Management Discussion and Analysis

I. ANALYSIS OF OPERATING AND FINANCIAL STATUS FOR 2005

1. Summary of the Group's Operations

Faced with the industry's cyclical trough in 2005, 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 capacity, 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 amount 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 tonnes 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 tonnes. Upon completion, the total throughput capacity of the jetty will reach 8 million tonnes per annum. The Group also started the construction of 2 additional cement silos, each having a storage capacity of 15,000 tonnes, to accommodate the increase in production capacity and diversification of product types in order to strengthen the storage advantage.

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 Condensed 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
Shareholders' 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 taxation	**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 on 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, which was 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$2,474,000 was recognized in current year which was mainly arisen from the translation of the loans denominated in US$.*

4. ANALYSIS OF THE GROUP'S FINANCIAL PERFORMANCE

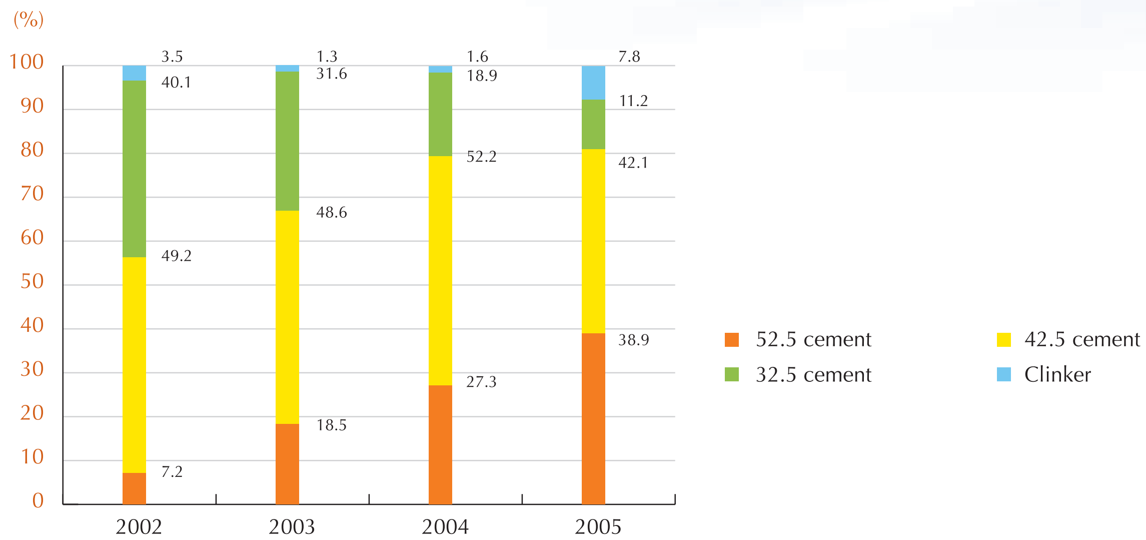
4.1 Turnover

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
42.5cement	**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 and efficient 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:

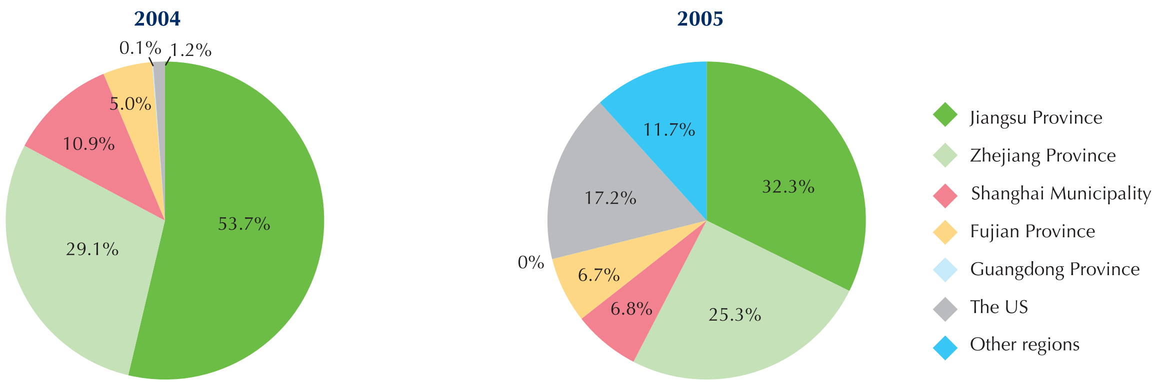
The turnover of the largest customer of the Group for 2005 accounted for 11.7% of the Group's total turnover. The turnover of the top five largest customers accounted for 30.8% of the Group' total turnover.

During the reporting period, Shanghai Chia Hsin Ganghui Company Limited ("Ganghui") was the second largest customer of the Group. Ganghui 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.

	2005		2004	
Regions	**Turnover US$'000**	**Percentage %**	Turnover US$'000	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 and normal operations. 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 ("Union Cement") was the Group's second largest supplier. Chia Hsin Pacific Limited, a substantial shareholder of the Group, indirectly controls Union Cement and is a connected person (as defined in the Listing Rules) of the Group. Other than Union Cement, 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.

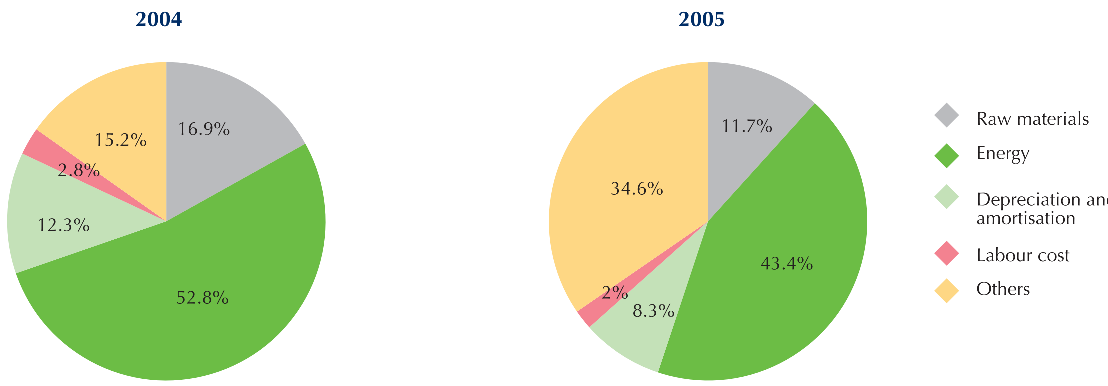
4.2.2 Breakdown on cost of sales

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 US$'000**	**Percentage %**	Amount US$'000	Percentgae %
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
Personnel cost	**1,591**	**2.0**	1,528	2.8
Other	**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 turnover by region



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 market 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 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:

Types	2005 Gross profit US$'000	2005 Percentage %	2005 Gross profit margin %	2004 Gross profit US$'000	2004 Percentage %	2004 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	100.0	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, Jingyang Cement, 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 cents 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, implementing the ball mill project 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 subsidiaries) 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 borrowings of US$860,000 and secured bank borrowings of US$94,950,000.

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

	2005		2004	
Types	**Amount**	**Percentage**	Amount	Percentage
	US$'000	**%**	US$'000	%
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 borrowings were denominated in US dollars, bearing an average interest rate of 4.31% per annum. The principal of those unsecured short-term bank borrowings amounted to US$860,000.

The secured bank borrowings 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	+2days
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 borrowings/total assets*
7. *Debt ratio = bank borrowings/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 borrowings 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 borrowings 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 US$'000**	**Percentage %**	Amount US$'000	Percentage %
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.

II. RISK MANAGEMENT

The Group is not only concerned with maximizing corporate profits, but also concerned with the various potential risks associated with its operations in order to ensure the continued existence of the company. The major risks that the Group concerns with in it operating activities include market risk, policy risk, operation risk and finance risk.

1. Market risks

1.1 Cement prices

Since 2005, affected by the austerity control measures, the release of the new production capacity and the cyclical development of the industry itself, there is a continuous risk of reduction of cement prices. The Group is managing this risk through the following measures in order to mitigate its impact on the Group's profit:

- Expand export volume and exploring growth opportunities proactively. The demand of the international cement market was strong in 2005. The advantage in price was obvious. Leveraging on its international experience and logistic capacity as well as excellent jetties and road, the Group can continued to develop its business and increase its product's export ratio.

- Prudent sales strategy. As the market for low-grade cement is more competitive, the Group is continually increasing the sales proportion of high-grade cement and maintaining a lower ratio of low-grade cement output. This enables the Group to expand its market coverage and satisfy the specific needs of long-term customers.

- Diversified sales networks and dedicated after-sales service. The Group further expands its sales networks and balances the sales volume among different sales regions, at the same time the Group is committed to providing quality service so as to maintain its competitive advantage in the market.

- Stringent pricing policy. The Group has a strict and effective internal system for price control. This ensures that the pricing of its products could be set at a reasonable level amidst intense market competition.

- A portfolio of customers. The Group has a diverse customer base and maintains strong and stable customer relationships. Medium and long-term contracts have been entered into with suitable customers to alleviate the impact of stronger competition and price fluctuation, and to balance seasonal sales volume.

1.2 Trade receivables

In 2005, the Group's trade receivables decreased as compared with that of the previous year. The turnover period of trade receivables was expedited, but the risk of receivables still existed. As such, we have adopted the following measures to control the risks:

- Conducting an in-depth comparison and analysis of the trade receivables ageing with peer companies and adopting various measures to minimize bad debts.

- Continuing cash payment terms with certain customers or making delivery only after receiving more reliable notes.

- Establishing a credit ranking system. The Group sets up a credit ranking of long-term customers after investigation on their creditability and will conduct credit check as and when necessary or implement security measures.

2. Policy risks

Changes in government policies are a uncontrollable factor that directly affects the development of the cement industry. The downturn of the cement industry since the later part of 2004 was due to the austerity control measures implemented by the government. Those austerity control measures still affect the development of the cement industry for the year 2006 and beyond. In addition, the appreciation in RMB and the risks arising from the cancellation of tax refund for export of cement also impose certain pressures to the increasing cement export. Despite the low possibility of controlling those risks, the Group still adopts a series of measures to reduce the impacts of those risks on the Group.

- Capitalizing on its industry experience and the reputation on performing its obligations as well as good relationship with the relevant authorities, the Group is timely in touch with and has a thorough understanding of policy changes. This enables the Group to analyse and assess the possible impacts effectively and implement corresponding measures in a timely manner.
- Seriously analysing the changes in government policies and actively guiding the operating strategy of the Group and transforming those risks into opportunities.

3. Operational risks

3.1 Power and fuel supply

In view of the shortage of coal and power supply in China, the risk of increasing prices for raw coal and electricity intensify. Those risks might affect the Group to a certain degree. As a result, the Group adopts the following corresponding measures:

- Strengthening relationships with existing coal suppliers, and diversifying procurement channels.
- Introducing bidding process for energy procurement to minimize the increase in production cost due to price increase.
- Utilizing and allocating various resources at the production base appropriately to guarantee power supply.

3.2 Limestone supply

Limestone supply is important to stabilizing cement cost and assuring quality. The Group has always been concerned about limestone supply to avoid the impact on the production of the Group due to shortage of limestone:

- The Group has limestone reserves of approximately 320 million tonnes.
- The Group concentrates on quarry mine matching technology to maximize resource utilization rate.
- The Group's quarry has been repeatedly recognized by the China State Ministry of Land and Resources as a model limestone quarry for its advanced extracting technology and safe and green production environment.

3.3 Product quality

Product quality is central to a company's success. The Group emphasizes on product quality and reduces the risks that affect the Group arising from product quality. As a result, the Group adopts various measures which include:

- Controlling product quality by technological design and facilities installation. The Group injected substantial investment in technological design and facilities installation when building the plant and adopted world class and advanced production techniques in production to guarantee product quality.
- Excellent and effective quality assurance system. The Group's excellent quality assurance system guarantees product quality and standardization. The Group's plant has been accredited with the CQBM product quality certificate and ISO9001: 1994 quality management system certificate shortly after commencement of operation. In addition, in 2002 the Group obtained an upgrade to ISO9001: 2000 quality management system certificate.
- Fulfilling international quality standard for cement. The Group is currently studying the cost effectiveness of producing low alkali clinker and the securing the necessary raw material supply. The aim is to further improve the quality of cement produced so as to meet the increasing export demand.

3.4 Environment protection

Strengthening environmental protection is an important policy of the Group. Controlling environmental pollution might induce production, operational and policy risks to the Group. As a result, the measures adopted by the Group include:

- Increasing its efforts in environmental protection. Enhancing the image of the Group regarding environmental protection by purchasing advanced environmental friendly facilities and increasing the expenditure in reforestation and landscaping.

- Establishing a healthy leadership system and company structure, enhancing management of the environment and improve the standard of environment management continuously.

- Starting environmental campaign and educational work proactively and enhancing the environmental awareness of the staff comprehensively.

3.5 Storage and logistics

The resources of storage and logistics directly affect the production and scale of sales of the enterprise. The Group is currently realizing scaled development. It adopted the following measures in 2005, which reduced bottle-neck situation and risks regarding logistics.

- Building a deep water jetty and consolidating the Group's transportation advantage. The Group started to build a deep water jetty with a throughput capacity of 3.82 million tonnes in November 2005 to meet the needs for large scale development in the future.

- Building a cement warehouse to increase the storage capacity of the Group. The Group started to build two cement warehouses with storage capacity of 15,000 tonnes each to fulfill the needs of improving production capacity and diversification of product types in October 2005.

4. Finance risks

4.1 Cash flow and liquidity

Cash flow is an essential element of enterprises engaging in production. The management of cash flow is the core for managing corporate finance. The Group keeps constant watch and adopts effective measures to prevent risks from cash flow and liquidity problems. As a result:

- the Group adopts sound financial policies to strictly monitor cash management and resource utilization. It also enhances the analysis and forecast of cash flow and strictly controls cash expenditure, and maintain paying ability and debt repayment ability. The Group has set up an appropriate debt structure to control debt level, speed up fund turnover and reduce financing costs.

- the Group has established stringent fund management procedures and standards to enhance cash flow supervision and management both vertically and horizontally. The Group also enhances its supervision on fund business through making a fund budget and managing credit.

- the Group has maintained an appropriate gearing ratio and a stable financial health condition. The Group has sufficient liquid fund to formulate practicable credit policies and ensure availability of cash flow from existing business of investment in new projects with good potential or dividend distribution for shareholders.

4.2 Foreign exchange exposure

In 2005, the Group adjusted its sales strategies and increased the export proportion of cement. Exchange income increased substantially as compared to that of 2004. Currently, foreign exchange risk exposure of the Group mainly comes from cement exports, repayment of loans denominated in foreign currency, interest payments and purchase of parts for repair and maintenance of machinery and equipment. The exchange risks mainly come from exchange rate fluctuations of Renminbi against US dollars and Euro. The Group keeps constant watch on exchange rate changes of these currencies and market trend. By reasonably adjusting structure for the type of currencies and choosing the corresponding methods for payments and currency types, the Group minimized the impact of exchange risks. The Group has not entered into any derivative instrument contracts for reducing foreign exchange risks in 2005.

4.3 Interest rate risks

The majority of the Group's financing comes from long-term borrowings denominated in US dollars. As a result, the adjustment to RMB interest rate did not have a material impact on the Group. However, the continuous rise in interest rate by the US Federal Reserve increased the finance cost for US dollar loans to a certain extent. The Group manages interest rate risks with caution, by reviewing market conditions, operational needs and financial status of the Group constantly to determine the most effective interest rate risk management measures. The Group has not entered into any contracts for hedging interest rate risk in 2005.

III. EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2005, the Group had approximately 641 full-time employees. The Group provides remuneration to its employees at competitive levels. Other staff benefits provided by the Group include mandatory provident fund, insurance and performance related bonus.

IV. 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 Jingyang Cement 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.