嘉新水泥（中國）控股股份有限公司*
Chia Hsin Cement Greater China Holding Corporation
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock code: 699)**

# PRELIMINARY RESULTS ANNOUNCEMENT FOR YEAR 2005

The Board of Directors of Chia Hsin Cement Greater China Holding Corporation (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005, together with comparative figures for the year ended 31 December 2004 as follows:

## CONSOLIDATED INCOME STATEMENT

| | *NOTES* | **2005** | **2004** |
|---|---|---|---|
| | | ***US$'000*** | *US$'000* |
| Revenue | 4 | **91,485** | 81,944 |
| Cost of sales | | **(77,731)** | (53,916) |
| Gross profit | | **13,754** | 28,028 |
| Interest income | | **1,033** | 749 |
| Other income | | **3,716** | 672 |
| Distribution costs | | **(9,403)** | (7,059) |
| Administrative expenses | | **(3,877)** | (3,832) |
| Finance costs | 6 | **(4,787)** | (3,142) |
| Other expenses | | **(186)** | (723) |
| Profit before tax | 7 | **250** | 14,693 |
| Income tax expense | 8 | **(147)** | — |
| Profit for the year | | **103** | 14,693 |
| Dividend | 9 | **—** | — |
| Earnings per share — basic and diluted (US cents) | 10 | **0.01** | 1.29 |

## CONSOLIDATED BALANCE SHEET

| | *NOTES* | **2005** **US$'000** | **2004** *US$'000* |
|---|---|---|---|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Inventories | | **16,147** | 13,338 |
| Trade receivables | 11 | **13,913** | 13,374 |
| Amounts due from fellow subsidiaries | 12 | **3,553** | 2,573 |
| Other receivables | | **3,631** | 2,747 |
| Income tax recoverable | | **737** | 260 |
| Pledged deposits | | **496** | 242 |
| Bank balances and cash | | **42,098** | 59,378 |
| | | **80,575** | 91,912 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **213,828** | 209,493 |
| Land use rights | | **17,590** | 17,614 |
| | | **231,418** | 227,107 |
| TOTAL ASSETS | | **311,993** | 319,019 |
| EQUITY AND LIABILITY | | | |
| CAPITAL AND RESERVES | | | |
| Share capital | | **11,429** | 11,429 |
| Share premium and reserves | | **192,924** | 187,983 |
| | | **204,353** | 199,412 |
| CURRENT LIABILITIES | | | |
| Trade payables | 13 | **7,697** | 4,178 |
| Amount due to a fellow subsidiary | 14 | **248** | — |
| Other payables | | **3,885** | 3,673 |
| Bank borrowings | | **21,900** | 16,806 |
| | | **33,730** | 24,657 |
| NON-CURRENT LIABILITY | | | |
| Bank borrowings | | **73,910** | 94,950 |
| TOTAL LIABILITIES | | **107,640** | 119,607 |
| TOTAL EQUITY AND LIABILITIES | | **311,993** | 319,019 |

*NOTES:*

1. **GENERAL INFORMATION**

The Company is an exempted company with limited liabilities incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands and Unit No. 1907, 19th Floor, 9 Queen's Road Central, Hong Kong respectively. The Company's immediate holding company and ultimate holding company are Chia Hsin Pacific Limited, a company incorporated in the Cayman Islands, and Chia Hsin Cement Corporation ("CHC"), a company registered in Taiwan, respectively.

2. **ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In the current year, the Group adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC" of the IASB) that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised Standards and Interpretations has no material effect on how the results for the current or prior accounting periods are prepared and presented.

At the date of approval of these financial statements, the following standards, interpretations and amendments were in issue but not yet effective:

International Accounting Standards ("IAS")

| | |
|---|---|
| IAS 1 (Amendment) | Capital Disclosures[1] |
| IAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures[2] |
| IAS 21 (Amendment) | Net Investment in a Foreign Operation[2] |
| IAS 39 (Amendment) | Cash Flow Hedges of Forecast Intragroup Transactions[2] |
| IAS 39 (Amendment) | The Fair Value Option[2] |
| IAS 39 and IFRS 4 (Amendments) | Financial Guarantee Contracts[2] |

International Financial Reporting Standards ("IFRS")

| | |
|---|---|
| IFRS 6 | Exploration for the Evaluation of Mineral Resources[2] |
| IFRS 7 | Financial Instruments: Disclosures[1] |

International Financial Reporting Interpretations Committee ("IFRIC")

| | |
|---|---|
| IFRIC 4 | Determining whether an Arrangement Contains a Lease[2] |
| IFRIC 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2] |
| IFRIC 6 | Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment[3] |
| IFRIC 7 | Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies[4] |
| IFRIC 8 | Scope of IFRS 2[5] |

[1] Effective for annual periods beginning on or after 1 January 2007

[2] Effective for annual periods beginning on or after 1 January 2006

[3] Effective for annual periods beginning on or after 1 December 2005

[4] Effective for annual periods beginning on or after 1 March 2006

[5] Effective for annual periods beginning on or after 1 May 2006

The Group has not early adopted these new and revised standards and interpretations in the current year financial statements. The Group is in the process of determining whether these new and revised standards and interpretations will have any material impact on the financial statements of the Group.

3. **SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with IFRS. There are no material differences in the financial statements for the year ended 31 December 2005 in the events the financial statements were prepared under the Hong Kong Financial Reporting Standards ("HKFRS") as compared to the one being prepared under the IFRS. Accordingly, the Directors of the Company considered that it is not necessary to disclose and explain differences of accounting practice between IFRS and HKFRS or to compile a statement of financial effect of any such material differences in the financial statements. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis.

4. **REVENUE**

| | **2005** | **2004** |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Revenue comprises the following: | | |
| Sales of cement | **84,288** | 80,604 |
| Sales of clinker | **7,197** | 1,340 |
| | **91,485** | 81,944 |

5. **GEOGRAPHICAL AND BUSINESS SEGMENTS**

***Geographical segments***

The Group's operations and assets are mainly located in the PRC and the United States.

For management purposes, the Group's primary segment for reporting segment information is geographical segment. Segment information of the Group by location of customers is presented below:

**2005**
**Income statement**

| | PRC | United States | Others | Total |
|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| **Revenue** | 65,030 | 15,729 | 10,726 | 91,485 |
| **Segment result** | 8,264 | 2,670 | 2,575 | 13,509 |
| Other income | | | | 3,464 |
| Unallocated expenses | | | | (12,969) |
| Interest income | | | | 1,033 |
| Finance costs | | | | (4,787) |
| Profit before tax | | | | 250 |
| Income tax expense | | | | (147) |
| Profit for the year | | | | 103 |
| **Balance sheet** | | | | |
| Assets | | | | |
| Segment assets | 13,682 | 1,215 | — | 14,897 |
| Unallocated assets | | | | 297,096 |
| | | | | 311,993 |
| Liabilities | | | | |
| Unallocated liabilities | | | | 107,640 |
| **Other information** | | | | |
| Allowance for doubtful debts written back | 116 | — | — | 116 |

**2004**
**Income statement**

| | **PRC** *US$'000* | **United States** *US$'000* | **Others** *US$'000* | **Total** *US$'000* |
|---|---|---|---|---|
| **Revenue** | 80,948 | 996 | — | 81,944 |
| **Segment result** | 27,961 | 420 | — | 28,381 |
| Other income | | | | 310 |
| Unallocated expenses | | | | (11,605) |
| Interest income | | | | 749 |
| Finance costs | | | | (3,142) |
| Profit before tax | | | | 14,693 |
| Income tax expense | | | | — |
| Profit for the year | | | | 14,693 |
| **Balance sheet** | | | | |
| Assets | | | | |
| Segment assets | 15,947 | — | — | 15,947 |
| Unallocated assets | | | | 303,072 |
| | | | | 319,019 |
| Liabilities | | | | |
| Unallocated liabilities | | | | 119,607 |
| **Other information** | | | | |
| Allowance for doubtful debts written back | 428 | — | — | 428 |

More than 90% of the Group's total assets at 31 December 2005 and 2004 and the capital additions made during the two years ended 31 December 2005 are located in the People's Republic of China ("PRC").

***Business segment***

The Group is engaged in the production and sales of cement and other cement products. No business segment analysis is presented for both years as the Directors consider that the Group operates in a single business segment.

## 6. FINANCE COSTS

| | **2005** ***US$'000*** | **2004** *US$'000* |
|---|---|---|
| Interest on bank borrowings: | | |
| - wholly repayable within five years | **3,349** | 2,282 |
| - not wholly repayable within five years | **1,438** | 860 |
| | **4,787** | 3,142 |

7. **PROFIT BEFORE TAX**

| | 2005 | 2004 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Profit before tax has been arrived at after charging: | | |
| Amortisation of land use rights | **473** | 673 |
| Auditors' remuneration | **148** | 109 |
| Depreciation of property, plant and equipment | **8,064** | 7,679 |
| Loss on disposal/write-off of property, plant and equipment | **—** | 21 |
| Net foreign exchange loss | **—** | 721 |
| Operating lease rentals in respect of | | |
| rented premises | **156** | 189 |
| motor vehicles | **92** | 91 |
| Repairs and maintenance | **4,336** | 5,440 |
| Staff costs | **3,940** | 3,948 |
| and after crediting: | | |
| Allowance for doubtful debts written back | **116** | 428 |
| Net foreign exchange gain | **2,474** | — |
| Profit on disposal of property, plant and equipment | **178** | — |

8. **INCOME TAX EXPENSE**

The charge for the year represents provision for PRC enterprise income tax for the Company's PRC subsidiaries for the year.

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiary in Hong Kong have no assessable income for both years presented.

Pursuant to relevant laws and regulations in the PRC, the Company's subsidiary, 嘉新京陽水泥有限公司 Chia Hsin Jingyang Cement Co., Ltd. ("Jingyang Cement"), as a wholly foreign owned enterprise, is exempted from PRC enterprise income tax for two years starting from its first profit-making year after offsetting the accumulated losses brought forward from prior years, followed by a 50% reduction for the next three years. In addition, Jingyang Cement is recognised by 江蘇省對外經濟貿易合作廳 (Administration of Foreign Trade and Economic Co-operation of Jiangsu Province) as 外商投資先進技術企業 (Foreign Invested Advanced Technology Enterprise) on 13 October 2003 and is therefore entitled to a 50% reduction in PRC enterprise income tax for an additional three-year term. The normal tax rate applicable to Jingyang Cement is 27%, comprising the standard tax rate of 24% and the local tax rate of 3%. The first year for which Jingyang Cement recorded profit for PRC enterprise income tax purpose was year 2003.

No provision for PRC enterprise income tax was made in the financial statements of Jingyang Cement for the year ended 31 December 2004 as Jingyang Cement remained in the tax exemption period. For the other two subsidiaries of the Company established in the PRC, no PRC enterprise income tax was made in their financial statements for the year ended 31 December 2004 as they had no assessable profits.

The income tax expense for the year can be reconciled to the profit before tax per consolidated income statement as follows:

| | 2005 | 2004 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Profit before tax | **250** | 14,693 |
| Tax at the PRC income tax rate of 27% (2004: 27%) | **68** | 3,967 |
| Tax effect of expenses not deductible for tax purpose | **292** | 396 |
| Tax effect of income not taxable for tax purpose | **(17)** | (36) |
| Effect of tax relief | **(190)** | (4,327) |
| Others | **(6)** | — |
| Income tax expense | **147** | — |

No provision for deferred taxation has been recognised in the financial statements as there are no significant temporary differences arising during the year or at the balance sheet date.

## 9. DIVIDEND

No dividends have been paid or declared by the Company for both years presented.

## 10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of approximately US$103,000 (2004: US$14,693,000) and on 1,142,900,000 ordinary shares in issue throughout both years presented.

There were no potential dilutive shares in both years presented.

## 11. TRADE RECEIVABLES

The aged analysis of trade receivables is as follows:

| | 2005 | 2004 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Within 90 days | **10,391** | 9,429 |
| 91 — 180 days | **3,497** | 3,935 |
| 181 — 365 days | **15** | 10 |
| Over 365 days | **10** | — |
| | **13,913** | 13,374 |

No interest is charged on overdue trade receivables.

## 12. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The aged analysis of the amounts due from fellow subsidiaries is as follows:

| | 2005 | 2004 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Within 90 days | **3,553** | 2,321 |
| 91 — 180 days | **—** | 252 |
| | **3,553** | 2,573 |

13. **TRADE PAYABLES**

The aged analysis of the trade payable is as follows:

| | 2005 | 2004 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Within 90 days | **6,486** | 3,806 |
| 91 — 180 days | **430** | 237 |
| 181 — 365 days | **94** | 21 |
| Over 365 days | **687** | 114 |
| | **7,697** | 4,178 |

**14. AMOUNT DUE TO A FELLOW SUBSIDIARY**

The amount represents trade balance due to Chia Hsin Business Consulting (Shanghai) Corporation of US$248,000 (2004: nil) which is unsecured, interest free and repayable on demand.

15. **TOTAL ASSETS LESS CURRENT LIABILITIES/NET CURRENT ASSETS**

The Group's total assets less current liabilities at 31 December 2005 amounted to approximately US$278,263,000 (2004: US$294,362,000).

The Group's net current assets at 31 December 2005 amounted to approximately US$46,845,000 (2004: US$67,255,000).

## ANALYSIS OF OPERATING AND FINANCIAL STATUS FOR 2005

### 1. Summary of the Group's Operations

Faced with the industry's cyclical trough, the Group focused on expanding into new markets and increasing investment in strategic assets. During the period under review, the Group acquired the domestic trading rights in the PRC, implemented its export strategy, increased its production capacity, further enhanced its sales network and expanded its silo and logistics facilities to strengthen its competitive advantages. Parallel to its efforts to continually fortify its internal management, the Group was able to reduce the impact of increasing coal and electricity costs by its good business reputation. In addition, the Group continued to strive to maximize economies of scale, increased its competitiveness in the market. In 2005, the Group achieved a steady growth in production, sales and revenue.

### 2. An overview of the Group's Production and Sales

In 2005, the Group produced a total of 3.1 million tonnes of cement, representing a growth of 11.9% over that of the previous year and produced 2.16 million tonnes of clinker which is similar to that the level of the previous year. It realized a sales volume of clinker and cement of 3.494 million tonnes, representing an increase of 25.4 % over that of the previous year.

In 2005, the Group was able to utilize its geographical and logistical competitive advantages and expanded its export operations. Currently, the Group's product is being sold to areas such as the United States, New Zealand and Middle East, improving its gross profit margins. Total sales volume of clinker and cement exported amounted to 0.819 million tonnes. Regarding the domestic market, the Group optimized its sales distribution by balancing sales in different regions, decreasing sales to low priced areas such as Jiangsu and Shanghai. In addition, after obtaining the domestic trading license, the Group traded a portion of purchased cement and clinker to maintain its domestic market presence. The Group placed great emphasis on coordination between the expansion of logistics and sales and setup silos and batching plants at suitable locations to increase its service and competitiveness. In 2005, the Group added terminal facilities in Ningde, Kunshan, Yangzhou, and Nantong to penetrate deeper into the market and be closer to its customers. Regarding capacity, the Group completed its cement mill project and increased its capacity by nearly 30%, amounting to 4.2 million tons per annum, further achieving economies of scale. Furthermore, the Group continued to strive towards securing its logistics advantages and began construction of an additional deep water jetty of 280m long and 30m wide, with a throughput capacity of 3.82 million tons. Upon completion, the total throughput capacity of the jetty will reach 8 million tons per annum. The Group also started the construction of 2 additional cement silos, each having a storage capacity of 15,000 tons, to accommodate the increase in production capacity and diversification of product types.

3. **Overview of the Group's Financial Status**

In 2005, the Group recorded a turnover of approximately US$91,485,000 in accordance with IFRS, representing an increase of 11.6% over that of the previous year. Profit for the year amounted to US$103,000, representing a significant drop as compared with the previous year. The basic and diluted earnings per share amounted to US cents 0.01.

The following is Condensed Consolidated Balance Sheet, Condensed Consolidated Income Statement and Consolidated Cash-flow Statement of the Group for the year 2005.

**Condensed Consolidated Balance Sheet of the Group as at 31 December 2005 (Unit: US$'000)**

| | **2005** | 2004 |
|---|---|---|
| Fixed assets and land use right *(note 1)* | **231,418** | 227,107 |
| Bank balance and cash | **42,098** | 59,378 |
| Other current assets *(note 2)* | **38,477** | 32,534 |
| | **311,993** | 319,019 |
| Equity and liabilities | | |
| Share capital | **11,429** | 11,429 |
| Share premium and reserves | **192,924** | 187,983 |
| Bank borrowings *(note 3)* | **95,810** | 111,756 |
| Other liabilities | **11,830** | 7,851 |
| | **311,993** | 319,019 |

**Condensed Consolidated Income Statement for the year 2005 (Unit: US$'000)**

| | **2005** | 2004 |
|---|---|---|
| Turnover | **91,485** | 81,944 |
| Less: Cost of sales *(note 4)* | **(77,731)** | (53,916) |
| Operating costs and other expenses | **(13,466)** | (11,614) |
| Finance costs | **(4,787)** | (3,142) |
| Plus: Other revenue *(note 5)* | **4,749** | 1,421 |
| Profit before tax | **250** | 14,693 |
| Less: Income tax expense | **(147)** | — |
| Profit for the year | **103** | 14,693 |

**Condensed Consolidated Cash-flow Statement for the year 2005 (Unit: US$'000)**

| | **2005** | 2004 |
|---|---|---|
| Net cash-flow from operating activities | **10,592** | 15,541 |
| Net cash-flow used in investing activities | **(6,182)** | (7,784) |
| Net cash-flow used in financing activities | **(20,733)** | (13,372) |
| Effect of foreign exchange rate change | **(957)** | 1 |
| Cash and cash equivalents at the beginning of the year | **59,378** | 64,992 |
| Cash and cash equivalents at the end of the year | **42,098** | 59,378 |

*Note:*

1. The increase in the fixed assets of the Group is mainly attributable to the deepwater jetty and mill projects and the purchase of other production facilities.

2. Other current assets of the Group comprised of trade receivables (which included trade receivables from fellow subsidiaries) amounted to US$14,897,000, representing a decrease of US$1,050,000 as compared to 2004 and over 60% of the account receivables are note receivables with a high degree of recoverability.

3. The Group strictly executed the terms of the loan agreement entered into with the banks and timely repaid the principal and interest, which continued to maintain an excellent credit record for the Group.

4. The average cost of sales of the Group increased as compared with 2004, which is mainly due to the higher price of coal and electricity and the outsourcing of some of the clinker for the production of cement so as to meet the needs of the expansion of cement production capacity and the demand of foreign market for the quality of cement. In addition, after the Group had obtained the license for domestic trading of cement in 2005, it acquired a small amount of cement for direct sales. This resulted in a certain level of revenue while increasing the average cost.

5. Other revenue mainly derives from exchange gain. RMB has appreciated as at 21 July 2005 and an exchange gain of approximately US$2,474,000 was recognised in current year which was mainly arisen from the translation of the loans denominated in US$.

## 4. ANALYSIS OF THE GROUP'S FINANCIAL PERFORMANCE

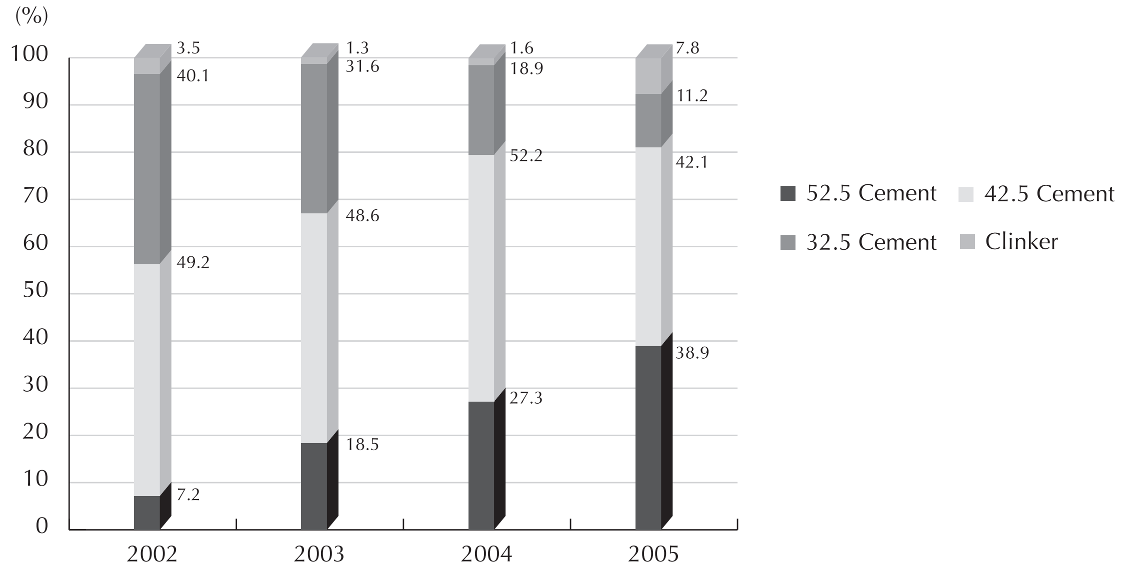
### 4.1 *Turnover*

Set out below is an analysis of the Group's turnover in terms of its products for the year 2005.

| | **2005** | | 2004 | |
|---|---|---|---|---|
| | **Turnover** | **Percentage** | Turnover | Percentage |
| *Types* | ***US$'000*** | **%** | *US$'000* | % |
| Domestic Sales | | | | |
| 52.5 Cement | **14,239** | **15.6** | 21,364 | 26.1 |
| 42.5 Cement | **38,504** | **42.1** | 42,739 | 52.2 |
| 32.5 Cement | **10,257** | **11.2** | 15,505 | 18.9 |
| Clinker | **2,030** | **2.2** | 1,340 | 1.6 |
| | **65,030** | **71.1** | 80,948 | 98.8 |
| Exports | | | | |
| 52.5 Cement | **21,288** | **23.3** | 996 | 1.2 |
| Clinker | **5,167** | **5.6** | — | — |
| | **26,455** | **28.9** | 996 | 1.2 |
| Total | **91,485** | **100.0** | 81,944 | 100.0 |

The turnover for 2005 increased by 11.6% over 2004. The sales volume of the Group increased by 25.4% over 2004. However, due to the declining cement prices in the PRC, the average sales price of the Group's products has decreased by 11.0% as compared with that of 2004, resulting an increase in turnover lower than the increase in sales volume. The increase in sales volume was mainly attributed to two reasons: first, the improvement in the production capacity of the Group achieved in 2004 increased the production volume in cement of the Group by approximately 11.9%. Second, after the Group had obtained the domestic trading right in the PRC, it outsourced some cement for direct sales, which increased the Group's sales volume. As for the average sales price, even though the Group has a strict pricing control mechanism and a superior product quality, which allowed the Group to expand into the more profitable export market, due to the sluggish domestic prices, the average sales price was still lower than that of 2004.

From the product structure, the Group continues to produce and sell high grade cement. The proportion of turnover of high grade cement reached 81.0%, respresenting an increase of 1.5% as compared to that of 2004.




Percentage of Turnover Attributable to the Largest Customer and the Five Largest Customers:

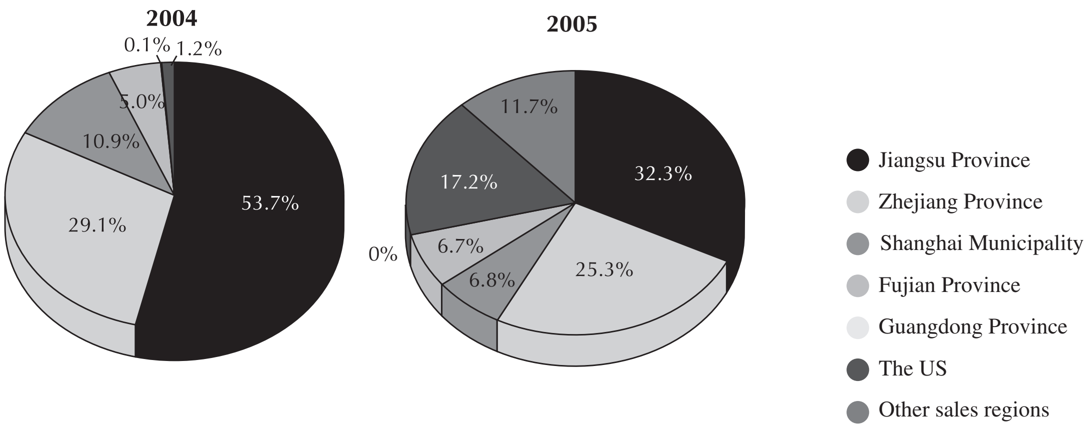
The turnover of the largest customer of the Group for 2005 accounted for 11.7% of the Group's total turnover. The turnover of the five largest customers accounted for 30.8% of the Group' total turnover.

During the reporting period, Shanghai Chia Hsin Ganghui Company Limited ("Ganghui") was the largest customer of the Group. Guanghui is an indirect wholly-owned subsidiary of Chia Hsin Pacific Limited and a connected person (as defined in the Listing Rules) of the Group. Other than Ganghui, none of the Directors and their associates (as defined in the Listing Rules) or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has an interest in the five largest customers.

Set out below is an analysis of the Group's turnover in terms of sales in different geographical regions for the year 2005.

| Regions | 2005 Turnover US$'000 | 2005 Percentage % | 2004 Turnover US$'000 | 2004 Percentage % |
|---|---|---|---|---|
| Jiangsu Province | **29,500** | **32.3** | 44,030 | 53.7 |
| Zhejiang Province | **23,125** | **25.3** | 23,824 | 29.1 |
| Shanghai Municipality | **6,253** | **6.8** | 8,897 | 10.9 |
| Fujian Province | **6,152** | **6.7** | 4,092 | 5.0 |
| Guangdong Province | **—** | **—** | 105 | 0.1 |
| the US | **15,729** | **17.2** | 996 | 1.2 |
| Other sales regions | **10,726** | **11.7** | — | — |
| Total | **91,485** | **100.0** | 81,944 | 100.0 |

**Breakdown of turnover by region**




Since the market price of cement in the PRC was lower, the Group actively developed the export markets and recorded a turnover of US$26,455,000 through export. The export sales ratio increased from 1.2% in 2004 to 28.9% in 2005.

4.2 *Cost of Sales*

4.2.1 Effect on Costs from Energy and Raw Material Price Changes:

Coal:

The cost of coal represented approximately 24.3% of the Group's product costs, thus changes in coal price had great impact on the Group's profit. The Group has been closely monitoring the changes in coal price and has adopted effective measures to control the procurement cost of coal. However, starting from 2005, there has been shortage in the supply of coal in the market and coal price was consistently high. The average procurement cost of coal increased by approximately 19.9% as compared to that of 2004, which has increased the cost of clinker by US$1.3 per tonne.

Electricity:

The cost of electricity represented approximately 19.1% of the Group's product costs. Changes in electricity price and shortage in electricity supply directly affect the Group's profit. The Group continued to adopt effective measures to ensure power supply in 2005. However, the Group was affected by factors such as the rise in the national price of electricity, thus the average price of electricity in 2005 increased slightly by 9.1%.

Limestone:

The cost of limestone represented approximately 4.8% of the Group's product costs. Currently the Group owns a limestone mineral reserve of approximately 320 million tonnes, ensuring a supply of limestone at a lower price and reducing the pressure from an increase in operation costs.

Percentage of Purchases Attributable to the Largest Supplier and the Five Largest Suppliers:

In 2005, the Group's purchases from the largest supplier represented 19.7% of the Group's total purchases, while purchases from the top five largest suppliers represented 67.6% of the Group's total purchases.

During the reporting period, Jiangsu Union Cement Company Limited ("Jiangsu Cement") was the Group's second largest supplier. Chia Hsin Pacific Limited, a substantial shareholder of the Group, indirectly controls Jiangsu Cement and is a connected person (as defined in the Listing Rules) of the Group. Other than Jiangsu Union, none of Directors and their associates (as defined in the Listing Rules) or any shareholders (which to the knowledge of the Directors owns more than 5.0% of the Company's share capital) has an interest in the five largest suppliers.

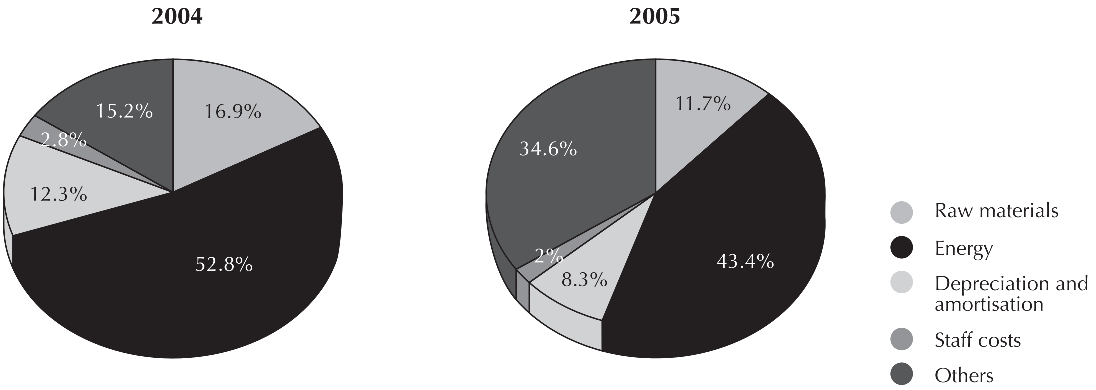
4.2.2 Breakdown on cost of sales

The Group's average sales costs in 2005 amounted to US$22.2 per tonne. The breakdown on the Group's sales cost is set out as follows:

| | **2005** | | 2004 | |
|---|---|---|---|---|
| **Cost item** | **Amount** | **Percentage** | Amount | Percentgae |
| | ***US$'000*** | ***%*** | *US$'000* | *%* |
| Raw materials | **9,108** | **11.7** | 9,122 | 16.9 |
| Energy | **33,701** | **43.4** | 28,441 | 52.8 |
| Depreciation and amortization | **6,441** | **8.3** | 6,626 | 12.3 |
| Staff costs | **1,591** | **2.0** | 1,528 | 2.8 |
| Others | **26,890** | **34.6** | 8,199 | 15.2 |
| Total | **77,731** | **100.0** | 53,916 | 100.0 |

The Group's average sales cost in 2005 increased by 15.0% as compared with that of 2004. The Group has been placing great emphasis on controlling fixed expenses such as repair cost and other expenditure in production, but the average unit sales cost was still higher than that of 2004. There are four reasons to account for this: first, the average energy price was higher than that in 2004; second, the Group outsourced some clinker to produce cement, in order to fully utilize the expanded production capacity; third, the Group has acquired the internal trading right to procure some of the cement for direct sales; and fourth, as the product mix shifted towards higher grade cement, the average production cost increased as well.

**Breakdown of cost of sales**




4.3 *Gross profit*

In 2005, the Group recorded a gross profit of US$13,754,000. The average gross profit margin was 15.0%. The gross profit margin for domestic sales was 13.1% and the gross profit margin for export sales was 19.8%. The gross profit decreased by 50.9% over 2004. The gross profit margin reduced by 19.2% over 2004. The decrease in gross profit margin was attributable to the drop in sales price and the increase in the average cost of sales.

Set out below is an analysis of the Group's gross profit contributed by each product.

| | **2005** | | | 2004 | | |
|---|---|---|---|---|---|---|
| **Types** | **Gross profit** *US$'000* | **Percentage** % | **Gross profit margin** % | Gross Profit *US$'000* | Percentage % | Gross profit margin % |
| Domestic sales | | | | | | |
| 52.5 Cement | **2,377** | **17.3** | **16.7** | 7,100 | 25.4 | 33.2 |
| 42.5 Cement | **4,610** | **33.5** | **12.0** | 14,983 | 53.4 | 35.1 |
| 32.5 Cement | **1,323** | **9.6** | **12.9** | 5,459 | 19.5 | 35.2 |
| Clinker | **214** | **1.6** | **10.6** | 57 | 0.2 | 4.3 |
| Total | **8,524** | **62.0** | **13.1** | 27,599 | 98.5 | 34.2 |
| Exports | | | | | | |
| 52.5 Cement | **4,333** | **31.5** | **20.4** | 429 | 1.5 | 43.1 |
| Clinker | **897** | **6.5** | **17.4** | — | — | — |
| | **5,230** | **38.0** | **19.8** | 429 | 1.5 | 43.1 |
| Total | **13,754** | **100.0** | **15.0** | 28,028 | 100 | 34.2 |

4.4 *Operating cost and other expenses*

The Group's operating cost and other expenses (includes distribution costs, administrative expenses and other operating expenses) amounted to US$13,466,000, increased by US$1,852,000 over 2004, of which distribution costs and administrative expenses totaled US$13,280,000, increased by 21.9% over 2004. The increase in distribution costs is mainly due to the enhancement of sales networks, the establishment of sales team and the strengthening in customer service. Administrative expenses maintained at a similar level as that in the previous year due to the Group's stringent internal control.

4.5 *Finance costs*

The finance costs of the Group in 2005 was US$4,787,000, representing an increase of 52.4% over 2004. This was mainly due to the sharp increase in LIBOR which led to a substantial increase in its LIBOR based interest expense.

4.6 *Income tax expense*

Pursuant to the income tax law for foreign enterprises in the PRC, Chia Hsin Jingyang Cement Co., Ltd., a subsidiary of the Group in the PRC, was granted a 50% tax relief starting from 2005, for a term of 6 years and was entitled to an effective tax rate of 12% for enterprises' income tax.

4.7 *Basic and diluted earnings per share*

The Group's basic and diluted earnings per share in 2005 was US cent 0.01. This represented a sharp decrease compared with that of 2004, which was mainly attributable to the substantial reduction in the Group's profit compared with 2004.

## 5. CAPITAL AND FINANCIAL STATUS

5.1 *Cash flow*

Cash flow from operating activities

The Group's cash flow from operating activities in 2005 was US$10,592,000, representing a decrease of US$4,949,000 over 2004, which was mainly due to the sharp decrease in operating profit. The increase in inventory expenditure and certain prepayment made to suppliers also increased the operating cash expenditure.

Cash flow used in investing activities

The Group's cash flow used in investment activities in 2005 was US$6,182,000, of which US$1,033,000 was bank interest income and US$7,561,000 was investment expenses for fixed assets mainly for modifying the deepwater jetty, implementing the ball mill project and purchasing other production facilities. In addition, the Group disposed of certain properties and facilities to recover an amount of US$600,000.

Cash flow used in financing activities

The Group's cash flow used in financing activities in 2005 amounted to US$20,733,000, of which net loan principal repayment based on loan agreement amounted to US$15,946,000. The Group timely paid loan interest amounting to US$4,787,000.

5.2 *Financial position*

As at 31 December 2005, the total assets of the Group amounted to US$311,993,000, representing a decrease of US$7,026,000 over 2004. The total liabilities amounted to US$107,640,000, representing a decrease of US$11,967,000 over 2004. The shareholder's equity amounted to US$204,353,000, representing an increase of US$4,941,000 over 2004.

5.2.1 Fixed assets

As at 31 December 2005, the fixed assets of the Group amounted to US$213,828,000. The property accounted for US$55,913,000, and plant and equipment accounted for US$148,447,000. Construction-in-progress accounted for US$3,628,000 and other fixed assets accounted for US$5,840,000. The net fixed assets value increased by US$4,355,000 as compared to that of 2004, which is mainly due to the increase in investment expenditure in fixed assets for adding a deepwater jetty and cement mill and the purchasing of production facilities.

5.2.2 Current assets and current liabilities

As at 31 December 2005, the current assets of the Group was US$80,575,000, which mainly included inventories of US$16,147,000 and trade receivables (including trade receivables from fellow subsidaries) of US$14,897,000, bank balance and cash of US$42,098,000 and other current assets of US$7,433,000. The current assets has reduced by US$11,337,000 over the previous year, of which bank balance and cash decreased by 29.1% over the previous year. The decrease in bank balance and cash was mainly due to the decrease in operating profit which reduced the cash flow from operating activities and the repayment of loan which increased the net cash expenses in financing activities, as well as the continuous enhancement in investment in fixed asset of the Group which has further reduced the balance in cash.

As at 31 December 2005, the current liabilities of the Group was US$33,730,000, which included trade payables and trade payables from a fellow subsidiary of US$7,945,000, long term borrowings due within one year of US$21,900,000 and other current liabilities of US$3,885,000. The current liabilities increased by US$9,073,000 over the previous year which was mainly due to the substantial increase in bank borrowings due within one year and trade payables.

5.2.3 Structure of interest-bearing borrowings

As at 31 December 2005, the Group had interest-bearing borrowings of US$95,810,000, comprising unsecured short-term bank loan of US$860,000 and secured bank loans of US$94,950,000.

Maturity analysis of the Group's bank loans as at 31 December 2005:

| Types | 2005 Amount US$'000 | 2005 Percentage % | 2004 Amount US$'000 | 2004 Percentage % |
|---|---|---|---|---|
| Within one year | **21,900** | **22.9** | 16,806 | 15.0 |
| In the second year | **21,040** | **22.0** | 21,040 | 18.8 |
| In the third to fifth year | **47,460** | **49.5** | 63,120 | 56.5 |
| Over five years | **5,410** | **5.6** | 10,790 | 9.7 |
| Total | **95,810** | **100.0** | 111,756 | 100.0 |

As at 31 December 2005, the bank borrowings were secured by the assets of the Group with a net book value of US$154,206,000, including property, plant and equipment of US$137,195,000, the land use rights of US$16,515,000 and the bank pledged deposits of US$496,000.

The unsecured short-term bank loans were denominated in US dollars, bearing an average interest rate of 4.31% per annum. The principal of those unsecured short-term bank loans amounted to US$860,000.

The secured bank loans are denominated in US dollars and bear an average interest rate of LIBOR plus 0.986% per annum.

5.2.4 Financial ratio

| | 2005 | 2004 | Increase/ decrease |
|---|---|---|---|
| Turnover period of trade receivables *(remark 1) (note 1)* | **47 days** | 52 days | -5 days |
| Turnover period of trade payables *(note 2)* | **28 days** | 26 days | +2 days |
| Turnover period of inventories *(remark 2) (note 3)* | **68 days** | 79 days | -11 days |
| Current ratio *(remark 3) (note 4)* | **2.4 times** | 3.7 times | -1.3 times |
| Quick ratio *(remark 3) (note 5)* | **1.9 times** | 3.2 times | -1.3 times |
| Gearing ratio *(remark 4) (note 6)* | **30.7%** | 35.0% | -4.3% |
| Debt ratio *(remark 4) (note 7)* | **46.9%** | 56.0% | -9.1% |

*Notes:*

1. Turnover period of trade receivables = no. of days during the period x (average trade receivables/1.17)/turnover

2. Turnover period of trade payables = no. of days during the period x average trade payables/cost of sales

3. Turnover period of inventories = no. of days during the period x average inventories/cost of sales

4. Current ratio = current assets/current liabilities

5. Quick ratio = (current assets - inventories)/current liabilities

6. Gearing ratio = bank loans/total assets

7. Debt ratio = bank loans/shareholders' equity

*Remarks:*

1. The decrease in turnover period of trade receivables was mainly due to the increase in the proportion of the cement exported during the period which was settled in cash. Trade receivables (including trade receivables from fellow subsidiaries) was lower than that of the previous year as turnover increased over the previous year.

2. The decrease in turnover period of inventories was due to the increase in the Group's sales over the previous year, and the increase in cost of sales was higher than the increase in inventories.

3. Since there was an increase in bank loans due within one year and trade payables, the current liabilities was higher than that at the beginning of the year which made the quick ratio and the current ratio move downwards.

4. Since the bank loans was repaid on time during the reporting period, the gearing ratio and the debt ratio were lower than those at the beginning of the year which has strengthened the financial position.

5.2.5 Shareholder's equity

As at 31 December 2005, the shareholders' equity of the Group amounted to US$204,353,000. The shareholder's equity interests comprised of the followings:

| | **2005** | | 2004 | |
|---|---|---|---|---|
| **Items** | **Amount** | **Percentage** | Amount | Percentage |
| | ***US$'000*** | ***%*** | *US$'000* | *%* |
| Share capital | **11,429** | **5.6** | 11,429 | 5.7 |
| Share premium and reserves | **192,924** | **94.4** | 187,983 | 94.3 |
| Total | **204,353** | **100.0** | 199,412 | 100.0 |

As at 31 December 2005, the shareholders' equity increased by 2.5% compared with 2004. The increase was mainly derived from our principal operating activities and the exchange gain arising from the translation of assets denominated in RMB into US dollars due to the appreciation in RMB.

## OPERATING STRATEGIES AND PROSPECTS FOR 2006

The Group in 2006 will maximize its profits as its target and streamline its business as its focus. The Group will also consolidate its markets and production base and grasp the opportunities arising from industry restructuring, in order to realize scaled development.

1. Further boost sales volume and exports in order to increase profit.

2. Improve customer management and services, optimize product sale structure and market layout as well as timely set up silos and batching plants in potential areas and cultivate high-end customers.

3. After Chia Hsin Jingyang was granted a right to trade cement by the State Ministry of Commerce in August 2005, the Group will further expand its cement exports, develop strategic cooperation with peer cement companies and supply outsourced cement to domestic customers in 2006 so as to maintain a certain level of domestic sales and maintain its market position in the PRC market.

4. Maintain the replacements and repairs of transportation vehicles (motor vehicles and vessels) and after the completion of the construction of jetty and cement silos, the advantages of the Group's transportation and storage will be more obvious which ensures high efficiency and unobstructed transportation in the market.

5. Maintain a sound financial status, expand ways of financing and leverage on opportunities arising from the restructuring of the industry's resources.

## OTHER INFORMATION

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2005.

## CORPORATE GOVERNANCE

Good corporate governance has always been recognized as vital to the Group's success and to sustain development of the Group. We commit ourselves to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of its business.

The Company has applied the principles of good corporate governance and complied with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules.

## AUDIT COMMITTEE

The Board of Directors has established the audit committee in November 2003. The committee comprises all the independent non-executive Directors of the Company, namely Mr. Davin A. MACKENZIE, Mr. ZHUGE Pei Zhi and Mr. WU Chun Ming and Mr. Davin A. MACKENZIE is the chairman of the committee. The audit committee has reviewed the annual results for the year ended 31 December 2005.

## REMUNERATION COMMITTEE

Pursuant to the requirements of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, the Board of Directors has established the remuneration committee on 7 July 2005. The committee comprises one non-executive Director, Mr. CHANG An Ping, Nelson and two independent non-executive Directors, Mr. Davin A. MACKENZIE and Mr. ZHUGE Pei Zhi and Mr. Davin A. MACKENZIE is the chairman of the committee.

**ANNUAL GENERAL MEETING ("AGM")**

The AGM of the Company will be held on Tuesday, 6 June 2006. The Company will publish and despatch to its shareholders in due course the notice convening the meeting in accordance with the relevant requirements.

**CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 1 June 2006 to Tuesday, 6 June 2006 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for attending the above AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30pm on Tuesday, 30 May June 2006.

**DIRECTORS OF THE COMPANY**

As the date of this announcement, Mr. WANG Chien Kuo, Robert, Mr. LAN Jen Kuei, Konrad, Mr. CHANG Kang Lung, Jason and Ms. WANG Li Shin, Elizabeth are the executive Directors, Mr. CHANG Yung Ping, Johnny and Mr. CHANG An Ping, Nelson are the non-executive Directors and Mr. Davin A. MACKENZIE, Mr. ZHUGE Pei Zhi and Mr. WU Chun Ming are the independent non-executive Directors.

On behalf of the Board
**WANG Chien Kuo, Robert**
*Chairman*

14 March 2006

** For identification purposes only*

Please also refer to the published version of this announcement in The Standard.