132,000 (of which note receivables, which have a higher degree of guaranteed recovery, accounted for approximately 65%), bank balance and cash of US$52,390,000 and other current assets of US$5,663,000.

As at 31 December 2006, the Group's current liabilities amounted to US$36,201,000, of which trade payables amounted to US$6,818,000, long-term loans due within one year amounted to US$23,601,000 and other current liabilities of US$5,782,000.

Note 3 Structure of interest-bearing borrowings

In 2006, the Group strictly performed the terms of the borrowing agreements entered into with banks and duly repaid the principals and interest. In order to balance the source of bank borrowings, the Group effected the financing of US$30,000,000 with banks other than the domestic banks of the PRC. As at 31 December 2006, the Group had interest-bearing borrowings of US$106,471,000, including non-secured short-term bank borrowings of US$2,561,000 and secured bank loans of US$103,910,000. Details of the maturity of bank loans and the terms of these loans will be set out in the auditors' report of the annual report of the Company for the year ended 31 December 2006.

As at 31 December 2006, the Group's net asset value secured for the obtaining of bank borrowings amounted to approximately US$179,465,000, of which property, plants and equipment amounted to US$162,851,000 and land use rights amounted to US$16,614,000.

Unsecured short-term bank loans were denominated in Renminbi, which bore interest at an average fixed interest rate approximately 5.00% per annum. The principal of the unsecured short-term bank loans amounted to US$2,561,000.

Secured bank loans were denominated in US dollars, which bore interest at the average interest rate based on the LIBOR plus an annual interest rate of 0.958%.

5.3 Shareholders' equity

As at 31 December 2006, the Group's shareholders' equity amounted to US$217,515,000. Structure of the shareholders' equity is set out in the following table:

	2006		2005	
	Amount	**Percentage**	Amount	Percentage
Type	**US$'000**	**%**	US$'000	%
Share capital	**11,429**	**5.3**	11,429	5.6
Share premium and reserves	**206,086**	**94.7**	192,924	94.4
Total	**217,515**	**100.0**	204,353	100.0

The shareholders' equity at 31 December 2006 increased by 6.4% from 2005. Increase in shareholders' equity was mainly from the annual profit from the principal businesses of the Group and the exchange rate gains with the appreciation in Renminbi resulting from assets denominated in Renminbi translated into US dollars.

5.4 Financial ratios

	2006	2005
Average turnover days of trade receivables (note 1 and description 1)	**40 days**	47 days
Average turnover days of trade payables (note 2 and description 1)	**25 days**	28 days
Average turnover days of inventories (note 3 and description 1)	**60 days**	68 days
Current ratio (note 4 and description 2)	**2.5 times**	2.4 times
Quick ratio (note 5 and description 2)	**2.0 times**	1.9 times
Gearing ratio (note 6 and description 3)	**31.6%**	30.7%
Debt to equity ratio (note 7 and description 3)	**48.9%**	46.9%

Notes:

1. *Average turnover days of trade receivables = average trade receivables/(revenue from domestic sales x 1.17 + revenue from export sales) x 360*
2. *Average turnover days of trade payables = average trade payables/cost of sales x 360*
3. *Average turnover days of inventories = average inventories/cost of sales x 360*
4. *Current ratio = current assets/current liabilities*
5. *Quick ratio = (current assets — inventories)/current liabilities*
6. *Gearing ratio = borrowings/total assets*
7. *Debt to equity ratio = borrowings/shareholders' equity*

Descriptions:

1. *Turnover days of working capital (including trade receivables, trade payables and inventories) was 12 days less than in 2005, it was because the increase in revenue was far higher than the increase in capital used as working capital.*
2. *The current ratio increased while the quick ratio decreased. It was because the cash from operating activities and inventories had increased.*
3. *Increase in the gearing ratio and the debt to equity ratio was attributable to the net bank borrowings for the year had increased by approximately US$10,661,000.*

II. RISK MANAGEMENT

While the Group is committed to enhancing the profitability of the Company, it is also heedful of the various kinds of risks in the course of operation to ensure that the Company is operating safely and steadily. The principal risks the Group needs to be concerned in its operating activities mainly comprise of market risks, policy risks, operation risks and financial risks.

1. Market risks

1.1 The prices of cement

Since 2006, under the effects of austerity control and increase in production capacity of the industry, prices of cement continued to be exposed to the risk of competition. The Group is taking the following measures to contain such risks to minimize the negative impact on profit:

- Flexible product and sales strategy. The Group continues to leverage it dynamic sales and production to search for new products and markets to meet customer demands and grow our business. For example, in 2006, we began production of Type II/V cement and expanded our export into the United States. At the same time, the Group was able to increase its domestic sales, through utilizing its trading capabilities, as the market recovered in the fourth quarter.
- Intricate sales network and personal after-sales service. Our sales network is constructed to ensure consistent, stable supply of high quality products to our customers. We not only focus quality control efforts in the production process, but also monitor the distribution and storage process. We also have a dedicated after-sales service to ensure customer satisfaction.
- Rigorous control of sales prices. The Group's rigorous and effective internal control of sales prices enables the Group to maintain price and reasonable levels amid the intensely competing market.

- Diversified customer base. The Group has a diversified customer base with established customer relationships. Most of our sales contracts are medium to long term contracts to minimize the seasonal fluctuations in pricing.

1.2 Trade receivables

In 2006, trade receivables of the Group has decreased from the previous year and the turnover of trade receivables has quickened. However, the risk of difficulty in recovering trade receivables remains. Therefore, we have adopted the following measures to control the risk:

- In-depth analysis is carried out on the age of trade receivables with the sector data for comparison and learn from the mistakes to minimize losses from bad debts.
- We continue to implement cash-on-delivery for certain customers and notes or other collateral on delivery for the others.
- Established a credit grading system for repeat customers to determine whether any collateral guarantees are needed before assigning a credit rating. Such rating will be reviewed from time to time.

2. Policy risk

Uncontrollable changes in government policies poses a direct impact on the cement industry, such as the austerity control measure implemented in 2004, causing an industry downturn. However, the Group still endeavors to minimize these risks with the following:

- With its extensive industy experience and reputation for its ability to fufill its responsibilities, the Group has maintained a good relationship with the relevant authorities, so that it is able to have a timely understanding of the changes in poilicy and analyze its effects on the Group's operations in order to adopt counter mesures.
- Continuously analyze the impact potential policies may cause to the industry and try to take advantage of the opportunities create, while adjusting for the negative influences.

3. Operating risks

3.1 Energy supply

Due to the increase in energy supply, the overall shortage of energy should ease. However, there are still risks in increase in pricing of coal and power for the Group, which will impact its cost. As such, the Group has adopted certain measures to control the risk:

- Strengthen the relationship with coal suppliers and put effort in increasing the channels of purchasing.
- To introduce the tender system in the purchase of energy in order to minimize the production cost as a result of increase in prices.
- Ensure strong logistics capabilities for bulk purchase.
- Leverage and coordinate resource allocation at the production base to ensure power supply.

3.2 Supply of limestone

Supply of limestone is vital to the steady cost of cement and the assurance of quality. The Group has been emphasizing on the supply of limestone and is heedful of the impact on the Group as a result of the shortage of supply of limestone.

- The Group owns quality resources in limestone of 320,000,000 tonnes in reserve.
- The Group also emphasizes on the mining techniques of an even deployment at the mine which maximizes the utilization rate of resources.

- The mining area of the Group has been named by the State Administration of Land Resources of the PRC for many times as an exemplary limestone mine for its advanced mining techniques and a safe and green production environment.

3.3 Product quality

Product quality is vital to a corporation. The Group places strong focus on product quality and continuously make efforts to minimize risk arising from unstable product quality. Some of the measures adopted include:

- State-of-the-art design and equipment. The Group has invested in state-of-the-art production equipment and technologies to allow it to closely monitor the product quality at every stage of the production process.

- Sound quality assurance program. The Group not only obtained CQBM product quality assurance system certification, but also obtained ISO9001:1994 and ISO9001:2000 in 2002. For export products, the Group send product samples to be tested at CTL in United States.

3.4 Environmental protection

To reinforce environmental protection is an important policy. Efforts to control environmental pollution may have risks in production, operation and policy. For this, the Group has adopted certain measures including:

- More efforts to be put in environmental protection, and by purchasing advanced facilities for environmental protection and increasing the expenditure in creating a green environment we aim at enhancing the Group's image in environmental protection.

- To establish a sound leadership and organization in the direction of strengthening environment management and continue to upgrade our management standards.

- More efforts to be put in the promotion and education and training on environmental protection so as to enhance the awareness of environmental protection.

3.5 Storage and logistics

Storage and logistics have a direct impact on product flow and scale of cement companies. The Group has adopted the following measures to minimize bottlenecks in the storage and transportation process:

- Construction of an additional deep-water jetty. In November 2005, the Group began construction of an additional 30,000 tons jetty, with throughput of 3.82 million tons to meet the demands of its expansion. The project was completed in 2006 and have successfully passed inspections and is in full operation. Currently, the Group has over 8 million tons of throughput capacity. This allows for the smooth delivery of our cement to our customers and increases our purchasing of raw materials in bulk.

- Construction of two additional cement silos. Construction of the two cement silos, each with storage capacity of 15,000 tons, began in October 2005 and was complete in mid-2006. This allowed the Group to have a more diversified product mix and allows for further expansion.

4. Financial risks

4.1 Position of cash flow and liquidity

The Group has been paying attention to and has adopted measures to prevent any risk arising from cash flow and liquidity. For this:

- The Group has been adopting a sound financial management policy and has been closely monitoring cash management and use of resources, thereby re-structuring our indebtedness reasonably, controlling the size of our indebtedness speeding up the turnover of capital, as well reducing our cost in financing.

- The group has in place the workflow and standards to regulate capital matters and reinforces the monitoring and management of capital with our system.

4.2 Risk of foreign exchange

The Group's operations are derived from the domestic and export markets. The risk in foreign exchange of the Group mainly arises from export sales contracts denominated in US dollars and repayment of foreign currency loans as well as the obligation of interest payment. The risk of foreign exchange mainly arises from the fluctuations in the rate of foreign exchange for Renminbi against the US dollar. The Group has been heeding the fluctuations in the rate of foreign exchange and market trends of these currencies. In 2006, it has not entered into any derivative contract to hedge the risk of foreign exchange.

4.3 Risk of interest rate

The Group's principal financing comes from the long-term loans in US dollars. In order to prudently deal with the managing of the risk of interest rate, the Group has from time to time reviewed the need of the market and the operation of the Group as well as our financial position in order to come up with the most effective instrument for the management of the risk of interest rate. In 2006, we had not entered into any derivative contract to hedge the risk of interest rate.

III. NUMBER OF EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, the group had approximately 600 full-time employees. The Group provides its employees with competitive remuneration package and provides benefits such as the mandatory provident fund, insurance and performance-linked bonus.

IV. OPERATION STRATEGY AND BUSINESS PROSPECTS

In the middle of 2007, with expectations of the economy of the United States and the world slowing and with the reduced tax rebate for export of the PRC, the significant increase in cement and clinker export from the PRC will see slower growth. It is expected that PRC's domestic economy and fixed assets investment will continue to grow rapidly. Together with major construction projects such as Beijing Olympic Games in 2008, the Shanghai World Expo in 2010, roads and railway construction between cities and towns, recovery of the domestic market is expected to continue through 2007. As such, the Group will maintain a flexible sales strategy, balancing exports and domestic sales, so as to maintain a long term market position and optimize profitability.

The Company's subsidiary, Jingyang Cement has been selected as one of the 60 enterprises receiving support of the State. In the "Eleventh Five-Year Plan" and the "Development Policy for the Cement Industry", the structure of the cement industry will be moving towards consolidation and standards have been set for the concentration of the industry, level of production technology, and environmental protection. With the encouragement of these policies, companies with the necessary competitive strengths will be well positioned to grow. The Company has always taken into reference the government policy direction and have been developing its business accordingly. It will select the appropriate moment to grow, both organically and externally through acquisitions.

For 2007, in addition to focusing on growing its core business, the Group will also seek opportunities to maximize each link in its value chain. Storage and distribution is critical for integrating its upstream and downstream businesses and ensuring consistent, timely delivery of its products. It will also concentrate on building logistics capabilities in line with production. In addition, it will explore the possibilities of further utilizing its resources, such as limestone, to generate more profits for the Group.