BUSINESS OVERVIEW

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

Business segments	Major products and services	Major operating entities	Direct and indirect equity interests held by the Company
Cement	Cement	China United	100.00%
Lightweight building materials	Dry wall and ceiling system	BNBM	52.40%
Glass fiber and FRP products	Glass fiber	China Fiberglass	36.15%
	Glass fiber mats, FRP pipes and tanks and rotor blade	China Composites	85.31%(1)
Engineering services	Design and engineering EPC services: Float glass production lines and NSP cement production lines	China Triumph	91.00%

Note:

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

Cement Segment

Review on the cement industry of PRC in 2006

Benefiting from the rapid growth in fixed assets in the PRC, China's cement industry saw surging cement output and new highs in major economic indexes such as sales revenue and profits. Cement output reached approximately 1.24 billion tonnes, up approximately 16% over 2005, of which, the output of NSP cement was approximately 620 million tonnes, accounting for approximately 50% of the total.

In 2006, a number of important policies were promulgated by the State to foster the industry's healthy growth, including the Policy on Cement Industry Development and Special Planning for Development of Cement Industry issued by the State Council and Certain Opinions on Accelerating Cement Industry Restructuring jointly issued by eight departments or committees under the State Council. In January 2007, the State Development and Reform Commission, the Ministry of Land and Resources and the People's Bank of China jointly released a list of 60 large-scale domestic cement enterprises (groups) that will receive extra support from the central government in order to restructure the cement industry, where China United, the cement segment of the Group, was listed as one of the 12 pivotal enterprises nationwide. In February 2007, the State Development and Reform Commission issued a very urgent document requiring all local governments to put more effort in phasing out outdated cement facilities.

CAO JIANGLIN
President
Executive Director

BUSINESS OVERVIEW *(CONTINUED)*

Cement Segment *(Continued)*

Review on the Group's cement business in 2006

Breakthrough from M&A and restructuring.

On 27 June 2006, the Company successfully acquired Xuzhou Conch and established Xuzhou China United. Through this acquisition, the Groups' production scale was expanded and synergy emerged gradually along with a remarkable increase in profitability, thereby establishing the dominance of its cement business in Huaihai Economic Zone. In addition, the Group's cement production line with a daily capacity of 10,000 tonnes is one of the most advanced in the world cement industry. After 6 months in operation, Xuzhou China United performed well in its production and operation, exceeding its annual operating targets.

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

Effect of management enhancement

In 2006, China United made gradual improvements in its price management system, centralized procurement and regional market integration. In the south market of Shandong, Lunan China United and Zaozhuang China United have consolidated their sales. Following the acquisition of Xuzhou Conch, Huaihai China United, Xuzhou China United and grinding stations in Lianyungang, Fuyang and Suqian cooperated on key constructions and major projects. Therefore, the Group streamlined the marketing division and optimized the production mix so that selling prices of its products were increased substantially and the profitability of the Company was improved.

Progress of projects under construction

With the completion of the phase I project of Qingzhou China United which is undergoing pilot production, the grinding station of Qingdao China United and the phase II project of Nanyang China United, the grinding station of Xixia China United, the phase II project of Zaozhuang China United, and the residual-heat power generation project of Huaihai China United are also progressing smoothly.

Improvement in asset-liability structure

A capital increase of RMB850 million in China United further optimized the asset-liability structure of its cement segment and enhanced its financing capability.

BUSINESS OVERVIEW *(CONTINUED)*

Lightweight Building Materials Segment

Review on the lightweight building materials industry of the PRC in 2006

In 2006, the building material industry enjoyed a steady growth. Especially during the Eleventh Five-year Plan period, the state stepped up efforts to establish conservation as well as an environment-friendly society by promoting new products which conserve energy, water, land and materials and environmental protection, which will benefit the new building material sector.

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

Steady expansion of nationwide industrial bases

The Company's subsidiary BNBM has identified sites for the construction of its nationwide gypsum board industrial bases. Construction of part of gypsum board bases have commenced production as scheduled.

Advancing resource integration to expand principal businesses

An increase in BNBM'S equity interests in Taihe from 42% to 65%, led to significant growth in the production and sale of gypsum boards. Furthermore, through the acquisition of 25% equity in Tianfeng, BNBM obtained 100% control of Tianfeng and hence integrated its operation resources in acoustical ceiling panels.

Branding enhancement to improve marketing and corporate image

Efforts in branding enhancement resulted in BNBM being awarded as one of "China's Most Influential Enterprises in 2006". Its "DRAGON" and "TAISHAN" branded gypsum boards were also recognized as one of "China's Renowned Products".

Glass Fiber and FRP Products Segment

Review on the glass fiber and FPR product industries of PRC in 2006

FRP product industry

According to China FRP Industry Association, the FRP industry underwent a shift towards the high end sector in 2006. The total output in the FRP industry amounted to approximately 2.26 million tonnes in 2006, representing an increase of approximately 22.16% over last year.

Glass fiber industry

According to China Fiber Glass Industry Association, the PRC's glass fiber industry recorded a steady growth in output and profitability in 2006. The accumulative output of glass fiber in the PRC increased year-on-year by approximately 22.18% to approximately 1.1607 million tonnes. Profit for the whole industry increased by approximately 39.65% over last year. Due to increased concentration of the sector, the aggregate output of the major three domestic glass fiber manufacturers as led by China Fiberglass accounted for approximately 55.32% of the total industry output.

BUSINESS OVERVIEW *(CONTINUED)*

Glass Fibre and FRP Products Segment *(Continued)*

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

FRP products business

FRP products business saw steady growth in both production and sales volume in 2006. Focusing on profitability, the Company's subsidiary, China Composites, improved its internal control system and strengthened cost control and marketing to cut down management and operation costs. Meanwhile, it also initiated the research and development of new products. Hence, operating efficiency was improved.

China Composites has established a production line with an annual capacity of 200 pieces(67 sets) rotor blades. As at the end of 2006, China Composites has produced 87 pieces rotor blades for 1.5MW, of which 68 pieces were delivered and put into operation. The second phase of the project for the production of rotor blades commenced construction in August 2006.

Zhongfu Lianzhong's "LIANZHONG" brand of FRP pipes, was recognized as one of "China's Renowned Products". Zhongfu Lianzhong is a subsidiary of China Composites.

Rotor blades produced by Zhongfu Lianzhong

Glass fiber business

The alkali-free and mid-alkali direct-melt furnace production lines which commenced production in 2006, soon met the targets and standards in production, quality and other various technical indices. The glass fibre electronic cloth project with an annual capacity of 50 million square meters ran its pilot production in December 2006. Apart from an increase in capacity, China Fiberglass also managed to overcome the adverse impact of market competition, energy and chemical material price hikes and Renminbi appreciation through revenue enhancement and expenditure control, reduction of consumption, quality improvement, increasing the production of value-added products as well as adjusting marketing strategies.

Bird's eye view of 500,000 base of China Fiberglass Jushi Group

BUSINESS OVERVIEW *(CONTINUED)*

Engineering Services Segment

Review on the engineering industry in 2006

Demand for products such as cement and glass from the Middle East countries increased in 2006 along with the worldwide economic growth. Thanks to the improved capabilities in research and innovation as well as technological development of China's cement industry, the level of equipment manufacturing and EPC has improved remarkably and has won competitive advantages in the international market.

Review on the Group's engineering service business in 2006

Exploration of overseas glass and cement engineering market

By capitalizing on its comprehensive strengths, the Company's subsidiary, China Triumph, signed a number of contracts relating to glass and cement EPC projects, technical services and foreign trade with counterparts in Turkey, Saudi Arabia, Vietnam and India etc., which has enhanced its market position at home and abroad.

Efforts in technology innovation and research and development of special equipment

By meeting project construction targets and upgrading production know-how for float glass, China Triumph managed to develop special equipment and glass processing technology, diversify its products and increase market share for its EPC business to establish the foundation for improving its competitiveness and profitability.

FINANCIAL REVIEW

For the year ended 31 December 2006, our consolidated revenue grew by 36.5% to RMB6,451.8 million (RMB4,726.5 million in 2005). Our profit attributable to equity holders of the Company decreased by 15.1% from RMB351.1 million in 2005 to RMB298.1 million in 2006, which included the loss from consideration paid for the share conversions of BNBM, China Fiberglass and Yaopi. In particular, a loss of RMB202.6 million was derived from the consideration paid by the Company for the share conversion of BNBM, a loss of RMB61.2 million was derived from the consideration paid by the Company for the share conversion of China Fiberglass and a loss of RMB11.2 million arose from the consideration paid by China Composites for the share conversion of Yaopi. Excluding the loss from share conversions of BNBM, China Fiberglass and Yaopi, profit attributable to equity holders of the Company would increase by 56.9% to RMB550.9 million.

Revenue

Our consolidated revenue for the year ended 31 December 2006 amounted to RMB6,451.8 million, representing an increase of 36.5% from RMB4,726.5 million in 2005, primarily due to an increase of RMB942.9 million in revenue from our cement segment, an increase of RMB418.4 million in revenue from our engineering services segment, and an increase of RMB417.4 million in revenue from our lightweight building materials segment.

Cost of sales

Our consolidated cost of sales in 2006 amounted to RMB5,154.6 million, representing an increase of 33.8% from RMB3,852.4 million in 2005, primarily due to an increase of RMB737.0 million in cost of sales from our cement segment, an increase of RMB341.2 million in cost of sales from our engineering services segment, and an increase of RMB284.8 million in cost of sales from our lightweight building materials segment.

FINANCIAL REVIEW *(CONTINUED)*

Other income

Other income increased by 59.8% to RMB421.0 million in 2006 from RMB263.5 million in 2005, primarily due to a 144.1% increase in local government grants to RMB115.2 million (RMB47.2 million in 2005), the interest income of RMB56.7 million arising from the over-subscription of public offering of the Group's shares, an 31.4% increase in VAT refund to RMB121.6 million for the year 2006 (RMB92.5 million in 2005), and an 115.5% increase in interest on bank deposits for 2006 to RMB41.7 million (RMB19.4 million in 2005).

Selling and distribution costs

Selling and distribution costs increased by 28.7% to RMB358.0 million in 2006 from RMB278.1 million in 2005, primarily due to an increase of RMB38.1 million in packaging fees, an increase of RMB19.0 million in transportation costs as a result of our rising sales volume, and an increase of RMB9.3 million in loading fees.

Administrative and other expenses

Administrative and other expenses increased by 40.5% to RMB417.2 million in 2006 from RMB296.8 million in 2005, primarily due to an increase of RMB19.6 million in salary, an increase of RMB9.4 million in tax (including stamp tax, property tax and landuse tax), an increase of RMB8.9 million in labour insurance, and an increase of RMB7.0 million in consultancy fees.

Finance costs

Finance costs increased by 35.5% to RMB220.1 million in 2006 from RMB162.4 million in 2005, 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 decreased by 16.6% to RMB90.5 million in 2006 from RMB108.5 million in 2005, primarily due to decreases in the profits of our associates, Yaopi and Shenzhen B&Q. The decrease in Yaopi's profit was mainly attributable to the decline in selling prices of products and rising prices of raw materials including heavy oil and natural gas. The decrease in profit of Shenzhen B&Q was principally due to the decline in its revenue in 2006 and the considerable increase in administrative expenses.

FINANCIAL REVIEW *(CONTINUED)*

Loss from share conversion

Our loss from share conversion amounted to RMB275.0 million in 2006. This mainly represents the loss from the consideration paid for share conversions of BNBM, China Fiberglass and Yaopi, of which RMB202.6 million was derived from the consideration paid by the Company for the share conversion of BNBM, RMB61.2 million was derived from the consideration paid by the Company for the share conversion of China Fiberglass and RMB11.2 million arose from the consideration paid by China Composites for the share conversion of Yaopi.

Income tax expense

Income tax expense increased by 11.9% to RMB50.1 million in 2006 from RMB44.7 million in 2005, primarily due to the increase in profit before taxation, partially offset by the increase in tax rebate for domestically made equipment and utilization of industrial waste in the cement and lightweight building materials segments.

Minority interests

Minority interests increased by 35.5% to RMB191.0 million in 2006 from RMB141.0 million in 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, China Fiberglass and Yaopi, profit attributable to the equity holders of the Company decreased by 15.1% to RMB298.1 million in 2006 from RMB351.1 million in 2005. Our net profit margin decreased to 4.6% in 2006 from 7.4% in 2005. Excluding the losses from the share conversion of BNBM, China Fiberglass and Yaopi, profit attributable to the equity holders of the Company would increase by 56.9% to RMB550.9 million in 2006 from RMB351.1 million in 2005. Our net profit margin would increase to 8.5% in 2006 from 7.4% in 2005.

Cement Segment

Acquisition and addition of new production lines

We acquired Xuzhou China United on 30 June 2006. Its operating results are included in our financial results for the year ended 31 December 2006, but not in our financial results for the year ended 31 December 2005. The following table sets out the revenue, cost of sales, gross profit and operating profit arising from Xuzhou China United for the year ended 31 December 2006 and their respective contribution to our cement segment:

	Xuzhou China United	
	RMB in millions	*Percentage*
Revenue	341.0	15.4
Cost of sales	260.2	15.2
Gross profit	80.8	16.1
Operating profit	64.6	16.5

In addition to the reasons stated below, the changes in the operating results of our cement segment for the year ended 31 December 2006 as compared with the year ended 31 December 2005 were also attributable to the inclusion of the results from our newly added plants described above.

FINANCIAL REVIEW *(CONTINUED)*

Cement Segment *(Continued)*

Revenue

Revenue for our cement segment increased by 74.1% to RMB2,215.5 million for the year ended 31 December 2006 (or 47.3% to RMB1,874.5 million excluding the newly-added subsidiary described above), from RMB1,272.5 million for the year ended 31 December 2005, primarily due to an increase in sales volume generated from our newly-added clinker production lines in each of Huaihai China United and Lunan China United in July 2005 with a daily capacity of 5,000 tonnes, and an increase in the Average Realized Sales Price of our cement products.

Cost of sales

Cost of sales for our cement segment increased by 75.6% to RMB1,712.3 million for the year ended 31 December 2006 (or 48.9% to RMB1,452.1 million excluding the newly-added subsidiary described above), from RMB975.3 million for the year ended 31 December 2005, primarily due to our newly added production lines in Lunan China United and Huaihai China United, and a rise in cost of sales arising from the increasing purchase costs of principal raw materials due to growing transportation fees and rising electricity tariffs, which have been partially offset by decreasing coal prices.

Gross profit and gross margin

Gross profit for our cement segment increased by 69.3% to RMB503.2 million for the year ended 31 December 2006 (or 42.1% to RMB422.4 million excluding the newly-added subsidiary described above) from RMB297.2 million for the year ended 31 December 2005. Gross margin for our cement segment decreased to 22.7% for the year ended 31 December 2006 from 23.4% for the year ended 31 December 2005. The decrease in gross margin for our cement segment was primarily due to an increase in purchase costs of principal raw materials resulting from the rising transportation fees and an increase in electricity tariffs, partially offset by a decrease in coal prices and an increase in the Average Realized Sales Price of our cement products.

Operating profit

Operating profit for our cement segment increased by 63.2% to RMB392.4 million for the year ended 31 December 2006 (or 36.4% to RMB327.8 million excluding the newly added subsidiary described above) from RMB240.3 million for the year ended 31 December 2005. Operating margin for the segment decreased to 17.7% for the year ended 31 December 2006 from 18.9% for the year ended 31 December 2005, primarily due to the decrease in gross profit, and the increase in transportation fees, packing fees, and loading fees resulting from business expansion, partially offset by the increase in other income including government grants and VAT refund.

FINANCIAL REVIEW *(CONTINUED)*

Lightweight Building Materials Segment

Acquisitions

We acquired 42% equity interest in Taihe on 30 April 2005 and 75% in Tianfeng on 31 March 2005. The operating results from Taihe for the eight months from 1 May 2005 to 31 December 2005, and from Tianfeng for the nine months from 1 April 2005 to 31 December 2005 are included in our operating results for the year ended 31 December 2005. Unless otherwise specified, the changes in the operating results of our segment for the year ended 31 December 2006 as compared with the year ended 31 December 2005 were attributable to this reason. The table below sets out the revenue, cost of sales, gross profit and operating profit of Taihe and Tianfeng in 2005 and 2006:

	Taihe		Tianfeng	
	For the year ended December 31			
	2006	2005	**2006**	2005
	RMB in millions			
Revenue	**773.0**	423.3	**55.6**	50.0
Cost of sales	**574.3**	329.4	**48.2**	42.5
Gross profit	**198.7**	93.9	**7.4**	7.5
Operating profit	**141.6**	72.1	**2.2**	4.9

Revenue

Revenue for our lightweight building materials segment increased by 17.9% to RMB2,744.3 million in 2006 from RMB2,326.9 million in 2005, mainly due to revenue increases from most of our major businesses except for BND. The decrease in the revenue of BND was due to the exclusion of E-HOME stores (which was disposed in August 2005) in the revenue for the year ended 31 December 2006 while the revenue of E-HOME amounting to RMB237.6 million was included in the year ended 31 December 2005. Without the revenue from E-HOME, revenue from BND would increase by RMB174.5 million in 2006 as compared with 2005.

FINANCIAL REVIEW *(CONTINUED)*

Lightweight Building Materials Segment *(Continued)*

Revenue *(Continued)*

The table below sets out the revenue generated from the three principal products of our dry wall and ceiling systems in 2005 and 2006, respectively:

	For the year ended 31 December		
	2006	2005	**Period on period change**
	(RMB in millions)		*(%)*
Gypsum boards	**1,144.1**[(1)]	684.3[(2)]	67.2
Acoustical ceiling panels	**155.2**[(3)]	145.6[(4)]	6.6
Lightweight metal frames	**169.8**	153.8	10.4
Total	**1,469.1**	983.7	49.3

Notes:

(1) *Includes revenue from Taihe during the period from 1 January 2006 to 31 December 2006 in the amount of RMB774.2 million.*

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

(3) *Includes revenue from Tianfeng during the period from 1 January 2006 to 31 December 2006 in the amount of RMB55.6 million.*

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

FINANCIAL REVIEW *(CONTINUED)*

Lightweight Building Materials Segment *(Continued)*

Cost of sales

Cost of sales for our lightweight building materials segment increased by 14.3% to RMB2,273.9 million in 2006 from RMB1,989.1 million in 2005, due to increases in cost of sales from most of our major businesses as a result of their respective increases in sales volume except for BND. The decrease in cost of sales of BND was due to the exclusion of E-HOME (which was disposed in August 2005) stores in cost of sales for the year ended 31 December 2006 while the cost of sales of E-HOME of RMB225.3 million was included in that for the year ended 31 December 2005. Without cost of sales from E-HOME, cost of sales of BND would increase by RMB164.6 million in 2006 as compared with 2005.

The table below sets out the cost of sales of the three principal products of our dry wall and ceiling systems in 2005 and 2006, respectively:

	For the year ended 31 December		
	2006	2005	**Period on period change**
	(RMB in millions)		*(%)*
Gypsum boards	**848.2**[(1)]	514.8[(2)]	64.8
Acoustical ceiling panels	**130.8**[(3)]	124.3[(4)]	5.2
Lightweight metal frames	**130.5**	124.0	5.2
Total	**1,109.5**	763.1	45.4

Notes:

(1) *Includes cost of sales from Taihe during the period from 1 January 2006 to 31 December 2006 in the amount of RMB574.3 million.*

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

(3) *Includes cost of sales from Tianfeng during the period from 1 January 2006 to 31 December 2006 in the amount of RMB48.2 million.*

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

FINANCIAL REVIEW *(CONTINUED)*

Lightweight Building Materials Segment *(Continued)*

Gross profit and gross margin

Gross profit for our lightweight building materials segment increased by 39.3% to RMB470.4 million in 2006 from RMB337.8 million in 2005.

The table below sets out the gross profit generated from the three principal products of our dry wall and ceiling systems in 2005 and 2006, respectively:

	For the year ended 31 December		
	2006	2005	**Period on period change**
	(RMB in millions)		*(%)*
Gypsum boards	**295.9**[(1)]	169.5[(2)]	74.6
Acoustical ceiling panels	**24.4**[(3)]	21.3[(4)]	14.5
Lightweight metal frames	**39.3**	29.8	32.0
Total	**359.6**	220.6	63.0

Notes:

(1) Includes gross profit from Taihe from 1 January 2006 to 31 December 2006 in the amount of RMB199.9 million.

(2) Includes gross profit from Taihe from 1 May 2005 to 31 December 2005 in the amount of RMB93.1 million.

(3) Includes gross profit from Tianfeng from 1 January 2006 to 31 December 2006 in the amount of RMB7.4 million

(4) 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 17.1% in 2006 from 14.5% in 2005, primarily due to an increase in the percentage of revenue from gypsum boards, 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 volume.

Operating profit

Operating profit for our lightweight building materials segment increased by 77.9% to RMB314.7 million in 2006 from RMB176.9 million in 2005. Operating margin in this segment increased to 11.5% in 2006 from 7.6% in 2005, primarily due to the increase in gross margin of lightweight building materials segment and the increase in VAT refund resulting from more sales of products eligible for VAT refund.

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.

Revenue

Revenue for our glass fiber and FRP products segment increased by 15.9% to RMB367.4 million in 2006 from RMB317.1 million in 2005, primarily due to an increase of RMB54.0 million in revenue from our FRP pipes and tanks business and an increase of RMB15.4 million in revenue from our ships & boats business, partially offset by a decrease of RMB8.7 million in revenue from glass fiber mats business and a decrease of RMB9.3 million in revenue from plastic floor products business. The decrease in revenue from plastic floor products business was primarily due to the decrease in sales volume of the production line of Liberty TOLI resulting from its location transfer in 2006.

Cost of sales

The cost of sales for our glass fiber and FRP products segment increased by 15.2% to RMB259.6 million in 2006 from RMB225.4 million in 2005, primarily due to an increase of RMB36.7 million in cost of sales from our FRP pipes and tanks business, an increase of RMB7.4 million in cost of sales from our ships & boats business, partially offset by the decrease of RMB7.0 million in cost of sales from plastic floor product business and the decrease of RMB2.9 million in cost of sales from glass fiber mats business.

Gross profit and gross margin

Gross profit for our glass fiber and FRP products segment increased by 17.6% to RMB107.8 million in 2006 from RMB91.7 million in 2005. Gross margin for our glass fiber and FRP products segment increased to 29.3% in 2006 from 28.9% in 2005. The increases in gross margin were primarily due to the increase in FRP pipes and tanks business and ships & boats business.

Operating profit

Operating profit for our glass fiber and FRP products segment increased by 33.1% to RMB68.6 million in 2006 from RMB51.6 million in 2005. The operating margin for the segment increased to 18.7% in 2006 from 16.3% in 2005, primarily due to an increase in gross profit of the segment, more government grants for FRP pipes and tanks business in 2006, and the decrease in selling and distribution costs as compared with 2005.

FINANCIAL REVIEW *(CONTINUED)*

Engineering Services Segment

Revenue

Revenue for our engineering services segment increased by 48.5% to RMB1,281.9 million in 2006 from RMB863.5 million in 2005, primarily due to a greater number of new and ongoing projects in 2006. We performed services under 86 contracts in 2006 as compared to 56 contracts in 2005.

Cost of sales

The cost of sales for our engineering services segment increased by 48.0% to RMB1,052.1 million in 2006 from RMB711.0 million in 2005, primarily due to a greater number of new and ongoing projects.

Gross profit and gross margin

Gross profit for our engineering services segment increased by 50.6% to RMB229.8 million in 2006 from RMB152.5 million in 2005, primarily due to the increase in the number of new and ongoing projects in 2006. Gross margin for our engineering services segment increased to 17.9% in 2006 from 17.7% in 2005, primarily due to the increased gross margin for EPC projects which account for the largest percentage in our project mix.

Operating profit

Operating profit for our engineering services segment increased by 61.3% to RMB169.9 million in 2006 from RMB105.3 million in 2005, and operating margin for the segment increased to 13.3% in 2006 from 12.2% in 2005, primarily due to the increase in gross margin as well as the decreased percentage of administrative and other expenses in sales revenue.

FINANCIAL REVIEW *(CONTINUED)*

Liquidity and financial resources

As at 31 December 2006, we had aggregate unused banking facilities of approximately RMB1,358.8 million.

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

	As at 31 December	
	2006	2005
	(RMB in millions)	
Bank loans	**5,971.6**	4,154.5
Other borrowings from non-financial institutions	**76.6**	82.1
Total	**6,048.2**	4,236.6

The table below sets out the maturities of the Group's borrowings as at the date indicated:

	As at 31 December	
	2006	2005
	(RMB in millions)	
Borrowings are repayable as follows:		
within one year or on demand	**3,595.7**	3,232.0
between one and two years	**515.2**	49.5
between two and three years	**887.8**	502.0
between three and five years, inclusive	**888.0**	453.1
over five years	**161.5**	—
Total	**6,048.2**	4,236.6

As at 31 December 2006, bank loans in the amount of RMB766.8 million were secured by certain assets of total carrying value of RMB1,654.8 million.

As at 31 December 2005 and 31 December 2006, we had a debt-to-asset ratio, calculated by dividing our consolidated borrowings by our total consolidated assets, of 43.6% and 43.2%. The decrease is due to the receiving of proceeds from our public offering.

FINANCIAL REVIEW *(CONTINUED)*

Exchange Risks

Almost all of the Group's businesses were operated in Renminbi. The Group is not exposed to any significant exchange risks. The Group may be exposed to an exchange risk in case that the remaining proceeds for its public offering are remitted to domestic financial institutions.

Contingent Liabilities

The Group incurred certain contingent liabilities arising out of the guarantees given to banks in respect of banking facilities utilised by independent third parties. The undiscounted maximum amount of potential future payments under guarantees is set out as follows:

	As at 31 December	
	2006	2005
	(RMB in millions)	
Guarantees given to banks in respect of banking facilities utilised by independent third parties	—	144.5

The above guarantees as of 31 December 2005 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	
	2006	2005
	(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	**280.0**	**526.4**
Capital expenditure of the Company in respect of acquisition of land use right contracted for but not provided in the financial statements	**13.6**	—

FINANCIAL REVIEW *(CONTINUED)*

Capital Expenditures

The following table sets out our capital expenditures in fixed assets investment for the year ended 31 December 2006 by segments

	For the year ended 31 December 2006	
	(RMB in millions)	*% of total*
Cement	2,237.3	85.0
Lightweight building materials	260.9	9.9
Glass fibber and FRP products	96.2	3.7
Engineering services	32.5	1.2
Others	4.2	0.2
Total	2,631.1	100

Distributable Reserves

The distributable reserves of the Company as at 31 December 2006 and the date of this report were RMB-63.1 million and RMB67.1 million, respectively.

Net Proceeds from Global Offer

The net proceeds from global offer of the Company were approximately HK$1.75 billion in total. The company had applied approximately HK$1.43 billion into the projects and for repayment of bank loans, which is in compliance with the intended use of proceeds as entailed on pages 280 and 281 of the prospectus. As at 31 December 2006, the balance of approximately HK$0.32 billion remained as bank deposits.

Bank balances and cash

Our total bank balances and cash were RMB1,549.1 million as at 31 December 2006 and RMB932.6 million as at 31 December 2005.

FINANCIAL REVIEW *(CONTINUED)*

Cash Flow from Operating Activities

In 2006, our net cash inflow generated from operating activities was RMB541.9 million. Such inflow was primarily a result of RMB1,146.7 million of operating cash flow before movements in working capital, offset primarily by a RMB391.4 million increase in trade receivable and other receivables, a RMB88.8 million decrease in trade payable and other payables, and a RMB81.5 million increase in inventories.

Cash Flow from Investing Activities

In 2006, our net cash outflow from investing activities was RMB2,515.3 million, which was primarily due to the purchase of property, plant and equipment mainly used for the cement and lightweight building materials segments in a total amount of RMB 1,371.0 million, an expenditure of RMB 589.0 million for acquisition of a subsidiary, and a RMB372.7 million increase in pledged bank deposit.

Cash Flow from Financing Activities

In 2006, we had a net cash inflow from financing activities in an amount of RMB2,589.6 million, primarily due to a total of RMB7,330.4 million in new borrowings, offset by approximately RMB6,037.0 million in the 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).