Notes to the Financial Statements

For the year ended 31 December 2005

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. 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 CHC, a company registered in Taiwan, respectively.

The Company acts as an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 34.

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 authorisation 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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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 Listing Rules and the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis and the principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables, amounts due from fellow subsidiaries, other receivables and pledged deposits

Trade receivables, amounts due from fellow subsidiaries, other receivables and pledged deposits are measured at initial recognition at fair value, and subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised costs recorded at the proceeds received, net of direct issue costs. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Other financial liabiities

Other financial liabilities includes trade payables, amount due to a fellow subsidiary and other payables which are measured at initial recognition at fair value, and subsequently measured at amortised cost using the effective interest rate method.

Equity Instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and any accumulated impairment loss.

Depreciation is charged so as to write off the cost of the assets, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, as follows:

Buildings	Over the shorter of the lease term or 30 years or the operation period of the relevant company of 50 years
Quarry	Over the shorter of the excavation permit period of the quarry of 50 years or the operation period of the relevant company of 50 years
Plant and machinery	30 years
Office equipment	5 years
Motor vehicles	5 years

Construction in progress is stated at cost, less any accumulated impairment loss. Cost includes professional fees capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Land use rights

Land use rights represent prepaid lease payments made for leasehold land. Land use rights are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of land use rights are amortised on a straight-line basis over the shorter of the relevant land use right or the operation period of the relevant company.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset immediately in profit or loss in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the net amount receivable for goods and services provided in the normal course of business, less returns and allowances, net of value added tax.

Sales of goods are recognised when goods are delivered and title has been passed.

Consultancy fee income is recognised when relevant services are provided.

License fee income is recognised when the relevant goods of the licensee are sold.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in United States dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency of that entity (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated in United States dollars using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, which approximate the exchange rates at the dates of transactions. Exchange differences arising are classified as equity and recognised as exchange translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liabilities for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statement and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of property, plant and equipment and land use rights

The Group assesses annually whether property, plant and equipment and land use rights have any indication of impairment, in accordance with the relevant accounting policies. The recoverable amounts of property, plant and equipment and land use rights have been determined based on value-in-use calculations. These calculations and valuations require the use of judgment and estimates on future operating cash flows and discount rates adopted.

Estimated allowance for doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the periods in which such estimate has been changed.

Estimated allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories.

5. 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

6. 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 US$'000	United States US$'000	Others US$'000	Total US$'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

6. GEOGRAPHICAL AND BUSINESS SEGMENTS (continued)

Geographical segments (continued)

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

	PRC US$'000	United States US$'000	Others US$'000	Total US$'000
Assets				
Segment assets	15,947	—	—	15,947
Unallocated assets				303,072
				319,019
Liabilities				
Unallocated liabilities				119,607

Other information

	PRC US$'000	United States US$'000	Others US$'000	Total US$'000
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 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.

7. 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

8. PROFIT BEFORE TAX

	2005 US$'000	2004 US$'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**	—

9. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Directors

Details of emoluments paid by the Group during the year to the Directors are as follows:

2005

	Fees US$'000	Salaries and other benefits US$'000	Total US$'000
Executive Directors			
Mr. WANG Chien Kuo, Robert	19	103	122
Mr. LAN Jen Kuei, Konrad	19	41	60
Mr. CHANG Kang Lung, Jason	19	58	77
Ms. WANG Li Shin, Elizabeth	19	56	75
	76	258	334
Non-executive Directors			
Mr. CHANG Yung Ping, Johnny	13	—	13
Mr. CHANG An Ping, Nelson	13	—	13
Mr. MAR Shaw Hsiang (note)	3	—	3
	29	—	29
Independent non-executive Directors			
Mr. Davin A. MACKENZIE	10	—	10
Mr. ZHUGE Pei Zhi	10	—	10
Mr. WU Chun Ming	10	—	10
Ms. CHEN Meei Ling, Shelly (note)	2	—	2
	32	—	32
	137	258	395

Note: Mr. MAR Shaw Hsiang and Ms. CHEN Meei Ling, Shelly resigned as Directors of the Company with effective from 15 March 2005.

9. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

Directors (continued)

2004

	Fees US$'000	Salaries and other benefits US$'000	Total US$'000
Executive Directors			
Mr. WANG Chien Kuo, Robert	19	100	119
Mr. LAN Jen Kuei, Konrad	19	38	57
Mr. CHANG Kang Lung, Jason	19	56	75
Ms. WANG Li Shin, Elizabeth	19	55	74
	76	249	325
Non-executive Directors			
Mr. CHANG Yung Ping, Johnny	13	—	13
Mr. CHANG An Ping, Nelson	13	—	13
Mr. MAR Shaw Hsiang	13	—	13
	39	—	39
Independent non-executive Directors			
Mr. Davin A. MACKENZIE	10	—	10
Mr. ZHUGE Pei Zhi	10	—	10
Mr. WU Chun Ming	10	—	10
Ms. CHEN Meei Ling, Shelly	10	—	10
	40	—	40
	155	249	404

No contributions to retirement benefits schemes, performance related incentive payments or incentive on joining were paid to the Directors by the Group for the two years ended 31 December 2005.

9. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

Five highest paid individuals

Details of the emoluments paid by the Group to the five highest paid individuals (including the Directors, details of whose emoluments are set out above) are as follows:

	2005	2004
	US$'000	US$'000
Directors' fees	**57**	76
Salaries and other benefits	**356**	309
	413	385

The emoluments of the five highest paid individuals were within the following band:

	2005	2004
	Number of individuals	Number of individuals
Nil – HK$1,000,000	**5**	5
Number of Directors	**3**	4
Number of employees	**2**	1
	5	5

10. 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, 京陽水泥 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.

10. INCOME TAX EXPENSE (continued)

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

	2005 US$'000	2004 US$'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.

11. DIVIDEND

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

12. 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.

13. INVENTORIES

	2005 **US$'000**	2004 US$'000
Raw materials	**3,528**	2,767
Work-in-progress	**1,598**	970
Finished goods	**1,222**	1,136
Consumables and ancillary materials	**9,799**	8,465
	16,147	13,338

All inventories were stated at cost at the balance sheet dates.

14. TRADE RECEIVABLES

The aged analysis of trade receivables is as follows:

	2005 **US$'000**	2004 US$'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.

15. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

Name of related company	2005 US$'000	2004 US$'000
Ganghui	**1,025**	1,524
Union Cement	**2,522**	1,049
Chia Hsin Business Consulting (Shanghai) Corporation ("Business Consulting")	**6**	—
	3,553	2,573

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

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

The amounts due from fellow subsidiaries are unsecured and interest free. Included in the amounts due from fellow subsidiaries are trading balances of US$984,000 (2004: US$2,573,000) which are repayable in accordance with relevant trading terms. The amount due from Union Cement at 31 December 2005 represents purchase deposit paid by the Group which will be used to settle future purchases from the fellow subsidiary within a period of one year. The other amounts due from fellow subsidiaries are repayable on demand.

16. OTHER RECEIVABLES

	2005 US$'000	2004 US$'000
Deposits	**160**	756
Prepayments	**520**	478
Advances to suppliers	**1,686**	1,144
Other debtors	**1,265**	369
	3,631	2,747

17. BANK BALANCES AND CASH

Included in the bank balances and cash are bank deposits of approximately US$861,000 (2004: US$5,087,000) and US$31,528,000 (2004: US$43,776,000) which are held by the Company's PRC subsidiaries in United States dollars and Renminbi, respectively. The remittance of these bank deposits outside of the PRC is subject to approval of relevant local authorities.

18. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress US$'000	Buildings US$'000	Quarry US$'000	Plant and machinery US$'000	Office equipment US$'000	Motor vehicles US$'000	Total US$'000
COST							
At 1 January 2004	1,896	67,074	5,264	171,653	3,131	1,280	250,298
Additions	6,311	—	—	1,560	314	257	8,442
Transfer	(6,961)	866	—	6,095	—	—	—
Disposals/write-offs	—	—	—	—	(17)	(65)	(82)
Exchange differences	—	2	—	4	—	—	6
At 31 December 2004 and 1 January 2005	1,246	67,942	5,264	179,312	3,428	1,472	258,664
Additions	6,966	—	—	188	250	77	7,481
Transfer	(4,650)	1,514	—	3,120	16	—	—
Disposals/write-offs	—	(433)	—	—	(15)	(59)	(507)
Exchange differences	66	1,753	135	4,633	91	38	6,716
At 31 December 2005	**3,628**	**70,776**	**5,399**	**187,253**	**3,770**	**1,528**	**272,354**
DEPRECIATION							
At 1 January 2004	—	10,453	452	27,303	2,507	837	41,552
Charge for the year	—	2,019	276	5,148	114	122	7,679
Eliminated on disposals/write-offs	—	—	—	—	(15)	(46)	(61)
Exchange differences	—	—	—	1	—	—	1
At 31 December 2004 and 1 January 2005	—	12,472	728	32,452	2,606	913	49,171
Charge for the year	—	2,060	279	5,443	155	127	8,064
Eliminated on disposals	—	(19)	—	—	(13)	(53)	(85)
Exchange differences	—	350	23	911	68	24	1,376
At 31 December 2005	**—**	**14,863**	**1,030**	**38,806**	**2,816**	**1,011**	**58,526**
NET BOOK VALUES							
At 31 December 2005	**3,628**	**55,913**	**4,369**	**148,447**	**954**	**517**	**213,828**
At 31 December 2004	1,246	55,470	4,536	146,860	822	559	209,493

The buildings are situated in the PRC and on land use rights under medium-term leases.

19. LAND USE RIGHTS

Land use rights represent prepaid lease payments made for land situated in the PRC with lease period of fifty years. Analysis of the carrying amount of land use rights are as follows:

	2005 US$'000	2004 US$'000
Land use rights	**18,070**	18,088
Less: Portion to be charged to income statement in next year included as prepayments under current assets	**(480)**	(474)
Amount due after one year	**17,590**	17,614

At 31 December 2005, land use rights with an aggregate carrying amount of approximately US$16,515,000 (2004: US$16,532,000) have been pledged as collateral for certain bank borrowings of the Group.

20. SHARE CAPITAL

	At 31 December 2005 and 2004	
	Number of shares of US$0.01 each	**Nominal value US$'000**
Authorised	100,000,000,000	1,000,000
Issued and fully paid	1,142,900,000	11,429

There were no changes in the authorised and issued share capital of the Company during the two years ended 31 December 2005.

21. TRADE PAYABLES

The aged analysis of the trade payable is as follows:

	2005 US$'000	2004 US$'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

22. AMOUNT DUE TO A FELLOW SUSBIDIARY

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

23. OTHER PAYABLES

	2005 US$'000	2004 US$'000
Interest payable	**725**	470
Accrued expenses	**606**	853
Deposits from customers	**1,004**	698
Tax (other than income tax) payable	**611**	1,037
Construction cost payable	**123**	203
Others	**816**	412
	3,885	3,673

24. FINANCIAL ASSETS AND LIABILITIES

Financial assets

Trade receivables comprise mainly amounts receivable for the sales of goods.

The Group allows credit period of 0-180 days to its trade customers. An allowance of approximately US$321,000 (2004: US$428,000) has been made for estimated irrecoverable amounts from the sales of goods which has been determined by reference to past default experience.

The Directors consider that the carrying amounts of trade receivables approximate their fair values.

Amounts due from fellow subsidiaries comprise trading balances with and deposit paid to the fellow subsidiaries. The Directors consider that the carrying amount of amounts due from fellow subsidiaries approximate their fair value.

Other receivables comprise deposits, advances to suppliers and value added tax recoverable. An allowance of approximately US$126,000 (2004: US$123,000) has been made for estimated irrecoverable receivables which has been determined by reference to past default experience.

The Directors consider that the carrying amounts of other receivables approximate their fair values.

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less. The carrying amounts of these assets and pledged deposits approximate to their fair values.

24. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial liabilities

Trade and other payables comprise amounts outstanding for the purchases and ongoing costs.

Amount due to a fellow subsidiary represents trade balance.

The Directors consider that the carrying amounts of trade and other payables and amount due to a fellow subsidiary approximate their fair values.

Financial risk management objective and policies

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2005 in relation to each class of recognised financial assets is the carrying amounts of these assets as stated in the consolidated balance sheet.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Currency risk

Certain trade receivables and bank loans of the Group are denominated in foreign currencies. The Group does not have a foreign currency hedging policy in respect of foreign currency assets/debts. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk on variable-rate bank borrowings. Management monitors the related cash flow interest rate risk exposure closely and will consider hedging significant cash flow interest rate risk exposure should the need arise.

25. BANK BORROWINGS

	2005	2004
	US$'000	US$'000
Secured:		
Loans from Industrial and Commercial Bank of China ("ICBC") (note i)	62,640	74,340
Loans from China Construction Bank ("CCB") (note ii)	32,310	35,000
	94,950	109,340
Unsecured:		
Short-term bank loans denominated in USD (note iii)	860	—
Short-term bank loans denominated in RMB (note iv)	—	2,416
	95,810	111,756
The maturity of the bank borrowings is as follows:		
Within one year	21,900	16,806
In the second year	21,040	21,040
In the third to fifth years inclusive	47,460	63,120
Over five years	5,410	10,790
	95,810	111,756
Less: Amount due for settlement within one year (shown under current liabilities)	(21,900)	(16,806)
Amount due for settlement over one year	73,910	94,950

Notes:

(i) The loan from ICBC was raised in 2003. It is denominated in United States dollars and is repayable in 14 half-yearly instalments commenced 20 June 2003 and carries interest at London Inter Banks Offer Rate ("LIBOR") plus 1%.

(ii) The loan from CCB was raised in 2003. It is denominated in United States dollars and is repayable in 13 half-yearly instalments commenced 15 August 2005 and carries interest at LIBOR plus 0.95%.

(iii) The short-term bank loans denominated in United States dollars carry an average interest rate of 4.31% per annum.

(iv) The short-term bank loans denominated in Renminbi carry an average interest rate of 4.70% per annum.

The Directors consider that the carrying amounts of the bank borrowings approximate their fair values.

26. 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).

27. SUMMARISED BALANCE SHEET INFORMATION OF THE COMPANY

	2005	2004
	US$'000	US$'000
ASSETS		
Current assets	**8,717**	9,719
Non-currents assets	**170,981**	170,983
TOTAL ASSETS	**179,698**	180,702
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	**11,429**	11,429
Share premium and reserves	**168,137**	169,173
	179,566	180,602
Current liabilities	**132**	100
TOTAL EQUITY AND LIABLITIES	**179,698**	180,702

Under the Companies Law (2003 revised) Chapter 22 of the Cayman Islands, the reserves of the Company are available for distributions subject to the provision of the Company's Memorandum and Articles of Association and provided that immediately following the distributions the Company is able to pay its debts as they fall due in the ordinary course of business.

In the opinion of the Directors, as at 31 December 2005, the Company's reserves available for distribution amounted to approximately US$168,137,000 (2004: US$169,173,000), representing the aggregate of the share premium, special reserve and accumulated losses of approximately US$164,342,000 (2004: US$164,342,000), US$6,446,000 (2004: US$6,446,000) and US$2,651,000 (2004: US$1,615,000) respectively.

28. CAPITAL COMMITMENTS

	2005	2004
	US$'000	US$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for in the financial statements	**5,957**	790

29. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged by the Group to banks to secure the banking facilities granted by these banks to the Group:

	2005 US$'000	2004 US$'000
Property, plant and equipment	**137,195**	139,099
Land use rights	**16,515**	16,532
Bank deposits	**496**	242
	154,206	155,873

30. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2005 US$'000	2004 US$'000
Within one year	**133**	94
In the second to fifth years inclusive	**99**	21
	232	115

Operating lease payments represents rentals payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for terms ranging from one to three years with rentals fixed over the term of the leases.

31. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a written resolution of the sole shareholder of the Company passed on 26 November 2003 for the purpose of enabling the Company to grant options to employees and Directors of the Company or any of its subsidiaries and outside third parties who, in the sole direction of the Board, will contribute to the Company and/or any of its subsidiaries.

The maximum number of shares which options may be issued upon exercises of all options to be granted under the Scheme must not exceed 10% of the shares of the Company in issue immediately prior to the commencement of trading of the Company's shares on the Stock Exchange, without prior approval from the Company's shareholders. The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to any individual in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue at the date of grant, without prior approval from the Company's shareholders.

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose its discretion any such minimum period at the time of grant of any particular option. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted, upon payment of HK$1 per option. The exercise price is determined by the Directors, and will not be less than the highest of (a) the closing price of the Company's shares on the date of grant; (b) the average closing price of the shares for five business days immediately preceding the date of grant; and (c) the nominal value of a share in the Company.

During the period from the adoption of the Scheme to 31 December 2005, no option was granted, exercised or cancelled by the Company.

32. RETIREMENT BENEFITS

The aggregate number of employees of the Group at 31 December 2005 was 641 (2004: 705).

The Group has established a Mandatory Provident Fund Scheme for its Hong Kong employees. Mandatory contributions to the scheme are made by both the employer and employees at 5% of the employee's monthly relevant income capped at HK$20,000. At 31 December 2005 and 31 December 2004, there were no forfeited contributions available to reduce future obligations.

The employees of the Company's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the consolidated income statement of approximately US$291,000 (2004: US$220,000) represents contributions payable to the schemes by the Group at rate specified in the rules of the schemes.

33. RELATED PARTY TRANSACTIONS

During the year, the Group had transactions with certain related companies. Details of significant transactions with these companies during the year are as follows:

Nature of transaction	Name of related company	2005 US$'000	2004 US$'000
Sales of goods (note i)	Ganghui	**6,253**	8,897
	Union Cement	**—**	596
		6,253	9,493
Purchase of goods (note ii)	Union Cement	**12,225**	—
Consultancy fee income (note ii)	Union Cement	**—**	362
Consultancy fee paid (note ii)	Business Consulting	**244**	242
Licence fee income (note ii)	Ganghui	**41**	38
Vehicle rentals paid (note ii)	Business Consulting	**92**	91

In addition, the Group used the trademark and logo of "嘉新牌水泥" free of charge which are owned by CHC.

Ganghui, Union Cement and Business Consulting are fellow subsidiaries of the Company.

Notes:

(i) Sales transactions were carried out at cost plus a percentage of profit market-up.

(ii) Purchase transactions, consultancy fees, licence fee income and vehicle rentals paid were calculated in accordance with the terms of the relevant agreement mutually agreed by the parties concerned.

Moreover, during the year, the Group paid remunerations of short-term benefit to Directors and other members of key management amounting to approximately US$674,000 (2004: US$686,000).

34. SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of Incorporation (or establishment) and operation	Issued and fully paid share/ registered capital	Proportion of issued share /registered capital held by the Company		Principal activities
			Directly	Indirectly	
Jingyang Industrial Limited	Hong Kong	HK$24,000,000	100%	—	Investment holding
Jingyang Cement (note i)	PRC	US$173,000,000	—	100%	Mining of limestone and production and sales of cement and cement products
Zhenjiang City Dantu District Gaozi Clay Company Limited (note ii)	PRC	RMB3,000,000	—	93.3%	Mining of clay
Jurong Jingda Clay Company Limited (note ii)	PRC	RMB3,000,000	—	93.3%	Mining of clay

Notes:

(i) The subsidiary is a wholly foreign owned enterprise in the PRC.

(ii) The subsidiaries are limited liability companies incorporated in the PRC.