

Notes to the Financial Statements

For the year ended 31 December 2006

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, Uglan 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 CHPL, a company incorporated in the Cayman Islands, and CHC, a company registered in Taiwan, respectively.

The functional currency of the Company is Renminbi. For the convenience of the users of the consolidated financial statements, the consolidated financial statements are presented in United States dollars.

The Company acts as an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 33.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, all of the new and revised standards and interpretations (new "IFRSs") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new IFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

International Accounting Standards ("IAS")

IAS 1 (Amendment)	Capital Disclosures ¹
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International Financial Reporting Standards ("IFRSs")

IFRS 7	Financial Instruments: Disclosures ¹
IFRS 8	Operating Segments ⁸

International Financial Reporting Interpretations Committee ("IFRIC")

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
IFRIC 11	IFRS 2: Group and Treasury Share Transactions ⁶
IFRIC 12	Service Concession Arrangements ⁷

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

⁶ Effective for annual periods beginning on or after 1 March 2007

⁷ Effective for annual periods beginning on or after 1 January 2008

⁸ Effective for annual periods beginning on or after 1 January 2009

Notes to the Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs. There is no material differences between the Hong Kong Financial Reporting Standards ("HKFRS") and the IFRSs, which may have an effect on these consolidated financial statements. Accordingly, the Directors of the Company considered that it is not necessary to disclose and explain differences of accounting practice between IFRSs and HKFRSs or to compile a statement of financial effect of any such material differences in the consolidated financial statements. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Basis of preparation

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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. 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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Cash and cash equivalents

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

Financial liabilities and equity

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

Other financial liabilities

Other financial liabilities include trade payables, amount due to a fellow subsidiary and other payables and bank borrowings 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.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Property, plant and equipment

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

Depreciation is provided to write off the cost of the items of property, plant and equipment, 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
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

Notes to the Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. 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 consolidated income statement in the year in which the items 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 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.

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

Interest income from a financial asset 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 estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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 recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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 recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the consolidated financial statements (i.e. United States dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising are recognised as a separate component of equity (the exchange translation reserve). Such exchange 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 as and included in the finance costs in consolidated income statement in the period in which they are incurred.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated 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 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 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.

4. REVENUE

Revenue comprises the following:

Sales of cement
Sales of clinker

2006 US\$'000	2005 US\$'000
122,975	84,288
4,254	7,197
<u>127,229</u>	<u>91,485</u>

5. GEOGRAPHICAL AND BUSINESS SEGMENTS

Geographical segments

For management purposes, the Group's primary segment for reporting segment information is geographical segment. With the introduction of new customers in Japan in the year, new segment of Japan is presented in 2006. Segment information of the Group by location of customers is presented below:

2006

Income statement

	PRC US\$'000	United States US\$'000	Japan US\$'000	Europe US\$'000	Others US\$'000 (Note)	Total US\$'000
Revenue	48,282	33,654	19,920	18,319	7,054	127,229
Segment result	7,436	6,234	4,312	3,868	1,039	22,889
Interest income						1,109
Other income						3,328
Unallocated expenses						(13,419)
Finance costs						(6,256)
Profit before tax						7,651
Income tax expense						(1,134)
Profit for the year						6,517
Balance sheet						
Assets						
Segment assets	12,920	941	442	30	799	15,132
Unallocated assets						321,454
						336,586
Liabilities						
Unallocated liabilities						119,071

Note: Others included Malaysia, Singapore and Taiwan.

Notes to the Financial Statements

For the year ended 31 December 2006

5. GEOGRAPHICAL AND BUSINESS SEGMENTS (continued)

Geographical segments (continued)

2005

Income statement

	PRC US\$'000	United States US\$'000	Japan US\$'000	Europe US\$'000	Others US\$'000 (Note)	Total US\$'000
Revenue	65,030	15,729	—	5,232	5,494	91,485
Segment result	8,264	2,670	—	1,190	1,385	13,509
Interest income						1,033
Other income						3,464
Unallocated expenses						(12,969)
Finance costs						(4,787)
Profit before tax						250
Income tax expense						(147)
Profit for the year						103
Balance sheet						
Assets						
Segment assets	13,723	1,215	—	—	—	14,938
Unallocated assets						297,055
						311,993
Liabilities						
Unallocated liabilities						107,640
Other information						
Allowance for doubtful debts written back	116	—	—	—	—	116

Note: Others included Malaysia, Singapore and Taiwan.

More than 90% of the Group's total assets at 31 December 2006 and 2005 and the capital additions made during the two years ended 31 December 2006 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.

6. FINANCE COSTS

	2006 US\$'000	2005 US\$'000
Interest on bank borrowings:		
– wholly repayable within five years	6,256	3,349
– not wholly repayable within five years	—	1,438
	<u>6,256</u>	<u>4,787</u>

7. INCOME TAX EXPENSE

	2006 US\$'000	2005 US\$'000
The charge comprises:		
PRC taxation:		
Current year	1,096	147
Underprovision in prior year	38	—
	<u>1,134</u>	<u>147</u>

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, 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 as 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.

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For the year ended 31 December 2006

7. INCOME TAX EXPENSE (continued)

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

	2006 US\$'000	2005 US\$'000
Profit before tax	7,651	250
Tax at the PRC income tax rate of 27% (2005: 27%)	2,066	68
Tax effect of expenses not deductible for tax purpose	328	292
Tax effect of income not taxable for tax purpose	(77)	(17)
Effect of tax concession	(1,348)	(190)
Underprovision in respect of prior year	38	—
Others	127	(6)
Income tax expense	1,134	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.

8. PROFIT FOR THE YEAR

	2006 US\$'000	2005 US\$'000
Profit for the year has been arrived at after charging:		
Amortisation of land use rights	488	473
Auditors' remuneration	135	148
Cost of inventories recognised as an expense	104,176	77,731
Depreciation of property, plant and equipment	8,439	8,064
Loss on disposal/write-off of property, plant and equipment	30	—
Operating lease rentals in respect of		
rented premises	227	156
motor vehicles	94	92
Repairs and maintenance	6,266	4,336
Staff costs	4,184	3,940
and after crediting:		
Allowance for doubtful debts written back	—	116
Net foreign exchange gain	2,911	2,474
Profit on disposal of property, plant and equipment	—	178

9. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Directors

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

2006

	Fees US\$'000	Salaries and other benefits US\$'000	Total US\$'000
Executive Directors			
Mr. WANG Chien Kuo, Robert	19	101	120
Mr. LAN Jen Kuei, Konrad	19	38	57
Mr. CHANG Kang Lung, Jason	19	57	76
Ms. WANG Li Shin, Elizabeth	19	55	74
	<u>76</u>	<u>251</u>	<u>327</u>
Non-executive Directors			
Mr. CHANG Yung Ping, Johnny	13	—	13
Mr. CHANG An Ping, Nelson	13	—	13
	<u>26</u>	<u>—</u>	<u>26</u>
Independent non-executive Directors			
Mr. Davin A. MACKENZIE	18	—	18
Mr. ZHUGE Pei Zhi	13	—	13
Mr. WU Chun Ming	13	—	13
	<u>44</u>	<u>—</u>	<u>44</u>
	<u>146</u>	<u>251</u>	<u>397</u>

Notes to the Financial Statements

For the year ended 31 December 2006

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

Directors (continued)

2005

	Fees US\$'000	Salaries and other benefits US\$'000	Total US\$'000
Executive Directors			
Mr. WANG Chien Kuo, Robert	19	103	122
Mr. LAN Jen Kuei, Konrad	19	41	60
Mr. CHANG Kang Lung, Jason	19	58	77
Ms. WANG Li Shin, Elizabeth	19	56	75
	<u>76</u>	<u>258</u>	<u>334</u>
Non-executive Directors			
Mr. CHANG Yung Ping, Johnny	13	—	13
Mr. CHANG An Ping, Nelson	13	—	13
Mr. MAR Shaw Hsiang	3	—	3
	<u>29</u>	<u>—</u>	<u>29</u>
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	2	—	2
	<u>32</u>	<u>—</u>	<u>32</u>
	<u>137</u>	<u>258</u>	<u>395</u>

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

No contributions to retirement benefits schemes, performance related incentive payments or incentive on joining were paid to the Directors of the Company by the Group for the two years ended 31 December 2006.

9. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)**Five highest paid individuals**

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

	2006 US\$'000	2005 US\$'000
Directors' fees	57	57
Salaries and other benefits	348	356
	<u>405</u>	<u>413</u>

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

	2006 Number of individuals	2005 Number of individuals
Nil – HK\$1,000,000	<u>5</u>	<u>5</u>
Number of Directors	3	3
Number of employees	<u>2</u>	<u>2</u>
	<u>5</u>	<u>5</u>

10. DIVIDEND

No dividend has been paid or declared by the Company for both years presented.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of approximately US\$6,517,000 (2005: US\$103,000) and on 1,142,900,000 ordinary shares in issue throughout both years presented.

There were no potential dilutive shares in issue during both years presented.

12. INVENTORIES

	2006 US\$'000	2005 US\$'000
Raw materials	2,987	3,528
Work-in-progress	686	1,598
Finished goods	2,438	1,222
Consumables and ancillary materials	12,663	9,799
	<u>18,774</u>	<u>16,147</u>

Notes to the Financial Statements

For the year ended 31 December 2006

13. TRADE RECEIVABLES

The age analysis of trade receivables is as follows:

	2006 US\$'000	2005 US\$'000
Within 90 days	11,402	10,391
91 - 180 days	2,602	3,497
181 - 365 days	—	15
Over 365 days	—	10
	<u>14,004</u>	<u>13,913</u>

No interest is charged on overdue trade receivables.

14. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

	2006 US\$'000	2005 US\$'000
Name of fellow subsidiaries		
Shanghai Chia Hsin Ganghui Company Limited ("Ganghui")	1,128	1,025
Union Cement	2,208	2,522
Chia Hsin Business Consulting (Shanghai) Corporation ("Business Consulting")	—	6
	<u>3,336</u>	<u>3,553</u>

The amounts due from fellow subsidiaries are unsecured and interest free. The amount due from Ganghui represents trading balances with age within 90 days and the amount is repayable in accordance with relevant trading terms. The amount due from Union Cement represents purchase deposit paid by the Group which will be used to settle future purchases from Union Cement within a period of one year. The amount due from Business Consulting as at 31 December 2005 was settled during the year.

15. OTHER RECEIVABLES

	2006 US\$'000	2005 US\$'000
Deposits	149	160
Prepayments	696	520
Advances to suppliers	1,255	1,686
Other debtors	1,355	1,265
	<u>3,455</u>	<u>3,631</u>

16. BANK BALANCES AND CASH

Included in the bank balances and cash are bank deposits with an original maturity of three months or less of approximately US\$1,328,000 (2005: US\$861,000) and US\$42,410,000 (2005: US\$31,528,000) 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.

Bank balances carry interest at market rates which range from 1% to 7% per annum.

17. 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 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 and 1 January 2006	3,628	70,776	5,399	187,253	3,770	1,528	272,354
Additions	13,283	1	—	973	249	72	14,578
Transfer	(16,053)	13,244	—	2,808	1	—	—
Disposals/write-offs	—	(287)	—	—	—	(79)	(366)
Exchange differences	75	2,587	181	6,334	130	51	9,358
At 31 December 2006	933	86,321	5,580	197,368	4,150	1,572	295,924
DEPRECIATION							
At 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/write-offs	—	(19)	—	—	(13)	(53)	(85)
Exchange differences	—	350	23	911	68	24	1,376
At 31 December 2005 and 1 January 2006	—	14,863	1,030	38,806	2,816	1,011	58,526
Charge for the year	—	2,162	288	5,700	193	96	8,439
Eliminated on disposals/write-offs	—	(14)	—	—	—	(70)	(84)
Exchange differences	—	533	40	1,395	98	33	2,099
At 31 December 2006	—	17,544	1,358	45,901	3,107	1,070	68,980
CARRYING VALUES							
At 31 December 2006	933	68,777	4,222	151,467	1,043	502	226,944
At 31 December 2005	3,628	55,913	4,369	148,447	954	517	213,828

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

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18. 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:

	2006 US\$'000	2005 US\$'000
Land use rights	18,179	18,070
Less: Portion to be charged to income statement in next year included as prepayments under current assets	(496)	(480)
Non-current portion	<u>17,683</u>	<u>17,590</u>

At 31 December 2006, land use rights with an aggregate carrying amount of approximately US\$16,614,000 (2005: US\$16,515,000) have been pledged as collateral for certain bank borrowings of the Group.

19. SHARE CAPITAL

	At 31 December 2006 and 2005	
	Number of shares of US\$0.01 each	Nominal value US\$'000
Authorised	<u>100,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid	<u>1,142,900,000</u>	<u>11,429</u>

20. TRADE PAYABLES

The aged analysis of the trade payable is as follows:

	2006 US\$'000	2005 US\$'000
Within 90 days	6,381	6,486
91 - 180 days	124	430
181 - 365 days	97	94
Over 365 days	216	687
	<u>6,818</u>	<u>7,697</u>

21. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount represented trade balance due to Business Consulting of US\$248,000 as at 31 December 2005 which was unsecured, interest free and repaid during the year.

22. OTHER PAYABLES

	2006 US\$'000	2005 US\$'000
Interest payable	842	725
Accrued expenses	651	606
Deposits from customers	1,271	1,004
Tax (other than income tax) payable	1,295	611
Construction cost payable	357	123
Others	666	816
	<u>5,082</u>	<u>3,885</u>

23. 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\$332,000 (2005: US\$321,000) has been made for estimated irrecoverable amounts from the sales of goods which has been determined based on objective evidence that the amount is impaired, and is measured as the difference between the amount's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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\$130,000 (2005: US\$126,000) has been made for estimated irrecoverable receivables which has been determined based on objective evidence that the amount is impaired, and is measured as the difference between the amount's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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.

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For the year ended 31 December 2006

23. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial liabilities

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

Amount due to a fellow subsidiary represents trade balance.

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

Financial risk management objective and policies

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations 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, amounts due from fellow subsidiaries and other receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on objective evidence that the amount is impaired, and is measured as the difference between the amount's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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 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 interest rate risk exposure should the need arise.

24. BANK BORROWINGS

	2006 US\$'000	2005 US\$'000
Secured:		
Loan from Industrial and Commercial Bank of China ("ICBC") (note i)	46,980	62,640
Loan from China Construction Bank ("CCB") (note ii)	26,930	32,310
Loan from Shanghai Commercial Bank ("SCB") (note iii)	30,000	—
	<u>103,910</u>	<u>94,950</u>
Unsecured:		
Short-term bank loans denominated in USD (note iv)	—	860
Short-term bank loans denominated in RMB (note v)	2,561	—
	<u>106,471</u>	<u>95,810</u>
The maturity of the bank borrowings is as follows:		
Within one year	23,601	21,900
In the second year	26,040	21,040
In the third to fifth years inclusive	56,830	47,460
Over five years	—	5,410
	<u>106,471</u>	<u>95,810</u>
Less: Amount due for settlement within one year (shown under current liabilities)	<u>(23,601)</u>	<u>(21,900)</u>
Amount due for settlement over one year	<u>82,870</u>	<u>73,910</u>

Notes:

- (i) The loan from ICBC was raised in 2003. It is denominated in United States dollars and is repayable in 14 half-yearly instalments commenced 20 June 2003 and carries interest at London Inter Banks Offer Rate ("LIBOR") plus 1%.
- (ii) The loan from CCB was raised in 2003. It is denominated in United States dollars and is repayable in 13 half-yearly instalments commenced 15 August 2005 and carries interest at LIBOR plus 0.95%.
- (iii) The loan from SCB is denominated in United States dollars and is repayable in 6 half-yearly instalments commencing 28 December 2008 and carries interest at LIBOR plus 0.9%.
- (iv) The unsecured short-term bank loans denominated in United States dollars carry an average fixed interest rate of 5.97% (2005: 4.31%) 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 approximately of 5% per annum.

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

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25. TOTAL ASSETS LESS CURRENT LIABILITIES/NET CURRENT ASSETS

The Group's total assets less current liabilities at 31 December 2006 amounted to approximately US\$300,385,000 (2005: US\$278,263,000).

The Group's net current assets at 31 December 2006 amounted to approximately US\$55,758,000 (2005: US\$46,845,000).

26. SUMMARISED BALANCE SHEET INFORMATION OF THE COMPANY

	2006 US\$'000	2005 US\$'000
ASSETS		
Current assets	7,563	8,717
Non-currents assets	178,404	170,981
TOTAL ASSETS	185,967	179,698
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	11,429	11,429
Share premium and reserves	174,328	168,137
	185,757	179,566
Current liabilities	210	132
TOTAL EQUITY AND LIABILITIES	185,967	179,698

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 Memorandum or 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 2006, the Company's reserves available for distribution amounted to approximately US\$174,328,000 (2005: US\$168,137,000), representing the aggregate of the share premium and special reserve and accumulated profits of approximately US\$164,342,000 (2005: US\$164,342,000), US\$6,446,000 (2005: US\$6,446,000) and US\$3,540,000 (2005: accumulated losses of US\$2,651,000) respectively.

27. CAPITAL COMMITMENTS

	2006 US\$'000	2005 US\$'000
(i) Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for in the financial statements	<u>494</u>	<u>5,957</u>

- (ii) On 26 November 2003, the Company entered into an option agreement (the "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 Pte Ltd. ("Yonica (Singapore)") 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). Yonica Singapore, which is a wholly owned subsidiary of CHPL, holds 80% equity interest in Union Cement.

The exercise period for the Option Agreement 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") and such Pre-requisite was met on 14 September 2005.

On 31 August 2006, Yonica (Singapore) entered into agreements with Yonica (BVI) Pte. Ltd. ("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 of amount of US\$11,400,000 to Yonica (BVI). Upon completion of the transaction, Yonica (BVI) will be interested in the 80% equity interest in Union Cement and the shareholder's loan.

For the purpose of exercising the Option Agreement, on 12 September 2006, the Company entered into a conditional acquisition agreement (the "Acquisition Agreement") whereby the Company as the purchaser would purchase from CHPL as vendor all of CHPL's interest in Yonica (BVI) at a total consideration of approximately US\$43,022,000, which would be satisfied as to approximately US\$32,267,000 by issuance of 263,496,000 shares of US\$0.01 each of the Company at an issue price of HK\$0.95 per share and the balance of approximately US\$10,755,000 in cash to be financed by a fund raising exercise involving, among other things, issue of equity securities of the Company.

The Acquisition Agreement was approved by the independent shareholders in the extraordinary general meeting held on 26 October 2006. As there are still other conditions not yet satisfied up to the report date, the transaction is not yet completed.

Details of the transactions are set out in a circular of the Group dated 10 October 2006.

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28. 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:

	2006 US\$'000	2005 US\$'000
Property, plant and equipment	162,851	137,195
Land use rights	16,614	16,515
Bank deposits	—	496
	<u>179,465</u>	<u>154,206</u>

29. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2006 US\$'000	2005 US\$'000
Within one year	116	133
In the second to third year inclusive	6	99
	<u>122</u>	<u>232</u>

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.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2006 US\$'000	2005 US\$'000
Within one year	29	—
In the second year	12	—
	<u>41</u>	<u>—</u>

Operating lease payments represent rental receivable by the Group for renting out certain equipment. The rental income earned during the year was approximately US\$102,000 (2005: nil).

30. 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 of the Company, 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 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 of the Company 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 of the Company, 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 2006, no option was granted, exercised or cancelled by the Company.

31. RETIREMENT BENEFITS

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 2006 and 31 December 2005, 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\$306,000 (2005: US\$291,000) represents contributions payable to the schemes by the Group at rate specified in the rules of the schemes.

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32. 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	2006	2005
		US\$'000	US\$'000
Sales of goods	Ganghui	2,955	6,253
Purchase of goods	Union Cement	20,251	12,225
Consultancy fee paid	Business Consulting	252	244
Licence fee income	Ganghui	23	41
Vehicle rentals paid	Business Consulting	94	92

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.

Moreover, during the year, the Group paid remunerations of short-term benefit to Directors and other members of key management amounting to approximately US\$635,000 (2005: US\$674,000).

33. SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2006 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.