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)

Website: http://www.irasia.com/listco/hk/chcgc/index.htm

2006 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of Chia Hsin Cement Greater China Holding Corporation (the "Company") hereby announces the interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2006, together with the comparative figures for the six months ended 30 June 2005. These interim results were unaudited, but have been reviewed by Deloitte Touche Tohmatsu, the Company's auditors.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
	NOTES	**30.6.2006**	30.6.2005
		(unaudited)	(unaudited)
		US$'000	*US$'000*
Revenue	3	**63,248**	38,226
Cost of sales		**(52,239)**	(31,807)
Gross profit		**11,009**	6,419
Interest income		**484**	498
Other income		**869**	324
Distribution costs		**(4,074)**	(4,297)
Administrative expenses		**(2,156)**	(1,788)
Finance costs	4	**(2,821)**	(2,218)
Other expenses		**(73)**	(95)
Profit (loss) before tax	5	**3,238**	(1,157)
Income tax expense	6	**(432)**	—
Profit (loss) for the period		**2,806**	(1,157)
Dividend	7	**—**	—
Earnings (loss) per share – basic (US cents)	8	**0.25**	(0.10)

CONDENSED CONSOLIDATED BALANCE SHEET

	NOTES	**30.6.2006**	31.12.2005
		(unaudited)	(audited)
		US$'000	*US$'000*
ASSETS			
CURRENT ASSETS			
Inventories		**17,485**	16,147
Trade receivables	9	**12,225**	13,913
Amounts due from fellow subsidiaries	10	**3,672**	3,553
Other receivables		**6,275**	3,631
Income tax recoverable		**40**	737
Pledged deposits		**—**	496
Bank balances and cash		**48,464**	42,098
		88,161	80,575
NON-CURRENT ASSETS			
Property, plant and equipment		**219,172**	213,828
Land use rights		**17,512**	17,590
		236,684	231,418
TOTAL ASSETS		**324,845**	311,993
EQUITY AND LIABILITY			
CAPITAL AND RESERVES			
Share capital		**11,429**	11,429
Share premium and reserves		**197,558**	192,924
		208,987	204,353
CURRENT LIABILITIES			
Trade payables	11	**8,304**	7,697
Amount due to a fellow subsidiary	12	**250**	248
Other payables		**2,373**	3,885
Bank borrowings	13	**23,541**	21,900
		34,468	33,730
NON-CURRENT LIABILITY			
Bank borrowings	13	**81,390**	73,910
TOTAL LIABILITIES		**115,858**	107,640
TOTAL EQUITY AND LIABILITIES		**324,845**	311,993

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and with International Accounting Standard 34 "Interim Financial Reporting".

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis and in accordance with International Financial Reporting Standards ("IFRSs").

The principal accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee of the IASB, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 respectively. The application of these new standards, amendments and interpretations has no material effect on how the results for the current or prior accounting periods are prepared and presented.

The Group has not early applied the following new standard, amendment and interpretations that were in issue but not yet effective. The directors of the Company anticipate that the application of these standard, amendment and interpretations will have no material impact on the results and financial positions of the Group.

IAS 1 (Amendment)	Presentation of Financial Statements (Amendment) – Capital Disclosures [1]
IFRS 7	Financial Instruments: Disclosures [1]
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies [2]
IFRIC 8	Scope of IFRS 2 [3]
IFRIC 9	Reassessment of Embedded Derivatives [4]
IFRIC 10	Interim Financial Reporting and Impairment [5]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006

3. GEOGRAPHICAL 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:

Income statement for the six months ended 30 June 2006

	PRC	United States	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue	18,236	37,302	7,710	63,248
Segment result	2,538	6,956	1,342	10,836
Interest income				484
Other income				869
Unallocated expenses				(6,130)
Finance costs				(2,821)
Profit before tax				3,238
Income tax expense				(432)
Profit for the period				2,806

Income statement for the six months ended 30 June 2005

	PRC	United States	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue	34,527	2,165	1,534	38,226
Segment result	5,432	541	428	6,401
Interest income				498
Other income				324
Unallocated expenses				(6,162)
Finance costs				(2,218)
Loss before tax				(1,157)
Income tax expense				—
Loss for the period				(1,157)

4. FINANCE COSTS

	Six months ended 30.6.2006 (unaudited) *US$'000*	Six months ended 30.6.2005 (unaudited) *US$'000*
Interest on bank borrowings:		
Wholly repayable within five years	**1,932**	89
Not wholly repayable within five years	**889**	2,129
	2,821	2,218

5. PROFIT (LOSS) BEFORE TAX

	Six months ended **30.6.2006** (unaudited) *US$'000*	Six months ended 30.6.2005 (unaudited) *US$'000*
Profit (loss) before tax has been arrived at after charging:		
Amortisation of land use rights	**242**	235
Depreciation of property, plant and equipment	**4,182**	3,993
Net foreign exchange loss	**—**	4
Operating lease rentals in respect of rented premises	**117**	85
Repairs and maintenance	**2,833**	969
and after crediting:		
Net foreign exchange gain	**706**	—

6. INCOME TAX EXPENSE

The charge for the period represents provision for PRC enterprise income tax for one of the Company's PRC subsidiaries, Chia Hsin Jingyang Cement Co., Ltd. ("Jingyang Cement") for the period.

Pursuant to relevant laws and regulations in the PRC, 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 Administration of Foreign Trade and Economic Co-operation of Jiangsu Province (江蘇省對外經濟貿易合作廳) as Foreign Invested Advanced Technology Enterprise (外商投資先進技術企業) on 13 October 2003 and is therefore entitled to a 50% reduction in PRC 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 purposes was year 2003.

No provision for PRC enterprise income tax was made in the financial statements of Jingyang Cement for the six months ended 30 June 2005 as it has no assessable profit for the period. For the other two subsidiaries of the Company established in the PRC, no provision for PRC enterprise income tax has been made in the financial statements for both periods presented as they have no assessable profits.

No provision for Hong Kong Profits Tax has been made as the Company's subsidiary in Hong Kong has no assessable income for both periods presented.

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

7. **DIVIDEND**

No dividends were paid during the period. The Directors do not recommend the payment of an interim dividend (for the six months ended 30 June 2005: Nil).

8. **EARNINGS (LOSS) PER SHARE**

The calculation of the basic earnings (loss) per share for the six months ended 30 June 2006 is based on the profit for the period of approximately US$2,806,000 (For the six months ended 30 June 2005: loss of US$1,157,000) and on 1,142,900,000 ordinary shares in issue throughout the six months ended 30 June 2006 and 2005.

There were no potential dilutive shares in both periods presented.

9. **TRADE RECEIVABLES**

The aged analysis of trade receivables is as follows:

	30.6.2006	31.12.2005
	(unaudited)	(audited)
	US$'000	*US$'000*
Within 90 days	10,585	10,391
91 - 180 days	1,640	3,497
181 - 365 days	—	15
Over 365 days	—	10
	12,225	13,913

The Group allows credit period of 0 - 180 days to its trade customers. No interest was charged on overdue trade receivables.

10. **AMOUNTS DUE FROM FELLOW SUBSIDIARIES**

	30.6.2006	31.12.2005
	(unaudited)	(audited)
	US$'000	*US$'000*
Jiangsu Union Cement Company Limited ("Union Cement")	**2,949**	2,522
Shanghai Chia Hsin Ganghui Company Limited	**717**	1,025
Chia Hsin Business Consulting (Shanghai) Corporation ("Business Consulting")	**6**	6
	3,672	3,553

The amounts due from fellow subsidiaries are unsecured and interest free. Included in the amounts due from fellow subsidiaries are trade balance of US$717,000 (31.12.2005: US$984,000) which are repayable in accordance with relevant trading terms. Amount due from Union Cement at 30 June 2006 represents purchase deposits 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.

11. TRADE PAYABLES

The aged analysis of the trade payables is as follows:

	30.6.2006 (unaudited) *US$'000*	31.12.2005 (audited) *US$'000*
Within 90 days	7,143	6,486
91 - 180 days	131	430
181 - 365 days	299	94
Over 365 days	731	687
	8,304	7,697

12. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount represents trade balance due to Business Consulting of US$250,000 (31.12.2005: US$248,000) which is unsecured, interest free and repayable on demand.

13. BANK BORROWINGS

	30.6.2006 (unaudited) *US$'000*	31.12.2005 (audited) *US$'000*
Secured:		
Loan from Industrial and Commercial Bank of China ("ICBC") *(note i)*	54,810	62,640
Loan from China Construction Bank ("CCB") *(note ii)*	29,620	32,310
Loan from Shanghai Commercial Bank ("SCB") *(note iii)*	18,000	—
	102,430	94,950
Unsecured:		
Short-term bank loans denominated in USD *(note iv)*	—	860
Short-term bank loans denominated in RMB *(note v)*	2,501	—
	104,931	95,810
The maturity of the bank borrowings is as follows:		
Within one year	23,541	21,900
In the second year	21,040	21,040
In the third to fifth year inclusive	57,630	47,460
Over five years	2,720	5,410
	104,931	95,810
Less: Amount due within one year (shown under current liabilities)	(23,541)	(21,900)
Amount due for settlement over one year	81,390	73,910

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 loan from SCB is denominated in United States dollars and is repayable in 6 half-yearly instalments commencing 28 December 2008 and carries interest at LIBOR plus 0.90%.

iv. The unsecured short-term bank loans denominated in United States dollars carried an average fixed interest rate of 5.97% (six months ended 30 June 2005: 3.77%) per annum and has been fully repaid during the year.

v. The unsecured short-term bank loans denominated in Renminbi carry an average fixed interest rate of 4.70% (six months ended 30 June 2005: 4.70%) per annum.

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

14. TOTAL ASSETS LESS CURRENT LIABILITIES/NET CURRENT ASSETS

The Group's total assets less current liabilities at 30 June 2006 amounted to approximately US$290,377,000 (31.12.2005: US$278,263,000).

The Group's net current assets at 30 June 2006 amounted to approximately US$53,693,000 (31.12.2005: US$46,845,000).

MANAGEMENT DISCUSSION AND ANALYSIS

FIVE YEARS COMPARISON OF FINANCIAL INDICATORS

I. SUMMARY OF OPERATIONS

For the first half of year 2006, both the economic growth of the PRC and the fixed assets investment have been maintained in high gear. Although the situation of supply exceeding demand still remained, the overall business environment has improved when compared with last year. Export business, which has continued to prosper, becomes an important strategic initiative for companies striving to enhance their level of profitability.

The management of the Group has looked closely at the development trend of the cement industry and was able to successfully carry out its export strategy to capitalize on the favourable export conditions through adjustments in product mix and innovation in production methodology. At the same time, the Group has begun its domestic trading, strategically invested and completed its jetty and silos, and continuously reviewed and optimized its internal control systems. The Group's competitive strengths have become even stronger leading to a significant increase in production, sales, turnover, and profit over the same period last year.

II. AN OVERVIEW OF PRODUCTION AND SALES

For the first half of year 2006, a total of 1,600,000 tonnes of cement were produced by the Group, representing an increase of 9% over the same period of last year, and 1,030,000 tonnes of clinker were produced, which was similar to that of the same period of last year. Sales volume of cement and clinker amounted to 1,926,000 tonnes, representing an increase of 22% over the same period of last year.

For the first half of year 2006, cement prices in the international markets were markedly more favourable, and the Group carried out its export strategy by leveraging on its own jetties and logistics. Its products have been successfully sold to the United States, Malaysia, New Zealand and the Middle East. During the period, a total of 1,266,000 tonnes of cement and clinker were exported, accounting for 65.8% of the total sales volume. The contribution by export business in gross profit was US$8,471,000, which accounted for 76.9% of the Group's total gross profit, and has greatly improved the gross profit margin structure of the Group. Meanwhile, the Group has focused on the optimization and efficiency of the domestic market. Domestic sales of cement and clinker for the first half of the year amounted to 660,000 tonnes, and in particular the domestic trade of cement, which the Group began to develop since April 2006, has become an important strategic initiative for the Group to achieve a win-win situation for both the export and domestic markets.

To facilitate its core strategy in export trade, the Group has made a large number of innovations and adjustments in its production technology. It has begun to produce low-alkali clinker and cement which attract higher profit margins. Furthermore, the Group has ceased the production of low-grade cement since April 2006 and focused on the production and sales of high-grade cement which contributes more profit. The Group has made technological revamp and optimization of operation for more effective energy saving and higher profit margin with its resources. It has passed the on-site certification for its comprehensive utilization of resources. It has also obtained the ISO9001:2000 quality management system annual review and extended certification in May 2006, which guarantees the high standard for its export cement. The two cement storage silos which the Group commenced construction since last year have been in operation since June 2006. The Group has thus become more flexible in the use of storage silos and distribution of cement, and the cost-effectiveness will be more and more apparent. As the new deep-water jetty has also been in operation in August 2006, the throughput of the jetties of the Group has been greatly enlarged with more room for business development.

III. ANALYSIS OF THE GROUP'S FINANCIAL STATUS

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

For the six months ended 30 June 2006, the Group's revenue amounted to US$63,248,000 based on IFRSs, representing an increase of 65.5% over the same period of last year; its profit amounted to US$2,806,000 and its basic earnings per share amounted to US Cent 0.25, which has turned around its loss-making condition over the same period of last year.

2. *Analysis of the Group's Profit*

2.1 Changes in major Profit and Loss items

		Six months ended	
	30 June 2006	30 June 2005	Increase/Decrease
	US$'000	*US$'000*	
Revenue	**63,248**	38,226	65.5%
Less: Cost of sales	**(52,239)**	(31,807)	64.2%
Operating costs	**(6,230)**	(6,085)	2.4%
Finance costs	**(2,821)**	(2,218)	27.2%
Plus: Other income and interest income	**1,353**	822	64.6%
Less: Other expenses	**(73)**	(95)	-23.2%
Income tax	**(432)**	—	—
Profit for the period	**2,806**	(1,157)	N/A

For the six months ended 30 June 2006, the Group's profit amounted to US$2,806,000, which has turned around its loss-making condition over the same period of last year. It is mainly attributable to the following factors: (1) It benefited from the increase in sales and the average selling price. The Group's turnover amounted to US$63,248,000, representing a considerable increase of 65.5% over the same period of last year; (2) The increase in the average selling price was larger than the increase in the average cost of sales and the unit product gross profit increased by 40.9% over the same period of last year, indicating that the Group's profitability has been markedly improved; (3) The continued revaluation of the Renminbi has produced an exchange gain of approximately US$706,000 arising from its bank borrowings which are denominated in US dollars, which has also contributed to the profit of the Group.

2.2 Revenue

Set out below is an analysis of the Group's revenue in terms of its products for the six months ended 30 June 2006.

	Six months ended			
	30 June 2006		30 June 2005	
Products	**Revenue**	**Percentage**	Revenue	Percentage
	US$'000	***%***	*US$'000*	*%*
Domestic sales				
52.5 cement	**9,188**	**14.5**	8,233	21.5
42.5 cement	**7,791**	**12.3**	20,946	54.8
32.5 cement	**948**	**1.5**	4,847	12.7
Clinker	**309**	**0.5**	501	1.3
Sub-total	**18,236**	**28.8**	34,527	90.3
Export sales				
52.5 cement	**42,910**	**67.9**	2,111	5.5
Clinker	**2,102**	**3.3**	1,588	4.2
Sub-total	**45,012**	**71.2**	3,699	9.7
Total	**63,248**	**100.0**	38,226	100.0

Set out below is an analysis of the Group's revenue in terms of its geographical region of sales for the six months ended 30 June 2006.

	Six months ended			
	30 June 2006		30 June 2005	
Sales Region	**Revenue**	**Percentage**	Revenue	Percentage
	US$'000	***%***	*US$'000*	*%*
Jiangsu Province	**8,233**	**13.0**	16,280	42.6
Zhejiang Province	**6,792**	**10.8**	11,190	29.3
Shanghai Municipality	**1,166**	**1.8**	4,400	11.5
Fujian Province	**2,045**	**3.2**	2,657	6.9
The United States	**37,302**	**59.0**	2,165	5.7
Other sales region	**7,710**	**12.2**	1,534	4.0
Total	**63,248**	**100.0**	38,226	100.0

For the first half of year 2006, the Group has capitalized on the favourable export situation and implemented its export strategy; an export sales of US$45,012,000 has been achieved during the period, accounting for 71.2% of the total revenue, which has become a key channel for the Group to enhance its profitability, and compared with the same period of last year, its export has made a breakthrough growth that is 12.2 times over the same period of last year.

In respect of sales volume, the Group is primarily benefited from the upgraded production capacity, the use of its trading right and the successful expansion into the overseas market, that the total sales volume for cement and clinker of the Group in the first half of year 2006 increased by 21.9% over the same period of last year.

The Group has enjoyed the advantages of high export sales prices and the gradual improvement of the domestic selling prices from its nadir during the period, when the average selling price amounted to US$32.8 per tonne, a considerable increase of 35.7% over the same period of last year.

In respect of product mix, the Group has been persistent in its effort to enlarge the proportion of high-grade cement, particularly after it has implemented an export sales strategy, when the proportion of the revenue of grade 52.5 cement reached 82.4%, an increase of 55.4 percentage points over the same period of last year, which is a record high in recent years.

Revenue Attributable to the Largest Customer and the Five Largest Customers

For the six months ended 30 June 2006, the revenue with the largest customer of the Group attributable to the total revenue of the Group was 35.0% and the revenue with the five largest customers of the Group attributable to the total revenue of the Group was 68.6%.

2.3 Cost of Sales

The Group's average cost of sales for the six months ended 30 June 2006 was US$27.1 per tonne. The breakdown of the cost of sales is set out as follows.

	Six months ended			
	30 June 2006		30 June 2005	
Cost item	**Amount**	**Percentage**	Amount	Percentage
	US$'000	*%*	*US$'000*	*%*
Raw materials	**25,745**	**49.3**	8,643	27.2
Energy	**17,692**	**33.9**	16,693	52.5
Depreciation and amortisation	**3,757**	**7.2**	3,524	11.1
Labour cost	**811**	**1.5**	800	2.5
Others	**4,234**	**8.1**	2,147	6.7
Total	**52,239**	**100.0**	31,807	100.0

Although the unit purchase cost of coal during the reporting period has decreased over the same period of last year, the average cost of sales of the Group has increased by 34.7% over the same period of last year, which was mainly attributable to the followings: as a result of increased production capacity and to cope with its export sales, the Group has carried out a more thorough annual overhaul on its production facilities during the low season, thereby increasing the year-on-year maintenance expenses. The Group has begun production of low-alkali clinker and cement in the first half of the year and increased the production of high-grade cement, thereby the unit production cost increased. The outsourcing of a portion of clinker for the production of cement and the purchase of a portion of cement and clinker for direct sales resulted in a significant change in the cost structure of the Group and have also contributed to the increase in the average production cost.

Purchase Attributable to the Largest Supplier and the Top Five Suppliers

For the six months ended 30 June 2006, the purchase from the largest supplier accounted for 17.8% of the total purchase, and the total purchase from the top five suppliers accounted for 69.0% of the total purchase of the Group.

During the reporting period, Union Cement was the largest supplier of the Group, which is indirectly controlled by Chia Hsin Pacific Limited (the major shareholder of the Group), is a connected person (as defined by the Listing Rules) of the Group. Other than Union Cement, none of the Directors and their respective associates (as defined by the Listing Rules) and to the knowledge of the Directors, shareholders with over 5% of the share capital of the Company had any interest in any of the top five suppliers of the Group.

2.4 Gross Profit

Set out below is an analysis of the Group's gross profit in terms of its products for the six months ended 30 June 2006.

	Six months ended					
	30 June 2006			30 June 2005		
Products	**Gross profit amount**	**Percentage**	**Gross profit margin**	Gross profit amount	Percentage	Gross profit margin
	US$'000	**%**	**%**	*US$'000*	%	%
Domestic sales						
52.5 cement	**1,316**	**12.0**	**14.3**	1,548	24.1	18.8
42.5 cement	**1,180**	**10.7**	**15.1**	2,960	46.1	14.1
32.5 cement	**52**	**0.5**	**5.5**	901	14.0	18.6
Clinker	**-10**	**-0.1**	**-3.2**	10	0.2	2.0
Sub-total	**2,538**	**23.1**	**13.9**	5,419	84.4	15.7
Export sales						
52.5 cement	**8,084**	**73.4**	**18.8**	658	10.3	31.2
Clinker	**387**	**3.5**	**18.4**	342	5.3	21.5
Sub-total	**8,471**	**76.9**	**18.8**	1,000	15.6	27.0
Total	**11,009**	**100.0**	**17.4**	6,419	100.0	16.8

With the increase in sales volume, and particularly in the proportion of export sales, the Group's gross profit amounted to US$11,009,000, a considerable increase of 71.5% over the same period of last year. Moreover, the increase in the average selling price was greater than the increase in the average cost of sales, so that the gross profit margin was 0.6 percentage points higher than that of the same period of 2005, to 17.4%. In quarterly terms, the gross profit margin of the second quarter was 21.8%, which was 10.2 percentage points higher than the first quarter.

2.5 Operating Costs

Having insisted on an operational model focused on export sales by the Group, the package and transportation expenses have been substantially reduced. Besides, our high management level has also produced visible results in our economy of scale. The operating costs ratio for the period was significantly reduced by 6.0 percentage points to 9.9% when compared with the same period of 2005.

2.6 Finance Costs

For the six months ended 30 June 2006, the finance costs of the Group amounted to US$2,821,000 with an increase of 27.2% when compared with the same period of 2005, which was mainly attributable to the increase of the interest rate based on LIBOR for the first half of year 2006.

2.7 Other Income and Interest Income

For the six months ended 30 June 2006, other income and interest income generated by the Group amounted to approximately US$1,353,000 with an increase of 64.6% when compared with the same period of 2005, in which the translation gain derived from the revaluation of Renminbi and the interest income amounted to US$706,000 and US$484,000 respectively.

3. Capital and Financial Status

3.1 Condensed Cash Flow Statement

	Six months ended	
	30 June 2006	30 June 2005
	US$'000	*US$'000*
Cash flow from (used in) operating activities	**6,947**	(5,231)
Cash flow used in investing activities	**(6,537)**	(2,644)
Cash flow from (used in) financing activities	**6,300**	(6,372)
Effect of changes in foreign exchange	**(344)**	—
Cash and cash equivalent at the beginning of the period	**42,098**	59,378
Cash and cash equivalent at the end of the period	**48,464**	45,131

Cash flow from operating activities

For the six months ended 30 June 2006, the Group's net cash inflow from operating activities amounted to US$6,947,000, an increase of US$12,178,000 over the same period of 2005, which was mainly attributable to the strengthened profitability of the Group's principal operations and the profit generated was significantly higher than that of last year. In addition, the Group has tightened its control on trade receivables, and coupled with the increase of 65.5% in revenue, the trade receivables (including those from fellow subsidiaries) were 13.1% lower than those of the same period of last year.

Cash flow from investing activities

For the six months ended 30 June 2006, the net cash outflow of the Group's investing activities amounted to US$6,537,000 with an increase of US$3,893,000 when compared to the same period of 2005. Investment in fixed assets of US$7,672,000 were mainly expended on the new jetty and cement silos in the current period.

Cash flow from financing activities

For the six months ended 30 June 2006, the Group's net cash inflow from financing activities amounted to US$6,300,000, of which the principal repayment of long-term bank borrowings in US dollars as agreed in the loan agreements amounted to US$10,520,000; also, the Group has raised new borrowings of US$18,000,000 during the period for the purpose of improvement on the bank borrowings structure.

3.2 Changes in major Assets and Liabilities

	As at **30 June 2006** *US$'000*	As at 31 December 2005 *US$'000*	Increase/Decrease
Fixed assets and land use rights	**236,684**	231,418	2.3%
Bank balance and cash	**48,464**	42,098	15.1%
Other current assets	**39,697**	38,477	3.2%
Total assets	**324,845**	311,993	4.1%
Share capital	**11,429**	11,429	0%
Share premium and reserves	**197,558**	192,924	2.4%
Bank loan	**104,931**	95,810	9.5%
Other liabilities	**10,927**	11,830	-7.6%
Total share capital and liabilities	**324,845**	311,993	4.1%

As at 30 June 2006, the Group's total assets amounted to US$324,845,000, an increase of US$12,852,000 or 4.1% from the end of 2005, which was mainly attributable to the following reasons: (1) For the first half of year 2006, there is a significant increase in profit and net bank borrowings which account for 92.8% of the increase in total assets. (2) With the increase in assets denominated in US dollars as a result of the revaluation of Renminbi, the total assets of the Group have also increased.

3.3 Fixed Assets

As at 30 June 2006, the Group's net fixed assets amounted to US$219,172,000, of which US$55,276,000 represented property, US$148,740,000 represented plant and equipment, US$10,789,000 represented construction-in-progress and US$4,367,000 represented other net fixed assets. Net fixed assets have increased by US$5,344,000 from the end of 2005, partly because the Company has invested a portion of its capital in the construction of the deep-water jetties and cement storage silos, and also attributed to the increase in assets denominated in US dollars as a result of the revaluation of Renminbi.

3.4 Current Assets and Liabilities

As at 30 June 2006, the Group's current assets amounted to US$88,161,000, which mainly included inventory of US$17,485,000, trade receivables (excluding those from fellow subsidiaries of US$717,000) of US$12,225,000, bank balance and cash of US$48,464,000 and other current assets of US$9,987,000.

As at 30 June 2006, the Group's current liabilities amounted to US$34,468,000, of which trade payables (excluding those to a fellow subsidiary of US$250,000) of US$8,304,000, bank borrowings due within one year of US$23,541,000 and other current liabilities of US$2,623,000.

3.5 Structure of Interest-bearing Bank Borrowings

As at 30 June 2006, the Group's interest bearing bank borrowings amounted to US$104,931,000, including unsecured short-term bank borrowings of US$2,501,000 and secured bank borrowings of US$102,430,000.

As at 30 June 2006, the Group's book value of assets pledged to obtain bank borrowings amounted to approximately US$152,266,000, of which US$135,819,000 represented property, plant and equipments, and US$16,447,000 represented land use rights.

Unsecured short-term bank borrowings were denominated in Renminbi, which bore an interest at an average annual rate of 4.7%. These unsecured short-term bank loans mainly included two revolving loans, the principal was RMB10,000,000 (equivalent to approximately US$2,501,000) each.

Secured bank borrowings were denominated in US dollars, which bore interest based on the LIBOR plus an annual interest rate of 0.965%.

3.6 Shareholders' Equity

As at 30 June 2006, the shareholders' equity of the Group was US$208,987,000. The shareholders' equity comprised the following:

	As at 30 June 2006		As at 31 December 2005	
Item	**Amount**	**Percentage**	Amount	Percentage
	US$'000	***%***	*US$'000*	*%*
Share capital	**11,429**	**5.5**	11,429	5.6
Share premium and reserves	**197,558**	**94.5**	192,924	94.4
Total	**208,987**	**100.0**	204,353	100.0

As at 30 June 2006, the shareholders' equity increased by 2.3% from 31 December 2005, and the increase in shareholders' equity was mainly attributable to the Group's principal operating activities.

4. Financial Ratios

	As at **30 June 2006**	As at 31 December 2005	Increase/Decrease
Turnover period of trade receivables *(note 1 & description 1)*	32 days	47 days	-15 days
Turnover period of trade payables *(note 2 & description 1)*	22 days	28 days	-6 days
Turnover period of inventories *(note 3 & description 1)*	53 days	68 days	-15 days
Current ratio *(note 4 & description 2)*	2.6 times	2.4 times	0.2 times
Quick ratio *(note 5 & description 2)*	2.1 times	1.9 times	0.2 times
Gearing ratio *(note 6 & description 3)*	32.3%	30.7%	1.6%
Debt ratio *(note 7 & description 3)*	50.2%	46.9%	3.3%

Notes:

1. Turnover period of trade receivables = number of days during the period x average trade receivables /revenue with VAT

2. Turnover period of trade payables = number of days during the period x average trade payables / current cost of sales

3. Turnover period of inventories = number of days during the period x average inventories /current 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

Descriptions:

1. The turnover (days) for accounts receivables, accounts payables and inventories were lower from the end of 2005, and the number of days occupied by working capital was 24 days less as compared with those at the end of 2005, which was mainly attributable to the fact that while the Group was expanding its sales volume, both the revenue and the cost of sales had increased substantially, the amount of working capital occupied had not increased correspondingly, particularly as strict control was being exercised for trade receivables, resulting in a year-on-year decrease, which greatly enhanced the utilization rate of the Group's capital.

2. Both the current ratio and quick ratio were higher as compared with those at the end of 2005, and liquidity was maintained at a high level.

3. Both the gearing ratio and debt ratio were higher as compared with those at the end of 2005, which was mainly attributable to the fact that the Group's net bank borrowings had increased.

5. *Financial Risks*

5.1 Foreign Exchange Exposure

As the proportion of export sales of cement has increased, the Group's exposure to foreign exchange is mainly the exchange rate fluctuations of Renminbi to US dollars. During the reporting period, the exchange rate of Renminbi to US dollars has seen certain increases, and as Renminbi revaluation is a long-term factor, which will inevitably have certain impact on the Group. The Group has been watching closely at the fluctuations of the exchange rates of these currencies and the market changes in determining whether or not any corresponding hedging measures should be taken. For the six months ended 30 June 2006, the Group has not entered into any derivative contract to hedge against foreign exchange exposure.

5.2 Interest Rate Risks

The principal financing borrowings of the Group have been long-term borrowings in US dollars. In the wake of the continued rise in interest rate by the Federal Reserve Board of the United States, finance costs for the US dollar loans have also increased. The Group has from time to time reviewed the market condition, the requirements of the Group's operations and its financial condition in determining the most effective management tools for the risks in interest rate. For the six months ended 30 June 2006, the Group has not entered into any contract to hedge against the risks of interest rate.

IV. OPERATING STRATEGIES FOR THE SECOND HALF OF 2006

In the second half of the year, the Group will embrace market changes by adopting flexible operational strategies and fully utilize our enhanced strategic advantages with a view to expanding our corporate operational model and raising our level of productivity.

1. To overcome all sorts of difficulties which may arise and continue to adhere to our policy of export-orientation.

2. To liaise closely with domestic cement corporations for developing the internal cement trade and grabbing opportunities for cement penetration within the country.

3. To examine the exercise of option over Union Cement so as to benefit from assets consolidation and synergy of the option.

4. To focus on the development of external strategic alliance for exploring advantageous opportunities and expanding the market influence for the Group.

SHARE OPTION SCHEME

For the six months ended 30 June 2006, no share option of the Company was granted, exercised, lapsed or cancelled in accordance with the share option scheme of the Company.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company has established an audit committee in November 2003 in accordance with the requirements of the Listing Rules. The committee comprised three Independent Non-executive Directors, Mr. Davin A. MACKENZIE, Mr. ZHUGE Pei Zhi and Mr. WU Chun Ming. Mr. Davin A. MACKENZIE is the Chairman of the committee. The unaudited interim financial report of the Group for the six months ended 30 June 2006 has been reviewed by the committee.

REMUNERATION COMMITTEE

Pursuant to the provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules, the Board of Directors has established the remuneration committee on 7 July 2005. The committee comprised one Non-executive Director, Mr. CHANG An Ping, Nelson, and two Independent Non-executive Directors, Mr. Davin A. MACKENZIE and Mr. ZHUGE Pei Zhi. Mr. Davin A. MACKENZIE is the Chairman of the committee.

CODE ON CORPORATE GOVERNANCE PRACTICES

For the six months ended 30 June 2006, the Company has applied the principles and code provisions as set out in the CG Code and complied with all the code provisions. It also put in place certain Recommended Best Practices as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Since 19 August 2004, the Company has adopted its own code of conduct regarding Directors' securities transactions (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. After making specific inquiries of all the Directors, the Directors have confirmed that they have complied with the requirements of the Code of Conduct and the Model Code for the six months ended 30 June 2006.

DIRECTORS OF THE COMPANY

As at 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, ohnny 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

23 August 2006

* *For identification purposes only*

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