

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

1. Sales, Net

Sales comprised:

	2004	2003
Gross sales less discounts and returns	8,384,947	5,695,033
Less: Surtaxes	(50,136)	(41,047)
	8,334,811	5,653,986

The Group is subject to the following surtaxes, which are recorded as deductions from gross sales:

- City Development Tax, levied at 1% to 7% of net VAT payable.
- Education Supplementary Tax, levied at 3% to 4% of net VAT payable.

2. Subsidy Income

	2004	2003
Turnover taxes refund (a)	28,632	17,425
Value Added Tax ("VAT") refund (b)	104,758	40,126
Interest subsidies (c)	19,252	11,526
Local government grants (d)	26,174	24,633
	178,816	93,710

- (a) Pursuant to Cai Qi [2002] No. 368 issued by State Administration of Taxation and Ministry of Finance in September 2002, the Company is entitled to the refund of turnover taxes for repayment of foreign currency borrowings by the Group before 31 December 1994.
- (b) Pursuant to relevant tax regulation, the Company is entitled to the refund of VAT for sales of 425 Cement. All VAT refunds were received in 2004.
- (c) Local governments granted certain interest subsidies as encouragement to the enterprises' technical innovation and improvements.
- (d) The Company enjoys certain local government subsidies as a support to the development and expansion of local enterprises, at a discretionary amount determined by local government.

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3. Profit From Operations

Profit from operations in the consolidated income statement was determined after charging (crediting) the following items:

	2004	2003
After charging:		
Staff costs		
— salaries, bonus and wages	210,870	216,129
— provision for staff welfare fund	28,887	24,148
— contribution to pension scheme	16,469	13,962
	256,226	254,239
Depreciation of property, plant and equipment (Note 27(a))	531,467	477,740
Amortisation of leasehold land (Note 27(a))	11,546	13,024
Amortisation of intangible assets (in "Administrative expense" item of the income statement) (Note 27(a))	4,267	8,242
Loss on disposals of property, plant and equipment, net (Note 27(a))	456	5,428
Receivables — impairment charge for bad and doubtful debts (Note 27(a))	—	16,084
Inventory-impairment charge for obsolete inventories (Note 27(a))	—	8,515
Auditors' remuneration	2,410	2,120
After crediting:		
— Write back of charge for bad and doubtful debts (Note 27(a))	(1,788)	—
— Amortisation of deferred income (Note 5(2))	(7,108)	—

4. Finance Costs, Net

	2004	2003
Interest expenses		
— on bank borrowings repayable within five years	319,823	223,288
Less: Amounts capitalised in construction-in-progress (Note 27(c))	(27,701)	(28,810)
Interest expense (Note 27(a))	292,122	194,478
Interest income (Note 27(a))	(21,614)	(7,904)
Net foreign exchange loss (Note 27(a))	103	1,043
	270,611	187,617

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5. Enterprise Income Tax

(1) Income tax expense in the consolidated income statement comprised:

	2004	2003
Income tax expense (Note 27(a))		
— Current tax of the Group	597,228	536,492
— Share of tax of associates	—	—
	597,228	536,492

(2) The reconciliation of the applicable tax rate to the effective tax rate is as follows:

	2004		2003	
Accounting profit before tax and minority interests	1,966,527	100%	1,654,669	100%
Tax at the effective tax rate of 33% (2003: 33%)	648,954	33%	546,041	33%
Effect of different tax rates of subsidiaries	(14,004)	(0.7%)	(12,958)	(0.8%)
Effect of subsidiaries' tax losses	15,569	0.8%	24,070	1.4%
Tax effect of expenses that are not deductible in determining taxable profit	1,790	0.1%	32,061	1.9%
Tax effect of income that are not taxable in determining taxable profit	(9,606)	(0.5%)	(2,808)	(0.2%)
Income tax credits granted to subsidiaries	(45,475)	(2.3%)	(49,914)	(2.9%)
Income tax expense	597,228	30.4%	536,492	32.4%

Individual companies within the Group are generally subject to Enterprise Income Tax ("EIT") at 33% on taxable income determined according to the PRC tax laws except Anhui Conch Cement Product Co., Ltd. ("Conch Plant"), Shanghai Conch Mingzhu Cement Co., Ltd. ("Mingzhu Conch") and Shanghai Conch Cement Sales Co., Ltd. ("Shanghai Sales").

Conch Plant is a sino-foreign equity joint venture. In 2003, Conch Plant was recognised by local tax authority as a company located in middle-west China with foreign investment, and thus is entitled to a 50% reduction of Enterprise Income Tax for another three years from 2003. Therefore the applicable Enterprise Income Tax rate in 2004 is 15%.

Mingzhu Conch and Shanghai Sales were established in Shanghai Pudong new district. Accordingly, the applicable Enterprise Income Tax rate is 15%.

Notes to the Consolidated Financial Statements

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(All amounts in RMB thousands unless otherwise stated)

5. Enterprise Income Tax (Continued)

(2) (Continued)

Pursuant to Cai Shui Zi [1994] No. 1, in the year ending 31 December 2004, tax credits totalling approximately RMB45,475,000 were granted to the Company and its subsidiaries on utilisation of certain natural resources. The amounts are allowed as a deduction of current Enterprise Income Tax expenses.

Pursuant to Cai Shui Zi [1999] No. 290, subject to approval, companies can claim enterprise income tax credit on 40% of the cost of certain qualified equipment manufactured in the PRC, to the extent to the Enterprise Income Tax expense in excess of that in the previous year. For the year ended 31 December 2004, tax credits were granted to the subsidiaries of the Company on purchases of certain qualified equipment, totalling approximately RMB106,626,000. The enterprise income tax credit is first deferred and then recognised as income over the periods and in the proportions in which depreciation on the purchased equipment is charged (Note 3).

There were no Hong Kong profits tax liabilities as the Group did not earn any income subject to Hong Kong profits tax.

As of 31 December 2004, there was no material unprovided deferred tax.

6 Net Profit for the Year

The consolidated net profit for the year ended 31 December 2004 included a net loss of approximately RMB35,742,000 (2003: net profit of approximately RMB6,395,000) dealt with in the financial statements of the Company before accounting for the results of subsidiaries and an associate using the equity method of accounting.

7 Earnings Per Share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2004	2003
Net profit	960,919	743,404
Weighted average number of ordinary shares in issue (thousands)	1,255,680	1,192,975
Basic earnings per share (RMB)	0.77	0.62

The diluted earning per share was not calculated, because no potential dilutive shares existed during the year.

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(All amounts in RMB thousands unless otherwise stated)

8. Dividends

At the Board of Directors Meeting on 22 March 2005, a dividend in respect of 2004 of RMB0.13 per share (Note 31) amounting to a total dividend of RMB163,238 thousands was proposed (note 24(e)). These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ended 31 December 2005.

The dividends declared in respect of 2003 and 2002 were RMB125,568 thousands and RMB59,174 thousands respectively.

9. Leasehold Land

GROUP

	2004	2003
Cost		
Beginning of year	472,053	444,529
Purchases	9,508	27,524
Deduction of the year	(5,184)	—
End of year	476,377	472,053
Accumulated amortisation		
Beginning of year	44,966	31,942
Charge for the year (Note 27(a))	11,546	13,024
Deduction of the year	(524)	—
End of year	55,988	44,966
Net book value		
End of year	420,389	427,087
Beginning of year	427,087	412,587

The leasehold land is valid for a period of 30 to 50 years from the date of certificates obtained by the Company and its subsidiaries.

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(All amounts in RMB thousands unless otherwise stated)

10. Property, Plant and Equipment

GROUP

Movements in property, plant and equipment were as follows:

	2004					Total
	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction-in-progress	
Cost						
Beginning of year	3,548,153	5,650,469	292,030	184,017	1,928,074	11,602,743
Purchases	26,925	40,317	728	38,816	2,326,186	2,432,972
Transfers from construction in progress	1,281,396	2,076,445	3,512	826	(3,362,179)	—
Additions from purchases of subsidiaries	10,265	15,955	426	2,993	171,367	201,006
Disposals (Note 27(c))	(15,626)	(11,063)	(1,599)	(3,422)	—	(31,710)
End of year	4,851,113	7,772,123	295,097	223,230	1,063,448	14,205,011
Accumulated depreciation						
Beginning of year	578,880	1,402,027	147,171	110,647	—	2,238,725
Charge for the year	128,170	349,705	30,309	26,421	—	534,605
Additions from purchases of subsidiaries	1,580	554	47	435	—	2,616
Disposals (Note 27(c))	(3,201)	(3,108)	(908)	(3,018)	—	(10,235)
End of year	705,429	1,749,178	179,619	134,485	—	2,765,711
Net book value						
End of year	4,145,684	6,022,945	118,478	88,745	1,063,448	11,439,300
Beginning of year	2,969,273	4,248,442	144,859	73,370	1,928,074	9,364,018

Notes to the Consolidated Financial Statements

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(All amounts in RMB thousands unless otherwise stated)

10. Property, Plant and Equipment (Continued)

	2003					Total
	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction-in-progress	
Cost						
Beginning of year	2,751,727	4,056,408	170,472	143,247	1,358,707	8,480,561
Purchases	807,346	1,605,432	121,607	42,943	569,367	3,146,695
Deduction from disposal of subsidiaries (Note 27(d))	(1,688)	(96)	(10)	—	—	(1,794)
Disposals (Note 27(c))	(9,232)	(11,275)	(39)	(2,173)	—	(22,719)
End of year	3,548,153	5,650,469	292,030	184,017	1,928,074	11,602,743
Accumulated depreciation						
Beginning of year	409,821	1,136,091	142,727	84,184	—	1,772,823
Additions	171,270	275,953	4,476	28,272	—	479,971
Deduction from disposal of subsidiaries (Note 27(d))	(317)	(18)	(5)	—	—	(340)
Disposals (Note 27(c))	(1,894)	(9,999)	(27)	(1,809)	—	(13,729)
End of year	578,880	1,402,027	147,171	110,647	—	2,238,725
Net book value						
End of year	2,969,273	4,248,442	144,859	73,370	1,928,074	9,364,018
Beginning of year	2,341,906	2,920,317	27,745	59,063	1,358,707	6,707,738

- (a) As of 31 December 2004, machinery and equipment with an aggregate net book value of approximately RMB91,088,000 (2003: approximately RMB99,356,000) have been pledged as collaterals for short-term bank borrowings (Note 21(a)).
- (b) As of 31 December 2004, the procedure for transfers of the titles of the buildings purchased in prior years with an aggregate net book value of approximately RMB228,721,000 to the Group was still in progress.

Notes to the Consolidated Financial Statements

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(All amounts in RMB thousands unless otherwise stated)

10. Property, Plant and Equipment (Continued)

(c) Construction-in-progress ("CIP")

	31 December 2004	31 December 2003
Cost of construction, plant and equipment and other direct costs	1,056,699	1,909,872
Borrowing costs capitalised — interest	6,749	18,202
	1,063,448	1,928,074
Average capitalisation rate	4.94%	4.76%

11. Intangible Assets

GROUP

Intangible assets comprised:

	2004				Total
	Goodwill	Negative goodwill	Limestone mining licences	Clay mining licence	
Cost					
Beginning of year	64,648	(5,911)	89,458	—	148,195
Additions	73,260	—	1,492	15,575	90,327
End of year	137,908	(5,911)	90,950	15,575	238,522
Accumulated amortisation					
Beginning of year	30,257	(1,165)	25,038	—	54,130
Charge for the year	3,928	(4,746)	4,652	433	4,267
End of year	34,185	(5,911)	29,690	433	58,397
Net book value					
End of year	103,723	—	61,260	15,142	180,125
Beginning of year	34,391	(4,746)	64,420	—	94,065

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11. Intangible Assets (Continued)

	2003			Total
	Goodwill	Negative goodwill	Limestone mining licences	
Cost				
Beginning of year	66,012	(4,143)	81,379	143,248
Additions	—	—	8,079	8,079
Reclassification	(1,364)	1,364	—	—
Addition from acquisition of minority interests	—	(3,132)	—	(3,132)
End of year	64,648	(5,911)	89,458	148,195
Accumulated amortisation				
Beginning of year	25,307	(417)	20,998	45,888
Charge for the year	6,314	(2,112)	4,040	8,242
Reclassification	(1,364)	1,364	—	—
End of year	30,257	(1,165)	25,038	54,130
Net book value				
End of year	34,391	(4,746)	64,420	94,065
Beginning of year	40,705	(3,726)	60,381	97,360

The goodwill arose from the excess of acquisition cost over the Company's equity interest in the fair value of net identifiable assets of its subsidiaries (including Ningbo Conch Cement Co., Ltd., Anhui Tongling Conch Cement Co., Ltd., Zhangjianggang Conch Cement Co., Ltd., Nantong Conch Cement Co., Ltd., Mingzhu Conch, Fenyi Conch Cement Co., Ltd. and Shuangfeng Conch Cement Co., Ltd.) at the date of acquisition (Note 12(1)).

The addition of goodwill in 2004 arose from the acquisition of Fenyi Conch Cement Co., Ltd. ("Fenyi Conch") and Shuangfen Conch Cement Co., Ltd. ("Shuangfen Conch") for which the agreement dates are subsequent to 31 March 2004. The related goodwill was not amortised but tested for impairment after initial recognition (Note G). As at 31 December 2004, the directors were not aware of any factors that may indicate impairment of the goodwill.

Negative goodwill arose from the excess of Company's equity interest in the fair value of the net identifiable assets of its subsidiaries (including Anhui Zongyang Conch Cement Co., Ltd. ("Zongyang Conch"), Anhui Chizhou Conch Cement Co., Ltd. ("Chizhou Conch") and Anhui Changfeng Conch Cement Co., Ltd. ("Changfeng Conch")) over the acquisition cost at the date of acquisition.

The limestone and clay mining licences are valid for a period of 20 to 30 years from the date of the licences obtained by the Company and its subsidiaries.

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12. Investments in Subsidiaries

COMPANY

	31 December 2004	31 December 2003
Unlisted investments, at cost	3,310,126	2,691,645
Share of post-acquisition profits less losses	1,627,128	1,230,293
Less: Dividends from subsidiaries	(839,133)	(596,586)
Amounts due from subsidiaries	1,830,149	1,199,066
Amounts due to subsidiaries	(1,564,723)	(944,943)
	4,363,547	3,579,475

The amounts due from (to) subsidiaries arose from ordinary business transactions, and were unsecured, non-interest bearing and without fixed repayment terms.

The Company's directors are of the opinion that the underlying value of the subsidiaries was not less than the carrying value of the Company's investments in the subsidiaries as of year-end.

Details of the Company's subsidiaries, all of which are limited liability companies or joint stock limited company, as of 31 December 2004 were as follows:

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Ningguo Cement Plant 安徽省寧國水泥廠	PRC 21 January 1985	100% (directly held)	RMB649,350,000	Manufacture and sale of clinker and cement products
Ningbo Conch Cement Co., Ltd. ("Ningbo Conch") 寧波海螺水泥有限公司	PRC 3 April 1993	75% (directly held)	RMB171,000,000	Manufacture and sale of clinker and cement products
Conch Plant 安徽海螺水泥有限公司	PRC 23 June 1994	75% (directly held)	USD29,980,000	Manufacture and sale of clinker and cement products
Mingzhu Conch 上海海螺明珠水泥有限責任公司	PRC 3 April 1995	76.20% (directly held) 18% (indirectly held)	RMB13,710,000	Manufacture and sale of clinker and cement products
Anhui Tongling Conch Cement Co., Ltd. ("Tongling Conch") 安徽銅陵海螺水泥有限公司	PRC 22 September 1995	68.14% (directly held)	RMB565,000,000	Manufacture and sale of clinker and cement products

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12. Investments in Subsidiaries (Continued)

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Anhui Conch Machinery & Electric Co., Ltd. 安徽海螺機電設備有限公司	PRC 5 January 1998	49% (directly held) 51% (indirectly held)	RMB10,000,000	Provision of installation and repairing services
Ningbo Conch Free-trade Zone Trading Co., Ltd 寧波保稅區海螺貿易公司	PRC 9 July 1998	100% (indirectly held)	RMB1,000,000	Trading and sale of clinker and cement products
Changfeng Conch 安徽長豐海螺水泥有限公司	PRC 4 September 1998	90% (directly held) 10% (indirectly held)	RMB10,000,000	Manufacture and sale of clinker and cement products
Zhangjiagang Conch Cement Co., Ltd. 張家港海螺水泥有限公司	PRC 30 September 1998	98.71% (directly held)	RMB35,000,000	Manufacture and sale of clinker and cement products
Shanghai Conch Cement Co., Ltd. 上海海螺水泥有限責任公司	PRC 13 November 1998	75% (directly held)	RMB60,000,000	Manufacture and sale of clinker and cement products
Nanjing Conch Cement Co., Ltd. 南京海螺水泥有限公司	PRC 20 November 1998	99.75% (directly held) 0.25% (indirectly held)	RMB15,000,000	Manufacture and sale of clinker and cement products
Nantong Conch Cement Co., Ltd. 南通海螺水泥有限公司	PRC 22 June 1999	99% (directly held)	RMB15,000,000	Manufacture and sale of clinker and cement products
Shanghai Sales 上海海螺水泥銷售有限公司	PRC 2 November 1999	90% (directly held) 10% (indirectly held)	RMB5,000,000	Sale of clinker and cement products
Anhui Digang Conch Cement Co., Ltd. 安徽荻港海螺水泥股份有限公司	PRC 28 April 2000	51% (directly held)	RMB150,000,000	Manufacture and sale of clinker and cement products
Jianyang Conch Cement Co., Ltd. 福建省建陽海螺水泥有限公司	PRC 9 June 2000	76% (directly held)	RMB14,000,000	Manufacture and sale of clinker and cement products

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12. Investments in Subsidiaries (Continued)

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Zongyang Conch 安徽縱陽海螺水泥股份有限公司	PRC 19 June 2000	51% (directly held)	RMB300,000,000	Manufacture and sale of clinker and cement products
Chizhou Conch 安徽池州海螺水泥股份有限公司	PRC 2 November 2000	51% (directly held)	RMB318,000,000	Manufacture and sale of clinker and cement products
Taizhou Conch Cement Co., Ltd. 泰州海螺水泥有限責任公司	PRC 6 November 2000	93.75% (directly held)	RMB11,520,000	Manufacture and sale of clinker and cement products
Bangbu Conch Cement Co., Ltd. 蚌埠海螺水泥有限責任公司	PRC 9 February 2001	96.7% (directly held) 3.3% (indirectly held)	RMB6,000,000	Manufacture and sale of clinker and cement products
Wenzhou Conch Cement Co., Ltd. 溫州海螺水泥有限公司	PRC 16 March 2001	95% (directly held) 5% (indirectly held)	RMB50,000,000	Manufacture and sale of clinker and cement products
Fenyi Conch (2) 分宜海螺水泥有限責任公司	PRC 20 August 2001	100% (directly held)	RMB50,000,000	Manufacture and sale of clinker and cement products
Shangyu Conch Cement Co., Ltd. 上虞海螺水泥有限責任公司	PRC 14 November 2001	90% (directly held) 10% (indirectly held)	RMB16,000,000	Manufacture and sale of clinker and cement products
Jiande Conch Cement Co., Ltd. 建德海螺水泥有限責任公司	PRC 28 November 2001	90% (directly held) 10% (indirectly held)	RMB50,000,000	Manufacture and sale of clinker and cement products
Nanchang Conch Cement Co., Ltd. 南昌海螺水泥有限責任公司	PRC 18 January 2002	90% (directly held) 10% (indirectly held)	RMB20,000,000	Manufacture and sale of clinker and cement products
Jiangxi Lushan Conch Cement Co., Ltd. 江西廬山海螺水泥有限責任公司	PRC 1 February 2002	98.7% (directly held) 1.3% (indirectly held)	RMB31,420,000	Manufacture and sale of clinker and cement products

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12. Investments in Subsidiaries (Continued)

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Taizhou Yangwan Conch Cement Co., Ltd. 泰州楊灣海螺水泥有限責任公司	PRC 20 June 2002	95% (directly held) 5% (indirectly held)	RMB50,000,000	Manufacture and sale of clinker and cement products
Zhongguo Cement Co., Ltd. ("Zhongguo Cement") 中國水泥廠有限公司	PRC 9 October 2002	90% (directly held) 10% (indirectly held)	RMB100,000,000	Manufacture and sale of clinker and cement products
Anhui Huaining Conch Cement Co., Ltd. ("Huaining Conch") 安徽懷寧海螺水泥有限責任公司	PRC 24 October 2002	90% (directly held) 10% (indirectly held)	RMB50,000,000	Manufacture and sale of clinker and cement products
Huai'an Conch Cement Co., Ltd. 淮安海螺水泥有限責任公司	PRC 15 January 2003	90% (directly held) 10% (indirectly held)	RMB20,000,000	Manufacture and sale of clinker and cement products
Taicang Conch Cement Co., Ltd. 太倉海螺水泥有限責任公司	PRC 8 July 2003	90% (directly held) 10% (indirectly held)	RMB20,000,000	Manufacture and sale of clinker and cement products
Taizhou Conch Cement Co., Ltd. 台州海螺水泥有限責任公司	PRC 6 August 2003	90% (directly held) 10% (indirectly held)	RMB20,000,000	Manufacture and sale of clinker and cement products
Haimen Conch Cement Co., Ltd. 海門海螺水泥有限責任公司	PRC 11 December 2003	90% (directly held) 10% (indirectly held)	RMB50,000,000	Manufacture and sale of clinker and cement products
Jiangmen Conch Cement Co., Ltd. 江蘇海螺水泥有限責任公司	PRC 17 December 2003	90% (directly held) 10% (indirectly held)	RMB50,000,000	Manufacture and sale of clinker and cement products

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12. Investments in Subsidiaries (Continued)

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Wujiang Conch Cement Co., Ltd. 吳江海螺水泥有限責任公司	PRC 18 January 2004	90% (directly held) 10% (indirectly held)	RMB50,000,000	Manufacture and sale of clinker and cement products
Maanshan Conch Cement Co., Ltd. 馬鞍山海螺水泥有限責任公司	PRC 7 April 2004	90% (directly held) 10% (indirectly held)	RMB50,000,000	Manufacture and sale of clinker and cement products
Jiangsu Balin Conch Cement Co., Ltd. ("Balin Conch") 江蘇八菱海螺水泥有限公司	PRC 15 April 2004	75% (directly held)	RMB32,960,000	Manufacture and sale of clinker and cement products
Shuangfen Conch (1) 雙峰海螺水泥有限公司	PRC 16 April 2004	51% (directly held)	RMB268,000,000	Manufacture and sale of clinker and cement products
Anhui Xuancheng Conch Cement Co., Ltd. 安徽宣城海螺水泥有限公司	PRC 22 April 2004	90% (directly held) 10% (indirectly held)	RMB100,000,000	Manufacture and sale of clinker and cement products
Wuhu Conch Cement Co., Ltd. ("Wuhu Conch") 蕪湖海螺水泥有限責任公司	PRC 20 September 2004	51% (directly held) 49% (indirectly held)	RMB100,000,000	Manufacture and sale of clinker and cement products
Wunan Conch Cement Co., Ltd. 湖南海螺水泥有限責任公司	PRC 18 November 2004	90% (directly held) 10% (indirectly held)	RMB50,000,000	Manufacture and sale of clinker and cement products
Yingde Conch Cement Co., Ltd. 英德海螺水泥有限責任公司	PRC 27 December 2004	90% (directly held) 10% (indirectly held)	RMB150,000,000	Manufacture and sale of clinker and cement products

— United States Dollars referred to as "USD"

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For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

12. Investments in Subsidiaries (Continued)

(1) Shuangfen Conch

In March 2004, the Company entered into an investment agreement with Shanghai AJ Entrust Investment Co., Ltd. ("AJ Entrust") and Ningbo Jinggang Entrust Investment Co., Ltd. ("Ningbo Jinggang") in respect of increase in registered capital of Shuangfen Conch. According to the agreement, the Company contributed additional capital of RMB136,680,000 to Shuangfen Conch in exchange for 51% of its equity shares. After the capital contribution, the Company, AJ Entrust and Ningbo Jinggang owned 51%, 24.5% and 24.5% of the equity interests of Shuangfen Conch, respectively. The cost in excess of the Company's share of the acquired net assets of Shuangfen Conch, amounting to approximately RMB56,773,000, was initially recognised as goodwill and is tested annually for impairment (Note 11).

(2) Fenyi Conch

In November 2004, the Company and Ningguo Cement Plant, one of its subsidiaries, entered into a share transfer agreement with Shanghai Changxing Trading Co., Ltd. ("Changxing Trading"), the minority shareholder of Fenyi Conch. According to the agreement, the Company and Ningguo Cement acquired in total 49% of the equity shares of Fenyi Conch from Changxing Trading at a consideration of RMB58,422,300. After the share transfer, the Company and its subsidiary's interests in Fenyi Conch increased from 51% to 100%. The cost in excess of share of the acquired net assets of Fenyi Conch, amounted to approximately RMB16,120,000, was initially recorded as goodwill and is tested annually for impairment (Note 11).

13. Investments in associates

GROUP AND COMPANY

	31 December 2004	31 December 2003
Unlisted investments, at cost	157,429	49,671
Share of post-acquisition gains	14,091	1,134
	171,520	50,805

The amounts due from (to) associates arose from ordinary business transactions, and were unsecured, non-interest bearing and without fixed repayment terms.

The Company's directors are of the opinion that the underlying value of the associates was not less than the carrying value of the Company's investments as of year-end.

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For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

13. Investments in Associates (Continued)

Details of the Company's associates as of 31 December 2004 were as follows:

Name of subsidiaries	Country of incorporation and date of incorporation	Group's equity interest	Registered capital	Principal activities
Anhui King Bridge Cement Co., Ltd. ("King Bridge Cement") 安徽朱家橋水泥有限公司	PRC 18 December 1997	40% (directly held)	USD15,000,000	Manufacture and sale of clinker and cement products
Guangxi Fusui Conch Cement Co., Ltd. ("Fusui Conch") 廣西扶綏海螺水泥公司	PRC 26 October 2004	21.26% (directly held) 3.94% (indirectly held)	USD200,000,000	Manufacture and sale of clinker and cement products
Guangxi Xingye Conch Cement Co., Ltd. ("Xingye Conch") 廣西興業海螺水泥公司	PRC 27 October 2004	32.62% (directly held) 3.37% (indirectly held)	USD200,000,000	Manufacture and sale of clinker and cement products

On 15 October 2004, the Company entered into an investment agreement with Yuanheng Electronic Telecommunication (Shenzhen) Co., Ltd. ("Yuanheng") and Xingye Conch in respect of increase in registered capital of Fusui Conch. According to the agreement, the Company contributed additional capital of RMB42,520,700 in the form of cash to Fusui Conch in exchange for 74.8% of its equity shares. After the capital contribution, Yuanheng, the Company and Xingye Conch owned 74.80%, 21.26% and 3.94% of the equity interests of Fusui Conch, respectively.

In October 2004, the Company entered into an investment agreement with Yuanheng and Fusui Conch in respect of increase in registered capital of Xingye Conch. According to the agreement, the Company contributed additional capital of RMB65,237,600 in the form of cash to Xingye Conch in exchange for 64.01% of its equity shares. After the capital contribution, Yuanheng, the Company and Fusui Conch owned 64.01%, 32.62% and 3.37% of the equity interests of Xingye Conch, respectively.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

14. Long-term Receivables

Long-term receivables represents RMB94 million paid by the Company, Ningguo Cement Plant, Tongling Conch, Zongyang Conch, Huaining Conch, Shuangfen Conch and Wuhu Conch for the preparation of certain projects on behalf of Local Finance Bureau, and were repayable after completion of the preparation stage of such projects.

The fair value of such receivables is approximately RMB87.7 million, which is calculated based on discounted cash flows using a discount rate that approximates the borrowing rate which the directors expect would be available to borrowers at the balance sheet date.

15. Trading Investments

GROUP AND COMPANY

	31 December 2004	31 December 2003
Marketable securities		
— PRC listed equity securities, at market value	—	1,812

16. Inventories

GROUP

	31 December 2004	31 December 2003
Raw materials	467,481	274,204
Work-in-process	92,627	29,879
Finished goods	305,297	153,084
	865,405	457,167

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

17. Prepayments and Other Receivables

GROUP

	31 December 2004	31 December 2003
Prepayment to suppliers	437,420	85,554
Prepayment for equipment on behalf of third parties	230,238	—
Guarantee deposits (a)	12,887	5,063
Others	88,429	92,620
	768,974	183,237
Less: Provision for bad and doubtful debts	(20,612)	(23,347)
	748,362	159,890

- (a) Guarantee deposits represented those pledged with banks for issuance of letters of credit and letters of guarantee, and would be due over three months.

18. Trade Receivables

GROUP

	31 December 2004	31 December 2003
Accounts receivable	48,795	53,321
Bank acceptance notes receivable	217,838	252,086
Less: Provision for bad and doubtful debts	(22,908)	(21,961)
	243,725	283,446

COMPANY

	31 December 2004	31 December 2003
Accounts receivable	20,831	19,027
Bank acceptance notes receivable	50,394	135,536
Less: Provision for bad and doubtful debts	(7,403)	(6,994)
	63,822	147,569

The credit policy currently adopted by the Group for the sales of products to customers, other than certain key national projects, is to deliver goods upon receipt of either cash or bank acceptance notes. For key national projects, the Group would grant credit terms of one to two months.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

19. Other Payables, Advances from Customers and Accruals

GROUP

	31 December 2004	31 December 2003
Projects payables	488,200	582,819
Advances from customers	160,839	284,994
Deposits for contract commitments	188,144	144,005
Accrued utility expenses	69,505	55,617
Accrued harbour expenses, loading expenses and freight fees	9,734	17,059
Accrued pension fund	15,087	17,013
Accrued staff welfare	22,163	18,223
Accrued staff salaries and bonuses	15,521	44,766
Deposits received for leasing van covers	2,165	968
Accrued interest expenses	2,916	2,799
Others	127,215	123,921
	1,101,489	1,292,184

19. Other Payables, Advances from Customers and Accruals (Continued)

COMPANY

	31 December 2004	31 December 2003
Advances from customers	24,169	99,334
Accrued utility expenses	7,001	9,717
Accrued harbour expenses, loading expenses and freight fees	144	2,550
Others	22,402	28,756
	53,716	140,357

20. Trade Payables

As of 31 December 2004, the ageing of all material trade payables is within one year.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

21. Borrowings

GROUP

(a) Short-term borrowings

	2004		2003	
	Interest rate per annum	RMB'000	Interest rate per annum	RMB'000
Bank borrowings				
— Secured*	4.78%-5.58%	2,520,000	1.80%-5.31%	1,729,611
— Unsecured	4.78%-5.58%	486,000	4.20%-5.05%	501,000
		3,006,000		2,230,611

* As of 31 December 2004, short-term borrowings amounting to approximately RMB1,867,000,000 are guaranteed by Holdings, and short-term borrowings of the subsidiaries, amounting to approximately RMB543,000,000, were guaranteed by the Company (Note 28(a)). (2003: approximately RMB1,629,611,000 are guaranteed by Holdings); approximately RMB110,000,000 (2003: approximately RMB100,000,000) are secured by machinery and equipment of the Group (Note 10(a)).

21. Borrowings (Continued)

GROUP (Continued)

(b) Long-term borrowings

(i) Details of long-term borrowings are as follows:

	2004			2003		
	Interest rate per annum	Foreign currency (‘000)	RMB equivalent (‘000)	Interest rate per annum	Foreign currency (‘000)	RMB equivalent (‘000)
Bank borrowings						
— Secured*	4.94%-5.58%	—	3,646,580	4.94%-5.94%	—	2,293,120
	2.40%	USD14,000	116,052	2.40%-2.98%	USD14,000	116,052
— Unsecured	4.94%-5.58%	—	100,000	4.12%-6.03%	—	405,400
Other borrowings**						
— Guaranteed	2.28%	—	80,000	2.28%	—	80,000
			3,942,632			2,894,572

* As of 31 December 2004, long-term borrowings amounting to approximately RMB3,455,631,600, RMB380,000,000 and RMB7,000,000 are guaranteed by Holdings, the Company and Shuangfeng County Construction Investment Development Co. respectively. (Note 28(a)) (2003: approximately RMB2,409,172,000 are guaranteed by Holdings).

** As of 31 December 2004 and 2003, other borrowings represented national debt loan (國債轉貸) provided by Anhui Finance Bureau, and will mature in June 2017.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

21. Borrowings (Continued)

GROUP (Continued)

(b) Long-term borrowings (Continued)

(ii) Long-term borrowings are repayable in the following periods:

	2004			2003		
	Bank loans	Other loans	Total	Bank loans	Other loans	Total
Amount repayable within a period						
— not exceeding one year	687,102	—	687,102	296,110	—	296,110
— more than one year but not exceeding two years	1,128,350	—	1,128,350	619,702	—	619,702
— more than two years but not exceeding five years	2,047,180	—	2,047,180	1,898,760	—	1,898,760
— more than five years	—	80,000	80,000	—	80,000	80,000
	3,862,682	80,000	3,942,632	2,814,572	80,000	2,894,572
Less: Current portion of long-term borrowings	(687,102)	—	(687,102)	(296,110)	—	(296,110)
	3,175,530	80,000	3,255,530	2,518,462	80,000	2,598,462

The fair values of above non-current long-term borrowings are approximately RMB3,004 million (2003: approximately 2,291 million), which is calculated based on discounted cash flows using a discount rate based upon the borrowing rate which the directors expect would be available to the Group at the balance sheet date. The carrying amounts of short-term borrowings and current portion of long-term borrowings approximate their fair value.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

21. Borrowings (Continued)

COMPANY

(a) Short-term borrowings

	2004		2003	
	Interest rate per annum	RMB'000	Interest rate per annum	RMB'000
Bank borrowings				
— Secured*	4.78%-5.58%	560,000	4.78%	355,000
— Unsecured	4.78%-5.58%	356,000	4.78%	60,000
		916,000		415,000

* As of 31 December 2004 and 2003, all secured short-term borrowings are guaranteed by Holdings.

(b) Long-term borrowings

(i) Details of long-term borrowings are as follows:

	2004		2003	
	Interest rate per annum	RMB equivalent (‘000)	Interest rate per annum	RMB equivalent (‘000)
Bank borrowings				
— Secured	4.94%-5.58%	320,000	4.94%-5.58%	428,120
— Unsecured	4.94%-5.58%	100,000	4.94%-5.58%	50,000
		420,000		478,120

As of 31 December 2004 and 2003, all secured long-term borrowings are guaranteed by Holdings.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

21. Borrowings (Continued)

COMPANY (Continued)

(b) Long-term borrowings (Continued)

(ii) Long-term borrowings are repayable in the following periods:

	2004	2003
Amount repayable within a period		
— not exceeding one year	48,650	128,110
— more than one year but not exceeding two years	221,350	28,650
— more than two years but not exceeding five years	150,000	321,360
— more than five years	—	—
	420,000	478,120
<i>Less:</i> Current portion of long-term loans	(48,650)	(128,110)
	371,350	350,010

The fair values of above non-current long-term borrowings are approximately RMB351 million (2003: approximately 305 million), which is calculated based on discounted cash flows using a discount rate based upon the borrowing rate which the directors expect would be available to the Group at the balance sheet date. The carrying amounts of short-term borrowings and current portion of long-term borrowings approximate their fair value.

22. Long-term Payables

	2004	2003
Payables to minority shareholders of Mingzhu Conch(a)	1,583	7,755
Compensation fee payable(b)	66,963	79,077
	68,546	86,832
<i>Less:</i> current portion of compensations fee payable	(9,343)	(10,407)
	59,203	76,425

- (a) As of 31 December 2004, this represents loan provided by minority shareholders of Mingzhu Conch to this subsidiary, as a kind of financial support. The payable is unsecured, non-interest bearing and without fixed repayment term.
- (b) Pursuant to the purchase agreement entered into between the Company and two third parties in relation to the acquisition of certain operating assets and liabilities of a cement plants in Nanjing, the Group shall resume obligations in paying compensations for the former plants' retired and being laid-off employees. As of 31 December 2004, the remaining obligation amounted to approximately RMB66,963,000.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

22. Long-term Payables (Continued)

The fair values of above non-current long-term payables are approximately RMB53 million (2003: approximately RMB74.5 million), which is calculated based on discounted cash flows using a discount rate based upon the borrowing rate which the directors expect would be available to the Group at the balance sheet date. The carrying amounts of the current portion of long-term payables approximate their fair value.

23. Ordinary Shares

GROUP AND COMPANY

The Company issued 361,000,000 H shares with a par value of RMB1.00 each in October 1997 at an issue price of RMB2.44 (HK\$2.28) per share. The H shares were listed on the Stock Exchange of Hong Kong on 21 October 1997. The Company issued 200,000,000 A shares with a par value of RMB1.00 each in January 2002 at an issue price of RMB4.10 per share. The A shares were listed on Shanghai Stock Exchange on 7 February 2002. The Company issued 72,200,000 H shares with a par value of RMB1.00 each at an issue price of RMB8.74 (HK\$8.2) per share in November 2003.

State-owned shares, A share and H shares rank pari passu in all respects, except that ownership of state-owned shares and A share are restricted to PRC nationals and legal persons and qualified foreign investment institute, while H share can only be owned and traded by overseas investors. Dividends on state-owned shares and A share are payable in RMB, while dividends on H shares are payable in HK\$.

The details of share capital were as follows:

	2004		2003	
	Number of shares ('000)	Amount RMB'000	Number of shares ('000)	Amount RMB'000
Registered, issued and fully paid:				
State-owned shares with a par value of RMB1.00 each	622,480	622,480	622,480	622,480
H shares with a par value of RMB1.00 each	433,200	433,200	433,200	433,200
A shares with a par value of RMB1.00 each	200,000	200,000	200,000	200,000
	1,255,680	1,255,680	1,255,680	1,255,680

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

24. Share premium and Reserves

- (a) Share premium
As of 31 December 2004 and 2003, share premium represents net assets acquired from Holdings in excess of par value of the state-owned shares issued, and proceeds from the issuance of H shares and A shares in excess of their par value, net of underwriting commissions, organisation costs and professional fees.
- (b) Capital reserve
During the year ended 31 December 2004, the Company picked up the addition of subsidiaries' capital reserve according to the equity interest in the related entities, amounting to approximately RMB296,000. (2003: approximately RMB2,743,000.)
- (c) Statutory Surplus Reserve ("SSR")
In accordance with the Company Law and the Company's articles of association, the Company and its subsidiaries shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve account respectively. When the balance of such reserve fund reaches 50 per cent of each entity's share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital after properly approved. However, except for offsetting prior years' losses, such statutory surplus reserve must be maintained at a minimum of 25% of share capital after such usage.

For the year ended 31 December 2004, the directors have recommended that 10% (2003: 10%) of statutory net profit of each entity be appropriated to this reserve.

- (d) Statutory Public Welfare Reserve ("SPWR")
In accordance with the Company Law and the Company's articles of association, the Company and its subsidiaries are required to appropriate 5% to 10% of their annual statutory net profit (after offsetting any prior years' losses) to a statutory public welfare fund to be utilized for employees' common welfare.

For the year ended 31 December 2004, the directors have recommended that 5% to 10% (2003: 5% to 10%) of statutory net profit of each entity be appropriated to this reserve.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

24. Share Premium and Reserves (Continued)

(e) Retained earnings

Retained earnings is to be carried forward for future distribution.

The distribution of dividends is made in accordance with the Company's articles of association and the recommendation of the Board of Directors and is subject to approval by shareholders in general meetings. Pursuant to the Notice [1995] 31 issued by Ministry of Finance on 24 August 1995, the amount of profit available for distribution to the shareholders will be determined based on the lower of unappropriated profit in the financial statements determined in accordance with (i) PRC accounting standards and regulations, and (ii) IFRS.

As of 31 December 2004, the Group's profit available for distribution to shareholders after transfers to reserves amounted to approximately RMB1,194,344,000 (2003: approximately RMB716,598,000).

Analysis of the appropriations to SSR and SPWR in the Statutory Accounts and the financial statements prepared under IFRS is as follows:

	Statutory Accounts	Financial statements under IFRSs
Net profit for the year	1,008,827	960,919
Transfer to SSR	(209,802)	(209,802)
Transfer to SPWR	(191,741)	(191,741)
Dividends for 2003 (Note 8)	—	(125,568)
Distributable profit attributable to shareholders	607,284	433,808
Retained earnings, beginning of year	591,030	760,536
Total distributable profit	1,198,314	1,194,344
Dividends for 2004 (Note 8)	(163,238)	—
Retained earnings, end of year	1,035,076	1,194,344

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For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

25. Minority Interests

	2004	2003
Beginning of year	1,104,033	831,234
Share of net profit of subsidiaries (Note 27(a))	408,380	374,773
Addition from purchase of Shuangfeng Conch	76,773	—
Addition from purchase of Baling Conch	8,302	—
Addition from subsidiaries' loan waived and donation received	—	777
Disposal of subsidiaries	—	(467)
Disposal of equity shares in Mingzhu Conch	—	(3,396)
Disposal of equity shares in Changfeng Conch	—	(4,204)
Disposal of equity shares in Fenyi Conch	(42,303)	—
Dividends received	(434,004)	(94,684)
End of year	1,121,181	1,104,033

26. Directors', Supervisors' and Senior Executives' Emoluments

(a) Details of directors' and supervisors' emoluments were:

	2004	2003
Fees for executive directors	—	—
Fees for non-executive directors	—	—
Fees for supervisors	—	—
Other emoluments for executive directors		
— Basic salaries and allowances	367	2,488
— Bonus	2,177	—
— Pension	24	21
Other emoluments for non-executive directors	—	—
Other emoluments for supervisors	—	1,164
	2,568	3,673

No directors or supervisors waived any emoluments during the years ended 31 December 2004 and 2003.

Notes to the Consolidated Financial Statements

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(All amounts in RMB thousands unless otherwise stated)

26. Directors', Supervisors' and Senior Executives' Emoluments (Continued)

- (b) Details of emoluments paid to the five highest paid individuals (including directors, supervisors and employees) were:

	2004	2003
Basic salaries and allowances	367	2,488
Bonus	2,177	—
Pension	24	21
	2,568	2,509
Number of directors	5	5
Number of supervisors	—	—
	5	5

All of the five highest paid individuals were directors and supervisors of the Company, whose emoluments were included in above Note 26(a). The emoluments paid to each of the five highest paid individuals during the years ended 31 December 2004 and 2003 were less than RMB1,060,000 (equivalent of Hong Kong Dollars ("HK\$") 1,000,000).

During the years, no emoluments were paid to the five highest paid individuals as an inducement to join the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

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(All amounts in RMB thousands unless otherwise stated)

27. Cash Generated from Operations

(a) Reconciliation from net profit to cash generated from operations:

	2004	2003
Net Profit	960,919	743,404
Adjustments for:		
Minority interests (Note 25)	408,380	374,773
Tax (Note 5)	597,228	536,492
Depreciation of plant, property and equipment (Note 3)	531,467	477,740
Loss on disposal of plant, property and equipment (Note 3)	456	5,428
Amortisation of intangible assets (Note 3, 11)	4,266	8,242
Amortisation of leasehold land (Note 3, 9)	11,546	13,024
Gain on disposal of subsidiaries	5	(451)
Fair value adjustment on trading investments (Note 3)	—	(238)
Share of results of associates before tax	(12,957)	(3,381)
Impairment charge for obsolete inventories (Note 3)	—	8,515
(Write back of) Impairment charge for bad and doubtful debts (Note 3)	(1,788)	16,084
Foreign exchange loss, net (Note 4)	103	1,043
Interest income (Note 4)	(21,614)	(7,904)
Interest expenses (Note 4)	292,122	194,478
Subsidy income (Note 2)	(178,816)	—
Charges in working capital:		
Deferred income	99,518	—
Inventories	(399,996)	(161,620)
Prepayments and other receivables	(82,791)	(13,614)
Due from Holdings	(213)	(3,561)
Due from related parties	(206,324)	(38,019)
Trade receivables	(107,322)	(124,683)
Other payables, advances from customers and accruals	(266,910)	274,702
Current tax liabilities	(174,051)	84,705
Due to related parties	109,705	(14,032)
Trade payables	241,845	325,372
Cash generated from operations	1,804,779	2,696,499

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

27. Cash Generated from Operations (Continued)

(b) Analysis of the balances of cash and cash equivalents

	2004	2003
Cash on hand	135	232
Cash in bank — Current deposits	1,626,694	2,246,560
	1,626,829	2,246,792

(c) Supplemental cash flow information

(i) Cash outflows for purchase of property, plant and equipment, leasehold land and intangible assets.

	2004	2003
Increase in property, plant, equipment, leasehold land and intangible assets	3,568,800	3,182,298
Less: Accumulated depreciation of purchased property, plant and equipment	—	(330)
Less: Capitalised interest (Note 4)	(27,701)	(28,810)
Less: Net increase of payables for CIP, equipment and leasehold land	(1,093,657)	(313,802)
Less: VAT transfer out for construction materials	(44,259)	(24,502)
Less: Depreciation allocated to CIP projects	(1,411)	(1,891)
	2,401,772	2,812,963

(ii) Proceeds from disposals of property, plant and equipment comprise:

	2004	2003
Net book value of the disposed property, plant and equipment (Note 10)	21,475	8,990
Add (Less): Gain (loss) on disposal of property, plant and equipment	456	(5,428)
Net decrease of payables	(10,245)	(2,110)
	11,686	1,452

Notes to the Consolidated Financial Statements

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27. Cash Generated from Operations (Continued)

(d) Net cash for acquisition of minority interests

- (i) As stated in Note 12 (1), the Company contributed additional capital to Shuangfen Conch in exchange for 51% of its equity shares in March 2004. As at 16 April 2005, the effective date of the investment agreement, the assets, liabilities and the cash flow relating to the acquisition for Shuangfen Conch is as follows:

Current assets	140,229
Property, plant and equipment	181,511
Current liabilities	(13,060)
Non-current liabilities	(152,000)
Net assets	156,680
Share of equity acquired	51%
Net assets acquired	79,907
Add: Goodwill	56,773
Total payment for acquisition	136,680
Less: Cash inflow for acquisition	(11,498)
Cash paid for capital contribution	(136,680)
Net cash inflow from acquisition	(11,498)

- (ii) As stated in Note 12 (2), the Company and Ningguo Cement Plant, one of its subsidiaries, entered into a share transfer agreement on November 2004 with Shanghai Changxing Trading Co., Ltd. ("Changxing Trading"), the minority shareholder of Fenyi Conch. According to the agreement, the Company and Ningguo Cement Plant acquired 49% of equity share of Fenyi Conch. As at 16 November 2005, the effective date, the assets, liabilities and the cash flow relating to the acquisition for Fenyi Conch is as follows:

Current assets	72,101
Property, plant and equipment	205,082
Current liabilities	(130,851)
Non-current liabilities	(60,000)
Net assets	86,332
Share of equity acquired	49%
Net assets acquired	42,302
Add: Goodwill	16,120
Total payment for acquisition	58,422
Less: Cash inflow for acquisition	—
Net cash outflow for acquisition	58,422

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For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

27. Cash Generated from Operations (Continued)

(d) Net cash for acquisition of minority interests (Continued)

(iii) In January 2004, the Company acquired 46% of equity share of Jiangsu Balin Construction Material Co., Ltd. (which was renamed as Balin Conch after acquisition). The effective date of the acquisition was 15 April 2004. In March 2004, the Company contributed additional capital to Balin Conch in exchange for another 29% of its equity shares. As at the effective date of the investment agreement, the assets, liabilities and the cash flow relating to the acquisition of Balin Conch is as follows:

Current assets	40,515
Property, plant and equipment	20,799
Current liabilities	(28,108)
Net assets	33,206
Share of equity acquired	75%
Net assets acquired	24,905
Add: Capital Surplus	367
Total payment for acquisition	25,272
Less: Cash inflow from acquisition	(9,058)
Cash paid for additional capital contribution	(21,040)
Net cash inflow from acquisition	(4,826)

(e) Analysis of changes in financing activities during the years ended 31 December 2004 and 2003

	2004			2003
	Short-term borrowings	Long-term borrowings	Total	Total
Beginning of year	2,230,611	2,894,572	5,125,183	3,599,636
Borrowing of the companies acquired	7,000	152,000	159,000	—
Loans borrowed	2,870,800	1,182,180	4,052,980	3,280,151
Repayments of loans	(2,102,411)	(286,120)	(2,388,531)	(1,754,602)
Foreign exchange gain arising upon repayments of loans	—	—	—	(2)
End of year	3,006,000	3,942,632	6,948,632	5,125,183

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

28. Related Party Transactions

GROUP

(a) Details of transactions between the Group and Holdings were as follow:

	2004	2003
Trademark licence fees paid to Holdings (i)	1,513	1,513
Composite services fees paid to Holdings (ii)	2,495	2,226
Guarantee provided by Holdings (iii)	5,322,632	4,038,783

(i) The Company has entered into a trademark licence agreement with Holdings, pursuant to which Holdings granted the Company an exclusive right to use and apply the Trademarks within and outside of the PRC in respect of all cement and clinker products of the Group. In return, the Company should pay RMB1,513,000 to Holdings each year. Such services fees were charged to the Group starting from 1 January 1998.

(ii) In accordance with the composite service agreement entered into between the Company and Holdings, Holdings charged the Company RMB2,495,388 for various services and facilities rendered in 2004.

(iii) Holdings provided guarantees for the borrowings of the Company and its subsidiaries. These guarantees are free of any charges to the Company and its subsidiaries (Note 21(a), (b)).

(b) Details of transactions between the Group and related companies were as follows:

	2004	2003
Purchase of cement packaging materials, raw materials and construction materials from subsidiaries of Holdings	225,124	112,183
Purchase of repairs and maintenance services from a subsidiary of Holdings	62,494	1,260
Purchase of logistics services from a subsidiary of Holdings	191,250	—
Sales of cement products to subsidiaries of Holdings	39,845	2,666
Commission fee paid and payable to a subsidiary Mof Holdings for import and export of products and equipment	5,622	639
Paid on behalf of associates	87,000	—

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For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

28. Related Party Transactions (Continued)

(b) (Continued)

On 28 April 2004, the Company entered into a trading agreement (“the Trading Agreement”) with Shanghai Conch Construction Material International Trading Co., Ltd. (“Conch International”), a subsidiary of Holdings, appointing it as a non-exclusive agent to sell the cement and clinker products of the subsidiaries of the Company to overseas customers and to import clinker and cements production equipment from overseas suppliers. Furthermore, Conch International, as principal, may also purchase the Group’s cement and clinker products and sell to other third parties in the domestic markets in the PRC from time to time. Pursuant to the Trading Agreement, the Company shall pay Conch International agency commission at a rate of 1.5% of the sales or purchases made on behalf of the Company. The Trading Agreement was approved by an extraordinary general meeting of the Company in 2004.

At the same date, the Company entered into a logistics agreement (“the Logistics Agreement”) with Shanghai Conch Logistics Co., Ltd. (“Conch Logistics”), a subsidiary of Holdings, appointing it as a non-exclusive shipping services provider in the delivery of cement and clinker between subsidiaries of the Company and in the delivery of coal ash and accessory materials for production from suppliers to members of the Group. Pursuant to the Logistics Agreement, the shipping services charges are determined by reference to the shipping tariff schedule published by the Ministry of Transportation of the PRC and observed by third parties in the shipping industry from time to time. Having considered the actual circumstances, Conch Logistics would propose reasonable shipping fees and may give certain discounts to the amount as set out in the aforesaid shipping tariff schedule. The Logistics Agreement was approved by an extraordinary general meeting of the Company in 2004.

(c) Due from Holdings

GROUP AND COMPANY

The amounts due from Holdings mainly arose from the related party transactions mentioned in above Note 28(a). The amounts due from/to Holdings are unsecured and non-interest bearing without fixed repayment terms.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

28. Related Party Transactions (Continued)

(d) Due from/to related parties

Name of related party	Nature of relationship
Anhui Conch Construction and Installation Co., Ltd. ("Conch Construction")	Subsidiary of Holdings
Wuhu Conch Profiles and Science Co., Ltd. ("Conch Profiles and Science")	Subsidiary of Holdings
Anhui Ningchang Packaging Material Bags Co., Ltd. ("Ningchang Packaging")	Subsidiary of Holdings
Ningguo Conch Hotel	Subsidiary of Holdings
Conch International	Subsidiary of Holdings
Conch Logistics	Subsidiary of Holdings
Fusui Conch	Associate of the Company
Xingye Conch	Associate of the Company

GROUP

	31 December 2004	31 December 2003
Due from related parties		
Xingye Conch	44,000	—
Fusui Conch	43,000	—
Conch International	17,070	34,552
Ningchang packaging	—	3,164
Conch Construction	—	2,593
Conch Profiles and Science	—	1,765
Other related companies	190	2,139
	104,260	44,213
Due to related parties		
Conch Logistics	79,182	—
Ningchang Packaging	29,758	—
Conch Construction	7,044	—
Other related companies	621	997
	116,605	997

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(All amounts in RMB thousands unless otherwise stated)

28. Related Party Transactions (Continued)

(d) (Continued)

COMPANY

Due from related parties

	31 December 2004	31 December 2003
Xingye Conch	44,000	—
Fusui Conch	43,000	—
Conch Construction	1,651	1,857
Conch International	1,505	—
Conch Profiles and Science	—	1,213
Other related companies	59	482
	90,215	3,552

Due to related parties

	2004	2003
Ningchang Packaging	2,205	346
Conch Logistics	1,834	—
Other related companies	—	262
	4,039	608

The amounts due from/to related companies arose from ordinary business transactions, and were unsecured, non-interest bearing and without fixed repayment terms.

29. Impact of IFRS Adjustments on Net Profit and Net Assets

	Net profit		Net assets	
	2004	2003	31 December 2004	31 December 2003
As reported in the Group's statutory accounts	1,008,827	739,567	5,467,280	4,583,724
Impact of adjustment:				
— reversal of revaluation surplus of leasehold land	7,399	3,837	(160,179)	(167,577)
— negative goodwill	(428)	—	(3,560)	(3,132)
— goodwill acquired but not amortised under IFRS	9,053	—	9,053	—
— deferred income arising from domestic purchase of qualified equipment	(63,932)	—	(63,932)	—
As restated in the Group's IFRS financial statements	960,919	743,404	5,248,662	4,413,015

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

30. Commitments

(a) Capital commitments

Capital commitments relate to purchases of machinery and equipment for production purposes as of 31 December 2004 and 2003 not provided for in the accounts were as follow:

	31 December 2004	31 December 2003
Contracted but not provided for	683,522	381,185
Authorised but not contracted for	886,690	973,517
	1,570,212	1,354,702

(b) License agreement

As mentioned in Note 28(a)(i), as of 31 December 2004, the Company is committed to pay trademark licence fee to Holdings at RMB1,513,000 per annum. The licence agreement did not indicate the expiration date.

31. Subsequent Events

Pursuant to the resolution made by the Board of Directors subsequent to 31 December 2004, the Company proposed a final dividend of RMB0.13 per share for 2004 (Note 8).

In December 2004, the Company and Huaining Conch, a subsidiary of the Company, entered into a share transfer agreement with Anhui Provincial Development Investment Co., Ltd. ("Anhui Investment"). According to the agreement, the Company and Huaijing Conch would pay RMB131,320,000 in cash to Anhui Investment in exchange for 49% of the share in Shuangfen Conch. After the share transfer, the Company and Huaining Conch will own 90% and 10% of the equity interests of Shuangfen Conch, respectively. The acquisition was substantially completed in January 2005 and gave rise to goodwill of RMB59,220,000.

32. Segment Reporting

The Group conducts its business within one business segment — the business of manufacturing and sales of cement products in the PRC. No segment income statement has been prepared by the Group during the year ended 31 December 2004. The Group also operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

33. Contingent Liabilities

As of 31 December 2004, the Group has no significant contingent liabilities.