THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Chia Hsin Cement Greater China Holding Corporation, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for shares in Chia Hsin Cement Greater China Holding Corporation.

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)

PROPOSED MAJOR AND CONNECTED TRANSACTION RELATING TO ACQUISITION OF CEMENT BUSINESS IN THE PRC AND PROPOSED RENEWAL OF EXISTING CAPS IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

Financial adviser to the Company

寶來證券(香港)有限公司

Polaris Securities (Hong Kong) Limited

A Member of Polaris Financial Group

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

ACCESS CAPITAL

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 27 of this circular. A letter from Access Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 54 of this circular.

A notice convening an extraordinary general meeting of Chia Hsin Cement Greater China Holding Corporation to be held at Cliftons, 33rd Floor, 9 Queen's Road Central, Hong Kong on Thursday, 26 October 2006 at 3:30 p.m. is set out on pages N-1 to N-3 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Hong Kong branch share registrar and transfer office of Chia Hsin Cement Greater China Holding Corporation, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

* *for identification purpose only*

10 October 2006

CONTENTS

CONTENTS

In this circular, the following expressions shall have the meaning set out below unless the context requires otherwise:

"2005 Circular"	the circular of the Company dated 12 October 2005 in relation to, among other things, the Ganghui Sales Agreement and Union Cement Purchase Agreement
"Access Capital"	Access Capital Limited, a corporation licensed to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, which is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
"Acquisition"	the acquisition by the Company of the Sale Shares from the Vendor
"Acquisition Agreement"	the agreement dated 12 September 2006 entered into between the Company and the Vendor in respect of the Acquisition
"Announcement"	the announcement of the Company dated 18 September 2006 in relation to the Transactions
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Balance Consideration"	being approximately US$10.73 million (approximately HK$83.25 million) payable to the Vendor by the Company in cash upon Completion
"Board"	the board of Directors
"Business Valuation"	the independent business valuation of Yonica (BVI) Group as at 30 June 2006 prepared by an independent and recognised professional party
"CHC"	Chia Hsin Cement Corporation, a company incorporated in Taiwan, the securities of which are listed on the Taiwan Stock Exchange Corporation and a controlling shareholder of CHPL
"CHPL"	Chia Hsin Pacific Limited, a company incorporated in the Cayman Islands with limited liability and a controlling shareholder of the Company
"Company"	Chia Hsin Cement Greater China Holding Corporation, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange

"Completion"	completion of the Acquisition contemplated under the Acquisition Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration Shares"	263,496,000 new Shares, credited as fully paid, to be issued to the Vendor or its nominee upon Completion
"Continuing Connected Transactions"	the proposed continuing connected transactions as contemplated under the Ganghui Sales Agreement and Union Cement Purchase Agreement
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of approving the Transactions and all other transactions contemplated thereunder by the Independent Shareholders, a notice of which is set out on pages N-1 to N-3 of this circular
"Enlarged Group"	the Group immediately after the Completion
"Funding Alternative"	any fund raising exercise of the Company through issue of equity securities resulting in all times that the public float in the Company will be maintained at a minimum of 25% upon completion in compliance with Rule 8.08 of the Listing Rules to be completed on or before the Long-Stop Date
"Ganghui"	上海嘉新港輝有限公司 (Shanghai Chia Hsin Ganghui Co., Ltd), is an indirectly wholly owned subsidiary of CHPL
"Ganghui Sales Agreement"	the sales agreement entered into between Jingyang Cement and Ganghui on 15 September 2005, details of which were set out in the 2005 Circular
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company, comprising Davin A. Mackenzie, Zhuge Pei Zhi and Wu Chun Ming, the independent non-executive Directors
"Independent Shareholders"	Shareholders, other than the Vendor and its associates, who are not involved in or interested in the Transactions
"Issue Price"	the price of HK$ 0.95 per Consideration Share

"Jingyang Cement"	嘉新京陽水泥有限公司 (Chia Hsin Jingyang Cement Co., Ltd.), a wholly foreign owned enterprise established in the PRC on 26 June 1993 with limited liability and an indirectly wholly owned subsidiary of the Company
"Last Trading Day"	12 September 2006, being the last trading day on which the Shares were traded on the Stock Exchange prior to the release of the Announcement
"Latest Practicable Date"	5 October 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Committee"	has the meaning ascribed to it under the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long-Stop Date"	30 June 2007 (or such later date as the Company and the Vendor may jointly determine in writing)
"Main Board"	The stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For avoidance of doubt, the Main Board excludes the Growth Enterprise Market
"PRC"	the People's Republic of China (for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
"Proposed Caps"	collectively, the proposed caps in respect of the Continuing Connected Transactions for the financial year ending 31 December 2007 as set out in the paragraph headed "Proposed renewal of existing caps in respect of the Continuing Connected Transactions" in the "Letter from the Board" in this circular
"Prospectus"	the prospectus of the Company dated 2 December 2003 in relation to the listing of the Shares on the Main Board of the Stock Exchange
"Reorganisation"	the transfer of Yonica (Singapore)'s 80% equity interest in Union Cement and the assignment of Shareholder's Loan to Yonica (BVI) by Yonica (Singapore)

"Sale Shares"	1 share of US$1.00 each in Yonica (BVI), representing the entire issued share capital of Yonica (BVI) before completion of the Reorganisation and the 43,022,013 new shares to be issued to the Vendor upon completion of the Reorganisation at the direction of Yonica (Singapore)
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shareholder(s)"	holder(s) of the Shares
"Shareholder's Loan"	the shareholder's loan in the amount of US$ 11.44 million (approximately HK$ 88.76 million) due from Union Cement to Yonica (Singapore) which has been assigned to Yonica (BVI) as part of the Reorganisation
"Share(s)"	ordinary share(s) of US$ 0.01 each in the share capital of the Company
"Special Mandate"	the special mandate to be sought from Independent Shareholders at the EGM by a resolution in respect of the issue and allotment of the Consideration Shares pursuant to the Acquisition
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary"	has the meaning ascribed to it under the Listing Rules
"Transactions"	the Acquisition Agreement, the proposed renewal of the existing caps in respect of the Continuing Connected Transactions and the transactions contemplated therein
"Union Cement"	江蘇聯合水泥有限公司 (Jiangsu Union Cement Co., Ltd.), a sino-foreign equity joint venture established on 20 November 1996 in the PRC with limited liability and is owned as to 80% by Yonica (Singapore) and 20% by a PRC state owned enterprise known as 鎮江船山石灰石礦有限公司 (Zhenjiang Chuanshan Limestone Mine Company), an independent third party and not a connected person of the Company as defined under the Listing Rules
"Union Cement Purchase Agreement"	the purchase agreement entered into between Jingyang Cement and Union Cement on 15 September 2005, details of which were set out in the 2005 Circular

"Waiver"	the waiver from strict compliance with the disclosure and independent shareholders' approval requirements under the Listing Rules for the three financial years ended 31 December 2005 in relation to the Continuing Connected Transactions (as the case may be) as described in the Prospectus
"Vendor"	CHPL
"Yonica (BVI)"	Yonica (BVI) Pte. Ltd., a company incorporated in the British Virgin Islands on 6 July 2006 with limited liability and a wholly owned subsidiary of the Vendor and holder of Shareholder's Loan and the 80% equity interest in Union Cement upon completion of the Reorganisation
"Yonica (BVI) Group"	Yonica (BVI) and its subsidiaries
"Yonica (Singapore)"	Yonica Pte Ltd, a company incorporated in Singapore, a wholly owned subsidiary of the Vendor and holder of the 80% equity interest in Union Cement and the Shareholder's Loan prior to the completion of the Reorganisation
"HK$"	Hong Kong dollars, the lawful currency for the time being of Hong Kong
"RMB"	Reminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States
"%"	per cent

If there is any inconsistency between the Chinese name of the entities mentioned in this circular and their English translation, the Chinese version shall prevail.

For the purpose of this circular, unless otherwise indicated, conversion of United States dollars to Hong Kong dollars and Renminbi into Hong Kong dollars are based on the approximate exchange rates of US$ 1.00 to HK$ 7.759 and RMB 1.04 to HK$ 1.00 respectively. This exchange rates are for the purpose of illustration only and not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

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)

Executive Directors:
Wang Chien Kuo, Robert *(Chairman)*
Lan Jen Kuei, Konrad *(Vice Chairman)*
Chang Kang Lung, Jason *(Managing Director)*
Wang Li Shin, Elizabeth

Non-executive Directors:
Chang Yung Ping, Johnny
Chang An Ping, Nelson

Independent non-executive Directors:
Davin A. Mackenzie
Zhuge Pei Zhi
Wu Chun Ming

Registered office:
P.O. Box 309GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

Place of business in China:
4100 Longwu Road
Shanghai, the PRC

Place of business in Hong Kong
Room 1907
9 Queen's Road Central
Central
Hong Kong

10 October 2006

To the Shareholders

Dear Sir or Madam,

**PROPOSED MAJOR AND CONNECTED TRANSACTION
RELATING TO
ACQUISITION OF CEMENT BUSINESS IN THE PRC
AND
PROPOSED RENEWAL OF EXISTING CAPS
IN RESPECT OF
CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

On 18 September 2006, the Board announced that on 12 September 2006, certain agreements were entered into with relevant parties in connection with a proposed major and connected transaction relating to acquisition of cement business in the PRC and proposed renewal of existing caps in respect of Continuing Connected Transactions.

* *for identification purpose only*

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to consider the terms of the Transactions and advise the Independent Shareholders as to whether the terms of the Transactions are agreed on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

Access Capital has been appointed as an independent financial adviser to advise the Independent Board Committee who in turn will advise the Independent Shareholders as to whether the terms of the Transactions are agreed on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

The purpose of this circular is to provide you with further details of the Transactions and to seek the Independent Shareholders' approval at the EGM, a notice of which is set out in the circular.

PROPOSED MAJOR AND CONNECTED TRANSACTION

Background

Reference is made to the Prospectus.

On 26 November 2003, the Company entered into an option agreement with CHC and CHPL pursuant to which an option was granted to the Company by CHPL to purchase all of CHPL's interest in Yonica (Singapore) (which in turn holds a 80% equity interest in Union Cement) at a fair market value negotiated on arm's length basis between CHPL and the Company with reference to an independent valuation of Yonica (Singapore) by an independent firm of certified public accountants in Taiwan jointly appointed by CHPL and the Company whose valuation shall have reference to the most recent audited consolidated financial results of Yonica (Singapore) available at the time of the exercise of the Option. The exercise period for the Option is a period of 24 months commencing when Union Cement has reached a production capacity of clinker which equals or exceeds 30% of the aggregate production capacity of clinker of the Group (the "Pre-requisite"). Such Pre-requisite was met on 14 September 2005.

On 31 August 2006, Yonica (Singapore), a wholly owned subsidiary of CHPL, entered into agreements with Yonica (BVI), another wholly owned subsidiary of CHPL, involving the transfer of Yonica (Singapore)'s 80% equity interest in Union Cement and the assignment of Shareholder's Loan to Yonica (BVI) pursuant to the Reorganisation. Upon completion of the Reorganisation, Yonica (BVI) will be interested in the 80% equity interest in Union Cement and the Shareholder's Loan.

The Acquisition Agreement dated 12 September 2006

Parties

The Vendor:	CHPL
The Purchaser:	The Company

Assets to be acquired

The Sale Shares, representing the entire issued share capital of Yonica (BVI).

Consideration and mode of settlement

The consideration payable to the Vendor by the Company for the Sale Shares is approximately US$ 43 million (approximately HK$ 333.64 million), which will be satisfied as to approximately US$ 32.27 million (approximately HK$ 250.38 million) by the issue of 263,496,000 Consideration Shares, credited as fully paid, to the Vendor or its nominee at the Issue Price and the Balance Consideration payable in cash at Completion from the Company's financial resources by way of Funding Alternative. The allotment and issue of 263,496,000 Consideration Shares will not result in a change of control of the Company.

The Consideration Shares represent:

(i) approximately 23.06% of the issued share capital of the Company as at the date of the Acquisition Agreement; and

(ii) approximately 18.74% of the enlarged issued share capital of the Company after the issue and allotment of the Consideration Shares upon Completion but without taking into consideration of any new Shares which may be allotted pursuant to the Funding Alternative.

The consideration for the Acquisition has been determined after arm's length negotiations between the Company and the Vendor with reference to a preliminary business valuation of Union Cement as at 30 June 2006 prepared by an independent firm of certified public accountants in Taiwan and the Shareholder's Loan. Such reference to an independent business valuation was contemplated in the option agreement dated 26 November 2003 entered into between the Company, CHC and the Vendor. Details of the option were set out in the sub paragraph headed "Union Cement" in the section headed "Particular of the Group" of the Prospectus. A final Business Valuation of Yonica (BVI) Group as at 30 June 2006 prepared by Vigers Appraisal & Consulting Limited, an independent and recognised professional business valuer, whose Business Valuation report is set out in Appendix IV to this circular. The consideration for the Sale Shares (including the right to the Shareholder's Loan) represents a discount of approximately 21.82% of the Business Valuation as at 30 June 2006.

Funding of the Balance Consideration

The Balance Consideration will be funded by the Company through Funding Alternative. However, the timing and terms and/or conditions of such Funding Alternative have yet to be decided by the Company.

The Company will make an announcement as soon as the Funding Alternative is determined. In any event, the Funding Alternative would be completed on or before the Long-Stop Date facilitating the completion of the Acquisition.

Changes in shareholding structure

The shareholding structure of the Company before and after the issue of Consideration Shares and the settlement of Balance Consideration through Funding Alternative is set out below:

Shareholders	**As at the Latest Practicable Date**		**After the issue of Consideration Shares but before the settlement of Balance Consideration through Funding Alternative**		**After the issue of Consideration Shares and the settlement of Balance Consideration through Funding Alternative**	
	Number of Shares ('000)	*%*	*Number of Shares ('000)*	*%*	*Number of Shares ('000)*	*%*
CHPL and its associates	822,478	71.96	1,085,974	77.21	1,085,974	72.68
Directors	22,738	1.99	22,738	1.62	22,738	1.52
Independent investors	—	—	—	—	87,880 *(note)*	5.88
Public Shareholders	297,684	26.05	297,684	21.17	297,684	19.92
	1,142,900	100.00	1,406,396	100.00	1,494,276	100.00

Note: the number of new Shares to be issued through Funding Alternative to independent investors is for illustrative purpose only. The number of new Shares to be issued and the funding method is yet to be determined as at the date of this circular.

As the Consideration Shares will not be issued to the Vendor and/or its nominees before the settlement of Balance Consideration to be raised through Funding Alternative, the Company will be able to meet the minimum public float requirement under Rule 8.08 of the Listing Rules.

The Stock Exchange has stated that if, upon Completion, less than 25% of the Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares, or (ii) there are insufficient Shares in public hands to maintain an orderly market, then it may consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained. Shareholders are advised to exercise caution in dealings with the Shares.

Issue Price

The Issue Price of HK$ 0.95 per Share represents:

(i) a discount of approximately 7.77% to the closing price of the Shares of HK$ 1.03 per Share on the Last Trading Day;

(ii) a discount of approximately 5.00% to the closing price of the Shares of HK$ 1.00 per Share on the Latest Practicable Date;

(iii) a discount of approximately 5.94% to the average closing price of approximately HK$ 1.01 per Share for the last five consecutive trading days prior to the publication of Announcement;

(iv) a discount of approximately 5.94% to the average closing price of approximately HK$ 1.01 per Share for the last five consecutive trading days up to and including the Latest Practicable Date;

(v) a discount of approximately 32.14% to the unaudited consolidated net asset value of approximately US$ 0.18 (approximately HK$ 1.4) per Share as of 30 June 2006 as set out in the interim report of the Company dated 23 August 2006; and

(vi) a discount of approximately 29.63% to the unaudited pro forma consolidated net asset value of approximately US$ 0.174 (approximately HK$ 1.350) per Share as of 30 June 2006 as set out in Appendix III in this circular.

For illustrative purposes, the market value of the Consideration Shares represents approximately HK$ 263.50 million based on HK$ 1.00 per Share, being the closing price of the Shares on the Latest Practicable Date.

Special Mandate to issue Consideration Shares

The Consideration Shares will be issued under the Special Mandate to be sought from the Independent Shareholders at the EGM.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Conditions

Completion of the Acquisition Agreement is subject to the fulfillment of the following conditions:

(i) the approval by the Independent Shareholders in the EGM by way of a poll of (a) the transactions contemplated under the Acquisition Agreement; and (b) the allotment and issue of the Consideration Shares under the Special Mandate;

(ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares;

(iii) the Company being satisfied with the results of the due diligence review on the business, operations, affairs and assets of Yonica (BVI) and Union Cement;

(iv) the completion to the satisfaction of the Company of the Reorganisation;

(v) the completion of the Funding Alternative by the Company;

(vi) the receipt by the Company of a PRC legal opinion in form and substance reasonably satisfactory to the Company on the establishment and existence of Union Cement and the completion of the Reorganisation; and

(vii) the obtaining of the consents and approvals from government or regulatory authorities or third parties which are necessary in connection with the execution and performance of the Acquisition Agreement and any transactions contemplated in the Acquisition Agreement.

In relation to condition (vi), the Company will review the opinion given and establish that Union Cement has been duly established and in existence under PRC law and that the Reorganisation is completed and conducted in compliance with the law, rules and regulations of the PRC.

In relation to condition (vii), the relevant PRC regulatory authorities include mainly (a) Ministry of Commerce of the PRC (中國商務部) for approval; (b) Zhenjiang Administration for Industry and Commerce, Jiangsu Province (江蘇省鎮江工商行政管理局) for registration; and (c) the State Administration of Foreign Exchange, Zhenjiang Central Branch (國家外匯管理局鎮江市中心支局) for registration. The Company shall have the right to waive conditions (iii) and (vi) above. If any of the conditions to Completion has not been fulfilled or waived, as the case may be, by the Long-Stop Date, the Acquisition Agreement will terminate and cease to be of any effect except for antecedent breaches. The Company has no present intention to waive any of the conditions aforesaid. Save for condition (iii) above, none of the other conditions of the Acquisition Agreement have been satisfied as at the Latest Practicable Date.

Completion

Completion will take place on the 30th business day after all the conditions have been fulfilled or waived, as the case may be, or such other date to be jointly determined by the Company and the Vendor.

Information of the Group

The Group is principally engaged in the production and sales of cement and other cement products under the brand name of 嘉新 (Chia Hsin).

Information of Yonica (BVI) Group

Yonica (BVI) is a company incorporated in the British Virgin Islands on 6 July 2006 as an investment holding company. It has no business operation other than its holding of a 80% interest in Union Cement and Shareholder's Loan upon completion of the Reorganisation.

Union Cement is principally engaged in the production and sales of cement and clinker. Products sold are under the trademark "寶船" (Bao Chuan). Union Cement is a company incorporated in the PRC on 20 November 1996 with a registered capital of US$ 58 million (approximately HK$ 450.02 million) and paid up capital of approximately US$ 43.7 million (approximately HK$ 339.07 million). The remaining 20% interest in Union Cement is held by 鎮江船山石灰石礦有限公司 (Zhenjiang Chuanshan Limestone Mine Company), an independent third party and not a connected person of the Company as defined under the Listing Rules.

The historical financial information set out below and the audited financial statements of Yonica (BVI) Group as set out in Appendix II to this circular are presented in accordance with International Financial Reporting Standards and the disclosure requirements of the Listing Rules. However, Shareholders should note that the consideration payable for the Acquisition was based on, amongst other things, the Directors' assessment of the future business potential of Yonica(BVI) Group, and had not taken into account the historical performance of Yonica (BVI) Group.

Management discussion and analysis of results of Yonica (BVI) Group

Set out below is a summary of the key financial data of Yonica (BVI) Group for the years/periods indicated, which are extracted from the accountants' report of Yonica (BVI) Group contained in Appendix II to this circular:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*	*US$'000* *(unaudited)*	*US$'000*
Revenue	7,890	12,751	33,365	14,949	22,582
Cost of sales	(7,134)	(12,114)	(33,165)	(15,726)	(18,927)
Gross profit / (loss)	756	637	200	(777)	3,655
Interest income	78	153	56	17	52
Other income	403	285	359	165	113
Distribution costs	(373)	(445)	(749)	(368)	(456)
Administrative expenses	(440)	(1,029)	(1,435)	(899)	(1,024)
Other operating expenses	(341)	(2,894)	—	—	—
Finance costs	(8)	—	(1,262)	(582)	(703)
Profit (loss) before tax	75	(3,293)	(2,831)	(2,444)	1,637
Income tax expense	—	—	—	—	—
Profit (loss) for the year/ period	75	(3,293)	(2,831)	(2,444)	1,637

		As at 31 December		As at 30 June
	2003	2004	2005	2006
	US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current assets	20,686	59,232	57,924	55,627
Current assets	23,716	12,119	14,866	15,859
Total assets	44,402	71,351	72,790	71,486
Current liabilities	2,628	18,619	32,989	29,506
Non-current liabilities	—	13,858	2,478	2,502
Total liabilities	2,628	32,477	35,467	32,008
Total shareholders' equity	41,774	38,874	37,323	39,478
Total equity and liabilities	44,402	71,351	72,790	71,486

Results of operations

Six months ended 30 June 2006 compared to the same period in 2005

Revenue for the six months ended 30 June 2006 amounted to approximately US$ 22.58 million, representing an increase of approximately 51.04% from approximately US$ 14.95 million for the same period in 2005. Profit for the six months ended 30 June 2006 amounted to approximately US$ 1.64 million, representing a significant improvement from the loss of approximately US$ 2.44 million for the same period in 2005. The improvement in results of operations was primarily attributable to the rise in average selling prices of cement and clinker products in the PRC market and economies of scale.

2005 compared to 2004

Revenue for 2005 amounted to approximately US$ 33.37 million, representing an increase of approximately 161.73% from approximately US$ 12.75 million for 2004. Loss for 2005 amounted to approximately US$ 2.83 million, representing an improvement from the loss of approximately US$ 3.29 million for 2004. Loss decreased as the significant loss on disposal of property, plant and equipment incurred in 2004, amounted to approximately US$ 1.64 million and US$ 1.24 million for expense incurred for expansion of production line were one-off in nature and did not appear in 2005.

Despite the one-off expenses in 2004, the performance in 2005 was affected by the austerity control measures imposed by the PRC government. As cement sector was one of the targeted industries for reform, such austerity control measures resulted in the decrease in selling price of cement and increase in energy cost such as coal and electricity. As a result, the overall performance in 2005 was poor as compared with 2004.

2004 compared to 2003

Revenue for 2004 amounted to approximately US$ 12.75 million, representing an increase of approximately 61.60% from approximately US$ 7.89 million for 2003. Yonica (BVI) Group recorded loss of approximately US$ 3.29 million in 2004 while recorded profit of approximately US$ 75,000 in 2003. The loss in 2004 was primarily resulted from the significant loss on disposal of property, plant of approximately US$ 1.64 million which was incurred in the demolition of two old cement kilns and approximately US$ 1.24 million write off for expense incurred for expansion of production line.

Liquidity and financial resources

In 2003, Union Cement is primarily financed by capital of approximately US$ 29.56 million injected Yonica (Singapore) and Jiangsu Chuanshan Group Co., Ltd, then shareholders of Union Cement. In 2004, Yonica (BVI) Group is primarily financed by new borrowings of approximately US$ 13.29 million and advance from holding company of approximately US$ 11.44 million. In 2005 and the six months ended 30 June 2006, Yonica (BVI) Group is primarily financed by cash flows generated from its operating activities due to consistent improvement in its result of operations.

Set out below is a summary of the cash flows of Yonica (BVI) Group for the years/ periods indicated:

	Year ended 31 December			**Six months ended 30 June**	
	2003	**2004**	**2005**	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*	*US$'000* *(unaudited)*	*US$'000*
Net cash from/(used in)					
Operating activities	110	2,377	3,658	(90)	3,961
Investing activities	(13,427)	(38,567)	(328)	179	(819)
Financing activities					
- New bank loans raised	—	13,294	8,674	—	2,502
- Repayment of bank loans	(243)	—	(8,459)	—	(2,478)
- Advance from immediate holding company	—	11,440	—	—	—
- Interest paid	(8)	(366)	(1,214)	(590)	(706)
- Capital injection from shareholders	29,560	—	—	—	—
- Advance from (repayment to) fellow subsidiaries	—	518	(518)	(886)	—
- Advance from (repayment to) a minority shareholder of a subsidiary	119	(118)	(1)	—	2

Set out below is a summary of the key balance sheet information of Yonica (BVI) Group for the dates indicated:

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Bank balances and cash	17,499	6,080	7,494	9,864
Loan from immediate holding company				
- Current	—	—	11,440	11,440
- Non-current	—	11,440	—	—
Borrowings				
- Current	—	10,876	11,152	11,259
- Non-current	—	2,418	2,478	2,502
Gearing ratio *(note)*	N/A	34.67%	34.44%	35.25%

Note: Gearing ratio is computed as total interest-bearing borrowings divided by total assets at the end of year or period.

Foreign currency exposure

The assets and liabilities of Yonica (BVI) Group are mainly denominated in Renminbi. The impact of fluctuations in foreign exchange rates is insignificant to Yonica (BVI) Group.

Employees and remuneration policies

As at 30 June 2006, Yonica (BVI) Group hired 505 employees. For the three years ended 31 December 2005 and the six months ended 30 June 2006, total staff costs amounted to approximately US$ 1.04 million, US$ 1.43 million, US$ 2.46 million and US$ 1.30 million, respectively. Remuneration policies of Yonica (BVI) Group are in line with those of the Group which is based on related labour laws of the country of operation.

Possible financial effects of the Acquisition

The unaudited pro forma consolidated balance sheet of the Enlarged Group following the completion of the Acquisition set out in Appendix III to this circular are prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of providing Shareholders and investors information on the effect of the Acquisition. The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared for illustrative purpose only, on the assumption that the Acquisition had taken place on 30 June 2006 and because of its nature, it may not give a true picture of the actual balance sheet of the Enlarged Group had the Acquisition actually been completed as at the relevant dates as set out on the basis stated.

Total asset

The unaudited total asset of the Group as at 30 June 2006 as extracted from the latest published interim report of the Group for the six months ended 30 June 2006 was approximately US$ 324.85 million (approximately HK$ 2,520.51 million). Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group (as set out in Appendix III to this circular), the unaudited pro forma total assets of the Enlarged Group would be approximately US$ 395.28 million (approximately HK$ 3,066.98 million). The increase in total assets is mainly attributable to the Acquisition.

Total liabilities

The unaudited total liabilities of the Group as at 30 June 2006 as extracted from the latest published interim report of the Group for the six months ended 30 June 2006 was approximately US$ 115.86 million (approximately HK$ 898.96 million). Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group (as set out in Appendix III to this circular), assuming the completion of the Acquisition with the consideration of the Acquisition being satisfied by (i) allotment and issue of 263,496,000 Consideration Shares; and (ii) the Group's financial resources amounting to approximately US$ 10,755,000, which will be raised by way of the issue of 87,880,000 shares to independent investors, the unaudited pro forma total liabilities of the Enlarged Group would be approximately US$ 135.38 million (approximately HK$ 1,050.41 million), representing an increase of approximately 16.85% following completion of the Acquisition.

Net assets

The unaudited consolidated net assets as at 30 June 2006 as extracted from the latest published interim report of the Group for the six months ended 30 June 2006 was approximately US$ 208.99 million (approximately HK$ 1,621.55 million), representing approximately US$ 0.183 (approximately HK$ 1.420) per Share on the basis of 1,142,900,000 Shares in issue as at 30 June 2006. Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group (as set out in Appendix III to this circular), assuming completion of the Acquisition with the consideration of the Acquisition being satisfied by (i) allotment and issue of 263,496,000 Consideration Shares; and (ii) the Group's financial resources amounting to approximately US$ 10,755,000, which will be raised by way of the issue of 87,880,000 shares to independent investors, the unaudited pro forma net assets would be approximately US$ 259.91 million (approximately HK$ 2,016.64 million), representing approximately US$ 0.174 (approximately HK$ 1.350) per Share, on the basis of 1,494,276,000 Shares in issue at completion of Acquisition. The aforesaid unaudited pro forma net assets value per Share of US$ 0.174 (approximately HK$ 1.350) is 4.9% lower than the unaudited net asset value per Share as at 30 June 2006.

Earnings

Since the potential of Yonica (BVI) Group has yet to be revealed and materialised, the actual earnings in monetary value term is uncertain. Therefore, the Company is not in a position to quantify the effects of the Acquisition on earnings of the Group.

Gearing

The gearing ratio (i.e. total interest-bearing borrowings/total assets) as at 30 June 2006 as extracted from the latest published interim report of the Group for the six months ended 30 June 2006 was approximately 32.3%. Based on the unaudited pro forma consolidated balance sheet of the 30 June 2006 (as set out in Appendix III to this circular), assuming completion of the Acquisition with the consideration of Acquisition being satisfied by allotment and issue of 263,496,000 Consideration Shares; and (ii) settlement of the Balance Consideration by the Group's financial resources amounting to approximately US$10,755,000, which will be raised by way of the issue of 87,880,000 Shares to independent investors, the gearing ratio of the Enlarged Group (i.e. total interest-bearing borrowings/total assets) would be approximately 30.0%.

Reasons for and benefits of the Acquisition

As stated in the interim report of the Company dated 23 August 2006, the sales volume of cement and clinker of the Group for the first half of year 2006 amounted to 1,926,000 tonnes, representing an increase of 21.99% over the same period of last year. Although the situation of supply exceeding demand still remained, the overall cement 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. During the first half of year 2006, a total of 1,266,000 tonnes of cement and clinker were exported, accounting for 65.8% of the total sales volume. In view of the above, the Directors anticipate that the demand of cement products of the Group will remain strong in the foreseeable future.

For the first half of year 2006, the Group produced a total of 1,600,000 tonnes of cement and 1,030,000 tonnes of clinker. The Group has annual cement and clinker production capacity of 3,500,000 tonnes and 2,200,000 tonnes respectively. On an annualized basis, the utilization rates of cement and clinker production capacity of the Group have reached 91.4% and 93.6% respectively. As such, the Acquisition is a step for the Group to increase its production capacity for expansion into the cement business in the PRC in the future and to achieve economies of scale.

Union Cement has an annual cement and clinker production capacity of 600,000 tonnes and 1,000,000 tonnes respectively. Upon completion of the Acquisition, the annual cement production capacity and clinker production capacity of the Group will increase by 17.1% and 45.5% respectively.

In addition, Union Cement is located near the Yangtze River. The Yangtze River has enabled Union Cement to use river transportation to distribute its products. This has also enabled Union Cement to enjoy significant cost savings in transportation.

The Directors believe that the Acquisition will enhance the asset base of the Group and position the Group to capture the growth of the cement market share in the PRC.

Listing Rules requirements

Since the percentage ratios under Chapter 14 of the Listing Rules for the Acquisition are 25% or more but less than 100%, the Acquisition constitutes a major transaction for the Company under the

Listing Rules. As the Vendor is the controlling shareholder of the Company, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules. Accordingly, the Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements, by way of poll at the EGM, as set out in the relevant provisions of Chapters 14 and 14A of the Listing Rules and the Vendor and its associates will abstain from voting at the EGM. As each of Mr. Chang Kang Lung, Jason, an executive Director, and Mr. Chang Yung Ping, Johnny, non-executive Director, is interested in the shares of the Company and CHC or CHPL, as the case may be, they will also abstain from voting at the EGM.

PROPOSED RENEWAL OF EXISTING CAPS IN RESPECT OF THE CONTINUING CONNECTED TRANSACTIONS

Reference is made to the 2005 Circular in relation to the Continuing Connected Transactions. The existing caps in respect of the Continuing Connected Transactions will expire on 31 December 2006.

Renewal of Ganghui Sales Agreement

Background

At the extraordinary general meeting of the Company convened on 10 November 2005, the independent shareholders of the Company approved the Ganghui Sales Agreement entered into between Jingyang Cement and Ganghui dated 15 September 2005. Details of which were set out in the 2005 Circular in relation to the sales of certain cement products by Jingyang Cement to Ganghui with the proposed sales cap of RMB 50 million (approximately HK$ 48.08 million) for the year ending 31 December 2006. As the term of the Ganghui Sales Agreement will end on 31 December 2006 and Jingyang Cement intends to continue to sell certain cement products to Ganghui which are in its ordinary and usual course of business beyond 31 December 2006. In this regard, Jingyang Cement, being an indirectly wholly owned subsidiary of the Company engaging in production and sale of cement in the PRC, has entered into a renewal agreement with Ganghui on 12 September 2006 to extend the term of the Ganghui Sales Agreement.

To enable the relevant parties to enjoy better flexibility to negotiate commercial terms, parties to the agreement consider the renewal term of one year is more appropriate and prudent.

Historical sales of certain cement products to Ganghui

The table below sets out historical sale of certain cement products by Jingyang Cement to Ganghui for each of the three years ended 31 December 2005 and the six months ended 30 June 2006:

	Year ended 31 December						Six months ended 30 June	
	2003		**2004**		**2005**		**2006**	
	US$ '000	*HK$ '000*	*US$ '000*	*HK$ '000*	*US$ '000*	*HK$ '000*	*US$ '000*	*HK$ '000*
	Audited		*Audited*		*Audited*		*Unaudited*	
Sales	11,302	87,692	8,897	69,032	6,253	48,517	1,166	9,047

Historical approved sales caps by Jingyang Cement to Ganghui

The table below sets out (i) the relevant cap amounts in respect of sale of certain cement products by Jingyang Cement to Ganghui for each of the three years ended 31 December 2005 under the Waiver obtained from the Stock Exchange and (ii) the annual cap amount in respect of sale of certain cement products by Jingyang Cement to Ganghui for the year ending 31 December 2006 approved by the independent shareholders of the Company on 10 November 2005:

	Year ended 31 December						**Year ending 31 December**	
	2003		**2004**		**2005**		**2006**	
	US$ '000	*HK$ '000*	*US$ '000*	*HK$ '000*	*US$ '000*	*HK$ '000*	*RMB '000*	*HK$ '000*
Relevant sales cap	15,602	121,059	16,389	127,161	18,297	141,966	50,000	48,077

Proposed Sales Cap of the transaction

The proposed maximum annual value of sales of certain cement products to Ganghui by Jingyang Cement for the year ending 31 December 2007 will be RMB 50 million (approximately HK$ 48.08 million) (the "Sales Cap"). This Sales Cap is identical to the sales cap to Ganghui for the financial year ending 31 December 2006 which was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company convened on 10 November 2005.

The Directors determine the proposed Sales Cap by taking reference to:

(i) In terms of sales of cement in tonnes, the average of:

 (a) the historical annual sale of cement by Jingyang Cement to Ganghui for the two years ended 31 December 2005 and seven months ended 31 July 2006; and

 (b) the estimated amount of sales of cement by Jingyang Cement to Ganghui for the five months ending 31 December 2006.

(ii) In terms of selling price of cement, the average of

 (a) the historical average selling price of various types of cement products for the two years ended 31 December 2005 and seven months ended 31 July 2006; and

 (b) the projected average selling price of various types of cement products for the five months ending 31 December 2006.

(iii) The prevailing market prices of the cement products; and

(iv) The annual cap of RMB 50 million (approximately HK$ 48.08 million) in respect of the sales by Jingyang Cement to Ganghui for the year ending 31 December 2006 which had been approved by the independent shareholders of the Company on 10 November 2005.

Given that the Ganghui Sales Agreement entered into between Ganghui and Jingyang Cement will lapse on 31 December 2006, the Company proposes to renew the term of the Ganghui Sales Agreement for a term of one financial year ending 31 December 2007.

Reasons for and benefits of the renewal of the Ganghui Sales Agreement

Ganghui is principally engaged in the trading of cement and the production of blended cement according to customer specifications. The Group intends to continue to sell its cement products to Ganghui as Ganghui has been the Group's customer for over seven years with good financial standing.

The business relationship between Jingyang Cement and Ganghui has established before the listing of the Shares of the Company on the Main Board of the Stock Exchange on 12 December 2003. Details of which were set out in the Prospectus. The supply of cement products to Ganghui by Jingyang Cement has been and will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and negotiate on an arm's length basis. The Directors are of the view that the transaction contemplated under the renewed Ganghui Sales Agreement is on normal commercial terms and such terms are fair and reasonable and in the interests of the Shareholders as a whole.

Listing Rules requirements

As Ganghui is an indirectly wholly owned subsidiary of CHPL, a controlling shareholder of the Company, the renewal of the term for sale of cement by Jingyang Cement to Ganghui for another financial year ending 31 December 2007 constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements.

The Company will seek the approval of the Independent Shareholders of the renewal of the Ganghui Sales Agreement on the following conditions:

(i) The proposed Sales Cap under the Ganghui Sales Agreement for the financial year ending 31 December 2007 will not exceed RMB 50 million (approximately HK$ 48.08 million); and

(ii) The Company will comply with the relevant requirements under the Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules governing the continuing connected transaction.

Renewal of Union Cement Purchase Agreement

Background

At the extraordinary general meeting of the Company convened on 10 November 2005, the independent shareholders of the Company also approved the Union Cement Purchase Agreement entered into between Jingyang Cement and Union Cement dated 15 September 2005. Details of which were set out in the 2005 Circular in relation to the purchase of clinker from Union Cement by Jingyang Cement with the proposed cap of RMB 396 million (approximately HK$ 381 million) for the year ending 31 December 2006. As the term of the Union Cement Purchase Agreement will expire on 31 December 2006 and Jingyang Cement intends to continue to purchase clinker from Union Cement which is in its ordinary and usual course of business beyond 31 December 2006, Jingyang Cement, an indirectly wholly owned subsidiary of the Company, has entered into a renewal agreement with Union Cement on 12 September 2006 to extend the term of the Union Cement Purchase Agreement for one additional financial year ending 31 December 2007.

To enable the relevant parties to enjoy better flexibility to negotiate commercial terms, parties to the agreement consider the renewal term of one year is more appropriate and prudent.

Historical purchase of clinker from Union Cement

The table below sets out the historical purchase of clinker from Union Cement by Jingyang for each of the three years ended 31 December 2005 and the six months ended 30 June 2006:

	Year ended 31 December						**Six months ended 30 June**	
	2003		**2004**		**2005**		**2006**	
	US$ '000	*HK$ '000*	*US$ '000*	*HK$ '000*	*US$ '000*	*HK$ '000*	*US$ '000*	*HK$ '000*
	Audited		*Audited*		*Audited*		*Unaudited*	
Purchase of clinker	Nil	Nil	Nil	Nil	12,225	94,854	11,282	87,537

Historical approved purchase cap by Jingyang Cement from Union Cement

The table below sets out (i) the relevant cap amounts in respect of the purchase of clinker from Union Cement by Jingyang Cement for each of the three years ended 31 December 2005 under the Waiver obtained from the Stock Exchange and (ii) the annual cap amount in respect of the purchase of clinker from Union Cement by Jingyang Cement for the year ending 31 December 2006 approved by the independent shareholders of the Company on 10 November 2005:

	Year ended 31 December						**Year ending 31 December**	
	2003		**2004**		**2005**		**2006**	
	US$ '000	*HK$ '000*	*US$ '000*	*HK$ '000*	*US$ '000*	*HK$ '000*	*RMB '000*	*HK$ '000*
Relevant purchase cap	Nil	Nil	3,624	28,119	19,324	149,935	396,000	380,769

Proposed Purchase Cap of the transaction

The proposed maximum annual value of purchase of clinker by Jingyang Cement from Union Cement for the year ending 31 December 2007 will be RMB 396 million (approximately HK$ 381 million) (the " Purchase Cap"). This Purchase Cap is identical to the purchase cap from Union Cement for the financial year ending 31 December 2006 which was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company convened on 10 November 2005.

The Directors determine the proposed Purchase Cap by taking reference to:

(i) In terms of purchase of clinker in tonnes:

   (a) the historical quantity of clinker required by Jingyang Cement for the six months ended 30 June 2006; and

   (b) the estimated quantity of clinker to be required by Jingyang Cement for the six months ending 31 December 2006 and the year ending 31 December 2007.

(ii) In terms of purchase price of clinker:

   (a) the historical average purchase price of clinker products for the six months ended 30 June 2006; and

   (b) the projected average purchase price of various types of clinker for the six months ending 31 December 2006 and the year ending 31 December 2007.

(iii) The existing production capacity of clinker of Jingyang Cement; and

(iv) The annual cap of RMB 396 million (approximately HK$ 381 million) in respect of the purchase by Jingyang Cement from Union Cement for the year ending 31 December 2006 which had been approved by the independent shareholders of the Company on 10 November 2005.

Given that the Union Cement Purchase Agreement entered into between Union Cement and Jingyang Cement will lapse on 31 December 2006, the Company proposes to renew the term of the Union Cement Purchase Agreement for a term of one financial year ending 31 December 2007.

Reasons for and benefits of the renewal of the Union Cement Purchase Agreement

Union Cement is principally engaged in the production and sale of cement and clinker. As referred to in the paragraph headed "Reasons for and benefits of the Acquisition" above, the Groups' utilisation rate in respect of clinker production has reached 93.6%. In anticipation to meet the growing demand of cement products in the PRC, the Directors consider that there is a need to seek other alternative source of clinker for the expansion of the business of the Group before completion of the Acquisition.

The Group commenced purchase of clinker from Union Cement in 2005 and the Group intends to continue to source from Union Cement as Union Cement is able to provide reliable delivery of clinker with quality that meets with the Group's stringent requirements. Moreover, Union Cement is in close proximity to Jingyang Cement thereby reducing the related transportation costs and achieving time efficiency.

The Directors consider that the renewal of the Union Cement Purchase Agreement is a temporary measure as the Group has entered into Acquisition Agreement with CHPL to acquire Yonica (BVI), subject to certain conditions as mentioned above. Upon completion of the Acquisition Agreement, Union Cement, which will be owned as to 80% by Yonica (BVI), will become a 80% owned subsidiary of the Company. Hence, the transactions contemplated under the Union Cement Purchase Agreement will no longer constitute continuing connected transactions under the Listing Rules upon completion of the Acquisition.

The supply of clinker products from Union Cement to Jingyang Cement has been and will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and negotiate on an arm's length basis. The Directors are of the view that the transactions contemplated under the renewed Union Cement Purchase Agreement are on normal commercial terms and such terms are fair and reasonable and in the interests of the Shareholders as a whole.

Listing Rules requirements

As Union Cement is a subsidiary of CHPL, which is a controlling shareholder of the Company, prior to the completion of the Acquisition, the renewal of the term for purchase of clinker by Jingyang Cement from Union Cement for another financial year ending 31 December 2007 constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements.

The Company will seek the approval of the Independent Shareholders of the renewal of the Union Cement Purchase Agreement on the following conditions:

(i) The proposed Purchase Cap under the Union Cement Purchase Agreement for the financial year ending 31 December 2007 will not exceed RMB 396 million (approximately HK$ 381 million); and

(ii) The Company will comply with the relevant requirements under Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules governing the continuing connected transaction.

EGM

A notice of the EGM to be held at Cliftons, 33rd Floor, 9 Queen's Road Central, Hong Kong on Thursday, 26 October 2006 at 3:30 p.m., for the purpose of considering and, if thought fit, to approve the Transactions are set out on page N-1 to N-3 of this circular.

CHPL and/or its associates, being connected persons of the Company interested in the Transactions, will abstain from voting in respect of the ordinary resolutions for approval of the Transactions. As each of Mr. Chang Kang Lung, Jason, an executive Director, and Mr. Chang Yung Ping, Johnny, a non-executive Director, is interested in the shares of the Company and CHC or CHPL, as the case may be, they will also abstain from voting at the EGM. Save and as disclosed herein, no other persons are required to abstain from voting at the EGM.

Whether or not you intend to be present at the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjourned meeting. The completion and return of the form of proxy will not preclude you from attending and voting in person should you so wish.

An announcement will be made by the Company following the conclusion of the EGM to inform you of its results.

POLL PROCEDURES

The following paragraphs set out the procedures by which Shareholders may demand a poll at a general meeting of the Company (including the EGM) pursuant to the current Articles of Association of the Company.

According to article 76 of the current Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided by a show of hands unless (before or on the declaration of the result of show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded:

(i) by the chairman of such meeting; or

(ii) by at least five members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or

(iv) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to attend and vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

In accordance with Rule 13.39(4) of the Listing Rules, the resolutions approving the Transactions shall be decided on a poll.

RECOMMENDATION

Having taken into account (i) the background of and reasons for the Transactions; (ii) the background of Yonica (BVI) Group; (iii) the possible financial effects to the Group as a result of the Transactions as set out above, the Directors consider that the terms of the Acquisition Agreement, the renewal of Ganghui Sales Agreement (together with the Sales Cap) and the renewal of Union Cement Purchase Agreement (together with the Purchase Cap) and the transactions contemplated thereunder to be fair and reasonable so far as the Independent Shareholders are concerned; and that the Acquisition and the Continuing Connected Transactions (together with the relevant Proposed Caps) are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolution(s) which will be proposed at the EGM to approve the Acquisition and the Continuing Connected Transactions (together with the relevant Proposed Caps).

Your attention is drawn to (i) the letter from the Independent Board Committee of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Transactions; and (ii) the letter from Access Capital containing their advice and the principal factors and reasons taken into consideration by them in arriving at their advice regarding the Transactions.

ACTION TO BE TAKEN

A form of proxy for use at the EGM is enclosed. Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon, whether or not they are able to attend and vote at the EGM in person to the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, as soon as practicable but in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof.

Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the meeting should he or she wishes. In that event, his or her form of proxy for the meeting will be deemed to have revoked.

ADDITIONAL INFORMATION

Your attention is drawn to the appendices to this circular.

Shareholders and potential investors should note that the Transactions which are subject to a number of conditions precedent, may or may not be completed. Shareholders and potential investors are reminded to exercise caution when dealings in the Shares.

Yours faithfully
For and on behalf of the Board
CHIA HSIN CEMENT GREATER CHINA HOLDING CORPORATION
WANG Chien Kuo, Robert
Chairman

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)

10 October 2006

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED MAJOR AND CONNECTED TRANSACTION RELATING TO ACQUISITION OF CEMENT BUSINESS IN THE PRC

AND

PROPOSED RENEWAL OF EXISTING CAPS IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 10 October 2006 issued by the Company (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders in connection with the proposed major and connected transaction relating to the acquisition of cement business in the PRC and proposed renewal of existing caps in respect of continuing connected transactions of the Company (the "Transactions"), details of which are set out in the "Letter from the Board" in the Circular.

Access Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders relating to the Transactions. Details of the advice from Access Capital, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 28 to 54 of the Circular.

Having considered, among other matters, the principal factors and reasons considered by, and the advice of, Access Capital so far as the Independent Shareholders are concerned, we consider that the terms of the Acquisition Agreement, the renewal of Ganghui Sales Agreement (together with the Sales Cap) and the renewal of Union Cement Purchase Agreement (together with the Purchase Cap) and the transactions contemplated thereunder to be fair and reasonable so far as the Independent Shareholders are concerned; and that the Acquisition and the Continuing Connected Transactions (together with the relevant Proposed Caps) are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution(s) which will be proposed at the EGM to approve the Acquisition and the Continuing Connected Transactions (together with the relevant Proposed Caps).

Yours faithfully,
For and on behalf of
The Independent Board Committee of
CHIA HSIN CEMENT GREATER CHINA HOLDING CORPORATION
Davin A. MACKENZIE **ZHUGE Pei Zhi** **WU Chun Ming**
Independent non-executive Directors

* *for identification purpose only*

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Access Capital prepared for the purpose of incorporation in this circular.

ACCESS
CAPITAL

Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

10 October 2006

*To: The Independent Board Committee and
the Independent Shareholders of
Chia Hsin Cement Greater China Holding Corporation*

Dear Sirs,

PROPOSED MAJOR AND CONNECTED TRANSACTION RELATING TO ACQUISITION OF CEMENT BUSINESS IN THE PRC AND PROPOSED RENEWAL OF EXISTING CAPS IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regard to (i) the terms of the Acquisition Agreement; and (ii) the terms of the Continuing Connected Transactions (including the annual caps). Details of the Acquisition Agreement, the Continuing Connected Transactions and the transactions contemplated thereunder (the "Transactions") are contained in the "Letter from the Board" of the circular to the Shareholders dated 10 October 2006 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise specifies.

Reference is made to the Prospectus. On 26 November 2003, the Company entered into an option agreement with CHC and CHPL, pursuant to which an option was granted to the Company by CHPL to purchase CHPL's wholly-owned subsidiary, in Yonica (Singapore) (which in turn holds a 80% equity interest in Union Cement), at a fair market value. The consideration for the purchase was negotiated on arm's length basis between CHPL and the Company with reference to an independent valuation of Yonica (Singapore) by an independent firm of certified public accountants in Taiwan jointly appointed by CHPL and the Company. The valuation shall have reference to the most recent audited consolidated financial results of Yonica (Singapore) available at the time of the exercise of the aforesaid option. The exercise period for the aforesaid option is for a period of 24 months commencing from Union Cement has reached a production capacity of clinker which is equal to or exceeds 30% of the aggregate production capacity of clinker of the Group (the "Pre-requisite"). The Pre-requisite was met on 14 September 2005.

On 31 August 2006, Yonica (Singapore), entered into agreements with Yonica (BVI), another wholly-owned subsidiary of CHPL, involving the transfer of Yonica (Singapore)'s 80% equity interest in Union Cement and the assignment of the Shareholder's Loan to Yonica (BVI) pursuant to the Reorganisation. Upon completion of the Reorganisation, Yonica (BVI) will own an 80% equity interest in Union Cement and the Shareholder's Loan.

On 12 September 2006, the Acquisition Agreement was entered into between the Company and CHPL. Since the percentage ratios under Chapter 14 of the Listing Rules for the Acquisition are 25% or more but less than 100%, the Acquisition constitutes a major transaction for the Company under the Listing Rules. As the Vendor is the controlling shareholder of the Company, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules. Accordingly, the Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements by way of poll at the EGM, as set out in the relevant provisions of Chapter 14 and 14A of the Listing Rules. The Vendor and its associates will abstain from voting at the EGM to consider, and if thought fit, to approve the Acquisition. As each of Mr. CHANG Kang Lung, Jason (an executive Director) and Mr. CHANG Yung Ping, Johnny (a non-executive Director) is interested in the shares of the Company and CHC or CHPL, as the case may be, they will also abstain from voting in the EGM.

Reference is also made to the 2005 Circular in relation to the continuing connected transactions as contemplated under the Union Cement Purchase Agreement entered into between Jingyang Cement and Union Cement, and the Ganghui Sales Agreement entered into between Jingyang Cement and Ganghui, respectively, both dated 15 September 2005 (the "Existing Continuing Connected Transactions"). At the extraordinary general meeting of the Company convened on 10 November 2005, the then independent shareholders of the Company approved the Existing Continuing Connected Transactions. In addition to approving the Existing Continuing Connected Transactions, the annual caps of the Existing Continuing Connected Transactions were approved through until 31 December 2006. As each of Union Cement and Ganghui is a subsidiary of CHPL, a controlling shareholder of the Company and given that the terms of the Union Cement Purchase Agreement and the Ganghui Sales Agreement will expire on 31 December 2006, the renewal of the term of the Union Cement Purchase Agreement and the Ganghui Sales Agreement for another financial year ending 31 December 2007 constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements. In these cases, the controlling shareholder of the Company and its associates will abstain from voting at the EGM to consider, and if thought fit, to approve the Continuing Connected Transactions and the related annual caps. As each of Mr. CHANG Kang Lung, Jason (an executive Director) and Mr. CHANG Yung Ping, Johnny (a non-executive Director) is interested in the shares of the Company and CHC or CHPL, as the case may be, they will also abstain from voting in the EGM.

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of four executive Directors, namely Mr. WANG Chien Kuo, Robert, Mr. LAN Jen Kuei, Konrad, Mr. CHANG Kang Lung, Jason and Ms. WANG Li Shin, Elizabeth; two non-executive Directors, namely Mr. CHANG Yung Ping, Johnny and Mr. CHANG An Ping, Nelson and three independent non-executive Directors, namely Mr. Davin A. MACKENZIE, Mr. ZHUGE Pei Zhi and Mr. WU Chun Ming.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisition Agreement and the Continuing Connected Transactions (together with the respective annual caps for the year ending 31 December 2007) and the transactions contemplated therein were agreed on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and to give our opinion in relation to the terms of the Acquisition Agreement, and the terms of the Continuing Connected Transactions (together with the respective annual caps for the year ending 31 December 2007) for their consideration when making their recommendation to the Independent Shareholders.

III. BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Company and/or its senior management staff and/or the Directors. We have assumed that all such statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations for matters relating to the Group made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background to and rationales of the Acquisition

1.1 *Principal business of the Group*

The Group is a principally engaged in the production and sales of cement and other cement products under the brandname of "嘉新" (Chia Hsin).

1.2 *Financial performance of the Group*

As stated in the Group's 2005 annual report, the Group achieved audited consolidated turnover of approximately US$91.5 million (approximately HK$709.9 million) and an audited net profit of approximately US$103,000 (approximately HK$799,177) for the year ended 31 December 2005, as compared to an audited consolidated turnover of approximately US$81.9 million (approximately HK$635.5 million) and an audited net profit of approximately US$14.7 million (approximately HK$114.1 million) for the year ended 31 December 2004. For the year ended 31 December 2005, the gross profit of the Group decreased to approximately US$13.7 million (approximately HK$106.3 million) from approximately US$28.0 million (approximately HK$217.3 million) in 2004.

As explained in the abovementioned annual report, the increase in the Group's audited consolidated turnover was mainly attributable to the improvement in the production volume capacity of the Group. In addition, when the Group obtained the domestic trading right in the PRC, the Group outsourced some cement for direct sales, which in turn, enhanced the Group's sales volume.

The Group's profitability was adversely impacted by the industry's cyclical trough and the situation was further compounded by the negative impact of the austerity control measure in the PRC, resulting in the gross profit of the Group for the financial year 2005 decreasing substantially. Overall, the average sales price of the Group's cement products has decreased by approximately 11.0% as compared to that for the year ended 31 December 2004 and coupled with the increase in the average cost of sales. During the year, the Group continued its efforts to expand into the export market which have a higher profit margin.

Also stated in the Company's 2005 annual report, the cyclical downturn of the cement industry in the PRC has accelerated consolidation in the cement industry in the PRC. This was further demonstrated by the information as stated in 《數字水泥》2006第1, 2期 issue ("Digital Cement" 1st and 2nd combined issue, an industry magazine), in 2005, whereas the percentage output of the top 10 cement groups in the PRC reached 15.25% as compared to 12.45% in 2004. In addition, according to the PRC National Development and Reform Commission ("NDRC"), the cement industry should strive to eliminate the capacity of vertical kilns by 50 million tonnes a year while steadily increasing the dry process cement output.

As stated in the interim report of the Group for the six months ended 30 June 2006, the Group recorded an unaudited consolidated turnover of approximately US$63.2 million (approximately HK$490.4 million) and an unaudited net profit of approximately US$2.8 million (approximately HK$21.7 million) for the six months ended 30 June 2006, as compared to the unaudited consolidated turnover of approximately US$38.2 million (approximately HK$296.4 million), representing an increase of approximately 65.4% and an unaudited net loss of approximately US$1.2 million (approximately HK$9.3 million) for the six months ended 30 June 2005. For the six months ended 30 June 2006, the gross profit of the Group increased to approximately US$11.0 million (approximately HK$85.3 million) from approximately US$6.4 million (approximately HK$49.7 million) for the six months ended 30 June 2005.

As explained in the abovementioned interim report of the Group, the Group's turnaround from a loss-making situation over the same period was mainly attributable to the increase in both sales and the average selling price, the improvement in gross profit margin as well as the appreciation of the RMB. Also mentioned therein, the sales volume of cement and clinker of the Group for the first half of 2006 amounted to 1,926,000 tonnes, representing an increase of 21.9% over the first half of 2005.

Although the situation of industry oversupply still remained in the first half of year 2006, the Directors believe that the overall cement business environment has improved when compared to the financial year ended 31 December 2005 (when the sales volume of cement and clinker of the Group for that particular financial year amounted to 3,494,000 tonnes). In May 2006, the Ministry of Construction, the NDRC, the People's Bank of China and other relevant PRC government authorities jointly issued the "Opinions on Housing Supply Structure and Stabilisation of Property Prices". Such opinions reiterated the existing measures and introduced new measures to curb fast increases in property prices in large cities and to promote healthy development of the PRC property market. Despite the short term negative impact to the PRC property market, the Directors expect that steady development of the PRC property market in the future would in turn ensure a steady demand for cement and clinker (being the semi-finished cement product). In addition, the Group's export business has continued to flourish and during the first half of 2006, a total of 1,266,000 tonnes of cement and clinker were exported, accounting for 65.8% of the Group's sales volume, representing an increase of over 9 times to a total of 124,000 tonnes of cement and clinker exported during the same period in 2005 (which accounted for 7.8% of the Group's sales volume in the first half of 2005). In view of the above, we concur with the Directors' anticipation that demand for cement products of the Group will remain strong in the foreseeable future.

Taking into account that (i) the cement industry in the PRC has gone through a period of cyclical downturn which, in turn, has accelerated the consolidation trend in the cement industry in the PRC, with the elimination of certain smaller manufacturers; (ii) the implementation of certain measures to curb fast increases in property prices in large cities with the view to ensure steady development for the PRC property market, which in turn, generates steady demand for cement and clinker; and (iii) the success of the Group's initiative on export sales enhances the overall sales volume of cement and clinker of the Group, we are of the view that the Acquisition is in line with the Group's corporate strategy to capture a larger share of the anticipated increase in cement demand in the future.

1.3 *Reasons for and benefits of the Acquisition*

The Directors are of the view that the Acquisition is an important step for the Group to increase its production capacity in the cement business in the PRC. For the first half of 2006, the Group produced a total of 1,600,000 tonnes of cement and 1,030,000 tonnes of clinker. The Group currently has an annual cement and clinker production capacity of 3,500,000 tonnes and 2,200,000 tonnes respectively. On an annualised basis, the utilisation rate of cement and clinker production capacity of the Group have now reached 91.4% and 93.6% respectively. The Acquisition is therefore an important milestone for the Group to increase its production capacity. Union Cement has an annual cement and clinker production capacity of 600,000 tonnes and 1,000,000 tonnes respectively. Upon completion of the Acquisition, the annual cement production capacity and clinker production capacity of the Group will increase by 17.1% and 45.5% respectively.

In addition, the Directors have taken into account the following factors:

- Given that Union Cement is engaged in a similar business of the Group in the PRC, the Acquisition is in line with the Group's long term strategy to expand its market coverage and product range and position the Group to capture a share of the growth of the cement market in the PRC.

- By utilising the Group's existing sales network and the additional production capacity of Union Cement, the Acquisition would allow the Group to grow and expand its market share in a competitive business environment.

- With the close proximity of the production plant of Union Cement and one of the Group's operating facilities in Jiangsu Province, there exists considerable room for operational enhancement of the combined operation through merging administration department and lowering purchase cost through bulk purchase of raw materials, thus achieving greater economies of scale.

- Union Cement is located near the Yangtze River. The Yangtze River has enabled Union Cement to use water transportation to distribute its products which is comparatively cheaper than other means of transportation for bulky and heavy goods to reach its customers along the Yangtze River and/or to deliver to various ports for export. This has also enabled Union Cement to enjoy significant cost savings in transportation.

Taking into account (i) the reasons and factors mentioned above; and (ii) the background to, and reasons for, the Acquisition are consistent with the Group's corporate strategy to capture a larger share of the anticipated increase in cement demand in the future, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

2. **The Acquisiton Agreement**

2.1 *The terms of the Acquisition Agreement*

Pursuant to the Acquisition Agreement, CHPL has conditionally agreed to dispose of the Sale Shares, representing the entire issued capital of Yonica (BVI). Yonica (BVI) is a company incorporated in the British Virgin Islands on 6 July 2006 as an investment holding company. It has no business other than its holding of an 80% interest in Union Cement and the Shareholder's Loan upon completion of the Reorganisation. Completion of the Reorganisation is expected to take place on or before the Long Stop Date.

2.2 *Consideration for the Acquisition Agreement and the method of settlement*

The total consideration payable to the Vendor by the Company for the Sale Shares and the assignment of the Shareholder's Loan is approximately US$43 million (approximately HK$333.64 million), which will be satisfied at Completion (i) as to approximately US$32.27 million (approximately HK$250.38 million) by the issue of 263,496,000 Consideration Shares, credited as fully paid, to the Vendor or its nominee at the Issue Price; and (ii) the Balance Consideration payable in cash at Completion from the Company's financial resources by way of Funding Alternative.

The Consideration Shares represent:

(i) approximately 23.06% of the issued share capital of the Company as at the date of the Acquisition Agreement; and

(ii) approximately 18.74% of the enlarged issued share capital of the Company after the issue and allotment of the Consideration Shares upon Completion but without taking into consideration any new Shares which may be allotted pursuant to the Funding Alternative.

The Issue Price of HK$0.95 per Share represents:

(i) a discount of approximately 7.77% to the closing price of the Shares of HK$1.03 per Share on the Last Trading Day;

(ii) a discount of approximately 5.94% to the average closing price of approximately HK$1.01 per Share for the last five (5) consecutive trading days up to and including the Last Trading Day; and

(iii) a discount of approximately 4.04% to the average closing price of approximately HK$0.99 per Share for the last ten (10) consecutive trading days up to and including the Last Trading Day.

The Balance Consideration will be funded by the Company through the Funding Alternative. However, the timing and terms and/or conditions of such Funding Alternative have yet to be decided by the Company. The Company will make an announcement as soon as the Funding Alternative is determined. Shareholders should note that completion of the Funding Alternative is a condition to the completion of the Acquisition; and any delay of the Funding Alternative may delay the completion of the Acquisition.

The consideration for the Acquisition has been determined after arm's length negotiations between the Company and the Vendor by reference to a preliminary business valuation (prepared, in accordance with the option agreement entered into between CHC and CHPL in November 2003, by an independent firm of certified public accountants in Taiwan) and the Shareholder's Loan. In accordance with the disclosure requirements of the Listing Rules, the Company has appointed, Vigers Appraisal & Consulting Limited, an independent valuer, to prepare a final business valuation of Yonica (BVI) as at 30 June 2006. The final business valuation concluded that the estimated valuation of Yonica (BVI) to be approximately US$55 million.

Taking into account (i) the aforesaid basis of the determining consideration for the Acquisition; (ii) the reasons for, and benefits of, the Acquisition and the aforesaid method of settlement, the Directors consider that the terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Although the aforesaid business valuations form a reference point for the Directors when determining the consideration for the Acquisition, it should be noted that the consideration payable of US$43 million represents a discount of approximately 21.8% to the aforesaid business valuation. In addition to the abovementioned business valuations which were commissioned to fulfill the terms of the option agreement and the Listing Rules requirement, we have also taken into account other reasons and factors set out in this letter (including the business outlook of both the Group and Yonica (BVI) and Union Cement, the historical financial performance of Yonica (BVI) (including Union Cement), the performance of the Shares in the stock market in Hong Kong, the performance of the Comparables as defined below and the possible effects on the Group and the Shareholders as a result of the Acquisition) when determining whether the terms of the Acquisition are fair and reasonable.

2.3 *Information on Yonica (BVI)*

As mentioned in paragraph 2.1 above, Yonica (BVI) is a company incorporated in the British Virgin Islands on 6 July 2006 as an investment holding company. It has no business operation other than its holding of an 80% interest in Union Cement and the Shareholder's Loan upon completion of the Reorganisation.

The audited consolidated financial information of Yonica (BVI) has been prepared based on the International Financial Reporting Standards for the three years ended 31 December 2005 and the six months ended 30 June 2006 and is set out in Appendix II to the Circular.

Union Cement is principally engaged in the production and sales of cement and clinker. Products sold are under the trademark "寶船" (Bao Chuan). Union Cement is a company incorporated in the PRC on 20 November 1996 with a registered capital of US$58 million (approximately HK$450.02 million) and paid up capital of approximately US$43.7 million (approximately HK$339.07 million). The remaining 20% interest in Union Cement is held by 鎮江船山石灰石礦有限公司 (Zhenjiang Chuanshan Limestone Mine Company), an independent third party and not a connected person of the Company as defined under the Listing Rules.

As stated in the Prospectus, over the past few years, Union Cement would upgrade its three existing cement grinding mills to grind clinker into cement and the building of a new production plant using dry process rotary short kiln. The three upgrades and the construction of the new production plants have been completed in the end of 2004. We have discussed with the senior management of CHC and noted that the loss incurred by Yonica (BVI) was due to the upgrades and the new production plant still being under trial run during 2005 and not having achieved economies of scale. Subsequently, the financial performance of Yonica (BVI) improved in the first half of 2006 following the commencement of normal production and the production of better quality cement products with higher profit margin. Details of the management discussion and analysis of the results of Yonica (BVI) is set out in the "Letter from the Board" of the Circular. As mentioned in the "Letter from the Board", Shareholders should note that the consideration payable for the Acquisition was by reference to, among other things, the Directors' assessment of the future business potential of Yonica (BVI), and had not taken into account the historical performance of Yonica (BVI).

2.4 *Other factors in considering the consideration for the Acquisition Agreement*

In arriving at the Issue Price per Consideration Share, the Directors have taken into account the market price of the Shares with reference to the recent average closing price per Share as mentioned in paragraph 2.2 above.

2.4.1 Comparison with market prices of the Shares

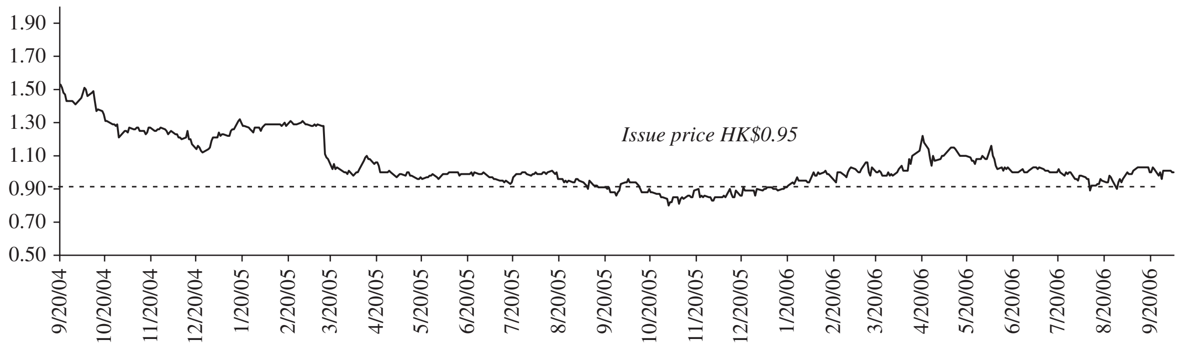
Under the Acquisition Agreement, the Issue Price per Consideration Share of HK$0.95 also represents:

(a) a discount of approximately 5% to the closing price of HK$1.00 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and

(b) a discount of approximately 32.14% to the latest published net asset value of approximately US$0.18 (approximately HK$1.40) per Share as at 30 June 2006 as set out in the interim report of the Company dated 23 August 2006.

We would like to draw Shareholders' attention to the following chart, which sets out the two-year historical closing price performance of the Shares as quoted on the Stock Exchange up to the Latest Practicable Date (the "Review Period"):

Historical daily closing price



Source: Bloomberg

During the period between September 2004 and July 2005, the price of the Shares gradually declined and traded in the range of HK$0.93 and HK$1.53. The price for the Shares dropped below HK$0.95 during the period around the end of August 2005 to the end of January 2006, then resumed to rise gradually since February 2006. From February 2006 to July 2006, the Shares were trading within the range of HK$0.94 to HK$1.22. By mid August 2006, the price of the Shares occasionally dropped below HK$0.95 and traded within the range of HK$0.89 to HK$1.03 up to the Last Trading Day.

Following the announcement of the Acquisition on 18 September 2006, the Shares were trading within the range of HK$0.96 and HK$1.03, but closed at HK$1.00 on the Latest Practicable Date.

2.4.2 Share price performance and trading volume

The table below sets out the highest and the lowest closing prices of the Shares as quoted on the Stock Exchange and the average daily trading volume of the Shares during the Review Period:

Period/month	**Highest closing price**	**Lowest closing price**	**Average daily closing price**	**Average daily trading volume for the period/month**	**Percentage of average daily trading volume to total no. of issued shares**
	HK$	*HK$*	*HK$*	*Shares*	*%*
Pre-announcement					
2004					
September	1.53	1.41	1.46	894,824	0.078
October	1.51	1.21	1.38	1,270,292	0.111
November	1.27	1.23	1.26	945,697	0.083
December	1.25	1.12	1.19	1,007,273	0.088
2005					
January	1.32	1.21	1.26	734,232	0.064
February	1.31	1.25	1.29	594,118	0.052
March	1.31	0.99	1.17	1,205,368	0.105
April	1.10	0.98	1.03	615,500	0.054
May	1.00	0.96	0.98	198,000	0.017
June	1.00	0.97	0.99	173,182	0.015
July	1.00	0.93	0.97	569,400	0.050
August	1.01	0.94	0.98	602,495	0.053
September	0.96	0.86	0.91	386,374	0.034
October	0.96	0.84	0.90	252,737	0.022
November	0.90	0.80	0.85	226,762	0.020
December	0.91	0.83	0.87	219,423	0.019
2006					
January	0.97	0.89	0.91	310,631	0.027
February	1.01	0.94	0.98	754,150	0.066
March	1.06	0.98	1.01	556,174	0.050
April	1.22	1.00	1.09	993,176	0.087
May	1.15	1.05	1.10	286,500	0.025
June	1.16	1.00	1.03	328,127	0.029
July	1.03	0.96	1.01	176,800	0.015
August	0.98	0.89	0.95	135,182	0.012
1 September to 12 September	1.03	0.96	1.00	262,000	0.023

Period/month	Highest closing price	Lowest closing price	Average daily closing price	Average daily trading volume for the period/month	Percentage of average daily trading volume to total no. of issued shares
	HK$	*HK$*	*HK$*	*Shares*	*%*
Post-announcement					
19 September to 29 September	1.03	0.96	1.00	358,667	0.031
3 October to the Latest Practicable Date	1.01	1.00	1.00	239,333	0.021

Source: Bloomberg

As indicated from the above table, the Shares have been thinly traded and rather illiquid for the past two years and the share price has been traded around HK$0.95 for an extended period of time, i.e. from September 2005 to January 2006. From February 2006, the share price rose above HK$0.95. The share price has fallen below HK$0.95 per Share again since mid August 2006. We also noted that since mid August 2006 and up to the Last Trading Day, the Share were trading in the price range of HK$0.93 to HK$1.03. Given the abovementioned thin trading volume of the Shares and the share price has been traded around HK$0.95 per Share for an extended period of time, we are of the view that the adoption of recently traded share prices as a basis for arriving at the Issue Price per Consideration Share for the Acquisition is reasonable and acceptable even if the Issue Price per Consideration Share represents a modest discount to the closing prices of the Shares close to the Last Trading Day.

2.4.3 Peer group comparison

In our analysis of the consideration price of the Sale Shares, we have identified (i) 4 companies listed on the Stock Exchange; (ii) 4 companies listed on the Taiwan Stock Exchange and (iii) 20 companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange as set out in the table below, all of which are engaged solely or principally in similar business as Union Cement (i.e. productions of cement related products) and with production facilities located in the PRC (together the "Comparables") and listed companies with publicly available information and we have, accordingly, compared the market statistics of the Comparables with the consideration terms with respect to the Acquisition.

Company name	Stock exchange	Market capitalisation (as at 29 September 2006)[12] (in million) (in local currency)	Earnings in million (in local currency)	Last trading price (as at 29 September 2006)[12] (in local currency)	Historical PER[11] (times)	Historical PBR[11] (times)
		HK$	*HK$*	*HK$*		
Anhui Conch Cement Co. Ltd.	HK	19,362.59	370.99	15.42	52.19	3.05
TCC International Holdings Ltd.	HK	850.21	50.00	1.10	17.00	0.72
Shanghai Allied Cement Ltd.	HK	165.57	(35.23)	0.227	N.A.	0.57
The Company	HK	1,154.33	0.80	1.01	1,436.8	0.72
		TWD	*TWD*	*TWD*		
Taiwan Cement Corporation	TWE	76,188.03	5,703.37	24.80	13.36	1.35
Asia Cement Corporation	TWE	56,269.36	6,620.01	24.00	8.50	1.12
Chia Hsin Cement Corporation	TWE	12,107.74	227.28	17.95	53.27	1.12
Universal Cement Corporation	TWE	5,114.43	586.37	11.15	8.72	0.53
		RMB	*RMB*	*RMB*		
Hebei Taihang Cement Co., Ltd.	SSE	1,280.60	5.16	3.37	240.71	1.82
Shaanxi Qinling Cement (Group) Co., Ltd.	SSE	1,255.52	(138.65)	1.90	N.A.	1.81
Gansu Qilianshan Cement Group Co., Ltd.	SSE	1,104.57	5.86	2.79	186.00	1.27
Anhui Chaodong Cement Co., Ltd.	SSE	1,192.00	(190.89)	5.96	N.A.	2.84
Huaxin Cement Co., Ltd.[9]	SSE	2,082.06	62.07	6.34	33.54	1.71
Heilongjiang Province Mudanjiang New Materials Technology Co., Ltd.	SSE	676.20	(134.16)	2.94	N.A.	1.62
Fujian Cement Inc.	SSE	738.17	2.32	2.45	306.25	1.13
Xinjiang Qingsong Building Materials and Chemicals (Group) Co., Ltd.	SSE	750.81	21.46	4.06	35.00	1.50

Company name	Stock exchange	Market capitalisation (as at 29 September 2006)[12] (in million) (in local currency)	Earnings in million (in local currency)	Last trading price (as at 29 September 2006)[12] (in local currency)	Historical PER[11] (times)	Historical PBR[11] (times)
		HK$	*HK$*	*HK$*		
Xishui Strong Year Co., Ltd. Inner Mongolia	SSE	988.80	7.60	6.18	128.75	1.45
Ningxia Saima Industry Co., Ltd.	SSE	490.77	51.35	3.99	9.57	0.81
Taiyuan Lionhead Cement Co., Ltd.	SSE	1,058.00	9.42	4.60	112.2	1.22
Sichuan Golden Summit (Group) Joint-Stock Co., Ltd.	SSE	658.43	13.53	2.83	48.79	1.90
Anhui Conch Cement Co., Ltd.	SSE	19,463.04	406.89	15.50	47.84	3.41
Jilin Yatai (Group) Co., Ltd.	SSE	2,334.23	65.37	2.79	35.77	0.97
Xinjiang Tianshan Cement Co., Ltd.	SZE	871.61	9.15	4.19	95.23	1.62
Tianjin Cement Co., Ltd.	SZE	1,534.88	(80.89)	6.43	N.A.	2.76
Jiangxi Wannianqing Cement Co., Ltd.	SZE	912.54	(135.76)	2.68	N.A.	1.64
Sichuan Shuangma Cement Co., Ltd.	SZE	1,743.98	8.54	5.46	204.16	3.52
Tangshan Jidong Cement Co., Ltd.	SZE	3,947.36	127.73	4.10	30.90	1.81
Datong Cement Co. Ltd.	SZE	726.55	(137.34)	4.19	N.A.	4.36
		Maximum[10]			95.23	4.36
		Minimum			8.50	0.53
		Average[10]			34.98	1.73
Yonica (BVI)		244.87			N.A.	1.00

Notes:

1. *Source:* Bloomberg and the latest annual reports for the year ended 31 December 2005
2. HK = The Stock Exchange of Hong Kong Limited
3. SSE = The Shanghai Stock Exchange
4. SZE = The Shenzhen Stock Exchange
5. TWE = The Taiwan Stock Exchange Corporation
6. HKD = Hong Kong dollars, the lawful currency of Hong Kong
7. TWD = Taiwan dollars, the lawful currency of Taiwan
8. RMB = Renminbi, the lawful currency of the PRC
9. It has A-share and B-share. Our record is based on A-share only
10. The maximum PER has not included the historical PER ofcertain companies with substantial high PER (i.e. with PER above 100 times) and the average PER has not included the historical PER of certain companies with substantial high PER or no PER.
11. Based on financial information for the year ended 31 December 2005.
12. The latest practicable date to acertain certain information of those companies listed on SSE and SZE given the stock markets closed during the National Day Holiday week between 30 September 2006 to 8 October 2006.

Compare with historical PER

As Yonica (BVI) returned an audited loss before and after taxation of approximately US$2.83 million (approximately HK$21.96 million) for the year ended 31 December 2005, we are not able to compare the historical price/earning ratio ("PER") of the abovementioned peer companies with the latest full year audited financial result of Yonica BVI. However, for illustration purpose only and not to be taken as an indication of a profit forecast whilst taking into account the improving outlook of the cement industry in the PRC, we have sought to annualise Yonica (BVI)'s audited profit attributable to equity holders of approximately US$1.3 million (approximately HK$10.1 million) for the six months ended 30 June 2006, and compared the annualised figure with the consideration payable for the Sale Shares under the Acquisition of US$31.56 million, would result in an implied PER of approximately 12.1 times. This implied PER of Yonica (BVI) of approximately 12.1 times falls within the relevant range of the PER as stated in the aforesaid table of approximately 8.50 times to 95.23 times and is in the lower end of the range. Taking into account of the fact that Yonica (BVI) is a non-listed company and its recent turnaround to achieve profitability in the first half of 2006, we believe that it is not unreasonable to value Yonica (BVI) at the lower end of the PER range and also below the average discussed above.

Compare with historical PBR

We consider the price-to-book ("PBR") is an appropriate valuation methodology for the valuation of the Sale Shares since the method can reflect the going concern of Yonica (BVI) and determine the value of the Sale Shares with reference to similar asset owned by the Comparables. As the consideration payable for the Sale Shares is equivalent to the audited net asset value of Yonica (BVI) as at 30 June 2006, the PBR of Yonica (BVI) which is approximately 1.0 time falls within the range of the minimum and maximum of the PBR as stated in the aforesaid table of 0.53 times to 4.36 times.

In view of the above analysis (i.e. both the implied PER and PBR fall within the range as stated in the aforesaid table) and the consideration payable for the Sales Shares being almost equivalent to the equity attributable to the shareholders of Yonica (BVI) as at 30 June 2006, we are of the view that the Consideration payable for the Acquisition is fair and reasonable.

3. **Possible effects on the Group and the Shareholders**

3.1 *Total assets, total liabilities and net asset value*

As at 30 June 2006, the unaudited consolidated total assets of the Group was approximately US$324.8 million (approximately HK$2,520.5 million). Upon completion of the Acquisition, and on the assumption that the Balance Consideration is satisfied by cash from the issuance of 87,880,000 Shares at a price of HK$0.95 per Share, the pro forma adjusted consolidated total assets of the Enlarged Group will be approximately US$395.3 million (approximately HK$3,067.1 million). As at 30 June 2006, the unaudited consolidated total liabilities of the Group was approximately US$115.9 million (approximately HK$898.9 million). Upon completion of the Acquisition, and on the same assumption, the pro forma adjusted consolidated total liabilities of the Enlarged Group will be approximately US$135.4 million (approximately HK$1,050.6 million).

Upon completion of the Acquisition and on the basis of the aforesaid assumption (details of which are set out in the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix III to the Circular), the pro forma adjusted consolidated net asset value of the Group will increase from approximately US$209.0 million (approximately HK$1,621.6 million) to approximately US$259.9 million (approximately HK$2,016.6 million), representing an increase of approximately 24.3% over the unaudited consolidated net asset value of the Group as at 30 June 2006. We are of the view that the increase in net asset value of the Group, on the basis of the aforesaid assumption, upon completion of the Acquisition is in the interests of the Company and the Shareholders as a whole.

However, based the aforesaid assumptions, and on the basis of 1,494,276,000 Shares in issue at completion of the Acquisition, the unaudited pro forma net assets per Share would be approximately US$0.174 per Share (approximately HK$1.35), representing a dilution of approximately 4.9% as compared to the unaudited net asset value per Share of approximately US$0.183 (approximately HK$1.42) as at 30 June 2006. Taking into account the reasons to and the benefits of the Acquisition and other factors which we have also considered in this letter, we are of the view that the slight dilution in the pro forma net assets per Share upon completion of the Acquisition is acceptable.

As set out in Appendix III to the Circular, the Company has prepared and reviewed by Deloitte Touche Tohmatsu, the auditors of the Company, pursuant to the requirements set out in Rule 4.29 of the Listing Rules, the pro forma adjusted consolidated balance sheet of the Enlarged Group.

3.2 *Earnings*

Yonica (BVI) achieved an audited profit after taxation of approximately US$1.6 million (approximately HK$12.7 million) for the six months ended 30 June 2006. Although the outlook of the cement industry in the PRC is generally positive going forward as described in paragraph 1.2 above, the Directors consider that it would be too early to make any prediction or forecast on Yonica (BVI). Consequently, we are not in a position to comment on the financial performance of Yonica (BVI) for the year ending 31 December 2006.

3.3 *Shareholding*

The shareholding positions of the Company immediately before and after the issue of the Consideration Shares and the settlement of the Balance Consideration through the Funding Alternative are set out below:

Name of shareholder	Number of Shares in issue as at the Latest Practicable Date		Number of Shares in issue after the issue of Consideration Shares but before the settlement of Balance Consideration through the Funding Alternative		Number of Shares in issue after the issue of Consideration Shares and the settlement of Balance Consideration through the Funding Alternative	
	('000)	*%*	*('000)*	*%*	*('000)*	*%*
CHPL and its associates	822,478	71.96	1,085,974	77.21	1,085,974	72.68
Directors	22,738	1.99	22,738	1.62	22,738	1.52
Independent investors	—	—	—	—	87,880 *(note)*	5.88
Public Shareholders	297,684	26.05	297,684	21.17	297,684	19.92
	1,142,900	100.00	1,406,396	100.00	1,494,276	100.00

Note: The number of new Shares to be issued through the Funding Alternative to independent investors is for illustrative purpose only. Under the calculations, the issue price is assumed to be the same as the issue price of the Consideration Shares. To the extent that such shares are eventually issued at a different price, the number of the relevant new shares would vary accordingly.

CHPL and its associates are currently interested in 822,478,000 Shares, representing approximately 71.96% of the existing issued share capital of the Company. Immediately after the issue of the Consideration Shares but before the settlement of the Balance Consideration through the Funding Alternative, CHPL and its associates will be interested in 1,085,974,000 Shares, representing approximately 77.21% of the enlarged issued share capital of the Company. Assuming the settlement of the Balance Consideration through the Funding Alternative (i.e. by issuing at least 87,880,000 new Shares at the price of HK$0.95 per Share) to independent investors, CHPL and its associates will be interested in 1,085,974,000 Shares, representing approximately 72.68% of the enlarged issued share capital of the Company. On this basis, the interest of the existing public Shareholders will be diluted from approximately 26.05% (as at the Latest Practicable Date) to approximately 19.92% of the enlarged issued share capital of the Company following the issue of the Consideration Shares and the settlement of the Balance Consideration through the Funding Alternative. In other words, the shareholding interest of the existing public Shareholders, will as a result of the issue of the Consideration Shares and the settlement of the Balance Consideration through the Funding Alternative in the way (as described above), be diluted by approximately 23.5%.

Taking into account the market performance of the Share, the share capital of the Company and the internal resources available to the Group, the Vendor and the Company believe that by issuing the Consideration Shares to the Vendor which, in turn, will save the Group's internal resources for deployment in the business operations in the future. Also taking into account the other reasons and factors set out in this letter (including the business outlook of both the Group and Yonica (BVI) and/or Union Cement, the historical financial performance of Yonica (BVI) (including Union Cement), the performance of the Shares in the stock market in Hong Kong, the performance of the Comparables and the possible effects on the Group and the Shareholders as a result of the Acquisition), despite that there will be a dilution effect on the existing public Shareholders, we concur with the Directors and we are of the view that it is appropriate under the current circumstances for the Company to opt issuing Consideration Shares at a price close to the market price which will also pave the way for the Funding Alternative.

3.4 *Effects on the cash position/gearing of the Group*

As stated in the "Letter from the Board", the completion of the Acquistion is subject to, inter alia, the completion of the Funding Alternative by the Company and the proceeds of which will be used to settle the Balance Consideration. Given that the consideration for the Acquisition will be satisfied by issuing Consideration Shares and assuming that the Balance Consideration be settled through the successful fund raising exercise by the issuance of equity securities of the Company, no internal resources of the Group, such as cash, would be deployed and hence, there would be no immediate effect to the cash position of the Group.

In the event that the Company chooses to waive this condition at the time of completion of the Acquisition and finance the Balance Consideration by other means such as internal cash resources or bank debt, the "Cash and bank balances" classified under current assets of the consolidated balance sheet of the Group may be affected. However, since the Company has not indicated to waive the aforesaid completion condition and the Long Stop Date is some 8 months from the date of this letter, we are not in a position to quantify the possible effect to the cash position of the Group in this respect.

Prior to the completion of the Acquisition, the gearing ratio (defined as total interest-bearing borrowings to total assets) of the Group as at 30 June 2006 was 32.3%. Following the completion of the Acquisition and by reference to the pro forma adjusted consolidated balance sheet of the Enlarged Group, the gearing ratio will be 30.0%.

Although the improvement in gearing ratio following the Acquisition is immaterial, the capital base will be strengthened.

4. **Background to and reasons for the Continuing Connected Transactions**

4.1 *The Union Cement Purchase Agreement*

Union Cement is principally engaged in the production and sale of cement and clinker. As the Group's capacity utilisation in respect of clinker production has reached 93.6% in order to take advantage of the anticipated growing demand of cement products in the PRC as well as for overseas sales, the Directors consider that there is a need to seek alternative sources of clinker for the expansion of the business of the Group before completion of the Acquisition.

The Group commenced purchases of clinker from Union Cement in 2005 and the Group intends to continue to source from Union Cement, which is able to provide reliable delivery of clinker with a quality that meets with the Group's stringent requirements. Moreover, Union Cement is in close proximity to Jingyang Cement, thereby reducing the time and cost of transportation.

The Directors consider that the renewal of the Union Cement Purchase Agreement is only a temporary measure as the Group has entered into the Acquisition Agreement with CHPL to acquire Yonica (BVI), subject to certain conditions. Upon completion of the Acquisition Agreement, Union Cement, which will be owned as to 80% by Yonica (BVI), will become an 80% owned subsidiary of the Company. Hence, the transaction contemplated under the Union Cement Purchase Agreement will no longer constitute a continuing connected transaction under the Listing Rules upon completion of the Acquisition.

The supply of clinker products from Union Cement to Jingyang Cement have been and will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms, negotiated on an arm's length basis. The Directors are of the view that the transaction contemplated under the renewed Union Cement Purchase Agreement is on normal commercial terms and such terms are fair and reasonable and in the interests of the Shareholders as a whole. At the extraordinary general meeting of the Company convened on 10 November 2005, the then independent shareholders of the Company approved the Union Cement Purchase Agreement entered into between Jingyang Cement and Union Cement dated 15 September 2005. Details of which were set out in the 2005 Circular in relation to the purchase of clinker from Union Cement by Jingyang Cement with the proposed cap of RMB396 million (approximately HK$381 million) for the year ending 31 December 2006. The term of the Union Cement Purchase Agreement will expire on 31 December 2006 and Jingyang Cement intends to continue to purchase clinker from Union Cement which is in its ordinary and usual course of business beyond 31 December 2006. In order to enable the relevant parties to enjoy better flexibility to negotiate commercial terms, parties to the agreement consider the renewal term of one year is more appropriate and prudent. In this regard, Jingyang Cement, being an indirectly wholly-owned subsidiary of the Company engaging in production and sale of cement in the PRC, entered into a renewal agreement with Union Cement on 12 September 2006 to extend the term of the Union Cement Purchase Agreement for one further financial year to 31 December 2007.

4.2 *The Ganghui Sales Agreement*

Ganghui is principally engaged in the trading of cement and the production of blended cement according to customer specifications. Ganghui sources cement from Jingyang and other independent third parties for its trading and processing operations. The Group intends to continue to sell its cement products to Ganghui as Ganghui has been the Group's customer for over seven years and has a good financial standing.

The business relationship between Jingyang Cement and Ganghui was established before the listing of the Shares on the Main Board on 12 December 2003, details of which were set out in the Prospectus. The supply of cement products to Ganghui by Jingyang Cement has been and will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms, negotiated on an arm's length basis. The Directors are of the view that the transaction contemplated under the renewed Ganghui Sales Agreement is on normal commercial terms and such terms are fair and reasonable and in the interests of the Shareholders as a whole.

At the extraordinary general meeting of the Company convened on 10 November 2005, the then independent shareholders of the Company approved the Ganghui Sales Agreement entered into between Jingyang Cement and Ganghui dated 15 September 2005. Details of which were set out in the 2005 Circular in relation to the sales of certain cement products by Jingyang Cement to Ganghui with the proposed sales cap of RMB50 million (approximately HK$48.08 million) for the year ending 31 December 2006. The term of the Ganghui Sales Agreement will expire on 31 December 2006 and Jingyang Cement intends to continue to sell certain cement products to Ganghui which are in its ordinary and usual course of business beyond 31 December 2006. In order to enable the relevant parties to enjoy better flexibility to negotiate commercial terms, parties to the agreement consider that the renewal term of one year is more appropriate and prudent. In this regard, Jingyang Cement, being an indirectly wholly-owned subsidiary of the Company engaging in production and sale of cement in the PRC, entered into a renewal agreement with Ganghui on 12 September 2006 to extend the term of the Ganghui Sales Agreement for one further financial year to 31 December 2007.

5. **Major terms of the Continuing Connected Transactions**

5.1 *Terms of renewal of the Union Cement Purchase Agreement*

The Union Cement Purchase Agreement entered into with Union Cement and Jingyang Cement will lapse on 31 December 2006. The Company proposes to renew the Union Cement Purchase Agreement with all the terms and conditions remain unchanged for an additional financial year to 31 December 2007. In sum, the key terms thereof are as follows:

- The Union Cement Purchase Agreement will be extended with a term of one financial year ending 31 December 2007, subject to the approval of the Independent Shareholders.

- The basis of determining the prices for the purchases will be made in accordance with the prevailing market prices of the cement products and on normal commercial terms and in the ordinary course of business of the Group.

- To comply with the requirements of the Listing Rules, the purchases will be subject to an annual cap amount for the financial year ending 31 December 2007 of not exceeding RMB396 million (approximately HK$381 million).

- Payments on delivery of the products.

We have reviewed the terms of the purchases, and discussed the same with the Company and its senior management. We have noted that the terms of such purchases (in particular, the price) will be transacted on normal commercial basis and by reference to the prevailing market price of the cement products. We have also reviewed the terms of the relevant historical transactions with regard to the Existing Continuing Connected Transactions, and have noted that the terms of those historical transactions (in particular, the price) are comparable to another independent customer of Union Cement. Accordingly, we are of the view that the terms of such purchases have been and will continue to be entered into in the usual and ordinary course of business of the Group and on normal commercial terms.

Taking into account (i) the background to and reasons for the renewal of the Union Cement Purchase Agreement set out in paragraph 4.1 above, (ii) the key terms of the Union Cement Purchase Agreement remain unchanged and (iii) the purchases are and will continue to be conducted in the ordinary and usual course of business of the Group, on normal commercial terms, negotiated on an arm's length basis as described above, we concur with the Directors, and are of the view, that the transactions contemplated under the renewed Union Cement Purchase Agreement are on normal commercial terms and such terms are fair and reasonable and in the interests of the Shareholders as a whole.

5.2 *Terms of renewal of the Ganghui Sales Agreement*

The Ganghui Sales Agreement entered into with Ganghui and Jingyang Cement will lapse on 31 December 2006. The Company proposes to renew the Ganghui Sales Agreement with all the terms and conditions remain unchanged for an additional financial year to 31 December 2007. In sum, the key terms thereof are as follows:

- The Ganghui Sales Agreement will be extended with a term of one financial year ending 31 December 2007, subject to the approval of the Independent Shareholders.

- The basis of determining the prices for the sales will be made in accordance with the prevailing market prices of the cement products and on normal commercial terms and in the ordinary course of business of the Group.

- To comply with the requirements of the Listing Rules, the sales will be subject to an annual cap amount for the financial year ending 31 December 2007 of not exceeding RMB50 million (approximately HK$48.08 million).

- Terms of payments of not more than 75 days after the delivery of the products.

We have reviewed the terms of the sales to Ganghui, and discussed the same with the Company and its senior management. We have noted that the terms of the Existing Continuing Connected Transactions (in particular, the price) will be transacted on normal commercial basis and by reference to the prevailing market price of the cement products. We have also reviewed the terms of such sales, and noted that the terms of those historical transactions (in particular, the price) are comparable to other independent suppliers of Ganghui. Accordingly, we are of the view that the terms of the sales have been and will continued to be entered into in the usual and ordinary course of business of the Group and on normal commercial terms.

Taking into account (i) the background to and reasons for the renewal of the Ganghui Sales Agreement set out in paragraph 4.2 above, (ii) the key terms of the Ganghui Sales Agreement remain unchanged and (iii) the sales are and will continue to be conducted in the ordinary and usual course of business of the Group, on normal commercial terms, negotiated on an arm's length basis as described above, we concur with the Directors, and are of the view, that the transactions contemplated under the renewed Ganghui Sales Agreement are on normal commercial terms and such terms are fair and reasonable and in the interests of the Shareholders as a whole.

6. **The proposed caps amount for the Continuing Connected Transactions**

According to the Directors, the respective proposed caps for the Continuing Connected Transactions will not exceed RMB50 million (i.e. the Sales Cap) and RMB396 million (i.e. the Purchase Cap) respectively. As stated in the "Letter from the Board", the Directors determine the respective Proposed Caps with reference to the following factors.

6.1 *The Sales Cap*

I. In terms of sales of cement in tonnage, the average of:

(a) the historical annual sale of cement by Jingyang Cement to Ganghui for the two years ended 31 December 2005 and the seven months and 31 July 2006; and

(b) the estimated amount of sales of cement by Jingyang Cement to Ganghui for the five months ending 31 December 2006.

II. In terms of selling price of cement, the average of

(a) the historical average selling price of various types of cement products for the two years ended 31 December 2005 and the seven months ended 31 July 2006; and

(b) the projected average selling price of various types of cement products for the five months ending 31 December 2006.

III. The prevailing market prices of the cement products.

IV. The annual cap of RMB50 million (approximately HK$48.08 million) in respect of the sales by Jingyang Cement to Ganghui for the year ending 31 December 2006 which had been approved by the independent shareholders of the Company at an extraordinary general meeting convened on 10 November 2005.

Set out below are the historical transaction amounts between Jingyang Cement and Ganghui for the three financial years ended 31 December 2005 and the six months ended 30 June 2006, the cap amount approved by the independent shareholders of the Company for the sales for the year ending 31 December 2006 and the proposed Sales Cap for the year ending 31 December 2007:

	For the year ended 31 December 2003 (Actual)	For the year ended 31 December 2004 (Actual)	For the year ended 31 December 2005 (Actual)	For the six months ended 30 June 2006	Approved cap amount for the year ending 31 December 2006	Proposed Sales Cap for the year ending 31 December 2007
Sales						
in US$	11,320,000	8,897,000	6,253,000	1,166,000		
in HK$	87,692,000	69,032,000	48,517,000	9,047,000	48,077,000	48,077,000
in RMB					50,000,000	50,000,000

We understand from the management of the Company that the declining trend in sales to Ganghui during the year ended 31 December 2003 to the year ended 31 December 2005 and continued to shrink during the six months ended 30 June 2006. This decline was principally attributable to (i) the Group's strategy to increase the amount of sales to overseas due to the attractiveness of a higher profit margin from such sales, and (ii) the Group's intention to avoid fierce competition and price war within the cement industry in the PRC.

Although sales in the six months ended 30 June 2006 only represented a fraction of the cap amount for the year ending 31 December 2006, and the Company intends to continue to focus its strategy to expand its overseas market in the future, we note that (i) the cement industry in the PRC had consolidated after the 2005 price war with those smaller manufacturers being either shut down or taken over by the larger manufacturers, which in turn helps to stablise the price and the amount of supply going forward; and (ii) the measures to regulate the development of the property market in the PRC have been successful so far, which in turn helped to enable a steady and healthy return of the domestic demand for cement by the construction and/or property development industry in the PRC. In addition, we have reviewed and discussed with the Company's senior management the basis and assumptions behind their internal estimation, including, (i) the average of the historical and projected selling prices of cement products plus an estimated incremental in selling prices of approximately 5%; (ii) the historical sales volume; and (iii) a buffer of approximately 10% as there may be some other factors, such as the fluctuation of the property market in the PRC, which may affect the demand of cement products for the year ending 31 December 2007. Having considered that the bases and assumptions are made by reference to (i) the historical (in particular, the sales volume recorded in the financial year ended 31 December 2005) and estimated sales volume of cement products, and (ii) the average of the historical and projected average selling prices for the cement products (iii) the prevailing market prices of the cement products; and (iv) the historical approved sales cap (in this case, in particular, the cap for the year ending 31 December 2006), we believe that it is prudent, justifiable and reasonable for the Directors to make reference to the aforesaid factors as the basis to determine the proposed Sales Cap and are of the view that the proposed Sales Cap is fair and reasonable.

6.2 *The Purchase Cap*

I. In terms of purchase of clinker in tonnes:

(a) the historical quantity of clinker required by Jingyang Cement for the six months ended 30 June 2006; and

(b) the estimated quantity of clinker to be required by Jingyang Cement for the six months ending 31 December 2006 and the year ending 31 December 2007.

II. In terms of purchase price of clinker:

(a) the historical average purchase price of clinker products for the six months ended 30 June 2006; and

(b) the projected average purchase price of various types of clinker for the six months ending 31 December 2006 and the year ending 31 December 2007.

III. The existing production capacity of clinker of Jingyang Cement.

IV. The annual cap of RMB396 million (approximately HK$381 million) in respect of the purchase by Jingyang Cement from Union Cement for the year ending 31 December 2006 which had been approved by the independent shareholders of the Company at an extraordinary general meeting convened on 10 November 2005.

Set out below are the historical transaction amounts between Union Cement and the Group and/or its associates for the seven months ended 31 July 2006, the approved cap amount approved by the independent shareholders of the Company for the purchases for the year ending 31 December 2006 and the proposed Purchase Cap for the year ending 31 December 2007:

	For the year ended 31 December 2005 (Actual)	For the six months ended 30 June 2006 (Actual)	Approved cap amount for the year ending 31 December 2006	Proposed Purchase Cap for the year ending 31 December 2007
Purchases				
in US$	12,225,000	11,282,000		
in HK$	94,854,000	87,537,000	380,769,000	380,769,000
in RMB			396,000,000	396,000,000

We understand from the management of the Company that the increasing amount of purchase of clinker by Jingyang Cement from Union Cement during the year ended 31 December 2005 to the six months ended 30 June 2006 was principally attributable to (i) the Group's strategy to increase the amount of sales of cement to overseas due to the attractiveness of a higher profit margin from such sales, which in turn requires more high quality clinker for its production as well as the potential increase in sales of clinkers to overseas markets (ii) the Group's production capacity of cement has increased from 2,700,000 tonnes to 3,500,000 tonnes since July 2005 and (iii) Jingyang Cement's existing production capacity of clinker was limited to 2,200,000 tonnes per annum.

Although purchases in the six months ended 30 June 2006 only represented a fraction of the cap amount for the year ending 31 December 2006, we note that (i) the Company intends to continue to focus its strategy to expand its overseas market in the future for both cement and clinkers, and (ii) the measures to regulate the development of the property market in the PRC had been successful so far, which in turn helped to enable a steady and healthy return of the domestic demand for cement by the construction and/or property development industry in the PRC. In addition, we have reviewed and discussed with the Company's senior management the basis and assumptions behind their internal estimation, including, (i) the average of the historical and projected purchase prices of clinkers; (ii) the potential growth in sales volume with reference to the historical growth in sales of the Group for the six months ended 30 June 2006; and (iii) a buffer of approximately 5% as there may be some other factors, such as the potential increase in sales for the overseas markets, which may affect the demand of cement products for the year ending 31 December 2007. Having considered that the bases and assumptions are made by reference to (i) the historical and estimated quantity of clinker required by Jingyang Cement, and (ii) the average of the historical and projected purchase prices of clinker products (iii) Jingyang Cement's existing production capacity of clinker; and (iv) the historical approved purchase cap (in this case, in particular, the cap for the year ending 31 December 2006), we believe that it is prudent, justifiable and reasonable for the Directors to make reference to the aforesaid factors as the basis to determine the proposed Purchase Cap and are of the view that the proposed Purchase Cap is fair and reasonable.

RECOMMENDATION

In considering the terms of the Acquisition, we have taken into account the following factors:

— the principal activities and the financial performance of the Group as described in paragraphs 1.1 and 1.2 above;

— the reasons for and benefits of the Acquisition as described in paragraphs 1.3 above;

— the terms of the Acquisition Agreement with regard to the basis of the consideration, which were arrived at following arm's length negotiations between relevant parties and by reference to the relevant business valuations as well as close to the audited equity value attributable to the shareholders of Yonica (BVI) as at 30 June 2006 and the Shareholder's Loan as at 30 June 2006 as described in paragraphs 2.1 to 2.3 above;

— the other factors (namely the price performance and trading volume of the Shares, and the Comparables) in considering for the Acquisition Agreement; and

— the expected financial and/or other impact to the Group as described in paragraph 3 above.

In considering the renewal of Ganghui Sales Agreement (together with the Sales Cap) and the renewal of Union Cement Purchase Agreement (together with the Purchase Cap), we have taken into account the following factors:

— the principal business of the Company and its subsidiaries as described in paragraph 1.1 above;

— the background to and reasons for the Continuing Connected Transactions as described in paragraph 4 above;

— the terms of the Continuing Connected Transactions as described in paragraph 5 above;

— the bases in deriving the Sales Cap and the Purchase Cap for the year ending 31 December 2007.

After having considered the above principal factors and based on the information provided and the representations made to us, we consider the terms of the Acquisition Agreement, the renewal of Ganghui Sales Agreement (together with the Sales Cap) and the renewal of Union Cement Purchase Agreement (together with the Purchase Cap) and the transactions contemplated thereunder to be fair and reasonable so far as the Independent Shareholders are concerned; and that the Acquisition and the Continuing Connected Transactions (together with the relevant Proposed Caps) are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the relevant resolution(s) which will be proposed at the EGM to approve the Acquisition and the Continuing Connected Transactions (together with the relevant Proposed Caps).

Yours faithfully,
For and on behalf of
ACCESS CAPITAL LIMITED
Jeanny Leung
Managing Director

1. THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated income statements of the Group for each of the three years ended 31 December 2005 and the audited balance sheets of the Group as at 31 December 2003, 31 December 2004 and 31 December 2005, as extracted from the Company's audited financial statements for each of the three years ended 31 December 2005.

Consolidated Income Statement

	2005	**2004**	**2003**
	US$'000	*US$'000*	*US$'000*
Revenue	91,485	81,944	78,012
Cost of sales	(77,731)	(53,916)	(47,343)
Gross profit	13,754	28,028	30,669
Interest income	1,033	749	114
Other income	3,716	672	242
Distribution costs	(9,403)	(7,059)	(5,546)
Administrative expenses	(3,877)	(3,832)	(3,236)
Finance costs	(4,787)	(3,142)	(2,907)
Other expenses	(186)	(723)	(319)
Profit before tax	250	14,693	19,017
Income tax expense	(147)	—	—
Profit for the year	103	14,693	19,017
Dividend	—	—	—
Earnings per share — basic and diluted (US cents)	0.01	1.29	2.08

Consolidated Balance Sheet

	2005	2004	2003
	US$'000	*US$'000*	*US$'000*
ASSETS			
CURRENT ASSETS			
Inventories	16,147	13,338	10,339
Trade receivables	13,913	13,374	8,529
Amount due from fellow subsidiaries	3,553	2,573	3,097
Other receivables	3,631	2,747	2,312
Income tax recoverable	737	260	260
Pledged deposits	496	242	242
Bank balances and cash	42,098	59,378	64,992
	80,575	91,912	89,771
NON-CURRENT ASSETS			
Property, plant and equipment	213,828	209,493	208,746
Land use rights	17,590	17,614	17,997
	231,418	227,107	226,743
TOTAL ASSETS	311,993	319,019	316,514
EQUITY AND LIABILITY			
CAPITAL AND RESERVES			
Share capital	11,429	11,429	11,429
Share premium and reserves	192,924	187,983	173,061
	204,353	199,412	184,490
CURRENT LIABILITIES			
Trade payables	7,697	4,178	3,375
Amount due to immediate holding company	—	—	99
Amount due to a fellow subsidiary	248	—	—
Other payables	3,885	3,673	7,164
Bank borrowings	21,900	16,806	12,046
	33,730	24,657	22,684
NON-CURRENT LIABILITY			
Bank borrowings	73,910	94,950	109,340
TOTAL LIABILITIES	107,640	119,607	132,024
TOTAL EQUITY AND LIABILITIES	311,993	319,019	316,514

2. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2005

Set out below is a summary of the audited financial statements of the Group for the year ended 31 December 2005 and one audited balance sheet of the Group as at 31 December 2005, as extracted from the Company's audited financial statements for the year ended 31 December 2005 as set out in the Company's annual report.

Consolidated Income Statement

For the year ended 31 December 2005

	NOTES	**2005** *US$'000*	**2004** *US$'000*
Revenue	2.5	91,485	81,944
Cost of sales		(77,731)	(53,916)
Gross profit		13,754	28,028
Interest income		1,033	749
Other income		3,716	672
Distribution costs		(9,403)	(7,059)
Administrative expenses		(3,877)	(3,832)
Finance costs	2.7	(4,787)	(3,142)
Other expenses		(186)	(723)
Profit before tax	2.8	250	14,693
Income tax expense	2.10	(147)	—
Profit for the year		103	14,693
Dividend	2.11	—	—
Earnings per share — basic and diluted (US cents)	2.12	0.01	1.29

Consolidated Balance Sheet
At 31 December 2005

	NOTES	**2005** *US$'000*	**2004** *US$'000*
ASSETS			
CURRENT ASSETS			
Inventories	2.13	16,147	13,338
Trade receivables	2.14	13,913	13,374
Amounts due from fellow subsidiaries	2.15	3,553	2,573
Other receivables	2.16	3,631	2,747
Income tax recoverable		737	260
Pledged deposits		496	242
Bank balances and cash	2.17	42,098	59,378
		80,575	91,912
NON-CURRENT ASSETS			
Property, plant and equipment	2.18	213,828	209,493
Land use rights	2.19	17,590	17,614
		231,418	227,107
TOTAL ASSETS		311,993	319,019
EQUITY AND LIABILITY			
CAPITAL AND RESERVES			
Share capital	2.20	11,429	11,429
Share premium and reserves		192,924	187,983
		204,353	199,412
CURRENT LIABILITIES			
Trade payables	2.21	7,697	4,178
Amount due to a fellow subsidiary	2.22	248	—
Other payables	2.23	3,885	3,673
Bank borrowings	2.25	21,900	16,806
		33,730	24,657
NON-CURRENT LIABILITY			
Bank borrowings	2.25	73,910	94,950
TOTAL LIABILITIES		107,640	119,607
TOTAL EQUITY AND LIABILITIES		311,993	319,019

Consolidated Statement of Changes in Equity
For the year ended 31 December 2005

	Share capital US$'000	Share premium US$'000	PRC statutory reserves (note) US$'000	Exchange translation reserve US$'000	Retained profits US$'000	Total US$'000
For the year ended 31 December 2004						
At 1 January 2004	11,429	164,119	1,676	(2,045)	9,311	184,490
Exchange gain arising on translation of foreign operations	—	—	—	6	—	6
Profit for the year	—	—	—	—	14,693	14,693
Total recognised income for the year	—	—	—	6	14,693	14,699
Adjustment to share issue expenses	—	223	—	—	—	223
Transfer from retained profits	—	—	1,584	—	(1,584)	—
At 31 December 2004	11,429	164,342	3,260	(2,039)	22,420	199,412
For the year ended 31 December 2005						
At 1 January 2005	11,429	164,342	3,260	(2,039)	22,420	199,412
Exchange gain arising on translation of foreign operations	—	—	—	4,838	—	4,838
Profit for the year	—	—	—	—	103	103
Total recognised income for the year	—	—	—	4,838	103	4,941
Transfer from retained profits	—	—	127	—	(127)	—
At 31 December 2005	11,429	164,342	3,387	2,799	22,396	204,353

Note: Pursuant to the relevant PRC regulations applicable to the Group's PRC subsidiaries, the subsidiaries have to provide for the PRC statutory reserves before declaring dividends to their shareholders as approved by the board of directors. The reserves, which include reserve fund and enterprise expansion fund, are not distributable until the end of the operation period, at which time any remaining balance of the reserves can be distributed to shareholders upon liquidation of the subsidiaries. The reserve fund can be used to offset accumulated losses of the subsidiaries. The reserve fund and enterprise expansion fund can be used to increase capital upon approval from the PRC relevant authorities. The distributable profits of the subsidiaries are determined based on their retained profits calculated in accordance with the PRC accounting rules and regulations.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005	2004
	US$'000	*US$'000*
OPERATING ACTIVITIES		
Profit before tax	250	14,693
Adjustments for:		
Depreciation of property, plant and equipment	8,064	7,679
Amortisation of land use rights	473	673
(Profit) loss on disposal/write-off of property, plant and equipment	(178)	21
Interest income	(1,033)	(749)
Interest expenses	4,787	3,142
Operating cash flows before movements in working capital	12,363	25,459
Increase in inventories	(2,809)	(2,999)
Increase in trade receivables	(539)	(4,845)
(Increase) decrease in amounts due from fellow subsidiaries	(980)	524
Increase in other receivables	(878)	(411)
Increase in trade payables	3,519	704
Increase in amount due to a fellow subsidiary	248	—
Increase (decrease) in other payables	292	(2,891)
Cash generated from operations	11,216	15,541
Income tax paid	(624)	—
Net cash from operating activities	10,592	15,541
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(7,561)	(8,442)
Increase in land use rights	—	(91)
Proceeds on disposal of property, plant and equipment	600	—
Interest received	1,033	749
Increase in pledged deposits	(254)	—
Net cash used in investing activities	(6,182)	(7,784)

	2005	2004
	US$'000	*US$'000*
FINANCING ACTIVITIES		
Proceeds from bank borrowings	2,760	8,500
Repayment of bank borrowings	(18,706)	(18,130)
Repayment of long-term payables	—	(724)
Interest paid	(4,787)	(3,018)
Net cash used in financing activities	(20,733)	(13,372)
Net decrease in cash and cash equivalents	(16,323)	(5,615)
Cash and cash equivalents at beginning of the year	59,378	64,992
Effect of foreign exchange rate change	(957)	1
Cash and cash equivalents at end of the year, represented by bank balances and cash	42,098	59,378

Notes to the Financial Statements

For the year ended 31 December 2005

2.1 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 2.34.

2.2 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

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.

2.3 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.

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 liabilities

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.

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.

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.

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.

2.4 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.

2.5 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

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

2004

Income statement

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

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

2.7 FINANCE COSTS

	2005	2004
	US$'000	*US$'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

2.8 PROFIT BEFORE TAX

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

2.9 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	Salaries and other benefits	Total
	US$'000	*US$'000*	*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.

2004

	Fees	Salaries and other benefits	Total
	US$'000	*US$'000*	*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.

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

2.10 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.

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

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

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

2.11 DIVIDEND

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

2.12 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.

2.13 INVENTORIES

	2005	2004
	US$'000	*US$'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.

2.14 TRADE RECEIVABLES

The aged analysis of trade receivables is as follows:

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

No interest is charged on overdue trade receivables.

2.15 AMOUNTS DUE FROM FELLOW SUBSIDIARIES

Name of related company	2005	2004
	US$'000	*US$'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	2004
	US$'000	*US$'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.

2.16 OTHER RECEIVABLES

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

2.17 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.

2.18 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.

2.19 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	2004
	US$'000	*US$'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.

2.20 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.

2.21 TRADE PAYABLES

The aged analysis of the trade payable is as follows:

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

2.22 AMOUNT DUE TO A FELLOW SUBSIDIARY

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

2.23 OTHER PAYABLES

	2005	2004
	US$'000	*US$'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

2.24 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.

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.

2.25 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 US$ *(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:

	2005	2004
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.

2.26 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).

2.27 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 LIABILITIES	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.

2.28 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

2.29 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	**2004**
	US$'000	*US$'000*
Property, plant and equipment	137,195	139,099
Land use rights	16,515	16,532
Bank deposits	496	242
	154,206	155,873

2.30 OPERATING LEASE ARRANGEMENTS

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

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

2.31 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.

2.32 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.

2.33 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**	**2004**
		US$'000	*US$'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).

2.34 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.

3. UNAUDITED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2006

Set out below is a summary of the unaudited financial statements for the Group for the six months ended 30 June 2006 and one unaudited balance sheet of the Group as at 30 June 2006, extracted from the Company's unaudited financial statements for the six months ended 30 June 2006 as set out in the Company interim report.

Condensed Consolidated Income Statement

For the six months ended 30 June 2006

	NOTES	**Six months ended 30.6.2006** *(unaudited)* *US$'000*	**30.6.2005** *(unaudited)* *US$'000*
Revenue	3.3	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	3.4	(2,821)	(2,218)
Other expenses		(73)	(95)
Profit (loss) before tax	3.5	3,238	(1,157)
Income tax expense	3.6	(432)	—
Profit (loss) for the period		2,806	(1,157)
Dividend	3.7	—	—
Earnings (loss) per share — basic (US cents)	3.8	0.25	(0.10)

Condensed Consolidated Balance Sheet

At 30 June 2006

	NOTES	**30.6.2006** *(unaudited)* *US$'000*	**31.12.2005** *(audited)* *US$'000*
ASSETS			
CURRENT ASSETS			
Inventories		17,485	16,147
Trade receivables	3.9	12,225	13,913
Amounts due from fellow subsidiaries	3.10	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	3.11	219,172	213,828
Land use rights		17,512	17,590
		236,684	231,418
TOTAL ASSETS		324,845	311,993

	NOTES	**30.6.2006**	**31.12.2005**
		(unaudited)	*(audited)*
		US$'000	*US$'000*
EQUITY AND LIABILITY			
CAPITAL AND RESERVES			
Share capital	3.12	11,429	11,429
Share premium and reserves		197,558	192,924
		208,987	204,353
CURRENT LIABILITIES			
Trade payables	3.13	8,304	7,697
Amount due to a fellow subsidiary	3.14	250	248
Other payables		2,373	3,885
Bank borrowings	3.15	23,541	21,900
		34,468	33,730
NON-CURRENT LIABILITY			
Bank borrowings	3.15	81,390	73,910
TOTAL LIABILITIES		115,858	107,640
TOTAL EQUITY AND LIABILITIES		324,845	311,993

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Share capital	Share premium	PRC statutory reserves	Exchange translation reserve	Retained profits	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2005	11,429	164,342	3,260	(2,039)	22,420	199,412
Loss for the period	—	—	—	—	(1,157)	(1,157)
At 30 June 2005	11,429	164,342	3,260	(2,039)	21,263	198,255
At 1 January 2006	11,429	164,342	3,387	2,799	22,396	204,353
Exchange gain arising on translation of foreign operations, representing total income recognised directly in equity	—	—	—	1,828	—	1,828
Profit for the period	—	—	—	—	2,806	2,806
At 30 June 2006	11,429	164,342	3,387	4,627	25,202	208,987

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Six months ended	
	30.6.2006	**30.6.2005**
	(unaudited)	*(unaudited)*
	US$'000	*US$'000*
Net cash from (used in) operating activities	6,947	(5,231)
Investing activities		
Purchases of property, plant and equipment	(7,672)	(2,043)
Proceeds on disposal of property, plant and equipment	155	592
Interest received	484	498
Decrease (increase) in pledged deposits	496	(1,691)
Net cash used in investing activities	(6,537)	(2,644)
Financing activities		
New bank loans raised	20,501	4,317
Repayments of bank borrowings	(11,380)	(8,472)
Interest paid	(2,821)	(2,217)
Net cash from (used in) financing activities	6,300	(6,372)
Net increase (decrease) in cash and cash equivalents	6,710	(14,247)
Cash and cash equivalents at beginning of the period	42,098	59,378
Effect of foreign exchange rate change	(344)	—
Cash and cash equivalents at end of the period, represented by bank balances and cash	48,464	45,131

Notes To The Condensed Financial Statements

For the six months ended 30 June 2006

3.1 BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and with International Accounting Standard 34 “Interim Financial Reporting”.

3.2 SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis and in accordance with IFRS.

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

3.3 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)

3.4 FINANCE COSTS

	Six months ended	
	30.6.2006	**30.6.2005**
	(unaudited)	*(unaudited)*
	US$'000	*US$'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

3.5 PROFIT (LOSS) BEFORE TAX

	Six months ended	
	30.6.2006	**30.6.2005**
	(unaudited)	*(unaudited)*
	US$'000	*US$'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	—

3.6 INCOME TAX EXPENSE

The charge for the period represents provision for PRC enterprise income tax for one of the Company's PRC subsidiaries, 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.

3.7 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).

3.8 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.

3.9 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.

3.10 AMOUNTS DUE FROM FELLOW SUBSIDIARIES

	30.6.2006	**31.12.2005**
	(unaudited)	*(audited)*
	US$'000	*US$'000*
Union Cement	2,949	2,522
Shanghai Chia Hsin Ganghui Company Limited ("Ganghui")	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.

3.11 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group's acquisition of property, plant and equipment amounted to US$7,672,000 (six months ended 30 June 2005: US$2,043,000).

3.12 SHARE CAPITAL

	30.6.2006 & 31.12.2005	
	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 six months ended 30 June 2006 and 2005.

3.13 TRADE PAYABLES THE AGED ANALYSIS OF THE TRADE PAYABLES IS AS FOLLOWS:

	30.6.2006	31.12.2005
	(unaudited)	*(audited)*
	US$'000	*US$'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

3.14 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.

3.15 BANK BORROWINGS

	30.6.2006	31.12.2005
	(unaudited)	*(audited)*
	US$'000	*US$'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 US$ *(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 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.

3.16 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).

3.17 CAPITAL COMMITMENTS

	30.6.2006	**31.12.2005**
	(unaudited)	*(audited)*
	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	2,644	5,957

3.18 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:

	30.6.2006	**31.12.2005**
	(unaudited)	*(audited)*
	US$'000	*US$'000*
Property, plant and equipment	135,819	137,195
Land use rights	16,447	16,515
Bank deposits	—	496
	152,266	154,206

3.19 OPERATING LEASE ARRANGEMENTS

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

	30.6.2006	**31.12.2005**
	(unaudited)	*(audited)*
	US$'000	*US$'000*
Within one year	148	133
In the second to fifth years inclusive	52	99
	200	232

Operating lease payments represent 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.

3.20 RELATED PARTY TRANSACTIONS

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

		Six months ended	
Nature of transaction	**Name of related company**	**30.6.2006**	**30.6.2005**
		(unaudited)	*(unaudited)*
		US$'000	*US$'000*
Sales of goods *(note i)*	Ganghui	1,166	4,400
Purchase of goods *(note ii)*	Union Cement	11,282	4,972
Consultancy fee paid *(note ii)*	Business Consulting	125	121
Licence fee income (note ii)	Ganghui	14	22
Vehicle rentals paid (note ii)	Business Consulting	47	45

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

Notes:

(i) Sales transactions were carried out at cost plus a percentage of profit mark-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 period, the Group paid remunerations of short-term benefit to Directors and other members of key management amounting to approximately US$339,000 (six months ended 30 June 2005: US$344,000).

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Six months ended 30 June 2006 compared to six month ended 30 June 2005

Turnover

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

	Six months ended			
	30 June 2006		**30 June 2005**	
Types	**Turnover**	**Percentage**	**Turnover**	**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
	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
	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 turnover 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	
Regions	**Turnover**	**Percentage**	**Turnover**	**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 turnover, 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 primarily benefited from the upgraded production capacity, the use of its trading right and the successful expansion into the overseas market. 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. This was 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. The proportion of the turnover of grade 52.5 cement reached 82.4%, an increase of 55.4 percentage points over the same period of last year. This was a record high in recent years.

Turnover Attributable to the Largest Customer and the Five Largest Customers

For the six months ended 30 June 2006, the turnover from the largest customer of the Group was 35.0% of total turnover and the turnover from the five largest customers of the Group was 68.6% of the total turnover.

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. This was mainly attributable to the followings: increased production capacity for export sales and a more thorough annual overhaul on its production facilities during the low season. 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 21.6% 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. Union Cement is indirectly controlled by Chia Hsin Pacific Limited ("CHPL") (the major shareholder of the Group), and is a connected person (as defined by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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.

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		
Types	**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
	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
	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 point 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.

Operating Costs

Having persisted on an operational model focused on export sales by the Group, the package and transportation expenses have been substantially reduced. Besides, the high management level has also produced visible results in its 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.

Finance Costs

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

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. The exchange gain derived from the revaluation of Renminbi and the interest income amounted to US$706,000 and US$484,000 respectively.

2005 compared to 2004

Turnover

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

	2005		**2004**	
Types	**Turnover**	**Percentage**	**Turnover**	**Percentage**
	US$'000	*%*	*US$'000*	*%*
Domestic sales				
52.5 cement	14,239	15.6	21,364	26.1
42.5 cement	38,504	42.1	42,739	52.2
32.5 cement	10,257	11.2	15,505	18.9
Clinker	2,030	2.2	1,340	1.6
	65,030	71.1	80,948	98.8
Export				
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 such as 52.5 cement and 42.5 cement which requires higher technological capabilities. The proportion of turnover of high grade cement reached 81.0%, representing 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, 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**	**Percentage**	**Turnover**	**Percentage**
	US$'000	*%*	*US$'000*	*%*
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 United States	15,729	17.2	996	1.2
Other sales regions	10,726	11.7	—	—
Total	91,485	100.0	81,944	100.0

Since the market price of cement in the PRC was lower, the Group actively developed the export markets such as United States, New Zealand, United Arab Emirates and Nigeria 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.

Cost of sales

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, 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.

Breakdown on cost of sales

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

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

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

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:

	2005			2004		
Types	**Gross profit**	**Percentage**	**Gross profit margin**	**Gross profit**	**Percentage**	**Gross profit margin**
	US$'000	*%*	*%*	*US$'000*	*%*	*%*
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
	8,524	62.0	13.1	27,599	98.5	34.2
Export						
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

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.

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.

Income tax expense

Pursuant to the income tax law for foreign enterprises in the PRC, Jingyang Cement, being a wholly foreign owned enterprise, is entitled to a tax concession period in which it is fully exempted from PRC enterprise income tax for the two years commencing from its first profit-making year, followed by a 50% reduction in PRC enterprise income tax for the next three years. The first profit-making year of Jingyang Cement was 2003 and therefore, there was not any PRC enterprise income tax in 2004. It 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.

Outlook

The Directors are of the view that the second half of 2006 will witness a healthier and more rational economic growth due to the implementation of a new round of austerity control measures, which may include a combination of interest rates, land, taxation and exchange rate policies. The oversupply of the cement industry of the PRC will improve gradually and profitability will slowly begin to rise. Uncertainties in the further increase in growth rate for export sales exist but the annual export volume is expected to remain high.

Fixed asset investment will drive the growth of cement production

The Directors believe that substantial fixed asset investments, particularly in infrastructure, such as the 9 key railways requiring over 100 million tons of cement, and construction of new rural areas as well as cities and towns requiring approximately 450 million tons of cement, will continue to grow rapidly, driving the growth in cement demand.

Prices of cement is expected to steadily increase

In the wake of a decrease in fixed asset investment of the cement industry, growth in newly added production capacity will further slow down. It is anticipated that 61 production lines using the new dry process technology, corresponding to an increase of 70 million tonnes in clinker capacity, will be added. This represents 50 production lines and 31.84 million tonnes of clinker capacity less than that of last year. As a whole, the prices of cement will revive gradually. According to the forecast by the Chinese Cement Association, prices of cement in 2006 will rise by a small margin of approximately 5% from that of 2005.

Uncertainty increases as a result of the rapid growth in export sales

Though uncertainty remains in the USA property markets and tax rebates for cement have been reduced from 13% to 11%, the Directors hold an optimistic view on cement export for the year and believe well-positioned companies will be capable of shifting a portion of the burden of increased costs to the downstream companies. The United States will continue to require approximately 30 to 32 million tonnes of import to satisfy the shortage of domestic production. According to the forecast by Statistics for Construction Materials Industries, PRC export volume of cement and clinker for the entire year will amount to approximately 41.16 million tonnes, an increase of 86% over the same period of last year. The Group will capitalize on the advantage of its expanding jetty access to capture the currently favorable export situation and enhance the Group's profitability.

Structural adjustment policy favors the long-term development of the cement industry

The National Development and Reform Commission issued the Notice on Opinions Regarding the Speeding up of the Structural Adjustment of the Cement Industry at the end of April this year, highlighting the objectives for the structural adjustment of the cement industry during the "Eleventh Five-Year Plan". The objectives include:

a) total capacity reaching 1.25 billion tonnes by 2010, of which the proportion of new dry process production should be raised to 70%;

b) rate of bulk cement should reach 60%;

c) accumulated weeding out of backward production capacity should reach 250 million tonnes;

d) The average production scale of companies should increase from 200,000 tonnes in 2005 to approximately 400,000 tonnes, and the total number of companies should be reduced to approximately 3,500;

e) The average production scale of the top ten cement manufacturers should be over 30 million tonnes each and concentration of production should be raised to 30%; and

f) the concentration of production of the top 50 manufacturers should be raised to over 50%.

The Directors view that the supply and demand of the cement industry in the PRC for the second half of the year will improve, although revival of the industry will be slowed as the new austerity control policies take into effect.

5. ADDITIONAL FINANCIAL INFORMATION

Liquidity and financial resources

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.

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.

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.

Capital structure

Funding and treasury policies

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.

Exposure to exchange rate and any related hedges

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.

Extent to which borrowings are at fixed interest rates

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.

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.

Future plan for material investment or capital assets and their expected sources of funding in the coming year

The Group intends to enlarge its scale through capital restructuring and is currently evaluating the synergies created through exercising the option to purchase Union Cement. We also remain open to developing alliances with foreign partners to increase our influence in the Chinese markets.

Gearing ratio

	2005	2004	Increase/ decrease
Gearing ratio *(note)*	30.7%	35.0%	- 4.3%

Note: Gearing ratio = Total interest-bearing borrowings/total assets

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.

6. INDEBTEDNESS

As at the close of business on 31 August 2006, being the latest practicable date for this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately US$127.52 million (equivalent of approximately HK$989.79 million), comprising a secured bank loan of approximately US$111.05 million (equivalent of approximately HK$861.98 million), unsecured bank loan of approximately US$5.03 million (equivalent of approximately HK$39.01 million) and unsecured borrowing from its fellow subsidiary of approximately US$11.44 million (equivalent of approximately HK$88.80 million). The secured loans were secured by property, plant and equipment and land use right of the Enlarged Group with a carrying amount of approximately US$169.18 million (equivalent of approximately HK$1,313.17 million) and US$21.81 million (equivalent of approximately HK$169.29 million) respectively.

Saved as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have outstanding at the close of business on 31 August 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

7. WORKING CAPITAL

The Directors are of the opinion that, taking into account the internal resources and banking facilities currently available to the Enlarged Group, the Enlarged Group will have sufficient working capital to satisfy its present requirements for the period ending 12 months from the date of this circular.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, being the date at which the latest published audited financial statement of the Group were made up.

The following is the full text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accoutants, Hong Kong. As described in the paragraph headed "Documents for Inspection" in Appendix V, a copy of the accountants' report is available for inspection.

Deloitte.
德勤

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香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

10 October 2006

The Directors
Chia Hsin Cement Greater China Holding Corporation

Dear Sirs,

We set out below our report on the financial information set out in sections A to C ("Financial Information") below regarding Yonica (BVI) Pte. Ltd. (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 ("the Relevant Periods") for inclusion in the circular dated 10 October 2006 ("the Circular") issued by Chia Hsin Cement Greater China Holding Corporation ("CHCGC") in connection with the acquisition of the 100% equity interest in the Company.

The Company was incorporated in the British Virgin Islands ("BVI") with limited liability on 6 July 2006 and its principal activity is investment holding. The Company's immediate holding company and ultimate holding company are Chia Hsin Pacific Limited ("CHPL"), a company incorporated in Cayman Islands, and Chia Hsin Cement Corporation ("CHC"), a company registered in Taiwan, respectively.

Particulars of the Company's subsidiary as at date of this report are as follows:

Name	Place and date of incorporation	Registered and paid up capital	Proportion of nominal value of issued capital held directly by the Company	Principal activities
Jiangsu Union Cement Co., Ltd. 江蘇聯合水泥有限公司 ("Union Cement")	People's Republic of China (the "PRC") 20 November 1996	Registered capital US$58,000,000 Paid up capital US$43,700,131	80%	Manufacturing, processing, and marketing of cement

On 31 August 2006, the Company and Yonica Pte Ltd ("Yonica Singapore"), a wholly owned subsidiary of CHPL, entered into agreements involving the transfer of Yonica Singapore's 80% interest in Union Cement and the assignment of the shareholder's loan in the amount of US$11,440,000 due from Union Cement from Yonica Singapore to the Company at a consideration of US$43,022,013. Upon the completion of this transaction (the "Group Reorganisation"), the Company has become the holding company of Union Cement.

No audited financial statements of the Company for the Relevant Periods were prepared as it is incorporated after the Relevant Periods.

The statutory financial statements of Union Cement for each of the three years ended 31 December 2005, which were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises established in the PRC, were audited by Jiangsu Lixin Certified Public Accountants Office Co., Ltd. (江蘇立信會計事務所有限公司). The financial statements of Union Cement for each of the three years ended 31 December 2005, which were prepared in accordance with the International Financial Reporting Standards ("IFRSs"), were audited by Deloitte Touche Tohmatsu Certified Public Accountants Ltd., China, a member firm of Deloitte Touche Tohmatsu, in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. No audited financial statements have been prepared for the six months ended 30 June 2006. For the purpose of this report, we have undertaken independent audit procedures in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") on the management accounts of Union Cement for the six months ended 30 June 2006, which were prepared in accordance with IFRSs. There is no significant difference between the IFRSs and the Hong Kong Financial Reporting Standards on the financial statements or management accounts of Union Cement.

We have examined the financial statements or management accounts of Union Cement in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The financial statements and management accounts of Union Cement are the responsibility of the directors of Union Cement. The directors of CHCGC are responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the financial statements or management accounts of Union Cement, to form an opinion on the Financial Information for the Group and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2003, 2004 and 2005 and 30 June 2006 and of the results and cash flows of the Group for each of the three years ended 31 December 2005 and the six months ended 30 June 2006.

The comparative combined income statements, combined statements of changes in equity and combined cash flow statements of the Group for the six months ended 30 June 2005 together with the notes thereon have been extracted from the Group's combined financial information for the same period (the "30 June 2005 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 June 2005 Financial

Information in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. Our review consisted principally of making enquiries of the Group's management and applying analytical procedures to the 30 June 2005 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2005 Financial Information.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2005 Financial Information.

A. FINANCIAL INFORMATION

Combined income statements

		Year ended 31 December			Six months ended 30 June	
	Note	**2003**	**2004**	**2005**	**2005**	**2006**
		US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
					(unaudited)	
Revenue	6	7,890	12,751	33,365	14,949	22,582
Cost of sales		(7,134)	(12,114)	(33,165)	(15,726)	(18,927)
Gross profit (loss)		756	637	200	(777)	3,655
Interest income		78	153	56	17	52
Other income		403	285	359	165	113
Distribution costs		(373)	(445)	(749)	(368)	(456)
Administrative expenses		(440)	(1,029)	(1,435)	(899)	(1,024)
Other operating expenses		(341)	(2,894)	—	—	—
Finance costs	8	(8)	—	(1,262)	(582)	(703)
Profit (loss) before tax		75	(3,293)	(2,831)	(2,444)	1,637
Income tax expense	10	—	—	—	—	—
Profit (loss) for the year/period	11	75	(3,293)	(2,831)	(2,444)	1,637
Attributable to:						
Equity holders of the Company		60	(2,634)	(2,265)	(1,955)	1,310
Minority interests		15	(659)	(566)	(489)	327
		75	(3,293)	(2,831)	(2,444)	1,637
Dividend	12	—	—	—	—	—
Earnings per share	13	N/A	N/A	N/A	N/A	N/A

Combined balance sheets

	Notes	**As at 31 December**			**As at 30 June**
		2003	**2004**	**2005**	**2006**
		US$'000	*US$'000*	*US$'000*	*US$'000*
ASSETS					
CURRENT ASSETS					
Inventories	14	650	2,689	4,916	3,855
Trade and other receivables	15	3,304	2,823	2,077	1,335
Amount due from intermediate holding company	16	—	—	—	11
Amount due from a related company	16	296	—	—	—
Amount due from a minority shareholder of a subsidiary	16	1	—	—	—
Pledged deposits	17	1,966	527	379	794
Bank balances and cash	15	17,499	6,080	7,494	9,864
		23,716	12,119	14,866	15,859
NON-CURRENT ASSETS					
Property, plant and equipment	18	15,019	53,413	52,184	49,947
Land use rights	19	5,667	5,819	5,740	5,680
		20,686	59,232	57,924	55,627
TOTAL ASSETS		44,402	71,351	72,790	71,486
EQUITY AND LIABILITY					
CAPITAL AND RESERVES					
Paid up capital	20	34,960	34,960	34,960	34,960
Reserves		(1,541)	(3,861)	(5,102)	(3,378)
		33,419	31,099	29,858	31,582
MINORITY INTERESTS		8,355	7,775	7,465	7,896
TOTAL SHAREHOLDERS' EQUITY		41,774	38,874	37,323	39,478

	Notes	As at 31 December			As at 30 June
		2003	2004	2005	2006
		US$'000	US$'000	US$'000	US$'000
CURRENT LIABILITIES					
Trade and other payables	21	2,508	6,369	7,654	5,538
Loan from immediate holding company	22	—	—	11,440	11,440
Amount due to immediate holding company	23	—	169	221	219
Amounts due to fellow subsidiaries	23	—	1,204	2,522	1,048
Amount due to a minority shareholder of a subsidiary	23	120	1	—	2
Borrowings	25	—	10,876	11,152	11,259
		2,628	18,619	32,989	29,506
NON-CURRENT LIABILITIES					
Loan from immediate holding company	22	—	11,440	—	—
Borrowings	25	—	2,418	2,478	2,502
		—	13,858	2,478	2,502
TOTAL LIABILITIES		2,628	32,477	35,467	32,008
TOTAL EQUITY AND LIABILITIES		44,402	71,351	72,790	71,486

Combined statements of changes in equity

	Attributable to equity holders of the Group							
	Share capital	Capital reserve	Other reserve	Exchange translation reserve	Accumulated losses	Total	Minority interests	Total
	US$'000	*US$'000*	*US$'000* *(Note)*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
For the year ended 31 December 2003								
At 1 January 2003	6,986	163	—	89	(1,779)	5,459	6,772	12,231
Exchange difference arising on translation to presentation currency	—	—	—	(74)	—	(74)	(18)	(92)
Profit for the year	—	—	—	—	60	60	15	75
Total recognised loss for the year	—	—	—	(74)	60	(14)	(3)	(17)
Capital injection	27,974	—	—	—	—	27,974	1,586	29,560
At 31 December 2003	34,960	163	—	15	(1,719)	33,419	8,355	41,774
For the year ended 31 December 2004								
At 1 January 2004	34,960	163	—	15	(1,719)	33,419	8,355	41,774
Exchange difference arising on translation to presentation currency	—	—	—	10	—	10	2	12
Loss for the year	—	—	—	—	(2,634)	(2,634)	(659)	(3,293)
Total recognised income (loss) for the year	—	—	—	10	(2,634)	(2,624)	(657)	(3,281)
Capital contribution from ultimate holding company	—	—	304	—	—	304	77	381
At 31 December 2004	34,960	163	304	25	(4,353)	31,099	7,775	38,874

	Attributable to equity holders of the Group							
	Share capital	**Capital reserve**	**Other reserve**	**Exchange translation reserve**	**Accumulated losses**	**Total**	**Minority interests**	**Total**
	US$'000	*US$'000*	*US$'000* *(Note)*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
For the year ended 31 December 2005								
At 1 January 2005	34,960	163	304	25	(4,353)	31,099	7,775	38,874
Exchange difference arising on translation to presentation currency	—	—	—	790	—	790	198	988
Loss for the year	—	—	—	—	(2,265)	(2,265)	(566)	(2,831)
Total recognised loss for the year	—	—	—	790	(2,265)	(1,475)	(368)	(1,843)
Capital contribution from ultimate holding company	—	—	234	—	—	234	58	292
At 31 December 2005	34,960	163	538	815	(6,618)	29,858	7,465	37,323
For the six months ended 30 June 2006								
At 1 January 2006	34,960	163	538	815	(6,618)	29,858	7,465	37,323
Exchange difference arising on translation to presentation currency	—	—	—	286	—	286	72	358
Profit for the period	—	—	—	—	1,310	1,310	327	1,637
Total recognised income for the period	—	—	—	286	1,310	1,596	399	1,995
Capital contribution from ultimate holding company	—	—	128	—	—	128	32	160
At 30 June 2006	34,960	163	666	1,101	(5,308)	31,582	7,896	39,478

	Attributable to equity holders of the Group							
	Share capital	Capital reserve	Other reserve	Exchange translation reserve	Accumulated losses	Total	Minority interests	Total
	US$'000	*US$'000*	*US$'000* *(Note)*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
For the six months ended 30 June 2005 (unaudited)								
At 1 January 2005	34,960	163	304	25	(4,353)	31,099	7,775	38,874
Exchange difference arising on translation to presentation currency	—	—	—	118	—	118	29	147
Loss for the period	—	—	—	—	(1,955)	(1,955)	(489)	(2,444)
Total recognised loss for the period	—	—	—	118	(1,955)	(1,837)	(460)	(2,297)
Capital contribution from ultimate holding company	—	—	139	—	—	139	35	174
At 30 June 2005	34,960	163	443	143	(6,308)	29,401	7,350	36,751

Note: Other reserve represents the capital contribution arising from the salaries, retirement benefit costs and other benefits paid to senior management of the Group by the ultimate holding company.

Combined cash flow statements

	Note	Year ended 31 December 2003	2004	2005	Six months ended 30 June 2005	2006
		US$'000	*US$'000*	*US$'000*	*US$'000* *(unaudited)*	*US$'000*
OPERATING ACTIVITIES						
Profit (loss) before tax		75	(3,293)	(2,831)	(2,444)	1,637
Adjustments for:						
Depreciation of property, plant and equipment		604	589	3,126	1,504	1,552
Amortisation of land use rights		113	284	228	111	115
Loss (gain) on disposal of property, plant and equipment		22	1,642	(8)	(13)	—
Interest income		(78)	(153)	(56)	(17)	(52)
Interest expenses		8	—	1,262	582	703
Salaries, retirement benefit costs and other benefits paid by ultimate holding company	29	—	381	292	174	160
Written back of allowance for doubtful debts		(36)	(30)	—	—	(23)
Operating cash flows before movements in working capital		708	(580)	2,013	(103)	4,092
Decrease (increase) in inventories		213	(2,039)	(2,227)	(439)	1,061
(Increase) decrease in trade and other receivables		(1,549)	449	751	(585)	767
Increase (decrease) in trade and other payables		738	3,861	1,285	1,217	(485)
Increase (decrease) in amounts due to fellow subsidiaries		—	686	1,836	(—)	(1,474)
Cash generated from operations		110	2,377	3,658	90	3,961
Income tax paid		—	—	—	—	—
NET CASH FROM OPERATING ACTIVITIES		110	2,377	3,658	90	3,961
INVESTING ACTIVITIES						
Purchase of property, plant and equipment		(10,602)	(40,392)	(553)	(3)	(445)
Increase in land use rights		(1,648)	(371)	—	—	—
Proceeds on disposal of property, plant and equipment		—	308	21	13	—
Interest received		78	153	56	17	52
(Increase) decrease in pledged deposits		(959)	1,439	148	152	(415)
Advance to intermediate holding company		—	—	—	—	(11)
(Advance to) repayment from a related company		(296)	296	—	—	—

	Note	Year ended 31 December			Six months ended 30 June	
		2003	**2004**	**2005**	**2005**	**2006**
		US$'000	*US$'000*	*US$'000*	*US$'000 (unaudited)*	*US$'000*
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(13,427)	(38,567)	(328)	179	(819)
FINANCING ACTIVITIES						
New bank loans raised		—	13,294	8,674	—	2,502
Repayment of bank loans		(243)	—	(8,459)	—	(2,478)
Advance from immediate holding company		—	11,440	—	—	—
Interest paid		(8)	(366)	(1,210)	(590)	(705)
Capital injection from shareholders		29,560	—	—	—	—
Advance from (repayment to) fellow subsidiaries		—	518	(518)	(886)	—
Advance from (repayment to) a minority shareholder of a subsidiary		119	(118)	(1)	—	2
NET CASH FROM (USED IN) FINANCING ACTIVITIES		29,428	24,768	(1,514)	(1,476)	(679)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		16,111	(11,422)	1,816	(1,207)	2,463
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		1,412	17,499	6,080	6,080	7,494
EFFECT OF FOREIGN EXCHANGE RATE CHANGE		(24)	3	(402)	17	(93)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, REPRESENTED BY BANK BALANCES AND CASH		17,499	6,080	7,494	4,890	9,864

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Yonica (BVI) Pte. Ltd. is a company with limited liability incorporated in the BVI. The address of the registered office of the Company is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI. The principal place of business of the Company is PRC.

The Company acts as an investment holding company.

The Financial Information are presented in United States dollars ("US$"), which is different from the functional currency of the Company. The functional currency of the Company is Renminbi ("RMB"). For the purpose for inclusion of the Financial Information in the Circular, the Financial Information are presented in US$, which is the same as the presentation currency of CHCGC.

2. BASIS OF PRESENTATION AND PREPARATION OF FINANCIAL INFORMATION

The combined income statements, combined statements of changes in equity and combined cash flow statements for each of the three years ended 31 December 2005 and the six months ended 30 June 2005 and 30 June 2006 represent the results, changes in equity and cash flows of Union Cement as if the Company had always been the holding company of Union Cement and in accordance with the 80% equity interests in Union Cement attributable to CHPL, the existing immediate holding company, throughout the Relevant Periods.

The combined balance sheets as at 31 December 2003, 31 December 2004, 31 December 2005 and 30 June 2006 have been prepared to present the assets and liabilities of Union Cement as if the group structure after the Group Reorganisation had been in existence at those dates and in accordance with the 80% equity interest in Union Cement attributable to CHPL.

As the Company is incorporated after the Relevant Periods, balance sheets, statements of changes in equity and the accompanying notes thereto of the Company for the Relevant Periods and the six months ended 30 June 2005 are not presented.

The Financial Information has been prepared on a going concern basis because the loan from immediate holding company will be assigned from Yonica Singapore to the Company and Yonica Singapore and CHCGC have agreed to provide adequate financial support to enable the Group to meet its financial obligations as they fall due before and after the Group Reorganisation respectively.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2004, the International Accounting Standards Boards (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB issued a number of new or revised International Accounting Standards ("IAS"), IFRSs and Interpretations (hereinafter collectively referred to as "new IFRSs") which are effective for accounting periods beginning on or after 1 January 2005, 1 December 2005 and 1 January 2006. The application of these new IFRSs throughout the Relevant Periods has no material effect on how the result for the Relevant Periods are prepared and presented.

The Group has not early adopted the following new and revised Standards, Amendments and Interpretations that were in issue but not yet effective in the Relevant Periods. The directors of the Company have considered these new or revised Standards, Amendments and Interpretations but do not expect that they will have any material impact on the results and financial positions of the Group.

IAS 1 (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

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with the following principal accounting policies which conform with IFRSs. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Basis of consolidation

The Financial Information incorporates the financial information of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policy of an entity so as to obtain benefits from its activities.

Inter-company transactions, balances and unrealised gains on transactions between group enterprises are eliminated on consolidation; unrealised loss are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other members of the Group.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Merger accounting for common control combination

The Financial Information incorporates the financial statement items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or business first came under the common control, where this is a shorter period, regardless of the common control combination.

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 entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Loan and receivables

Loan and receivables (including trade and other receivables, amount due from intermediate holding company, amount due from a related company, amount due from a minority shareholder of a subsidiary, bank deposits and balances) are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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 and overdrafts are initially measured at fair value, and are subsequently measured at amortised costs, using the effective interest method.

Other financial liabilities

Other financial liabilities include trade and other payables, loan from immediate holding company, amount due to immediate holding company, amounts due to fellow subsidiaries and amount due to a minority shareholder of a subsidiary which are measured at initial recognition at fair value, and subsequently measured at amortised cost using the effective interest 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 of 0% - 10%, using the straight-line method, as follows:

	Residual rate	**Useful life**
Buildings	0% - 10%	20 - 25 years
Fixtures and equipment	0% - 10%	5 - 15 years
Motor vehicles	0% - 10%	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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year/period in which the item is derecognised.

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 rights.

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.

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.

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). 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 combined financial statements, the assets and liabilities of the Group's foreign operations are translated in US$ 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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantively ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as an expense 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/period. 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/periods 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 statements 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.

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.

5. 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 prepaid lease rentals

The Group assesses annually whether property, plant and equipment and prepaid lease rentals have any indication of impairment, in accordance with the relevant accounting policies. The recoverable amounts of property, plant and equipment and prepaid lease rentals 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.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

Impairment losses recognised in respect of trade receivables

The provisioning policy for bad and doubtful debts of the Group is based on the estimation of the future cash flow with evaluation of collectability and aged analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate recoverability of these receivables, including the current creditworthiness and the past collection history of each customer.

If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairments may be required.

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.

6. REVENUE

Revenue represents revenue on sales of cement and clinker recognised.

7. GEOGRAPHICAL AND BUSINESS SEGMENTS

Geographical segments

All of the Group's turnover and contribution to operating result is attributable to customers in the PRC. Accordingly, no analysis of geographical segment is presented.

No geographical segment information of the Group's assets and liabilities is shown as the Group's assets and liabilities 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 the Relevant Periods as the directors consider that the Group operates in a single business segment.

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*	*US$'000* *(unaudited)*	*US$'000*
Interest on bank borrowings wholly repayable within five years	8	366	638	263	289
Interest on other loan wholly repayable within five years	—	47	125	60	66
Interest on loan from immediate holding company wholly repayable within five years	—	122	499	259	348
Less: Amounts included in the cost of qualifying assets	—	(535)	—	—	—
	8	—	1,262	582	703

Borrowing cost capitalised in 2004 arose on the general borrowing pool of the Group were calculated by applying a capitalisation rate of 4.71% to expenditure on the qualifying assets.

9. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

No emoluments have been paid to the directors of the Group during the Relevant Periods and the six months ended 30 June 2005.

The emoluments of the top five highest paid individuals of the Group for the Relevant Periods and the six months ended 30 June 2005 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Basic salaries and other benefits	17	356	268	162	148
Retirement benefit costs	7	25	24	12	12
	24	381	292	174	160

The emoluments for top five individuals were within the following band:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	Number of individuals	**Number of individuals**	**Number of individuals**	**Number of individuals**	**Number of individuals**
Nil - HK$1,000,000 (equivalent to US$128,883)	5	5	5	5	5

During the Relevant Periods and the six months ended 30 June 2005, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

10. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to relevant laws and regulations in the PRC, the Company's subsidiary, Union Cement, as a 80% foreign owned enterprise, is exempted from PRC enterprise income tax for two years starting from its first profit-making year after offsetting all unexpired tax losses carried forward from prior years, followed by a 50% reduction for the next three years. The normal tax rate applicable to Union Cement is 27%, comprising the standard tax rate of 24% and the local tax rate of 3%.

No provision for PRC enterprise income tax was made in the financial statements of Union Cement for the Relevant Periods as Union Cement incurred tax losses.

The nil income tax expense for the Relevant Periods can be reconciled to the profit (loss) before tax per combined income statements as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*	*US$'000* *(unaudited)*	*US$'000*
Profit (loss) before tax	75	(3,293)	(2,831)	(2,444)	1,637
Tax at the PRC enterprise income tax rate of 27%	20	(889)	(764)	(660)	442
Tax effect of expenses not deductible for tax purpose	107	135	97	85	48
Tax effect of income not deductible for tax purpose	(6)	(10)	—	—	—
(Utilisation)/tax effect of tax losses not recognised	(174)	495	912	577	(475)
Tax effect/(utilisation) of deductible temporary difference not recognised	53	269	(230)	—	—
Others	—	—	(15)	(2)	(15)
Income tax expense	—	—	—	—	—

The Group had unused tax losses of approximately US$342,000, US$2,178,000, US$5,555,000 and US$3,795,000 available to offset future profits at 31 December 2003, 2004, 2005 and 30 June 2006 respectively. No deferred taxation has been recognised in respect of such tax losses in the financial statements as it is uncertain that tax benefits will be realised in the future. Pursuant to the relevant laws and regulations in the PRC, the unrecognised tax losses at the balance sheet dates will expire in the following years:

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*	*US$'000*
2006	153	153	157	—
2007	189	189	194	—
2008	—	—	—	
2009	—	1,836	1,882	440
2010	—	—	3,323	3,355
	342	2,178	5,556	3,795

11. PROFIT (LOSS) FOR THE YEAR/PERIOD

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Profit (loss) for the year/period has been arrived at after charging:					
Amortisation of land use rights	113	284	228	111	115
Auditors' remuneration	6	44	27	19	23
Depreciation of property, plant and equipment	604	589	3,126	1,504	1,552
Loss on disposal of property, plant and equipment	22	1,642	—	—	—
Net foreign exchange loss	16	10	—	—	—
Staff costs					
Directors' emoluments	—	—	—	—	—
Other staff costs	1,035	1,432	2,459	947	1,295
Total staff cost	1,035	1,432	2,459	947	1,295
and after crediting:					
Value added tax refund (note)	379	255	278	87	98
Net foreign exchange gain	—	—	—	—	108
Gain on disposal of property, plant and equipment	—	—	8	13	—
Written back of allowance for doubtful debts	36	30	—	—	23

Note: Pursuant to the approval documents from the Zhenjiang tax bureau, Union Cement is entitled to a value added tax refund from the local tax bureau due to the usage of waste residue.

12. DIVIDEND

No dividend has been paid or declared by the Company for the Relevant Periods as the Company has not been formed. No dividend has been paid or declared by Union Cement for the Relevant Periods.

13. EARNINGS PER SHARE

No earnings per share is presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. INVENTORIES

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Raw materials	458	2,191	3,988	3,353
Work-in-progress	82	276	537	388
Finished goods	110	222	391	114
	650	2,689	4,916	3,855

Included above are raw materials of approximately US$458,000 and US$2,191,000 as at 31 December 2003 and 2004 respectively which were carried at net realisable value.

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

15. OTHER FINANCIAL ASSETS

Trade and other receivables

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade receivable:				
0 to 30 days	75	110	76	28
31 to 60 days	28	76	40	37
61 to 90 days	—	50	38	37
Over 90 days	23	107	76	3
	126	343	230	105
Other receivable:				
Prepayments	3	—	—	50
Advances to suppliers	1,984	1,662	457	519
Notes receivable	99	96	709	226
Other debtors	808	500	454	206
Current portion of prepaid lease rentals	284	222	227	229
	3,178	2,480	1,847	1,230
	3,304	2,823	2,077	1,335

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

The Group allows credit period of 90 days to its trade customers. An allowance of approximately US$56,000 and US$24,000 has been made for estimated irrecoverable amounts from the sales of goods as at 31 December 2003 and 2004 respectively, which has been determined based on the estimation of the future cash flow with evaluation of collectibility and aged analysis of accounts and on management judgement.

Other receivables comprise prepayments, advances to suppliers and value added tax recoverable. The directors consider that the carrying amounts of other receivables approximate their fair values.

No interest is charged on overdue trade receivables. The notes receivable are unsecured, interest free and with a maturity within three to six months.

The directors consider that the carrying amounts of trade and other receivables approximate to their fair values.

Bank balances and cash

Bank balance and cash comprise cash and short-term deposits with an original maturity of three months or less held by the Group. The bank balance carry interest rates within the range of 0% to 1.71% per annum throughout the Relevant Periods. The carrying amounts of these assets approximate to their fair values.

16. AMOUNTS DUE FROM INTERMEDIATE HOLDING COMPANY/A RELATED COMPANY/A MINORITY SHAREHOLDER OF A SUBSIDIARY

Amount due from intermediate holding company, a related company and a minority shareholder of a subsidiary are of non-trade nature. The amounts are unsecured, interest free and repayable on demand. The directors consider that the carrying amounts of them approximate to their fair values.

17. PLEDGED DEPOSITS

The amounts represent deposits pledged to the banks for issuance of letters of credit. The deposits earn interest rates within the range of 0% to 0.72% per annum throughout the Relevant Periods.

18. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress US$'000	Buildings US$'000	Motor vehicles US$'000	Fixtures and equipment US$'000	Total US$'000
COST					
As 1 January 2003	319	3,564	412	3,349	7,644
Additions	10,326	—	99	177	10,602
Disposals	—	(28)	—	—	(28)
Transfer	(1,259)	1,259	—	—	—
Exchange differences	(2)	(26)	(3)	(24)	(55)
As 31 December 2003	9,384	4,769	508	3,502	18,163
Additions	33,875	5,122	163	1,767	40,927
Disposals	—	(1,592)	(18)	(2,263)	(3,873)
Transfer	(42,818)	10,233	26	32,559	—
Exchange differences	4	2	—	1	7
As 31 December 2004	445	18,534	679	35,566	55,224
Additions	276	37	34	206	553
Disposals	—	—	(25)	—	(25)
Transfer	(497)	120	—	377	—
Exchange differences	11	470	18	904	1,403
As 31 December 2005	235	19,161	706	37,053	57,155
Additions	216	37	67	125	445
Cost adjustments (note)	—	(203)	—	(1,526)	(1,729)
Transfer	(116)	92	—	24	—
Exchange differences	2	184	6	355	547
As 30 June 2006	337	19,271	779	36,031	56,418
ACCUMULATED DEPRECIATION					
As 1 January 2003	—	839	186	1,539	2,564
Charge for the year	—	184	72	348	604
Eliminated on disposals	—	(6)	—	—	(6)
Exchange differences	—	(6)	(1)	(11)	(18)
As 31 December 2003	—	1,011	257	1,876	3,144
Charge for the year	—	197	82	310	589
Eliminated on disposals	—	(529)	(6)	(1,388)	(1,923)
Exchange differences	—	—	—	1	1
As 31 December 2004	—	679	333	799	1,811
Charge for the year	—	702	81	2,343	3,126
Eliminated on disposals	—	—	(12)	—	(12)
Exchange differences	—	17	9	20	46
As 31 December 2005	—	1,398	411	3,162	4,971
Charge for the period	—	356	53	1,143	1,552
Cost adjustments (note)	—	(7)	—	(91)	(98)
Exchange differences	—	13	3	30	46
As 30 June 2006	—	1,760	467	4,244	6,471

	Construction in progress US$'000	Buildings US$'000	Motor vehicles US$'000	Fixtures and equipment US$'000	Total US$'000
NET BOOK VALUES					
As at 30 June 2006	337	17,511	312	31,787	49,947
As at 31 December 2005	235	17,763	295	33,891	52,184
As at 31 December 2004	445	17,855	346	34,767	53,413
As at 31 December 2003	9,384	3,758	251	1,626	15,019

Note: The construction of clinker production lines was completed and operation commenced in December 2004. The Group transferred the cost of the clinker production line from construction in progress into respective class of assets based on original contract sum of approximately RMB272,593,000 (equivalent to approximately US$32,940,000). The initial cost recognised represented the best available estimate of the cost of the clinker production line as at 31 December 2004, as the final contract price had not been agreed upon by the Group and the main contractor ZhongCai International Project Co., Ltd. (中材國際工程股份有限公司, hereafter referred to as "ZhongCai"). On 30 June 2006, the Group entered into an agreement with ZhongCai to fix the final contract price of the clinker production line at approximately RMB258,765,000 (equivalent to approximately US$32,372,000). As such, the initial cost recognised and accumulated depreciation of the clinker production line have been reduced by approximately RMB13,828,000 (equivalent to approximately US$1,729,000) and approximately RMB790,000 (equivalent to approximately US$98,000) respectively. The restatements to the cost and accumulated depreciation of the clinker production line had been presented as adjustments for the six months ended 30 June 2006.

The Group has pledged machines having a carrying amount of approximately US$4,458,000 (31.12.2005: US$4,388,000; 31.12.2004: Nil; 31.12.2003: Nil) for banking facilities granted to Union Cement.

19. LAND USE RIGHTS

The amounts represent land use rights 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:

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*	*US$'000*
At beginning of the year/period	4,448	5,951	6,041	5,967
Additions	1,648	371	—	—
Release for the year/period	(113)	(284)	(228)	(115)
Exchange differences	(32)	3	154	57
At end of the year/period	5,951	6,041	5,967	5,909
Analysed for reporting purpose as:				
Current portion (included in trade and other receivables)	284	222	227	229
Non-current portion	5,667	5,819	5,740	5,680
	5,951	6,041	5,967	5,909

Land use rights with an aggregate carrying amount of approximately US$5,678,000, US$5,595,000 and US$5,553,000 at 31 December 2004, 2005 and 30 June 2006 respectively have been pledged as collateral for certain banking facilities of the Group.

20. PAID UP CAPITAL

The movement of paid up capital in 2003 represented the capital injection from immediate holding company to Union Cement during that year.

The balance as at 31 December 2003, 31 December 2004, 31 December 2005 and 30 June 2006 represented the paid up capital of Union Cement.

21. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade payables:				
0 to 30 days	899	1,237	2,465	2,004
31 to 60 days	132	237	427	368
61 to 90 days	36	98	144	71
Over 90 days	50	85	260	71
	1,117	1,657	3,296	2,514
Other payables:				
Accrued expenses	—	—	4	238
Deposits from customers	354	139	488	688
Tax (other than income tax) payable	115	5	25	337
Notes payable	496	—	—	241
Construction cost payable	219	4,245	3,073	839
Others	207	323	768	681
	1,391	4,712	4,358	3,024
	2,508	6,369	7,654	5,538

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

Notes payable are unsecured and interest free and repayable within three to six months.

The directors consider that the carrying amounts of the trade and other payables approximate their fair values.

22. LOAN FROM IMMEDIATE HOLDING COMPANY

The amount represented a loan of US$11,440,000 denominated in US$, which is unsecured, interest bearing at LIBOR plus 2% and repayable on 31 August 2006.

The directors consider that the carrying amount of the loan from immediate holding company approximates to its fair value.

23. AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY/ FELLOW SUBSIDIARIES/ A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to immediate holding company and amount due to a minority shareholder of a subsidiary are of non-trade nature. The amount is unsecured, interest free and repayable on demand.

Except for amounts due to fellow subsidiaries as at 31 December 2004 amounting to approximately US$518,000 are of non-trade nature, the amounts due to fellow subsidiaries as at 31 December 2004, 31 December 2005 and 30 June 2006 are of trade nature with aging of 61 to 90 days, 0 to 30 days and 31 to 60 days respectively. The amounts are unsecured and interest free.

The directors consider that the carrying amounts of amounts due to fellow subsidiaries, amount due to a minority shareholder of a subsidiary and amount due to immediate holding company approximate their fair values.

24. 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 in relation to each class of recognised financial assets is the carrying amounts of these assets as stated in the combined balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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 the estimation of the future cash flow with the evaluation of collectibility and aged analysis of accounts and on management's judgment.

The credit risk on bank deposits is limited because the counterparties are 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.

Cash flow and fair value interest rate risk

The Group is exposed to cash flow and fair value interest rate risk on variable-rate and fixed-rate bank borrowings respectively. 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.

Liquidity risk

The Group is exposed to liquidity risk as the Group has net liabilities status. The Group has to rely on the continuous financial support from holding Company and the management will closely monitor its cash flow position in order to mitigate the liquidity risk.

25. BORROWINGS

	THE GROUP			
	As at 31 December			As at 30 June
	2003	*2004*	*2005*	*2006*
	US$'000	*US$'000*	*US$'000*	*US$'000*
Secured:				
Bank loan (note i)	—	6,646	11,152	11,259
Unsecured:				
Bank loan (note i)	—	4,230	—	—
Other loan denominated in RMB (note ii)	—	2,418	2,478	2,502
	—	6,648	2,478	2,502
	—	13,294	13,630	13,761
The maturity of the borrowings is as follows:				
Within one year	—	10,876	11,152	11,259
In the second year	—	—	—	—
In the third to fifth years inclusive	—	2,418	2,478	2,502
	—	13,294	13,630	13,761
Less: Amount due for settlement within one year (shown under current liabilities)	—	10,876	11,152	11,259
Amount due for settlement over one year	—	2,418	2,478	2,502

Notes:

(i) The amounts represent loans of RMB90,000,000 (equivalent to US$10,876,000, US$11,152,000 and US$11,259,000 at 31 December 2004, 2005 and 30 June 2006 respectively). It is denominated in RMB and is bearing interest at floating rates of 4.779% to 5.022% per annum.

(ii) The amount represents an entrustment loan of RMB20,000,000 (equivalent to US$2,418,000, US$2,478,000 and US$2,502,000 at 31 December 2004, 2005 and 30 June 2006 respectively) from Jiangsu Jia Guo Construction Material Process and Storage Co., Ltd via Bank of Communications Zhenjiang Branch. The amount is unsecured, bearing interest at 5.22% per annum and repayable within one year.

The directors consider that the carrying amounts of the borrowings approximate to their fair values.

The bank loans as at balance sheet dates were secured by the pledge of assets as set out in notes 18 and 19.

26. TOTAL ASSETS LESS CURRENT LIABILITIES/NET CURRENT ASSETS (LIABILITIES)

The Group's total assets less current liabilities were approximately US$41,774,000, US$52,732,000, US$39,801,000 and US$41,980,000 at 31 December 2003, 2004, 2005 and 30 June 2006 respectively.

The Group's net current assets at 31 December 2003 was approximately US$21,088,000. The Group's net current liabilities were approximately US$6,500,000, US$18,123,000 and US$13,647,000 at 31 December 2004, 2005 and 30 June 2006 respectively.

27. CAPITAL COMMITMENTS

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	US$'000	*US$'000*	*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	32,861	—	384	251

28. RETIREMENT BENEFITS

The employees of Union Cement 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 combined income statement as staff cost during the six months ended 30 June 2006 of approximately US$160,000 (year ended 31.12.2005: US$276,000; six months ended 30 June 2005: US$135,000; year ended 31 December 2004: US$197,000; year ended 31 December 2003: US$151,000) represents contributions payable to the scheme by Union Cement at rate specified in the rules of the scheme.

29. MAJOR NON CASH TRANSACTION

CHC paid the salaries, retirement benefit costs and other benefits to certain senior management of the Group for their services provided to the Group in the years ended 31 December 2004, 2005 and the periods ended 30 June 2005 and 2006 as disclosed as the top five highest paid individuals of the Group in note 9. The capital contribution in respect of the payment made by CHC is recognised as other reserve.

30. RELATED PARTY TRANSACTIONS

Apart from the related party balances as stated in notes 16, 22, 23 and 29, the Group had transactions with certain related companies during the years/periods. Details of significant transactions with these companies during the year/periods are as follows:

Nature of transaction	Relationship	Name of related company	Year ended 31 December 2003	2004	2005	Six months ended 30 June 2005	2006
			US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Sales of goods	Fellow subsidiary	Shanghai Chia Hsin Guang Hui Co., Ltd.	140	—	—	—	—
		Chia Hsin Jingyang Cement Co., Ltd.	—	—	12,225	4,972	11,282
Purchase of goods	Fellow subsidiary	Chia Hsin Jiangyang Cement Co., Ltd.	354	596	—	—	—
Consultancy fee	Fellow subsidiary	Chia Hsin Jiangyang Cement Co., Ltd.	145	362	—	—	—
	Fellow subsidiary	Chia Hsin Business Management and Consulting (Shanghai) Co., Ltd.	—	155	96	13	48
Interest expenses	Immediate holding company	Yonica Pte Ltd	—	122	499	259	348

B. SUBSEQUENT EVENTS

Subsequent to 30 June 2006, the Company became the holding company of Union Cement set out in Section A pursuant to the Group reorganisation.

Save for the above, no significant events have taken place subsequent to 30 June 2006.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or Union Cement have been issued subsequent to 30 June 2006.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Deloitte.
德勤

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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

10 October 2006

The Directors
Chia Hsin Cement Greater China Holding Corporation

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the "Statement") of Chia Hsin Cement Greater China Holding Corporation (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Yonica (BVI) Pte. Ltd. and its subsidiary (together with the Group hereinafter referred to as the "Enlarged Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the acquisition of the entire equity interest in Yonica (BVI) Pte. Ltd. (the "Acquisition") might have affected the assets and liabilities of the Group presented, for inclusion in Appendix III of the circular dated 10 October 2006 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page III-3 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Statement with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Statement is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Enlarged Group as at 30 June 2006 or any future date.

Opinion

In our opinion:

a) the Statement has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the unaudited pro forma assets and liabilities statement of the Enlarged Group assuming that the Acquisition had been taken place on 30 June 2006 and that Yonica (BVI) Pte. Ltd. ("Yoncia (BVI)") had become subsidiaries of the Company on 30 June 2006.

The unaudited pro forma assets and liabilities statement of the Enlarged Group has been prepared based on the published unaudited consolidated balance sheet of the Group as at 30 June 2006, which has been extracted from the interim report of the Company for the six months ended 30 June 2006 and the combined balance sheet of Yonica (BVI) Group as at 30 June 2006, as extracted from the accountants' reports, which are set out in Appendix II to this circular, adjusted in accordance with the pro forma adjustments described in the notes thereto. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the Acquisition and (ii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma assets and liabilities statement is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 June 2006 and any financial date.

Unaudited Pro Forma Financial Information of the Enlarged Group
As at 30 June 2006

	The Group	Yonica (BVI) Group	Total	Adjustment	Adjustment	Adjustment	Adjustment	Sub-total of Adjustments	The Enlarged Group
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				Note 1	*Note 2*	*Note 3*	*Note 4*		
ASSETS									
CURRENT ASSETS									
Inventories	17,485	3,855	21,340					—	21,340
Trade and other receivables	18,500	1,335	19,835					—	19,835
Amount due from intermediate holding company	—	11	11					—	11
Amount due from fellow subsidiaries	3,672	—	3,672	(2,949)				(2,949)	723
Income tax recoverable	40	—	40					—	40
Pledged deposits	—	982	982					—	982
Bank balances and cash	48,464	9,676	58,140	1,901		—		1,901	60,041
	88,161	15,859	104,020	(1,048)	—	—		(1,048)	102,972
NON-CURRENT ASSETS									
Property, plant and equipment	219,172	49,947	269,119					—	269,119
Land use rights	17,512	5,680	23,192					—	23,192
Investment in subsidiary	—	—	—			43,022	(43,022)	—	—
	236,684	55,627	292,311	—	—	43,022	(43,022)	—	292,311
TOTAL ASSETS	324,845	71,486	396,331	(1,048)	—	43,022	(43,022)	(1,048)	395,283
EQUITY AND LIABILITIES									
CAPITAL AND RESERVES									
Share capital/paid up capital	11,429	34,960	46,389		8,062	3,514	(43,022)	(31,446)	14,943
Share premium and reserves	197,558	(3,378)	194,180		3,378	39,508	—	42,886	237,066
	208,987	31,582	240,569	—	11,440	43,022	(43,022)	11,440	252,009
MINORITY INTERESTS		7,896	7,896	—	—	—	—	—	7,896
TOTAL SHAREHOLDERS' EQUITY	208,987	39,478	248,465	—	11,440	43,022	(43,022)	11,440	259,905
CURRENT LIABILITIES									
Trade and other payables	10,677	5,538	16,215					—	16,215
Loan from immediate holding company	—	11,440	11,440		(11,440)			(11,440)	—
Amount due to immediate holding company	—	219	219	(219)	—			(219)	—
Amount due to fellow subsidiaries	250	1,048	1,298	(829)	—			(829)	469
Amount due to a minority shareholder of a subsidiary	—	2	2					—	2
Borrowings	23,541	11,259	34,800					—	34,800
	34,468	29,506	63,974	(1,048)	(11,440)	—		(12,488)	51,486
NON-CURRENT LIABILITIES									
Borrowings	81,390	2,502	83,892					—	83,892
TOTAL LIABILITIES	115,858	32,008	147,866	(1,048)	(11,440)	—		(12,488)	135,378
TOTAL EQUITY AND LIABILITIES	324,845	71,486	396,331	(1,048)	0	43,022	(43,022)	(1,048)	395,283

Note

1. **Elimination of inter-company balances and reclassification of amount due to Yonica Pte Ltd ("Yonica Singapore")**

The unaudited pro forma adjustments reflect the elimination of inter-company balances of the Enlarged Group as at 30 June 2006 and the reclassification of amount due to Yonica Singapore of approximately US$219,000 from amount due to immediate holding company to amount due to fellow subsidiary.

The adjustment to eliminate the inter-company balances of the Enlarged Group as at 30 June 2006 represents the elimination of amount due from Yonica (BVI) Group amounting to approximately US$2,949,000 recorded by the Group against the amount due to the Group amounting to approximately US$1,048,000 recorded by Yonica (BVI) Group as at 30 June 2006. The difference between the inter-company balances amounting to approximately US$1,901,000 represents the cheque issued by Yonica (BVI) Group to the Group for settlement of inter-company balances. Yonica (BVI) Group had recorded the decrease in the bank balances on issuing the cheque while the Group has not recognised the increase in the bank balances until receiving the cheque subsequent to 30 June 2006. Therefore, an adjustment is made to increase the bank balances of the Enlarged Group as at 30 June 2006. There will be no inter-company balance between the Group and Yonica (BVI) Group after the settlement.

2. **Acquisition of Jiangsu Union Cement Co Ltd ("Union Cement") by Yonica (BVI) and assignment of loan**

Pursuant to agreements entered into between Yonica Singapore and Yonica (BVI) on 31 August 2006, Yonica Singapore agreed to sell and Yonica (BVI) agreed to purchase the 80% interest in Union Cement held by Yonica Singapore and Yonica Singapore agreed to assign all its rights and interest in a shareholder's loan due from Union Cement at a consideration of US$31,582,013 and US$11,440,000 respectively.

The aggregate consideration payable by Yonica (BVI) is to be satisfied by the issue of 43,022,013 ordinary share at US$1 each by Yonica (BVI) to its immediate holding company, Chia Hsin Pacific Limited ("CHPL").

This transaction is considered as a business combination involving entities under common control because Union Cement and Yonica (BVI) are controlled by CHPL both before and after this transaction, and that control is not transitory. As a result, this transaction is to be accounted for under the principle of merger accounting for common control combinations. The financial information of Yonica (BVI) Group incorporates the financial statement items of Union Cement as if Union Cement had been combined from the date when it first came under the control of CHPL. The financial information of Yonica (BVI) Group as at 30 June 2006 represents the financial information of Union Cement as at 30 June 2006 as Yonica (BVI) only incorporated after 30 June 2006. The difference between the paid up capital of Union Cement amounting to US$34,960,105 and the investment cost of Yonica (BVI) amounting to US$31,582,013 is recognised in reserve.

The net adjustment to the share capital amounting to US$8,061,908 represents the difference between the new issue of 43,022,013 ordinary shares by Yonica (BVI) amounting to US$43,022,013 and the elimination of share capital of Union Cement amounting to US$34,960,105 after consolidating of Union Cement into Yonica (BVI) Group as at 30 June 2006.

3. **Acquisition of Yonica (BVI) by the Company**

On 12 September 2006, CHPL and the Company entered into an agreement, pursuant to which the Company agreed to purchase and CHPL agreed to sell the entire issued share capital of Yonica (BVI) which will hold a 80% equity interest in Union Cement subject to the terms and conditions of the Acquisition Agreement.

The consideration payable by the Company will be satisfied by 1) the issue of 263,496,000 ordinary share, credited as fully paid, to CHPL and 2) the Company's financial resources amounting to approximately US$10,755,000, which will be raised by way of the issue of 87,880,000 Shares to independent investors and the directors of the Company represent that the Shares held by public will not be less than 25% after the completion of the Acquisition. For illustrative purposes only, the market value of the shares to be issued for the Acquisition is HK$0.95 per share and the total consideration payable by the Company would be approximately US$43,022,000.

4. **Elimination of investment in Yonica (BVI) by the Company**

Being adjustment to eliminate investment cost in Yonica (BVI) recorded by the Company against the share capital of Yonica (BVI).

The Acquisition is also considered as a business combination involving entities under common control because Yonica (BVI) and the Company are controlled by CHPL both before and after the transaction, and that control is not transitory. As a result, this transaction is to be accounted for under the principle of merger accounting for common control combinations. No difference between the share capital of Yoncia (BVI) and the investment cost of the Company is resulted.

The following is the text of the letter and business valuation prepared by Vigers Appraisal & Consulting Limited for the purpose of incorporation in this circular and received from Vigers Appraisal & Consulting Limited in connection with the valuation as of 30 June 2006 of the business valuation of Yonica (BVI) Group.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

10th Floor, The Grande Building
398 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

10 October 2006

The Directors
Chia Hsin Cement Greater China Holding Corporation
Room 1907, 9 Queen's Road
Central Hong Kong

Dear Sirs,

In accordance with the instruction from Chia Hsin Cement Greater China Holding Corporation, we have appraised the market value of the 100% of the Sale Share (the "Sales Shares") of Yonica (BVI) (the "Yonica (BVI)") including the right to the shareholder loan amounted to US$11.44 million on 30 June 2006 (the "Valuation Date").

The purpose of this report is to provide an independent opinion on the market value of the Sales Shares as at the Valuation Date. We understand that this valuation is for the purpose of interest transfer.

BACKGROUND

The Yonica (BVI) is a company incorporated in the British Virgin Island on 6 July 2006 as an investment holding company. It has no business operation other than its holding of 80% interest in Union Cement and a shareholder loan amounted to US$11.44 million.

Union Cement, located in Zhenjinag city, Jiangsu Province (江蘇省鎮江市蔣喬鎮韋崗) with its business license (企合蘇鎮總字第2000222號) is principally engaged in the production and sales of cement and clinker. Union Cement is a company incorporated as a Sino-Foreign Joint Venture in Jiangsu Province on 20 November 1996 with a registered capital of US$58 million and paid up capital of approximately US$ 43.7 million. The remaining 20% interest in Union Cement is held by 鎮江船山石灰石礦有限公司 (Zhenjiang Chuanshan Limestone Mine Company).

The Acquisition

Pursuant to an acquisition agreement (the "Acquisition Agreement") dated 12 September 2006, the Company agreed to acquire the Sales Share of the Yonica (BVI). This report is to carry out the valuation of sales share of the Yonica (BVI) which represents 80% interest in Union Cement and a shareholder loan amounted to US$11.44 million.

The Cement Business

Cement is one of the fundamental raw materials of the development of the PRC economy. The development of the cement industry is closely correlated to change in GDP and the investment in fixed assets. According to figures from National Bureau of Statistic of China, in first 10 months of 2005, the fixed investment asset grew 27% compared to same period of previous year, however, with the implementation of macroeconomic control on fixed asset investment in first year of 2006, the growth of fixed asset investment is anticipated to slow down.

With reference to historical economic record, the cyclical period of cement industry in PRC is around 7 or 8 years. The first cycle, in term of growth of production capacity of cement, started approximately from 1990 to 1998, while second is roughly starting from 2000. According to information of 中國建材信息中心, the year 2005 has a total production of cement of 1.06 billion tons, which represented a growth of 9.7% against that in 2004 (growth rate in 2004 was 12.5%), witnessed the contraction due to the macroeconomic control. Under this downturn of cement industry, two phenomenon can be observed, (i) the exit of small scale of competitors, (ii) Large scales companies continuously expand to achieve higher economic of scales. The top ten companies represent a 15.25% of total production volume in PRC, which accounts for 2.8% of the growth. In the first quarter of 2006, the realized production volume of cement was RMB 542 million, or 20.8% growth compared with same period, which was equivalent to profit of RMB 4,400 million, suggesting a possible recovery.

The "Eleventh-Five Year Plan" has two implications to the cement industry. (i) Increase demand of cement due to construction of several infrastructure developments. (ii) Eliminate the numbers of operator in vertical kiln, thus increase pace of consolidation in cement industry.

The cement business in PRC can be roughly classified into six regions including eastern region, northern region, southern region, northeast region, northwest region and southwest region of the PRC. Eastern region, which the Jiangsu Province located in, is a fast developing and wealthy region, and is currently crowded with low-level producers. The competition in the region is intensive and is somewhat different from other regions at which the price of cement trended down from 2004 to 2005. In contrast to northeast region, price demonstrated a flat trend. The top ten producers represented only 27% of market shares in Eastern region. In this regard, a company's growth potential, pricing strategy and the demand of its products, is unavoidably affected by the geographical area in which it operates.

BASIS AND METHODOLOGY OF VALUATION

We have been asked to evaluate the market value of the Sales Shares which is the Sales Shares of the Acquisition Agreement. Market value is defined as the estimated amount for which an asset might be should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. In this valuation, Price to Book multiples method under the market approach is adopted as the valuation method. The choice of valuation method will be discussed in the following sections.

Information Reviewed

Regarding the appraisal of the Sales Shares as part of our analysis we have been furnished with information prepared by the Chia Hsin Cement Greater China Holding Corporation, including but not limited to the following:

— The business nature of the Yonica (BVI) and Union Cement, business licenses, background and relevant information;

— Financial statement of the Union Cement the financial year of 2003 to 2005;

— Financial statement of the Union Cement for the six months ended 30 June 2006;

— Industry research report and relevant information of the industry; and

— Relevant operational and financial information in relation to the Yonica (BVI) and Union Cement, such as operational performance indicators and descriptions for the Yonica (BVI), Union Cement, and other similar companies, research on background of other comparable companies, their business profiles, financial results, etc. which conducted by us.

We have discussion with the management and relied to a considerable extent on the above information in arriving at our opinion of value.

Valuation Method

We consider that the use of the Price to Book multiples ("P/B") is an appropriate valuation methodology for the valuation of the Sales Shares since the method can reflect the going concern of Yonica (BVI) and determine the value of the Sales Shares with reference to the similar asset owned by a group of comparable companies that actively trading on the market.

The valuation is derived from applying (i) an appropriate price to book multiple ("P/B") inferred from a group of listed companies that operating similar lines of business, adjusted for the particular situation of the Yonica (BVI) being valued, to (ii) the net asset value (NAV) of the Union Cement reflected in Union Cement's information for the year ended 30 June 2006 with appropriate adjustments.

Before arriving at our opinion of value, we have considered, inter alia, the following factors:

— the terms and conditions of the Acquisition Agreement;

— the nature of the business and the history of the Yonica (BVI) and Union cement;

— the economic outlook of the PRC and Jiangsu in general;

— the general outlook of the cement industry in the PRC;

— the earnings records of the Union cement and other comparable companies in cement business;

— the historical pricing of cement and the pricing elasticity of the cement business;

— future challenge and developments in the cement business;

— the financial information of the Unicon Cement; and

— the specific risks associated with the cement business and Sales Shares.

Assumptions

In preparing this appraisal, a number of assumptions have been made in giving our opinion on the fair market value of the Sales Shares. The following assumptions are considered to be applicable to the appraisals in connection with the cement business and have a significant effect on this appraisal. These assumptions have been evaluated and validated in order to provide a reasonable basis in arriving at our opinion of value. The major assumptions adopted in this valuation are as follows:

- There will be no material adverse change in the political, legal, fiscal or economic condition in the PRC and other regions in which the Yonica (BVI) and Union Cement operates;

- The Yonica (BVI) and Union Cement will retain the key management, competent personnel and technical staff to support its ongoing operation after the Acquisition;

- Market trend and conditions for the cement industry in related areas will not deviate significantly from the economic forecasts in general such as variations between existing and future demand and system patterns;

- We assumed that the Union Cement and Comparables will retain their business strategy and marketing geographic areas, will no significant deviation from the current practice; and

- We assumed that the general management practice of the Yonica (BVI) and Union Cement after the Acquisition, including but not limited to accounting policy and dividend policy, will have no significant deviation from the current practice adopted by the Yonica (BVI).

We have assumed the reasonableness of the information provided and relied to a considerable extent on such information in arriving at our opinion of value.

Valuation Considerations

Our investigation begins with a preliminary study on the earnings multiples with an attempt to conclude the value of the Sales Shares based on its reported earnings. Our investigation, however, suggested that the use of the earnings multiples do not facilitate a reasonable comparable because of:

(i) There exists numbers of companies in our sampling of comparable companies (the "Comparables") reported losses in the same period being considered. Thus results meaningless comparison based on earnings multiples.

(ii) The Union Cement has its new production lines started in 2005, however, new lines of production have not been reached its normal utilization rate till the end of 2005. Since use of earnings multiples in the comparison assumes a normal utilization rate as the comparable companies and requires a consistent earning basis, the earnings multiples will provide misleading results.

To facilitate meaningful comparison, we have extended our investigation to the price to book multiple. The use of price to book multiple in valuation does not free from limitations. However, this method can provide good reference in this valuation when we carefully apply valuation techniques to facilitate meaningful comparison. In particular, the price to book value demonstrate its merit over the earnings multiples in this valuation.

(i) The price to book multiple may not be meaningful to companies engaged in service sector. This is due to the service companies does not rely on fixed asset but its intangible assets generated internally to create values. However, the cement business does not fall into this limitation. In contrast, the fixed assets of a cement operator provide good reference on its scale and capable to create earnings. Thus provide as a good reference of its value.

(ii) The book value of a company is affected by the accounting standard being applied. Although the price to book multiples may not be comparable under different accounting standards, this constraint can be removed by constructing a Comparables which consider only the companies in PRC, which follow PRC accounting standard, in order to reduce discrepancy on accounting standard.

(iii) The price to book multiple is not affected by the negative earnings of a companies. This is the merit of using price to book multiple in this valuation. In our investigation, the existence of negative earnings companies not only reduces of size of Comparables but also presents a risk of bias toward the profitable companies. Thus it is persuasive to consider a Comparable based on the price to book multiple in order to avoid this bias.

We therefore consider price to book multiple a more appropriate method to infer the market value of Sales Shares being valuated. We will also make adjustments on the concluded price to book multiple, where appropriate; the marketability of the Sales Shares; or other possible factors which may affect the value of the Sales Shares in order to reflect a reasonable value of the Sales Shares. We have included the following companies which listed on the Shenzhen Stock Exchange and Shanghai Stock Exchange which are principally engaged in cement business. The following are the details of the Comparables:

Name of the Company	Symbol	Principal Business	Price to book multiple On 30 June 2006
China Anhui CONCH Group	600585.SS	Engaged in cement business in Region of RPC (Mainly in Jiangsu, Zhejiang, Anhui Province and Shanghai)	2.83
Fujin Cemnet Inc	600802.SS	Engaged in cement business in Region of RPC (Mainly in Fujin Province)	1.67
Anhui Chaodong Cement Co.,Ltd	600318.SS	Engaged in cement business in Region of RPC (Mainly in Anhui Province)	2.91
Jiangxi Wanniangqing Co. Ltd.	000789.SZ	Engaged in cement business in Region of RPC (Mainly in Jiangxi Province)	2.00
Huaxin Cement Co Ltd	600801.SS	Engaged in cement business in Region of RPC (Mainly in Hubei and Jiangsu Province)	1.62
Xinjiang Qingsong Building Materials and Chemicals (Group) Co., Ltd.	600425.SS	Engaged in cement business in Region of RPC (Mainly in Xinjiang Province)	1.56
Sichuan Golden Summit (Group) Joint-Stock Co., Ltd.	600678.SS	Engaged in cement business in Region of RPC (Mainly in Sichuan Province)	2.47
Datong Cement Co. Ltd.	000673.SZ	Engaged in cement business in Region of RPC (Mainly in Shanxi Province)	4.76
Tangshan Jidong Cement Co., Ltd.	000401.SZ	Engaged in cement business in Region of RPC (Mainly in Hubei Province)	1.64
Sichuan Shuangma Cement Co., Ltd.	000935.SZ	Engaged in cement business in Region of RPC (Mainly in Sichuan Province)	3.72
Xinjiang Tianshan Cement Co., Ltd.	000877.SS	Engaged in cement business in Region of RPC (Mainly in Xinjiang Province)	1.81
Hebei TaiHang Cement Co Ltd	600553.SS	Engaged in cement business in Region of RPC (Mainly in Hubei Province)	1.66
Shaanxi Qingling Cement Grou	600217.SS	Engaged in cement business in Region of RPC (Mainly in Shaanxi Province)	2.73
Gansu Qilianshan Cement Group Co. Ltd	600720.SS	Engaged in cement business in Region of RPC (Mainly in Gansu Province)	1.50

Analysis of Comparables As state above, as per discussion with management, we have identified a group of companies on the cement business to facilitate fair comparison. The following are the details of the Comparable:

Company	China Anhui Conch	Fujin Cement	Anhui Chaodong	Jiangxi Wanniangqing	Huaxin	Xinjiang Qingsong	Sichuan Golden Summit	Datong Cement	Tangshan Jidong	Sichuan Shuangma	Xinjiang Tianshan	Hebei Tai Hang	Shaanxi Qingling	Gansu Qilianshan	Union Cement
Stock Code	600585.SS	600802.SS	600318.SS	000789.SZ	600801.SS	600425.SS	600678.SS	600673.SZ	000401.SX	000935.SZ	000877.SS	600553.SS	600217.SS	600702.SS	
Location	Jiangsu, Zhejiang Province	Fujin Province	Anhui Province	Jiangxi Province	Hubei and Jingsu Province	Xinjiang Province	Sichuan Province	Shanxi Province	Hubei Province	Sichuan Province	Xinjiang Province	Hubei Province	Shaanxi Province	Gansu Province	Jiangsu Province
General figures															
Total Asset Value	20,326	1,702	1,022	2,009	6,671	1,382	917	388	7,021	1,163	4,446	1,977	2,056	2,349	581
Sales (RMB in million)	13,633	937	548	714	3,057	357	400	119	2,470	462	1,779	1,006	536	797	325
Adjusted profit (RMB in million)	1,036	N/A	N/A	N/A	95.71	30.98	17	N/A	180.43	9.98	90.51	47.64	N/A	14.26	8.95
Profitability ratio															
Growth Rate (Vs Year)	43%	3%	-15%	19.8%	39%	40%	12%	-14.50%	15%	7%	-4%	16%	-7%	-6%	53%
Gross Profit Margin	26%	29%	0	10%	21%	27%	21.30%	4.40%	24.10%	12.30%	23.20%	20.40%	3.34	25.19	10%
EBITDA/Sales	0.2	0.1	0	0.1	0.19	0.2	0.11	N/A	0.24	0.06	0.17	0.16	N/A	0.19	0.11
Sales to Asset	0.64	0.55	0.54	0.36	0.46	0.26	0.44	0.31	0.35	0.4	0.4	0.51	0.26	0.34	0.56
Management Effectiveness															
Return on Asset	5.10%	N/A	N/A	N/A	1.43%	2.24%	1.80%	N/A	2.5%	0.86%	2.04%	2.41%	N/A	0.61	1.02%
Return on Equity	17.00%	N/A	N/A	N/A	7.72%	6.00%	4.80%	N/A	8.01%	2.03%	16.43%	6.86%	N/A	1.63	1.91%
Gearing ratio															
Total debt to total equity (%)	167.1	107.11	115.31	189.98	287.58	98.9	90.6	78.4	148.9	85.35	461.91	102.33	132.26	113.29	65.1
Long Term Debt to Total Asset	32.89	8.5	9.3	27.13	38.97	1.45	8.48	0	21.2	19.79	36.16	6.68	20.59	6.53	3.44
Valuation ratio															
Enterprise Value/EBITDA	10.35	18.75	N/A	31.96	9.69	18.49	26.19	N/A	11.84	83.64	11.62	11.8	N/A	15.26	
Price To Book	2.83	1.67	2.91	2	1.62	1.56	2.47	4.76	1.64	3.72	1.81	1.66	2.73	1.50	

* Based on the Financial Statement of 2005 and 2006

Our first consideration is to identify the relevance of the business engaged by the companies in the Comparables. We may not consider those companies which have higher weighting in non cement business, for instance, Xinjiang Qingsong Building Material and Chemical (Group) co. Ltd, a company with mix of chemical and cement operation. Second, we may take less weighting on those companies located in difference region where the Union Cement operates. As discuss above, the performance of Cement industry is highly correlated to its geographical area. This is due to the pricing, growth potential, cost structure, and the competition (and hence supply and demand) are factors that greatly affected by the region in which a cement business operates. We thus consider that a comparison across border may not be reasonable with respect to the assumptions of growth potential and competition.

In order to conclude reasonable comparison with the use of P/B multiple, we shall consider companies which has similar geographic exposure or directly compete with the Union Cement. Our investigation suggest that China Anhui CONCH Group, Fujin Cement Inc, Anhui Chaodong Cement Co.,Ltd, Jiangxi Wanniangqing Co. Ltd. and Huaxin Cement Co Ltd are companies directly compete with the Union Cement. In particular, China Anhui CONCH Group and Huaxin Cement Co Ltd have significant amount of revenues contributed from the Jiangsu Province.

Our study further extends to the size of the companies, the locations where they focus on and their turnover. It can be observed that the Union Cement is relatively small in terms of the assets size and the turnover. Asset size impacts on a Union Cement's value in forms of small business risk and financial risk. From this prospective, the asset size of the Union Cement may call for a discount with respect to the Comparables. In the consideration of turnover, the Union Cement reported a adjusted profit of RMB 6.95 million for the period from July 05 to June 06. In contrast to the Comparables, only two companies out of five, the China Anhui CONCH Group and Huaxin Cement Co Ltd, reported profit of RMB 1,036 million and RMB 95.7 million respectively. However, Fujin Cemnet Inc, Anhui Chaodong Cement Co.,Ltd and Jiangxi Wanniangqing Co. Ltd. reported losses for the same period.

The Yonica (BVI) reported a growth rate on sales of 53%, however, it is not a good indicator for comparison. Because the new production line of the Union Cement has not yet reach its normal operation till the end of 2005, the comparison of growth rate will be unavoidably taking reference of the sales in testing phase. Thus adjustments should be made so to infer an expected rate for the on going operation. With reference to the geographical area, we consider the growth potential can be fairly approximated by the performance of China Anhui CONCH Group and Huaxin Cement Co.

In comparing the return on asset multiple and the return on equity multiple, we found that only two companies provides meaningful comparison to the Union Cement. In term of the return on asset, the Union Cement has a multiple of 1.02% in contrast to China Anhui CONCH Group of 5.1% and Huaxin Cement Co. of 1.48%. In contrast to the return on equity, the Union Cement reports a multiple of 1.91% while the China Anhui CONCH Group and Huaxin Cement Co. reports multiples of 17% and 7.72% respectively. In the analysis of the ROA and ROE, we consider the ROA provides reasonable base for comparison. In fact, results on ROE also provide a consistent conclusion as the result of ROA. The high ROE on China Anhui CONCH Group and Huaxin Cement Co. actually reflects the high gearing on their financial structure. In this regard, the ROE of these companies are in line with the observation inferred by ROA. The ranking of the Union Cement shall be comparable to Huaxin Cement Co. from the prospective of ROA and ROE.

Finally, it can also observed that the Union Cement reported a lower EBITDA to sales multiple as compared to China Anhui CONCH Group and Huaxin Cement Co.. A lower EBITDA to sales witnesses a lower cash flow generated from the operation (in contrast to China Anhui CONCH Group and Huaxin Cement Co. but higher than other companies). With respect to the magnitude of the EBITDA to sales multiple, we consider the Union Cement's valuation ratio shall receive a minor discount.

Based on above considerations, we estimate that P/B multiple of Union Cement should be closely approximated to the multiple of Huaxin Cement Co Ltd. Our conclusion follows from the deduction that the Union Cement has a smaller scale of operation, return and efficiency, and hence ranked below the China Anhui CONCH Group and Huaxin Cement Co.. The aforesaid investigation on the relationship of the price to book value against the size, growth potential, return on asset and the cash flow generating compatibility suggested that a 50% discount of the China Anhui CONCH Group's P/B multiple or a 15% discount to the Huaxin Cement Co Ltd.'s P/B can reasonably reflect the expected P/B multiple for the Union Cement. As concluded, we estimate that a P/B multiple of 1.4 shall applies to the valuation of the Union Cement.

The construction of the Comparables is sourced from the companies listed on stock exchange in Shenzhen and Shanghai, a public and actively trading market. In contrast to the nature of the Sales Shares, there exist two variations, that is, the lack of marketability and the controlling premium. The lack of marketability exists since the Sales Shares is not a publicly trading asset, which is different from the share of the Comparables. Second, the Comparables reflects the value of a minority basis since the stock market actively consists of minority shareholders. The Sales Shares being appraised, however, represents a control stake of the Union Cement. Thus a controlling premium shall be also considered to reflect the ability to control the cash flow the Union Cement.

OPINION OF VALUE

Based on the aforesaid investigation, analysis and appraisal method employed, it is our opinion that, as of 30 June 2006, the market value of the Sales Shares including the right to the shareholder loan amounted to US$11.44 million is reasonably stated as US$ 55 million only.

The opinion of value was based on generally accepted appraisal procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the assets or the value reported.

Yours faithfully,
For and on behalf of
VIGERS APPRAISAL & CONSULTING LTD.

Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS, MHKIS, MSc (e-com)
Executive Director

Favian Kam Man Yin
Chartered Financial Analyst
MBA, CFA
Senior Manager

Note: Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS has seventeen years experience in undertaking valuation of properties in Hong Kong, Macau and the PRC and has extensive experience in business valuation in the Greater China region since 1993. Favian M. Y. Kam, CFA, has over eight years experience in business valuation. Mr. Ho and Mr. Kam are both Registered Business Valuer registered with the Hong Kong Business Valuation Forum.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company is US$1,000,000,000 and US$11,429,000 respectively, comprising 100,000,000,000 Shares and 1,142,900,000 Shares respectively.

3. DISCLOSURE OF INTERESTS

(a) Disclosure of interests by the Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) *The Company*

	Number of ordinary shares (long positions)			
Name of Director	**Personal interests**	**Family interests**	**Total number of shares**	**Approximate percentage of issued share capital** *(%)*
CHANG Kang Lung, Jason	6,740,000	400,000	7,140,000	0.62
CHANG Yung Ping, Johnny	13,452,000	2,146,000	15,598,000	1.36

(ii) *Associated Corporations*

Name of Director	Name of associated corporation	Interests held by controlled corporation	Personal interests	Family interests	Total number of shares	Approximate percentage of issued share capital (%)
		Number of ordinary shares (long positions)				
WANG Chien Kuo, Robert	CHC	—	358,811	21,108,875	21,467,686	3.18
	Tong Yang Chia Hsin International Corporation	—	236,542	17,057	253,599	0.12
	Chia Hsin Construction and Development Corp.	—	4,863,088	1,285,200	6,148,288	12.37
LAN Jen Kuei, Konrad	CHC	—	64,000	—	64,000	0.00
CHANG Kang Lung, Jason	CHC	—	300,000	—	300,000	0.04
	Tong Yang Chia Hsin International Corporation	—	1,058,869	—	1,058,869	0.51
	Chia Hsin Construction and Development Corp.	—	638,400	—	638,400	1.28
WANG Li Shin, Elizabeth	CHC	—	50,000	—	50,000	0.01
	Chia Hsin Construction and Development Corp.	—	387,000	—	387,000	0.78
CHANG Yung Ping, Johnny	CHPL	49,812	107,738	—	157,550	0.70
	CHC	34,363,178	27,609,062	—	61,972,240	9.18
	Tong Yang Chia Hsin International Corporation	—	463,950	—	463,950	0.22
	Chia Hsin Construction and Development Corp.	—	8,169,600	—	8,169,600	16.43
CHANG An Ping, Nelson	CHPL	272,200	—	—	272,200	1.21
	CHC	10,646,179	2,295,527	202,640	13,144,346	1.94
	Tong Yang Chia Hsin International Corporation	—	240,456	—	240,456	0.11
	Chia Hsin Construction and Development Corp.	—	288	—	288	0.00

(b) **Particulars of Directors' service contracts**

As at the Latest Practicable Date, no Director had a service contract with any member of the Group which is not determinable by the Company within one year without the payment other than statutory compensation.

(c) **Save as disclosed above, as at the Latest Practicable Date:**

(i) none of the Directors and chief executives hold any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) notificable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange;

(ii) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries; and

(iii) none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

(d) **Directors' interests in competing businesses**

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Lan Jen Kuei, Konrad	Ganghui	Trading of cement and the production of blended cement	Non-executive Director
Chang Kang Lung, Jason	Ganghui	Trading of cement and the production of blended cement	Non-executive Director
Chang Yung Ping, Johnny	Ganghui	Trading of cement and the production of blended cement	Non-executive Chairman
Lan Jen Kuei, Konrad	Union Cement	The production and sale of cement and clinker	Non-executive Director
Chang Yung Ping, Johnny	Union Cement	The production and sale of cement and clinker	Non-executive Director

Save as disclosed above, as at the Latest Practicable Date, none of the Directors has any interest any company or business which competes or may compete with the business of the Group.

4. SUBSTANTIAL SHAREHOLDERS

So far as the Directors or the chief executives of the Company are aware of, as at the Latest Practicable Date, the shareholders, other than the Directors or the chief executives of the Company, who had an interest or short positions in the shares of the underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 in Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Name of Shareholder	Nature of interests	Number of ordinary shares	Percentage of issued share capital of the Company *(%)*
CHPL *(note a)*	beneficially owned	814,000,000	71.22
International Chia Hsin Corp. ("ICHC") *(note b)*	beneficially owned	8,478,000	0.74
Tong Yang Chia Hsin International Corporation ("Chia Hsin International") *(note b)*	interests held by controlled corporations	8,478,000	0.74
CHC *(notes a and b)*	interests held by controlled corporations	822,478,000	71.96

Notes:

a. *CHPL is owned as to approximately 69.74% by CHC, the ultimate controlling company of the Company, as to approximately 24.19% by Chia Hsin International (a 87.18% owned subsidiary of CHC), as to approximately 4.16% by CHC Holdings Inc. (a wholly-owned subsidiary of CHC), as to approximately 1.21% by Chia Hsin RMC Corporation (a company owned as to 13.71% by CHC and as to 65.30% by Mr. Chang An Ping, Nelson, a non-executive Director), as to approximately 0.48% by Mr. Chang Yung Ping, Johnny, a non-executive Director and as to approximately 0.22% by Sung-Ju Investment Corporation (a company owned as to 59.47% by Mr. Chang Yung Ping, Johnny, a non-executive Director).*

b. *The 19.33% and 20.18% issued share capital of ICHC is held by CHC and Chia Hsin International (a 87.18% owned subsidiary of CHC) respectively.*

Save a disclosed above and so far as the Directors and the chief executives of the Company are aware, as at the Latest Practicable Date, no other party (other than the Directors and the chief executives of the Company) had an interest or short positions in the shares, the underlying shares or debentures of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. QUALIFICATION AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice which are contained or referred to in this circular:

Name	Qualification
Vigers Appraisal & Consulting Limited	Registered Professional Surveyor
Deloitte Touche Tohmatsu	Certified Public Accountants
Access Capital	A licensed corporation under the SFO and engaged in types 1, 4, 6 and 9 regulated activities

Each of Vigers Appraisal & Consulting Limited, Deloitte Touche Tohmatsu, and Access Capital has given and has not withdrawn its written consent to the issue of this circular with copies of its letter or report (as the case may be) and the references to its name included herein the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Vigers Appraisal & Consulting Limited, Deloitte Touche Tohmatsu, and Access Capital is interested in any Share or share in any member of the Enlarged Group, nor does it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Enlarged Group. As at the Latest Practicable Date, none of the aforesaid parties had any direct or indirect interests in any assets which have since 31 December 2005 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to or by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to or by the Company or any of its subsidiaries.

7. MATERIAL CONTRACTS

As at the Latest Practicable Date, there was no contract (not being contracts entered into in the ordinary course of business) entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date, which are or may be material.

8. GENERAL

The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts for the purpose of interpretation.

9. CORPORATE INFORMATION

Registered office	P.O. Box 309GT Ugland House South Church Street George Town Grand Cayman Cayman Islands
Place of business in China	4100 Longwu Road Shanghai The PRC
Place of business in Hong Kong	Room 1907 9 Queen's Road Central Hong Kong
Company secretary	Ms. Lo Yee Har, Susan *FCS FCIS*
Authorised representatives	Mr. Chang Kang Lung, Jason Ms. Wang Li Shin, Elizabeth
Qualified Accountant	Mr. Yu Ying-Ji *ACCA, HKICF and HKICPA*
Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman British West Indies
Hong Kong branch share register and transfer office	Tricor Investor Services Limited 26th Floor Tesbury Centre 28 Queen's Road East Hong Kong
Auditors	Deloitte Touche Tohmatsu Certified Public Accountants 35th Floor One Pacific Place 88 Queensway Hong Kong

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday (public holidays excepted) at the head office of the Company at Room 1907, 9 Queen's Road Central, Hong Kong up to and including, 25 October 2006 and at the EGM:

a. the Acquisition Agreement;

b. the Ganghui Sales Agreement and the renewal agreement to the Ganghui Sales Agreement dated 12 September 2006;

c. the Union Cement Purchase Agreement and the renewal agreement to the Union Cement Purchase Agreement dated 12 September 2006;

d. the annual reports of the Company for the two financial years ended 31 December 2004 and 2005 and the interim report of the Company for the six months ended 30 June 2006;

e. the accountants' report of Yonica (BVI) Group, the text of which is set out in Appendix II to this circular;

f. the report from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

g. the letter from the Board as set out on pages 6 to 26 of this circular;

h. the letter from the Independent Board Committee as set out on page 27 of this circular;

i. the letter from Access Capital to the Independent Board Committee and the Independent Shareholders as set out on pages 28 to 54 of this circular;

j. the written consents referred to in paragraph 6 in this appendix;

k. the business valuation report from Vigers Appraisal & Consulting Limited, the text of which is set out in Appendix IV to this circular; and

l. the memorandum of association and articles of association of the Company.

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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders of Chia Hsin Cement Greater China Holding Corporation (the "Company") will be held at Cliftons, 33rd Floor, 9 Queen's Road Central on Thursday, 26 October 2006 at 3:30 p.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. **"THAT**

(a) the conditional agreement (the "Acquisition Agreement") dated 12 September 2006 entered into between the Company as purchaser and Chia Hsin Pacific Limited ("CHPL") as vendor, a copy of which is marked "A" and produced to the meeting and initialled by the chairman of the meeting for identification purpose, pursuant to which the Company agreed to purchase from CHPL the entire issued capital of CHPL's wholly-owned subsidiary, Yonica (BVI) Pte. Ltd., at an aggregate consideration of approximately US$43 million, which will be satisfied as to approximately US$ 32.27 million by the issue of 263,496,000 shares of US$ 0.01 each in the share capital of the Company (the "Consideration Shares"), credited as fully paid, to CHPL or its nominee at the issue price of HK$ 0.95 per Consideration Share and the balance payable in cash of approximately US$ 10.73 million at completion of the Acquisition Agreement from the Company's financial resources by way of any fund raising exercise of the Company through issue of equity securities of the Company, and the transactions contemplated under the Acquisition Agreement (including but not limited to the issue of the Consideration Shares upon completion of the Acquisition Agreement), be and are hereby approved, ratified and confirmed;

(b) subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant the listing of, and permission to deal in, the Consideration Shares, the Consideration Shares be allotted and issued to CHPL or its nominee, such Consideration Shares to rank pari passu in all respects with the existing issued shares of the Company; and

(c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Acquisition Agreement, including but not limited to the issue of the Consideration Shares."

2. “**THAT**

(a) the conditional agreement (the “Renewal Ganghui Sales Agreement”) dated 12 September 2006 entered into between Chia Hsin Jingyang Cement Co., Ltd. (“Jingyang Cement”) and Shanghai Chia Hsin Ganghui Co., Ltd. (“Ganghui”), a copy of which is marked “B” and produced to the meeting and initialled by the chairman of the meeting for identification purpose, pursuant to which Jingyang Cement will continue to sell certain cement products to Ganghui from time to time (the “Cement Transactions”) under the Ganghui Sales Agreement until 31 December 2007, be and is hereby approved, ratified and confirmed;

(b) the proposed cap in relation to the Cement Transactions for the financial year ending 31 December 2007 of RMB 50 million be and is hereby approved; and

(c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Renewal Ganghui Sales Agreement.”

3. “**THAT**

(a) the conditional agreement (the “Renewal Union Cement Purchase Agreement”) dated 12 September 2006 entered into between Chia Hsin Jingyang Cement Co., Ltd. (“Jingyang Cement”) and Jiangsu Union Cement Co., Ltd. (“Union Cement”), a copy of which is marked “C” and produced to the meeting and initialled by the chairman of the meeting for identification purpose, pursuant to which Jingyang Cement will continue to purchase clinker from Union Cement from time to time (the “Clinker Transactions”) under the Union Cement Purchase Agreement until 31 December 2007, be and is hereby approved, ratified and confirmed;

(b) the proposed cap in relation to the Clinker Transactions for the financial year ending 31 December 2007 of RMB 396 million be and is hereby approved; and

(c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Renewal Union Cement Purchase Agreement.”

Yours faithfully,
By Order of the Board
Chia Hsin Cement Greater China Holding Corporation
Wang Chien Kuo, Robert
Chairman

Hong Kong, 10 October 2006

Registered office:
P.O. Box 309 GT,
Ugland House,
South Church Street,
George Town,
Grand Cayman,
Cayman Islands

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.

3. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged at the office of the Company's branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).

5. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.

7. The Register of Members of the Company will be closed from Tuesday, 24 October 2006 to Thursday, 26 October 2006 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for attending the meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged at the office of the Company's branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 23 October 2006.

* *for identification purpose only*