1 General information

Anhui Conch Cement Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 1 September 1997 as a joint stock limited company. The Company and its subsidiaries are collectively referred to as the Group. The principal activities of the Group are the manufacture and sale of clinkers and cement products.

In September 1997, as approved by Anhui Province Government Circular Wan Zhen Mi [1997]128 and Former State Economic Structure Reform Committee Circular [1997]140, the Company acquired the operating assets of Ningguo Cement Plant and Baimashan Cement Plant, and the related cement manufacturing business of Anhui Conch Group Company Limited ("Conch Group") by issuance of 622,480,000 State-owned shares ("State-owned shares") of the Company to Conch Group with a par value of RMB1.00 each. In addition, as approved by State Security Regulatory Committee Circular Zhen Wei Fa [1997] 57, the Company subsequently issued 361,000,000 overseas public shares ("H shares") on 17 October 1997, which were listed on the Stock Exchange of Hong Kong Limited on 21 October 1997. On 24 January 2002, the Company issued 200,000,000 domestic public shares ("A shares"), which were listed on Shanghai Stock Exchange on 7 February 2002. In November 2003, as approved by State Security Regulatory Committee and the Stock Exchange of Hong Kong Limited respectively, the Company additionally issued 72,200,000 H shares by a placement.

The registered office of the Company is 209 East Beijing Road, Wuhu City, Anhui Province, PRC.

These consolidated financial statements have been approved for issue by the Board of Directors on 25 April 2006.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (the "IFRS") issued by the International Accounting Standards Board, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These consolidated financial statements have been prepared under the historical cost conversion except as disclosed in the accounting polices below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

In 2005, the Group adopted the new/revised standards and interpretations of IFRS below, which are relevant to its operations. The comparatives of prior years have been amended as required, in accordance with the relevant transitional provision.

IAS 1	Presentation of Financial Statements (revised 2003)
IAS 2	Inventories (revised 2003)
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors (revised 2003)
IAS 10	Events after the Balance Sheet Date (revised 2003)
IAS 16	Property, Plant and Equipment (revised 2003)
IAS 17	Leases (revised 2003)
IAS 21	The Effects of Changes in Foreign Exchange Rates (revised 2003)
IAS 24	Related Party Disclosures (revised 2003)
IAS 27	Consolidated and Separate Financial Statements (revised 2003)
IAS 28	Investments in Associates (revised 2003)
IAS 32	Financial Instruments: Disclosures and Presentation (revised 2003)
IAS 33	Earnings per Share (revised 2003)
IAS 36	Impairment of Assets (revised 2004)
IAS 38	Intangible Assets (revised 2004)
IAS 39	Financial Instruments: Recognition and Measurement (revised 2003)
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of new/revised IASs 1, 2, 8, 10, 16, 17, 21, 24, 28, 32, 33 and IFRSs 4, 5 did not result in substantial changes to the Group's accounting policies. In summary:

– IAS 1 has affected the presentation of minority interests and other disclosures.

– IASs 2, 8, 10, 16, 17, 28, 32, 33 and IFRS 5 had no material effect on the Group's policies.

– IAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as their presentation currency.

– IAS 24 has affected the identification of related parties and some other related-party disclosures.

– IFRS 4 has affected the Group's policies on the financial guarantee provided by the entities within the Group.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of IAS 27 and 28 has resulted in a change in the accounting policy followed when preparing the Company's separate financial statements for investments in subsidiaries and associates that are not classified as held for sale. Upon adoption of IAS 27 and 28, the above investments are stated at cost less accumulated impairment. The results of subsidiaries and associates are accounted for on the basis of dividend received and receivable in those separate financial statements.

The adoption of IASs 36, 38 and IFRS 3 resulted in a change in the accounting policy for goodwill, negative goodwill and the management's assessment of impairment. Until 31 December 2004:

– Goodwill and negative goodwill arising from the business combination for which agreement date was before 31 March 2004 was amortised on a straight line basis over its estimated useful life up to a maximum period of five to fifteen years; and

– Goodwill was assessed for an indication of impairment at each balance sheet date.

In accordance with the transitional provision of IFRS 3:

– The Group ceased amortisation of goodwill and negative goodwill from 1 January 2005;

– Accumulated amortisation as at 1 January 2005 has been eliminated with a corresponding decrease in the cost of goodwill;

– Negative goodwill was derecognised at 1 January 2005, with a corresponding adjustment to the opening balance of retained earnings; and

– From the year ended 31 December 2005 onwards, goodwill tested annually for impairment, as well as when there are indications of impairment.

IFRS 3 requires simultaneous adoption with IAS 36 and IAS 38.

IAS 39 requires simultaneous adoption with IAS 32.

All changes in the accounting policies have been retrospectively made in accordance with the respective transitional provisions. The accounting policies set out below have been retrospectively applied throughout the relevant years, other than:

– IFRS 3 – prospectively after 31 March 2004.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of IAS 27 and 28 has no impact on consolidated financial statements of the Group, but has impact on the Company's separate financial statements as follows:

	The Company	
	As at 31 December 2005	As at 31 December 2004
Decrease in investments in subsidiaries	**1,471,238**	1,083,110
Decrease in investments in associates	**6,613**	14,091
Decrease in retained earnings	**1,477,851**	1,097,201

The adoption of IFRS 3 has the following impact on the Group's consolidated financial statements:

	The Group	
	As at 31 December 2005	As at 1 January 2005
Decrease of the amortization of goodwill	**3,560**	–
Decrease in negative goodwill (Note 35.1(ii))	**28,946**	28,946
Increase in retained earnings	**25,386**	28,946

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after the individual dates indicated below but which the Group has not early adopted, as follows:

- IAS 1 (Amendment), Capital Disclosures (effective from 1 January 2007)
- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)
- IAS 21 (Amendment), Net investment in a foreign operation (effective from 1 January 2006)
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
- IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006)
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards (effective from 1 January 2006)
- IFRS 6 and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
- IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006)
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005)

The Group is assessing the relevance and impact of the above standards, interpretations and amendments.

2.2 Consolidation

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(a) *Subsidiaries* (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. See Note 2.8 for the accounting policy on goodwill.

In the Company's separate financial statements, the investments in subsidiaries that are not classified as held for sale are stated at cost less accumulated impairment. The results of subsidiaries are accounted for on the basis of dividend received and receivable in those separate financial statements.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) *Acquisition of minority interests in subsidiaries*

The Group applies a policy of treating acquisition of minority interests in subsidiaries as transactions between equity holders in their capacity as equity holders. No gain or loss is recognised in income statement on such changes. Assets and liabilities of the subsidiaries in which the Group subsequently increase its ownership interests are stated at carrying amount. The differences between the cost of acquisition and the carrying amount of the net assets additionally acquired are directly recognised in equity.

(c) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying an interest of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

In the Company's separate financial statements, the investments in associates that are not classified as held for sale are stated at cost less accumulated impairment. The results of associates are accounted for on the basis of dividend received and receivable in those separate financial statements.

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(c) Associates (Continued)

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical as the secondary reporting format.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

2 Summary of significant accounting policies (Continued)

2.5 Leasehold land and land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as leasehold land and land use rights, which are amortised over the use terms on a the straight-line basis.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss if any. The historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate the cost less accumulated impairment loss of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
Plant and machinery	15 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

2 Summary of significant accounting policies (Continued)

2.7 Construction-in-progress (the "CIP")

Construction-in-progress represents buildings and plant under construction and machinery and equipment under installation and testing, and is stated at cost less accumulated impairment loss, if any. The cost includes cost of construction, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to borrowing costs (Note 2.17).

Construction-in-progress is not depreciated until such time as the assets are completed and ready for operational use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.6.

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisition of associates is included in "investments in associates".

Goodwill arising from business combination for which the agreement date was before 31 March 2004 is initially measured as cost and amortised on a straight-line basis over its estimated useful life of five to fifteen years. The Group ceased amortisation of the goodwill from 1 January 2005. Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of the goodwill.

Goodwill arising from a business combination for which the agreement date is on or after 31 March 2004 is not amortised but tested annually for impairment and carried at cost less accumulated impairment loss.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (the "CGUs") for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.8 Intangible assets (Continued)

(b) *Negative goodwill*

Negative goodwill arising from a business combination for which the agreement date was before 31 March 2004 represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill was presented in the same balance sheet classifications as goodwill.

Negative goodwill was recognised in the income statement in the year 2004 as follows:

- to the extent that negative goodwill relates to expected future losses and expenses that are identified in the Company's plan for the acquisition and can be measured reliably, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised.

- the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable or amortisable assets.

- the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

In accordance with the transitional provision of IFRS 3, the carrying amount of the previously recognised negative goodwill is derecognised with a corresponding adjustment to the opening balance of retained earnings at 1 January 2005.

For the business combinations for which the agreement date was on or after 31 March 2004, if the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of business combination, the Group reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and the measurement of the cost of combination and recognise immediately in profit or loss any excess remaining after that reassessment.

2 Summary of significant accounting policies (Continued)

2.8 Intangible assets (Continued)

(c) *Licences*

Limestone and clay mining licenses purchased or injected by Conch Group as a part of reorganisation are capitalised at cost/revalued amount and amortized on a straight-line basis over the expected periods of benefit. The expected useful lives of the licenses are twenty to thirty years.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

The Group classifies its currently held financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition at every reporting date.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the assets. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

2 Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

When investments in equity instruments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.12.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing cost. Net realisable value is the estimated selling price in the ordinary course of business less the applicable variable costs of completion and selling expenses.

2 Summary of significant accounting policies (Continued)

2.12 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables are established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings at nil or low interest rates from government are regarded as government assistant and recognised initially at the cost of consideration received.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax, if it is not accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.16 Deferred income taxes (Continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of any qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

2.18 Employee benefits

In accordance with the rules and regulations in the PRC, the Group has arranged for its local employees to join a defined contribution retirement benefit plan organised by the PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan as set out in Note 28. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's contributions to the defined contribution retirement benefit plan are charged to the income statement as incurred.

2.19 Government grants

A government grant in the form of subsidy or financial refund is recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grant and that the grant will be received.

Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Grants relating to the purchase of property, plant and equipment are included in non-current liabilities and recognised in the income statement over the life of a depreciable asset by way of a reduced depreciation charge.

2 Summary of significant accounting policies (Continued)

2.20 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue and other gains recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group. Revenue and other gains are recognised as follows:

(a) *Sales of goods*

Sales of goods are recognised when significant risks and rewards of ownership of the good are transferred to the customer, which generally coincides with that a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

2.24 Insurance contract

Insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The Group regards its existing financial guarantee contracts provided to or by the entity within the Group as insurance contracts.

2.25 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's finance department under policies approved by the Board of Directors.

(a) *Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group policy is to maintain all its borrowings in fixed rate instruments.

(b) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

(c) *Credit risk*

The Group has no significant concentration of credit risk with any single counterparty or group counterparties. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

3 Financial risk management (Continued)

3.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The nominal value less impairment provision of trade and other receivables is assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Impairment of property, plant and equipment*

The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in accounting policy stated in Note 2.9. The recoverable amount is higher of an asset's value in use and fair value less costs to sell, which is based on the best information available to reflect the amount that is obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal, or cash to be generated from continuously using the assets.

(b) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

4 Critical accounting estimates and judgements (Continued)

4.2 Critical judgments in applying the entity's accounting policies

(c) *Borrowing costs eligible for capitalisation*

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.

Borrowing costs capitalised into property, plant and equipment are shown in Note 7.

5 Sales and segment information

The Group

(a) *Sales*

The Group is principally engaged in the manufacture and sales of cement and cement products. Sales recognised for the years ended 31 December 2005 and 2004 are as follows:

	For the year ended 2005	2004
Cement and cement products	**10,826,214**	8,384,947

(b) *Segment information*

(i) Primary reporting format – Business segment

No business segment information is presented as over 90% of the Group's sales and operating profit are earned from the sales of cement and cement products.

(ii) Secondary reporting format – Geographical segment

All of the assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

The segment sales and results for the year ended 31 December 2005 are as follows:

	Sales	Gross profit
Inside the PRC	**8,980,177**	1,885,675
Outside the PRC	**1,846,037**	524,871
	10,826,214	2,410,546

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

6 Leasehold land and land use rights

The Group

Cost

Balance at 1 January 2004	602,415
Additions	9,508
Deduction	(5,184)
Balance at 31 December 2004	606,739
Subsequent adjustment on the fair value of acquired land use rights initially recognised provisionally (Note 35.1(ii))	29,136
Balance at 1 January 2005, as restated	635,875
Additions	236,545
Balance at 31 December 2005	872,420

Accumulated amortisation

Balance at 1 January 2004	48,187
Charge for the year (Note 26, 34.1)	11,546
Deduction	(524)
Balance at 31 December 2004	59,209
Charge for the year (Note 26, 34.1)	21,605
Balance at 31 December 2005	80,814

Net book value

Balance at 31 December 2005	**791,606**
Balance at 31 December 2004	547,530

As at 31 December 2005, the carrying amount of leasehold land and land use rights pledged as security for the Group's non-current borrowings amounted to RMB55 million approximately (2004: nil) (Note 22.1).

The Group's leasehold land and land use rights are all located in the PRC and the remaining lease period are between 15 to 49 years.

As at 31 December 2005 and 2004, the recoverable amount of leasehold land and land use rights exceed the carrying amount.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

7 Property, plant and equipment

The Group

	Buildings	Plant and Machinery	Furniture, fixtures, and office equipment	Motor vehicles	CIP	Total
Cost						
At 1 January 2004	3,421,403	5,646,915	291,972	184,017	1,928,074	11,472,381
Purchases	26,925	40,317	728	38,816	2,326,186	2,432,972
Transfers	1,281,396	2,076,445	3,512	826	(3,362,179)	–
Additions from business combination	10,265	15,955	426	2,993	171,367	201,006
Disposals (Note 34.2)	(15,626)	(11,063)	(1,599)	(3,422)	–	(31,710)
At 31 December 2004	4,724,363	7,768,569	295,039	223,230	1,063,448	14,074,649
At 1 January 2005	4,724,363	7,768,569	295,039	223,230	1,063,448	14,074,649
Purchases	11,479	58,555	3,548	118,307	2,606,914	2,798,803
Transfers	971,770	1,479,730	34,584	11,620	(2,497,704)	–
Additions from business combination	201,504	201,057	2,053	8,234	763,593	1,176,441
Reclassification by categories	78,680	(83,388)	2,857	1,851	–	–
Disposals (Note 34.2)	(11,435)	(2,007)	–	(12,407)	–	(25,849)
At 31 December 2005	**5,976,361**	**9,422,516**	**338,081**	**350,835**	**1,936,251**	**18,024,044**
Accumulated depreciation						
At 1 January 2004	575,628	1,402,027	147,253	110,596	–	2,235,504
Charge for the year	128,170	349,705	30,309	26,421	–	534,605
Additions from business combination	1,580	554	47	435	–	2,616
Disposals (Note 34.2)	(3,201)	(3,108)	(908)	(3,018)	–	(10,235)
At 31 December 2004	702,177	1,749,178	176,701	134,434	–	2,762,490
At 1 January 2005	702,177	1,749,178	176,701	134,434	–	2,762,490
Charge for the year	169,481	478,804	46,571	36,899	–	731,755
Additions from business combination	1,001	2,396	202	681	–	4,280
Reclassification by categories	162	(110)	(909)	857	–	–
Disposals (Note 34.2)	(6,739)	(727)	–	(3,936)	–	(11,402)
At 31 December 2005	**866,082**	**2,229,541**	**222,565**	**168,935**	**–**	**3,487,123**

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

7 Property, plant and equipment (Continued)

The Group (Continued)

	Buildings	Plant and Machinery	Furniture, fixtures, and office equipment	Motor vehicles	CIP	Total
Impairment						
At 1 January 2005	–	–	–	–	–	–
Addition (Note 26, 34.1)	14,564	37,154	4	–	551	52,273
Deduction	–	–	–	–	–	–
At 31 December 2005	**14,564**	**37,154**	**4**	**–**	**551**	**52,273**
Net book value						
At 31 December 2005	**5,095,715**	**7,155,821**	**115,512**	**181,900**	**1,935,700**	**14,484,648**
At 31 December 2004	4,022,186	6,019,391	118,338	88,796	1,063,448	11,312,159

(a) As at 31 December 2005, building and machinery with an aggregate carrying amount of approximately RMB465,966,000 are pledged as collaterals for non-current borrowings (Note 22.1). (2004: approximately RMB91,088,000 are pledged as collaterals for current borrowings (Note 22.2)) .

(b) As at 31 December 2005, the procedure for transfers of the titles of the buildings purchased in prior years with an aggregate net book value of approximately RMB25,777,512 (2004: RMB228,721,000) to the Group was still in progress.

(c) CIP

	Year ended 31 December 2005	2004
Cost of construction, plant and equipment and other direct costs	**1,918,504**	1,056,699
Borrowing costs capitalised – interest	**17,747**	6,749
	1,936,251	1,063,448
Average capitalisation rate	**5.50%**	4.94%

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

7 Property, plant and equipment (Continued)

(d) Impairment

As at 31 December 2005, the carrying amount of three wet production lines and a vertical kiln of the Company and certain subsidiaries are reduced to zero by approximately RMB52,273,000 (2004: nil), as an adverse effect took place during the year 2005 and led the assets to be idle.

The Company

	Buildings	Plant and Machinery	Furniture, fixtures, and office equipment	Motor vehicles	CIP	Total
Cost						
At 1 January 2004	208,612	403,152	5,587	26,769	8,812	652,932
Additions	–	7,159	224	3,181	67,278	77,842
Transfers	–	–	–	826	(826)	–
Disposals	(3,593)	(563)	(50)	(3,045)	–	(7,251)
At 31 December 2004	205,019	409,748	5,761	27,731	75,264	723,523
At 1 January 2005	205,019	409,748	5,761	27,731	75,264	723,523
Additions	6,709	1,300	88	1,000	335,797	344,894
Transfers	150,842	249,033	–	–	(399,875)	–
Disposals	(8,225)	(631)	–	(1,800)	–	(10,656)
At 31 December 2005	**354,345**	**659,450**	**5,849**	**26,931**	**11,186**	**1,057,761**
Accumulated depreciation						
At 1 January 2004	99,409	184,126	4,295	22,921	–	310,751
Charge for the year	6,934	21,366	347	1,361	–	30,008
Disposals	(2,292)	(417)	(18)	(2,699)	–	(5,426)
At 31 December 2004	104,051	205,075	4,624	21,583	–	335,333
At 1 January 2005	104,051	205,075	4,624	21,583	–	335,333
Charge for the year	7,981	23,255	731	1,244	–	33,211
Disposals	(5,854)	(480)	–	(1,710)	–	(8,044)
At 31 December 2005	**106,178**	**227,850**	**5,355**	**21,117**	**–**	**360,500**

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

7 Property, plant and equipment (Continued)

The Company (Continued)

	Buildings	Plant and Machinery	Furniture, fixtures, and office equipment	Motor vehicles	CIP	Total
Impairment						
At 1 January 2005	–	–	–	–	–	–
Addition	8,927	18,967	4	–	–	27,898
Deduction	–	–	–	–	–	–
At 31 December 2005	**8,927**	**18,967**	**4**	**–**	**–**	**27,898**
Net book value						
At 31 December 2005	**239,240**	**412,633**	**490**	**5,814**	**11,186**	**669,363**
At 31 December 2004	100,968	204,673	1,137	6,148	75,264	388,190

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

8 Intangible assets

The Group

	Goodwill	Negative goodwill	Limestone mining licences	Clay mining licences	Total
Cost					
At 1 January 2004	64,648	(5,911)	89,458	–	148,195
Additions	73,260	–	1,492	15,575	90,327
At 1 January 2005, as previously reported	137,908	(5,911)	90,950	15,575	238,522
Subsequent adjustment on fair value of acquired identifiable assets and goodwill initially recorded provisionally (Note 35.1)	(56,773)	(28,946)	55,575	–	(30,144)
Adoption of IFRS 3, elimination of accumulated amortisation with cost	(34,185)	5,911	–	–	(28,274)
Adoption of IFRS 3, charge previously recognised negative goodwill to beginning balance of retained earnings	–	28,946	–	–	28,946
At 1 January 2005, as restated	46,950	–	146,525	15,575	209,050
Additions	4,975	–	16,727	30	21,732
At 31 December 2005	**51,925**	**–**	**163,252**	**15,605**	**230,782**
Accumulated amortisation					
At 1 January 2004	30,257	(1,165)	25,038	–	54,130
Charge for the year (Note 26, 34.1)	3,928	(4,746)	4,652	433	4,267
At 31 December 2004	34,185	(5,911)	29,690	433	58,397
Adoption of IFRS 3, elimination of accumulated amortisation with cost	(34,185)	5,911	–	–	(28,274)
Charge for the year (Note 26, 34.1)	–	–	5,101	520	5,621
At 31 December 2005	**–**	**–**	**34,791**	**953**	**35,744**
Net book value					
At 31 December 2005	**51,925**	**–**	**128,461**	**14,652**	**195,038**
At 31 December 2004	103,723	–	61,260	15,142	180,125

(All amounts in RMB thousands unless otherwise stated)

8 Intangible assets (Continued)

(a) Goodwill

The goodwill arose from the excess of acquisition cost over the Company's equity interest in the fair value of identifiable assets, liabilities and contingent liabilities of its subsidiaries as follows:

Name of subsidiaries	Year of acquisition
Anhui Tongling Conch Cement Co., Ltd. ("Tongling Conch")	1998
Fenyi Conch Cement Co., Ltd. ("Fenyi Conch")	2004
Shuangfeng Conch Cement Co., Ltd. ("Shuangfeng Conch")	2004*
Anhui Wuhu Conch Construction and Installation Co., Ltd. ("Conch Construction")	2005

* Subsequently adjusted in 2005 as a result of the adjustment on provisionally recorded fair value of acquired identifiable assets.

The addition of goodwill in 2004 arose from the acquisition of Fenyi Conch for which the agreement date was subsequent to 31 March 2004 and Shuangfeng Conch for which the agreement date was before 31 March 2004.

The addition of goodwill in 2005 arose from the acquisition of Conch Construction.

Goodwill is allocated to the Group's CGUs identified according to country of operation and business segment. As at 31 December 2005 and 2004, there is no indicator that the CGUs may be impaired, by comparing the carrying amount of the CGUs, including goodwill, with the recoverable amount of the CGUs. The recoverable amount of the CGUs exceeds the carrying amount of the CGUs.

(b) Negative goodwill

Negative goodwill arose from the excess of Company's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities over cost of the following subsidiaries:

Name of subsidiaries	Year of acquisition
Anhui Zongyang Conch Cement Co., Ltd. ("Zongyang Conch")	2001
Anhui Chizhou Conch Cement Co., Ltd. ("Chizhou Conch")	2001
Anhui Changfeng Conch Cement Co., Ltd. ("Changfeng Conch")	2004
Shanghai Conch Mingzhu Cement Co., Ltd ("Mingzhu Conch")	2004
Shuangfeng Conch	2004*

* Subsequently adjusted in 2005 as a result of the adjustment on provisionally recorded fair value of acquired identifiable assets.

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(All amounts in RMB thousands unless otherwise stated)

8 Intangible assets (Continued)

(b) Negative goodwill (Continued)

As at 1 January 2005, the Group derecognised the negative goodwill with a corresponding adjustment to the opening balance of retained earnings as follows:

	1 January 2005
Decrease of negative goodwill	(28,946)
Increase of retained earnings	28,946

(c) Licences

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.

As at 31 December 2005 and 2004, there is no indicator that the licences may be impaired by comparing the carrying amount of the licences with recoverable amount of the licences. The recoverable amount of the licences exceeds carrying amount.

9 Investments in subsidiaries and amounts due to subsidiaries

The Company

	As at 31 December	
	2005	2004
Investments in subsidiaries:		
Investments in unlisted subsidiaries, at cost	**4,185,887**	3,079,992
Loans to subsidiaries (Note 9.5)	**3,691,019**	1,829,008
	7,876,906	4,909,000
Amounts due to subsidiaries:	**2,267,276**	1,564,723

The Company's directors are of the opinion that the recoverable amount of the subsidiaries was not less than the carrying value of the Company's investments in the subsidiaries as at 31 December 2005 and 2004.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

9 Investments in subsidiaries and amounts due to subsidiaries (Continued)

Details of the Company's subsidiaries, all of which are limited liability companies or joint stock limited company, as at 31 December 2005 were as follows:

Name of subsidiaries	Company's equity interest	Registered capital	Principal activities
Ningguo Cement Plant ("Ningguo Cement") 安徽省寧國水泥廠	100% (directly held)	RMB 649,350,000	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	75% (directly held)	RMB 171,000,000	Manufacture and sale of clinker and cement products
Anhui Conch Cement Product Co., Ltd. ("Conch Plant") 安徽海螺水泥有限公司	75% (directly held)	USD 29,980,000	Manufacture and sale of clinker and cement products
Mingzhu Conch 上海海螺明珠水泥有限責任公司	76.20% (directly held) 18% (indirectly held)	RMB 13,710,000	Manufacture and sale of clinker and cement products
Tongling Conch 安徽銅陵海螺水泥有限公司	68.14% (directly held)	RMB 565,000,000	Manufacture and sale of clinker and cement products
Anhui Conch Machinery & Electric Co., Ltd. 安徽海螺機電設備有限公司	49% (directly held) 51% (indirectly held)	RMB 10,000,000	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	100% (indirectly held)	RMB 1,000,000	Sales of clinker and cement products
Changfeng Conch 安徽長豐海螺水泥有限公司	90% (directly held) 10% (indirectly held)	RMB 10,000,000	Manufacture and sale of clinker and cement products

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

9 Investments in subsidiaries and amounts due to subsidiaries (Continued)

Name of subsidiaries	Company's equity interest	Registered capital	Principal activities
Zhangjiagang Conch Cement Co., Ltd. 張家港海螺水泥有限公司	98.71% (directly held)	RMB 35,000,000	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	75% (directly held)	RMB 60,000,000	Manufacture and sale of clinker and cement products
Nanjing Conch Cement Co., Ltd. 南京海螺水泥有限公司	99.75% (directly held) 0.25% (indirectly held)	RMB 15,000,000	Manufacture and sale of clinker and cement products
Nantong Conch Cement Co., Ltd. ("Nantong Conch") 南通海螺水泥有限公司	99% (directly held) 1% (indirectly held)	RMB 15,000,000	Manufacture and sale of clinker and cement products
Shanghai Conch Cement Sales Co., Ltd. ("Shanghai Sales") 上海海螺水泥銷售有限公司	90% (directly held) 10% (indirectly held)	RMB 5,000,000	Sale of clinker and cement products
Anhui Digang Conch Cement Co., Ltd. ("Digang Conch") 安徽荻港海螺水泥股份有限公司	51% (directly held)	RMB 150,000,000	Manufacture and sale of clinker and cement products
Jianyang Conch Cement Co., Ltd. 福建省建陽海螺水泥有限責任公司	76% (directly held)	RMB 14,000,000	Manufacture and sale of clinker and cement products
Zongyang Conch 安徽樅陽海螺水泥股份有限公司	51% (directly held)	RMB 300,000,000	Manufacture and sale of clinker and cement products
Chizhou Conch 安徽池州海螺水泥股份有限公司	51% (directly held)	RMB 318,000,000	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	93.75% (directly held)	RMB 11,520,000	Manufacture and sale of clinker and cement products

(All amounts in RMB thousands unless otherwise stated)

9 Investments in subsidiaries and amounts due to subsidiaries (Continued)

Name of subsidiaries	Company's equity interest	Registered capital	Principal activities
Bengbu Conch Cement Co., Ltd. 蚌埠海螺水泥有限責任公司	96.7% (directly held) 3.3% (indirectly held)	RMB 6,000,000	Manufacture and sale of clinker and cement products
Wenzhou Conch Cement Co., Ltd. 溫州海螺水泥有限公司	95% (directly held) 5% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products
Fenyi Conch 分宜海螺水泥有限責任公司	90% (directly held) 10% (indirectly held)	RMB 50,000,000	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	90% (directly held) 10% (indirectly held)	RMB 16,000,000	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	90% (directly held) 10% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products
Jiangxi Lushan Conch Cement Co., Ltd. 江西盧山海螺水泥有限責任公司	98.7% (directly held) 1.3% (indirectly held)	RMB 31,420,000	Manufacture and sale of clinker and cement products
Taizhou Yangwan Conch Cement Co., Ltd. 泰州楊灣海螺水泥有限責任公司	95% (directly held) 3.41% (indirectly held)	RMB 50,000,000	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	90% (directly held) 10% (indirectly held)	RMB 20,000,000	Manufacture and sale of clinker and cement products

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(All amounts in RMB thousands unless otherwise stated)

9 Investments in subsidiaries and amounts due to subsidiaries (Continued)

Name of subsidiaries	Company's equity interest	Registered capital	Principal activities
Anhui Huaining Conch Cement Co., Ltd. ("Huaining Conch") 安徽懷寧海螺水泥有限責任公司	90% (directly held) 10% (indirectly held)	RMB 150,000,000	Manufacture and sale of clinker and cement products
Zhongguo Cement Co., Ltd. ("Zhongguo Cement") 中國水泥廠有限公司	90% (directly held) 10% (indirectly held)	RMB 100,000,000	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	90% (directly held) 10% (indirectly held)	RMB 20,000,000	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	90% (directly held) 5.1% (indirectly held)	RMB 20,000,000	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	90% (directly held) 5.1% (indirectly held)	RMB 20,000,000	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	90% (directly held) 10% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products
Jiangmen Conch Cement Co., Ltd. 江門海螺水泥有限責任公司	90% (directly held) 10% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products
Wujiang Conch Cement Co., Ltd. 吳江海螺水泥有限公司	90% (directly held) 10% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products

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(All amounts in RMB thousands unless otherwise stated)

9 Investments in subsidiaries and amounts due to subsidiaries (Continued)

Name of subsidiaries	Company's equity interest	Registered capital	Principal activities
Maanshan Conch Cement Co., Ltd. 馬鞍山海螺水泥有限責任公司	90% (directly held) 10% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products
Jiangsu Baling Conch Cement Co., Ltd. ("Baling Conch") 江蘇八菱海螺水泥有限公司	75% (directly held)	RMB 32,960,000	Manufacture and sale of clinker and cement products
Shuangfeng Conch 雙峰海螺水泥有限公司 (Note 9.1)	90% (directly held) 10% (indirectly held)	RMB 268,000,000	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	90% (directly held) 10% (indirectly held)	RMB 100,000,000	Manufacture and sale of clinker and cement products
Wuhu Conch Cement Co., Ltd. 蕪湖海螺水泥有限公司	51% (directly held) 29.28% (indirectly held)	RMB 100,000,000	Manufacture and sale of clinker and cement products
Hunan Conch Cement Co., Ltd. 湖南海螺水泥有限責任公司	90% (directly held) 10% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products
Yingde Conch Cement Co., Ltd. ("Yingde Conch") 英德海螺水泥有限責任公司 (Note 9.3)	92% (directly held) 8% (indirectly held)	RMB 361,820,000	Manufacture and sale of clinker and cement products
Xingye Kuiyang Conch Cement Co., Ltd. ("Kuiyang Conch") 興業葵陽海螺水泥有限責任公司 (Note 9.4)	95% (directly held) 5% (indirectly held)	RMB 200,000,000	Manufacture and sale of clinker and cement products

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(All amounts in RMB thousands unless otherwise stated)

9 Investments in subsidiaries and amounts due to subsidiaries (Continued)

Name of subsidiaries	Company's equity interest	Registered capital	Principal activities
Fusui Xinning Cement Co., Ltd. ("Xinning Conch") 扶綏新寧海螺水泥有限責任公司 (Note 9.4)	95% (directly held) 5% (indirectly held)	RMB 200,000,000	Manufacture and sale of clinker and cement products
Conch Construction 安徽蕪湖海螺建築安裝工程有限責任公司 (Note 9.2)	95% (directly held)	RMB 10,000,000	Industrial or public construction and installation
Xing'an Conch Cement Co., Ltd. ("Xing'an Conch") 興安海螺水泥有限責任公司 (Note 9.4)	90% (directly held) 10% (indirectly held)	RMB 200,000,000	Manufacture and sale of clinker and cement products
Ninghai Qiangjiao Conch Cement Co., Ltd. ("Ninghai Qiangjiao Conch") 寧海強蛟海螺水泥有限責任公司 (Note 9.4)	90% (directly held) 10% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products
Beiliu Conch Cement Co., Ltd. ("Beiliu Conch") 北流海螺水泥有限責任公司 (Note 9.4)	90% (directly held) 6.81% (indirectly held)	RMB 150,000,000	Manufacture and sale of clinker and cement products
Zhanjiang Conch Cement Co., Ltd. ("Zhanjiang Conch") 湛江海螺水泥有限責任公司 (Note 9.4)	90% (directly held) 6.81% (indirectly held)	RMB 60,000,000	Manufacture and sale of clinker and cement products

– United States Dollars referred to as "USD"

9 Investments in subsidiaries and amounts due to subsidiaries (Continued)

9.1 Shuangfeng Conch

In December 2004, the Company and Huaining Conch entered into a share transfer agreement with Anhui Province Development and Investment Co., Ltd. (Development and Investment Co.). According to the agreement, the Company and Huaining Conch acquired remaining 49% of the equity shares of Shuangfeng Conch from Development and Investment Co. at a cash consideration of RMB131,320,000. The transfer was completed in January 2005. After the share transfer, the Company's equity shares in Shuangfeng Conch increased from 51% in 2004 to 90% in 2005, Huaining Conch owned 10% of the equity shares in Shuangfeng Conch (Note 35.1).

9.2 Conch Construction

In April 2005, the Company and the Conch Group entered into an agreement in respect of share transfer and increase in registered capital of Conch Construction. According to the agreement, the Company acquired 95% of the equity shares of Conch Construction from the Conch Group at a cash consideration of RMB5.7 million. In connection with the agreement, the Company and the Conch Group increase the paid-in capital of Conch Construction from RMB6 million to RMB10 million. The cost in excess of share of the acquired net assets of Conch Construction, amounting to approximately RMB4.9 million, was recorded as goodwill and is tested annually for impairment (Note 35.5).

9.3 Yingde Conch

During the year 2005, the Company and Huaining Conch additionally injected RMB197,874,400 and RMB13,945,600 respectively to increase Yingde Conch's registered capital. Upon the completion of capital injection, the registered capital of Yingde Conch increased from RMB150,000,000 to RMB361,820,000, of which the Company and Huaining Conch hold 92% and 8% respectively.

9.4 Newly setup subsidiaries

During the year 2005, the Company and its subsidiaries setup Kuiyang Conch, Xinning Conch, Xing'an Conch, Ninghai Qiangjiao Conch, Beiliu Conch and Zhanjiang Conch by means of cash injection.

9.5 Loan to subsidiaries

The loans to subsidiaries are unsecured, non-interest bearing and without fixed repayment terms. The Company does not plan to seek the settlement of those loans to subsidiaries in the foreseeable future.

9.6 Consolidated subsidiaries

As at 31 December 2005 and 2004, the Group has the power to govern the financial and operating policies of all subsidiaries and all subsidiaries are fully consolidated from the date on which control is transferred to the Group.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

10 Investments in associates

The Group

	2005	2004
Beginning of the year	**171,520**	50,805
Acquisition of associates	**–**	107,758
Share of associate's results		
– profit before taxation	**4,005**	12,957
– taxation	**(283)**	–
– dividend received	**(11,200)**	–
End of the year	**164,042**	171,520

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

As at 31 December 2005, the Group's share of the results of its principle associate, all of which are unlisted, and its share of the assets are as follows:

Name of associates	Place and date of incorporation	Assets	Liabilities	Revenue	Profit	Shares of interest held
Anhui King Bridge Cement Co., Ltd. ("King Bridge Cement") 安徽朱家橋水泥有限公司	PRC 18 December 1997	149,360	9,035	77,557	9,305	40% (directly held)
Guangxi Fusui Conch Cement Co., Ltd. ("Fusui Conch")* 廣西扶綏海螺水泥公司	PRC 26 October 2004	221,721	17,114	–	–	21.26% (directly held) 3.94% (indirectly held)
Guangxi Xingye Conch Cement Co., Ltd. ("Xingye Conch")* 廣西興業海螺水泥公司	PRC 27 October 2004	207,090	3,065	–	–	32.62% (directly held) 3.37% (indirectly held)

* During the year 2005, these two associated companies of the Group were still in pre-operating stage. As at 31 December 2005, these two associated companies of the Group were under the process of liquidation.

(All amounts in RMB thousands unless otherwise stated)

11 Loans and receivables

The Group

	As at 31 December	
	2005	2004
Loans and receivables	**104,000**	94,000
Less: Current portion of loans and receivables	**(10,000)**	–
	94,000	94,000

As at 31 December 2005, loans and receivables represents RMB104 million paid by the Group for the preparation of certain projects on behalf of Local Finance Bureau, and were repayable after completion of the preparation stage of such projects (2004: RMB94,000,000).

As at 31 December 2005 and 2004, the fair values of loans and receivables approximated their carrying amount.

12 Inventories

The Group

	As at 31 December	
	2005	2004
Raw materials	**573,368**	467,481
Work-in-process	**68,177**	92,627
Finished goods	**322,599**	305,297
	964,144	865,405

During the year 2005, the Group wrote down the carrying amount of inventories to the net realisable amount by RMB348,000 approximately (2004: nil) (Note 26, 34.1).

13 Trade receivables

The Group

	As at 31 December	
	2005	2004
Accounts receivable	**67,622**	48,795
Bank acceptance notes receivable	**378,021**	217,838
Trade acceptance notes receivable	**1,542**	–
	447,185	266,633
Less: Provision for impairment of receivables	**(22,908)**	(22,908)
	424,277	243,725

As at 31 December 2005 and 2004, the fair values of the Group's trade receivables approximated their carrying amount.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

13 Trade receivables (Continued)

The Group

As at 31 December 2005 and 2004, the ageing analysis of trade receivables is as follows:

	As at 31 December 2005	2004
Within 1 year	**424,684**	237,322
Between 1 and 2 years	**342**	7,207
Between 2 and 3 years	**421**	1,750
Between 3 and 4 years	**1,580**	5,390
Between 4 and 5 years	**5,390**	2,777
Over 5 years	**14,768**	12,187
	447,185	266,633

The Company

	As at 31 December 2005	2004
Accounts receivable	**14,445**	20,831
Bank acceptance notes receivable	**129,952**	50,394
	144,397	71,225
Less: Provision for impairment of receivables	**(7,403)**	(7,403)
	136,994	63,822

As at 31 December 2005 and 2004, the fair values of the Company's trade receivables approximated their carrying amount.

The Company

As at 31 December 2005 and 2004, the ageing analysis of trade receivables is as follows:

	As at 31 December 2005	2004
Within 1 year	**137,231**	61,808
Between 1 and 2 years	**–**	2,272
Between 2 and 3 years	**387**	468
Between 3 and 4 years	**102**	–
Between 4 and 5 years	**–**	–
Over 5 years	**6,677**	6,677
	144,397	71,225

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

14 Prepayments, deposits, restricted bank balances and other receivables

The Group

	As at 31 December	
	2005	2004
Prepayment to suppliers	**355,180**	437,150
Deposits and restricted bank balances (a)	**5,787**	12,887
Other receivables (b)	**240,140**	112,179
	601,107	562,216
Less: Provision for impairment of receivables	**(25,648)**	(20,612)
	575,459	541,604

(a) Deposits and restricted bank balances represent those pledged with banks for issuance of letters of credit and letters of guarantee, and will be due over three months.

(b) The breakdown of other receivables as at 31 December 2005 and 2004 is as follows:

	As at 31 December	
	2005	2004
Hunan Xuefeng Cement Group Co., Ltd ("Xuefeng Group") and Hunan Xuefeng Cement Company Limited ("Xuefeng Cement") (Note 39)	**101,842**	23,750
Current portion of loans and receivables	**10,000**	–
Others	**128,298**	88,429
	240,140	112,179

As at 31 December 2005 and 2004, the fair values of other receivables approximated their carrying amounts.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

14 Prepayments, deposits, restricted bank balances and other receivables (Continued)

The Company

	As at 31 December 2005	2004
Prepayment to suppliers	**179,531**	168,353
Deposits and restricted bank balances	**1,162**	3,061
Other receivables	**14,766**	13,037
	195,459	184,451
Less: Provision for impairment of receivables	**(5,984)**	(5,984)
	189,475	178,467

15 Cash and cash equivalents

The Group

	As at 31 December 2005	2004
Cash and cash equivalents	**1,178,390**	1,626,829

The Company

	As at 31 December 2005	2004
Cash and cash equivalents	**674,269**	1,317,757

As at 31 December 2005 and 2004, cash and cash equivalents of the Group and the Company contains no short-term bank deposit or bank overdrafts.

For the years ended 31 December 2005 and 2004, the average interest rates of cash and cash equivalents of the Group and the Company are approximately 0.7% per annum.

16 Share capital

The details of share capital are as follows:

	Number of shares ('000)	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2004	1,255,680	1,255,680	1,745,430	3,001,110
At 31 December 2004	1,255,680	1,255,680	1,745,430	3,001,110
At 31 December 2005	**1,255,680**	**1,255,680**	**1,745,430**	**3,001,110**

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 shares 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 Dollar (the "HK$").

Share premium represents net assets acquired from Conch Group 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.

In December 2005, Conch Group reached an agreement with MS Asia Investment Limited ("MS") and International Financial Corporate ("IFC"). According to the agreement, Conch Group will transfer 132 million Stated-owned shares (10.51% of total shares of the Company) and 48 million Stated-owned shares (3.82% of total shares of the Company) to MS and IFC respectively. After the share transfer, Conch Group will hold 442.48 million State-owned shares (35.24% of total shares of the Company) (Note 38).

Since the above share transfer is state-owned share transfer to foreign investor, it will become effective only after approval from relevant Department of State-owned Assets Management and Ministry of Commerce of People's Republic of China. As at 31 December 2005, the approval for the above share transfer has not been obtained.

According to the resolution of the A shares shareholders' meeting held on 20 February 2006, the "Proposal of Share Merger Reform of Anhui Conch Cement Company Limited" was approved (Note 38).

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

17 Other reserves

	Capital surplus	Statutory surplus reserve (a)	Statutory public welfare reserve (b)	Total
Balance at 1 January 2004	31,373	315,336	304,660	651,369
Profit appropriation	–	209,802	191,741	401,543
Others	296	–	–	296
Balance at 31 December 2004	**31,669**	**525,138**	**496,401**	**1,053,208**
Balance at 1 January 2005, as per above	31,669	525,138	496,401	1,053,208
Profit appropriation	–	98,272	86,301	184,573
Acquisition of minority interests in subsidiaries (Note 35.1(iii))	23,138	–	–	23,138
Others	171	–	–	171
Balance at 31 December 2005	**54,978**	**623,410**	**582,702**	**1,261,090**

(a) 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 percent 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 2005, the directors have recommended that 10% (2004: 10%) of statutory net profit of each entity be appropriated to this reserve.

(All amounts in RMB thousands unless otherwise stated)

17 Other reserves (Continued)

(b) 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 utilised to build or acquire capital items, for the entities' employees. Titles to these capital items remain with the entity.

According to the Company Law revised on 27 October 2005, the Company and its subsidiaries will not appropriate their profit to SPWR from 1 January 2006 onwards.

For the year ended 31 December 2005, the directors have recommended that 5% to 10% (2004: 5% to 10%) of statutory net profit of each entity be appropriated to this reserve.

18 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 at 31 December 2005, the Group's profit available for distribution to shareholders of the Company after transfers to reserves amounted to approximately RMB1,257,395,000.

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

	Statutory Accounts	**Consolidated Financial statements under IFRS**
Balance at 1 January 2005, as previously reported	1,035,076	1,194,344
Opening adjustment for the adoption of IFRS 3	–	28,946
Balance at 1 January 2005, as restated	1,035,076	1,223,290
Profit for the year	406,892	385,832
Transfer to SSR	(98,273)	(98,272)
Transfer to SPWR	(86,300)	(86,301)
Dividends relating to the year 2004	–	(163,238)
Total distributable profit	1,257,395	1,261,311

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

19 Other payables, advances from customers, accruals and other current liabilities

The Group

	As at 31 December 2005	2004
Projects payables	**578,414**	488,200
Advances from customers	**194,393**	160,839
Deposits for contract commitments	**212,767**	188,144
Accrued utility expenses	**84,081**	69,505
Accrued harbour expenses, loading expenses and freight fees	**23,987**	9,734
Accrued pension fund	**11,272**	15,087
Accrued staff welfare	**30,222**	22,163
Accrued staff salaries and bonuses	**24,443**	15,494
Performance bond	**11,926**	8,328
Guarantee deposits	**18,694**	13,456
Withholding tax payables	**12,872**	13,167
Deposits received for leasing van covers	**1,992**	2,165
Accrued interest expenses	**13,112**	2,917
Value added tax (“VAT”) payables	**46,013**	51,130
Other taxes payables	**45,929**	49,033
Others	**136,430**	92,290
	1,446,547	1,201,652

The Company

	As at 31 December 2005	2004
Advances from customers	**45,309**	24,169
Accrued utility expenses	**11,793**	7,001
Accrued staff salaries and welfare	**13,951**	8,748
Projects payables	**53,581**	–
Deposits for contract commitments	**10,692**	–
VAT payables	**2,194**	1,308
Other taxes payables	**7,374**	6,945
Others	**16,711**	13,798
	161,605	61,969

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

20 Trade payables

The Group

	As at 31 December 2005	2004
Accounts payables	**763,340**	597,006
Notes payables	**–**	158,885
	763,340	755,891

As at 31 December 2005 and 2004, the ageing of all material trade payables is within one year.

As at 31 December 2005 and 2004, the fair values of trade payables approximated their carrying amounts.

21 Deferred income

The Group

Balance at 1 January 2004	–
Government grant received	106,626
Recognised in the income statement (Note 26)	(7,108)
Balance at 31 December 2004	99,518
Balance at 1 January 2005	99,518
Government grant received	62,473
Recognised in the income statement (Note 26)	(11,273)
Balance at 31 December 2005	**150,718**

According to the PRC tax laws and regulations, the Group can enjoy the tax incentives for purchase of domestically manufactured equipments as follows:

The Company and its subsidiaries which purchase domestically manufactured equipments may enjoy refunding preference in accordance with the provisions of the State. From the first year of purchase, 40% of the investments for the purchase of equipment may be compensated for the enterprise income tax that was newly added to the previous year and the uncompensated part can be carried forward to following years with limit of five years.

The above income tax refunds are government grants whose primary condition for qualification is to purchase certain long-term assets. The government grants are recognised as income over the periods necessary to match them with the related costs of assets purchased which they are intended to compensate over the periods and in the proportions in which depreciation on those assets is charged.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

22 Borrowings

The Group

22.1 Non-current borrowings

(a) Details of non-current borrowings are as follows:

	As at 31 December 2005			As at 31 December 2004		
	Interest rate per annum	**Foreign currency**	**RMB equivalent**	Interest rate per annum	Foreign currency	RMB equivalent
Bank borrowings						
– Guaranteed *	**4.94%-5.85%**	**-**	**3,685,540**	4.94%-5.58%	–	3,346,580
	-	**-**	**-**	2.40%	USD14 million	116,052
– Collateralised***	**5.58%**	**-**	**60,000**	–	–	–
– Unsecured	**5.18%-5.76%**	**-**	**1,533,000**	4.94%-5.58%	–	400,000
Other borrowings **						
– Collateralised***	**5.32%**	**-**	**650,000**	–	–	–
– Unsecured	**2.28%**	**-**	**80,000**	2.28%	–	80,000
			6,008,540			3,942,632
Less: Current portion of non-current borrowings						
Bank borrowings						
– Guaranteed *	**4.94%-5.76%**	**-**	**(983,360)**	4.94%-5.58%	–	(542,400)
	-	**-**	**-**	2.40%	USD14 million	(116,052)
– Unsecured	**5.49%-5.76%**	**-**	**(150,000)**	4.94%-5.02%	–	(28,650)
			(1,133,360)			(687,102)
			4,875,180			3,255,530

* As at 31 December 2005, non-current borrowings together with current portion of non-current borrowings amounting to approximately RMB3,678,540,000 and RMB7,000,000 are guaranteed by Conch Group and a third party respectively (2004: approximately RMB3,455,631,600 and RMB7,000,000 are guaranteed by Conch Group and a third party respectively) (Note 36.2).

** As at 31 December 2005, other borrowings included the national debt loan (國債轉貸) amounting to RMB80,000,000 (2004: RMB80,000,000) provided by Anhui Finance Bureau which will mature in June 2017 and the loan from the proceeds of the Panda Bond amounting to RMB650,000,000 (2004: nil) provided by International Finance Corporation which will mature in October 2015.

*** As at 31 December 2005, collateralised borrowings amounting to approximately RMB710,000,000 are pledged by property, plant and equipment with aggregate carrying amount of approximately RMB465,966,000 (Note 7) and leasehold land and land use rights with carrying amount of approximately RMB55,150,000 (Note 6).

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

22 Borrowings (Continued)

The Group (Continued)

22.1 Non-current borrowings (Continued)

(b) The maturity of non-current borrowings as at 31 December 2005 and 2004 is as follows:

	As at 31 December 2005			As at 31 December 2004		
	Bank borrowings	**Other borrowings**	**Total**	Bank borrowings	Other borrowings	Total
Amount repayable within a period						
– Within 1 year	**1,133,360**	**-**	**1,133,360**	687,102	–	687,102
– Between 1 and 2 years	**2,185,380**	**-**	**2,185,380**	1,128,350	–	1,128,350
– Between 2 and 5 years	**1,959,800**	**-**	**1,959,800**	2,047,180	–	2,047,180
– Over 5 years	**-**	**730,000**	**730,000**	–	80,000	80,000
	5,278,540	**730,000**	**6,008,540**	3,862,632	80,000	3,942,632
Less: Current portion	**(1,133,360)**	**-**	**(1,133,360)**	(687,102)	–	(687,102)
	4,145,180	**730,000**	**4,875,180**	3,175,530	80,000	3,255,530

The carrying amounts and fair value of the non-current borrowings are together with current portion as follows:

	Carrying amounts		**Fair values**	
	2005	2004	**2005**	2004
Bank borrowings	**5,278,540**	3,862,632	**4,682,165**	2,943,036
Other borrowings	**730,000**	80,000	**583,495**	60,964
	6,008,540	3,942,632	**5,265,660**	3,004,000

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

22 Borrowings (Continued)

22.2 Current borrowings

	As at 31 December 2005 Interest rate per annum	As at 31 December 2005 Amount	As at 31 December 2004 Interest rate per annum	As at 31 December 2004 Amount
Bank borrowings				
– Guaranteed *	**5.00%-5.58%**	**1,984,500**	4.78%-5.58%	1,867,000
– Collateralised **	**–**	**–**	4.78%-5.31%	110,000
– Unsecured	**5.30%-5.58%**	**1,588,500**	4.78%-5.58%	1,029,000
		3,573,000		3,006,000
Add: Current portion of non-current borrowings				
Bank borrowings				
– Guaranteed	**4.94%-5.76%**	**983,360**	4.94%-5.58%	542,400
	–	**–**	2.4%	116,052
– Unsecured	**5.49%-5.76%**	**150,000**	4.94%-5.02%	28,650
		4,706,360		3,693,102

* As at 31 December 2005, current borrowings except for the current portion of non-current borrowings amounting to approximately RMB1,977,000,000 and RMB7,500,000 are guaranteed by Conch Group and a third party respectively (2004: approximately RMB1,867,000,000 were guaranteed by Conch Group) (Note 36.2).

** As at 31 December 2004, the collateralised current borrowings has been secured by the property, plant and machinery with carrying amount of RMB91,088,000 (Note 7).

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

22 Borrowings (Continued)

22.3 Non-current borrowings

(a) Details of non-current borrowings are as follows:

	As at 31 December 2005 Interest rate per annum	**As at 31 December 2005 Amount**	As at 31 December 2004 Interest rate per annum	As at 31 December 2004 Amount
Bank borrowings				
– Guaranteed	**4.94%-5.76%**	**391,360**	4.94%-5.58%	320,000
– Unsecured	**5.76%**	**100,000**	4.94%-5.58%	100,000
Other borrowings				
– Collateralised	**5.32%**	**650,000**	–	–
Total		**1,141,360**		420,000
Less: Current portion of non-current borrowings				
Bank borrowings				
– Guaranteed	**4.94%-5.76%**	**(171,360)**	4.94%-5.02%	(48,650)
– Unsecured	**5.76%**	**(50,000)**	–	–
		(221,360)		(48,650)
		920,000		371,350

As at 31 December 2005 and 2004, all guaranteed non-current bank borrowings are guaranteed by Conch Group.

As at 31 December 2005, all collateralised other borrowings are secured by certain buildings, machinery, equipment, leasehold land and land use rights of the Company.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

22 Borrowings (Continued)

22.3 Non-current borrowings (Continued)

(b) The maturity of non-current borrowings as at 31 December 2005 and 2004 is as follows:

	As at 31 December 2005	2004
Amount repayable within a period		
– Within 1 year	**221,360**	48,650
– Between 1 and 2 years	**250,000**	221,350
– Between 2 and 5 years	**20,000**	150,000
– Over 5 years	**650,000**	–
	1,141,360	420,000
Less: Current portion	**(221,360)**	(48,650)
	920,000	371,350

22.4 Current borrowings

	As at 31 December 2005 Interest rate per annum	As at 31 December 2005 Amount	As at 31 December 2004 Interest rate per annum	As at 31 December 2004 Amount
Bank borrowings				
– Secured *	**5.02%-5.58%**	**1,008,000**	4.78%-5.58%	560,000
– Unsecured	**5.30%-5.58%**	**530,000**	4.78%-5.58%	356,000
		1,538,000		916,000
Add: Current portion of non-current borrowings				
Bank borrowings				
– Secured *	**4.94%-5.76%**	**171,360**	4.94%-5.58%	48,650
– Unsecured	**5.76%**	**50,000**	–	–
		221,360		48,650
		1,759,360		964,650

* As at 31 December 2005 and 2004, all secured current borrowings are guaranteed by Conch Group.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

23 Long-term payables

The Group

	As at 31 December	
	2005	2004
Payables to minority shareholders of Mingzhu Conch (a)	**1,583**	1,583
Compensation fee payables (b)	**55,312**	66,963
Grant payables (c)	**67,074**	–
Others	**548**	–
	124,517	68,546
Less: current portion of compensation fee payables (b)	**(8,923)**	(9,343)
	115,594	59,203

(a) As at 31 December 2005 and 2004, this represents loan to Mingzhu Conch provided by its minority shareholders of as a kind of financial support. The payable is unsecured, non-interest bearing.

(b) Pursuant to the purchase agreement entered into between the Group and two third parties separately in relation to the acquisition of certain operating assets and liabilities of two cement plants in Nanjing, the Group shall resume obligations in paying compensations for the former plants' retired and being laid-off employees. As at 31 December 2005, the remaining obligation amounted to approximately RMB55,312,000 (2004: approximately RMB66,963,000).

(c) Grant payables represent the funds received from government to support the construction of certain projects. This amount is interest free and will be waived and recognised as deferred income upon completion of the related projects and approval from the government.

The fair values of the non-current portion of long-term payables are approximately RMB107 million (2004: approximately RMB53 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 fair value of the current portion of long-term payables approximate their carrying amount.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

24 Deferred income tax

The Group

(a) Deferred income tax assets and liabilities are offset will be recovered as follows:

	As at 31 December 2005	2004
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	**8,535**	–
– Deferred tax assets to be recovered within 12 months	**9,876**	–
	18,411	–
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**(27,396)**	–
– Deferred tax liabilities to be recovered within 12 months	**(559)**	–
	(27,955)	–
	(9,544)	–

(b) The gross movement on the deferred income tax account is as follows:

	For the year ended 2005	2004
Beginning balance of the year	**–**	–
Credited to consolidated income statement (Note 30)	**18,411**	–
Addition as a result of business combination (Note 35.1)	**(27,955)**	–
Ending balance of the year	**(9,544)**	–

Deferred taxation is calculated on temporary differences under the liability method using the tax rate and the tax base that is consistent with the expected manner of recovery or settlement for the year ended 31 December 2005 and 2004.

(All amounts in RMB thousands unless otherwise stated)

24 Deferred income tax

(c) The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Deferred tax assets			Deferred tax liability
	Provision and impairment	Unrealized profit	Total	Business Combination
Balance at 1 January 2005	–	–	–	–
Credited to the income statement	8,440	9,971	18,411	–
Arising on business combination	–	–	–	(27,955)
Balance at 31 December 2005	**8,440**	**9,971**	**18,411**	**(27,955)**

As at 31 December 2005, deferred tax assets amounting to approximately RMB40 million (Note 30.2) arising on unused tax losses of the Company and certain subsidiaries were not recognised since it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

25 Other gains – net

The Group

	For the year ended **2005**	2004
Other gains – net:		
Subsidy income*	**96,060**	178,816
Loss on disposal of property, plant and equipment (Note 34.1)	**(1,445)**	(456)
Interest income (Note 34.1)	**13,767**	21,614
Others	**(2,902)**	(4,336)
Total	**105,480**	195,638

* Subsidy income mainly comprised refund of VAT for sales of 425 cement and local government grants related to income.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

26 Expenses by nature

The Group

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	For the year ended	
	2005	2004
Amortisation of leasehold land and land use rights (Note 6, 34.1)	**21,605**	11,546
Depreciation of property, plant and equipment (Note 34.1)	**729,326**	531,466
Amortisation of intangible assets (Note 8, 34.1)	**5,621**	4,267
Impairment for property, plant and equipment (Note 7, 34.1)	**52,273**	–
Provision for/(reversal of) impairment of receivables (Note 34.1)	**5,036**	(1,788)
Write-down inventories to their net realisable value (Note 12, 34.1)	**348**	–
Recognition of deferred income (Note 21)	**(11,273)**	(7,108)
Auditors' remuneration	**3,800**	2,410

(All amounts in RMB thousands unless otherwise stated)

27 Directors', supervisors' and senior management's emoluments and five highest paid individuals

(a) Directors', supervisors' and senior management's emoluments

The emoluments of every director and supervisor for the years ended 31 December 2005 and 2004, on a named basis, are set out as below:

Name of Director and Supervisor	Salaries and allowances	Bonus	Pension costs-defined contribution plans	Total
2005				
Mr. Guo Wensan	**70**	**94**	**5**	**169**
Mr. Yu Biao	**74**	**41**	**5**	**120**
Mr. Li Shunan	**68**	**47**	**5**	**120**
Mr. Guo Jingbin	**70**	**45**	**5**	**120**
Mr. Ren Yong (i)	**58**	**57**	**5**	**120**
Ms. Xue Tongzu	**–**	**–**	**–**	**–**
Mr. Kuang Bingwen (ii)	**–**	**–**	**–**	**–**
Mr. Ding Zhiming	**–**	**–**	**–**	**–**
Mr. Wang Jun (iii)	**63**	**52**	**5**	**120**
Mr. Wang Yanmou	**–**	**–**	**–**	**–**
Mr. Kang Huan	**–**	**–**	**–**	**–**
	403	**336**	**30**	**769**
2004				
Mr. Guo Wensan	78	514	5	597
Mr. Yu Biao	74	399	5	478
Mr. Li Shunan	74	399	5	478
Mr. Guo Jingbin	66	407	5	478
Mr. Zhu Dejin (iv)	75	398	5	478
Ms. Xue Tongzu	–	–	–	–
Mr. Kuang Bingwen	–	–	–	–
Mr. Ding Zhiming	–	–	–	–
Mr. Ji Qinying (v)	–	–	–	–
Mr. Wang Yanmou	–	–	–	–
Mr. Kang Hua	–	–	–	–
	367	2,117	25	2,509

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

27 Directors', supervisors' and senior management's emoluments and five highest paid individuals (Continued)

(a) Directors', supervisors' and senior management's emoluments (Continued)

None of the directors and supervisor agreed to waive any remuneration during the years 2005 and 2004. The emoluments of the independent non-executive directors during the year were nil (2004: nil).

(i) Mr. Ren Yong was appointed as director on 18 May 2005.

(ii) Mr. Kuang Binwen resigned from director on 20 May 2005.

(iii) Mr. Wang Jun was appointed as supervisor on 18 May, 2005.

(iv) Mr. Zhu Dejin resigned from director on 18 May 2005.

(v) Mr. Ji Qinying resigned from supervisor on 18 May, 2005.

(b) Five highest paid individuals

The five highest paid individuals consists of:

	For the year ended	
	2005	2004
Number of directors and supervisors	**–**	5
Number of employees	**5**	–
	5	5

None of the five highest paid individuals was directors or supervisors of the Company (2004: five) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining five (2004: nil) individuals during the year are as follows:

	For the year ended	
	2005	2004
Salaries and allowances	**332**	–
Bonuses	**1,802**	–
Pension costs-defined contribution plans	**22**	–
	2,156	–

(All amounts in RMB thousands unless otherwise stated)

27 Directors', supervisors' and senior management's emoluments and five highest paid individuals (Continued)

(b) Five highest paid individuals (Continued)

During the years ended 31 December 2005 and 2004, no emoluments were paid by the Group to any of the directors, supervisors or the five highest paid individuals as inducement to join or upon joining the Company or as compensation for loss of office.

The remuneration of the five highest paid individuals during the years ended 31 December 2005 and 2004 fell within the following bands:

	Number of individuals	
	2005	2004
Nil to RMB1,040,000 (approximately to HK$1,000,000)	**5**	5

28 Employee benefit expense

(a) Pensions – defined contribution plans

The employees of the subsidiaries of the Group that are incorporated in the PRC participate in a defined contribution retirement benefit plan organised by the relevant provincial government. For the years ended 31 December 2005 and 2004, the Group is required to make monthly defined contributions to these plans at rates from 20.5% to 28%, with the base of their total salary subject to a certain ceiling.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed as below.

(b) Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	For the year ended	
	2005	2004
Staff costs (including directors' and supervisors' emoluments)		
– Salaries and welfare	**274,444**	225,644
– Pension costs-defined contribution plans (Note 2.18)	**20,653**	18,352
– Social security costs	**20,399**	19,573
	315,496	263,569

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

29 Finance costs, net

	For the year ended 2005	2004
Interest expenses		
– on borrowings	**436,176**	294,640
– on discount of notes receivable	**22,264**	25,183
Less: Amounts capitalised in construction-in-progress (Note 34.2)	**(10,998)**	(27,701)
	447,442	292,122

30 Income tax expense

30.1 Income tax expense in the consolidated income statement comprised:

	For the year ended 2005	2004
Income tax expense (Note 34.1)		
– Current tax of the Group	**334,287**	597,228
– Deferred tax of the Group (Note 24)	**(18,411)**	–
	315,876	597,228

30.2 The reconciliation of the applicable tax rate to the effective tax rate is as follows:

	For the year ended 2005	2004
Profit before taxation	**871,009**	1,966,527
Tax at the effective tax rate of 33% (2004: 33%)	**287,433**	648,954
Effect of different tax rates of subsidiaries	**(3,846)**	(14,004)
Effect of unrecognised deferred tax assets relating to unused tax losses (Note 24)	**39,678**	15,569
Tax effect of expenses that are not deductible in determining taxable profit	**13,209**	1,790
Tax effect of income that are not taxable in determining taxable profit	**(780)**	(9,606)
Income tax credits granted to subsidiaries	**(19,818)**	(45,475)
Income tax expense	**315,876**	597,228

(All amounts in RMB thousands unless otherwise stated)

30 Income tax expense (Continued)

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

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 Conch Plant, Mingzhu Conch and 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 2005 is 15%.

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

Hong Kong profit tax are not provided as there is no estimated assessable profit for the years ended 31 December 2005 and 2004.

31 Profit attributable to the equity holders of the Company

The profit attributable to the equity holders of the Company is dealt with in the accounts of the Company to the extent of approximately RMB50,103,000 (2004: RMB803,391,000).

32 Dividends

	For the year ended	
	2005	2004
Final, proposed	**87,898**	163,238

At a meeting held on 25 April 2006, the directors proposed a final dividend in respect of the year ended 31 December 2005 of RMB87,897,600, representing RMB0.07 per ordinary share. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

33 Earnings per share

Basic

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

	For the year ended	
	2005	2004
Profit attributable to equity holders of the Company	**385,832**	960,919
Weighted average number of ordinary shares in issue (thousands)	**1,255,680**	1,255,680
Basic earnings per share (RMB per share)	**0.31**	0.77

Diluted

Diluted earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 31 December 2005 (2004: nil).

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

34 Cash generated from operations

34.1 Reconciliation from net profit to cash generated from operations:

	For the year ended **2005**	2004
Profit for the period	**555,133**	1,369,299
Adjustments for:		
Income tax expense (Note 30)	**315,876**	597,228
Depreciation of property, plant and equipment (Note 26)	**729,326**	531,466
Loss on disposal of property, plant and equipment (Note 25)	**1,445**	456
Amortisation of intangible assets (Note 8, 26)	**5,621**	4,267
Amortisation of leasehold land and land use rights (Note 6, 26)	**21,605**	11,546
Gain on disposal of subsidiaries	**–**	5
Share of results of associates	**(3,722)**	(12,957)
Impairment charge for property, plant and equipment (Note 7, 26)	**52,273**	–
Write-down of inventory to net realisable value (Note 12, 26)	**348**	–
Provision/(reversal) for impairment of receivables (Note 26)	**5,036**	(1,788)
Foreign exchange loss, net	**(2,542)**	–
Interest income (Note 25)	**(13,767)**	(21,614)
Interest expenses (Note 29)	**447,442**	292,122
Changes in working capital:		
Deferred income	**(11,273)**	99,518
Inventories	**(43,858)**	(399,996)
Prepayments, deposits, restricted bank balances and other receivables	**90,817**	(313,298)
Amount due from Conch Group	**(194)**	(213)
Amount due from related parties	**53,891**	(268,055)
Trade receivables	**(180,202)**	(108,572)
Trading investment	**–**	1,812
Other payables, advances from customers, accruals and other current liabilities	**(52,179)**	(440,858)
Amount due to Conch Group	**1,525**	–
Amount due to related parties	**9,587**	109,705
Trade payables	**(52,913)**	241,845
Cash generated from operations	**1,929,275**	1,691,918

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

34 Cash generated from operations (Continued)

34.2 Supplemental cash flow information

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

	For the year ended 2005	2004
Purchase in property, plant, equipment, leasehold land and intangible assets	**3,136,815**	3,568,800
Less: Capitalised interest (Note 29)	**(10,998)**	(27,701)
Less: Net increase of payables for CIP, equipment and leasehold land and land use rights	**(114,837)**	(1,093,657)
Less: VAT transfer out for construction materials	**(21,783)**	(44,259)
Less: Depreciation allocated to CIP projects	**(2,430)**	(1,411)
Less: Subsequent adjustment on fair value of acquired identifiable assets and goodwill initially recorded provisionally	**(95,392)**	–
Less: Others	**(335)**	–
	2,891,040	2,401,772

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

	For the year ended 2005	2004
Net book value of the disposed property, plant and equipment (Note 7)	**14,447**	21,475
Add/(Less): Gain/(loss) on disposal of property, plant and equipment	**(1,445)**	456
Net decrease of payables	**(561)**	(10,245)
	12,441	11,686

34 Cash generated from operations (Continued)

34.2 Supplemental cash flow information (Continued)

(c) Dividends

For the year ended 31 December 2005, Tongling Conch, Digang Conch, Zongyang Conch and Chizhou Conch paid dividends to their minority shareholders amounting to approximately RMB134 million (2004: RMB404 million). The beneficiary of above-mentioned dividends to minority shareholder was Anhui Conch Group Labor Union (安徽海螺集團有限公司工會委員會) (the "Labor Union"), a related party of the Group (Note 36.1).

35 Business combination and acquisition of minority interests

35.1 Shuangfeng Conch

(i) Shuangfeng Conch Project

Shuangfeng Conch was set up by Anhui Conch Exploiting and Investing Co., Ltd. (安徽海螺創業投資有限責任公司) ("Hai Chuang") (Note 36.1) and the Labor Union in December 2002. The then paid-in capital of Shuangfeng Conch was RMB20,000,000 divided into 20,000,000 shares, which was contributed by Hai Chuang and the Labor Union amounting to RMB19,000,000 and RMB1,000,000 respectively. According to an entrust agreement, 18,800,000 shares was held by Hai Chuang on behalf of the Labor Union.

In February 2004, Hai Chuang and the Labor Union entered into an agreement to transfer all of their shares in Shuangfeng Conch to Shanghai AJ Entrust Investment Co., Ltd. (上海愛建信托投資有限公司) ("AJ Entrust") and Ningbo Jingang Entrust Investment Co., Ltd. (寧波金港信托投資有限公司) ("Jingang Entrust") at a total consideration of RMB20,000,000. After the share transfer, each of AJ Entrust and Jingang Entrust owned 50% equity shares of Shuangfeng Conch.

In March 2004, the Company entered into an investment agreement with AJ Entrust and Jingang Entrust in respect of increase in registered capital of Shuangfeng Conch. According to the agreement, AJ Entrust and Jingang Entrust contributed re-valued surplus which was mainly due to increment of land use rights and mining rights amounting to RMB111,320,000 as their portion and the Company contributed RMB136,680,000 in cash to Shuangfeng Conch in exchange for 51% equity shares of Shuangfeng Conch. After the capital contributions, the Company, AJ Entrust and Jingang Entrust owned 51%, 24.5% and 24.5% of the equity interests of Shuangfeng Conch respectively. The cost in excess of the Company's share of the acquired net assets of Shuangfeng Conch, amounting to approximately RMB56,773,000, was initially recognised as goodwill provisionally.

35 Business combination and acquisition of minority interests (Continued)

35.1 Shuangfeng Conch (Continued)

(i) *Shuangfeng Conch Project* (Continued)

In July 2004, AJ Entrust and Jingang Entrust entered into an share transfer agreement with Development and Investment Co.. According to the agreement, AJ Entrust and Jingang Entrust transferred all of their equity shares in Shuangfeng Conch to Development and Investment Co. at a consideration of RMB131,320,000 in aggregate. After the share transfer, the Company and Development and Investment Co. owned 51% and 49% equity shares of Shuangfeng Conch respectively.

In December 2004, the Company and a wholly owned subsidiary of the Group, Huaining Conch entered into an share transfer agreement with Development and Investment Co.. According to the agreement, Development and Investment Co. transferred all of its equity shares in Shuangfeng Conch to the Company and Huaining Conch at a consideration of RMB131,320,000 in aggregate. The acquisition was completed in January 2005 upon the Company paid the consideration to Development and Investment Co.. After the share transfer, the Company and Huaining Conch owned 90% and 10% equity shares of Shuangfeng Conch respectively.

In January 2005, Hai Chuang received the cash from AJ Entrust and Jingang Entrust amounting to approximately RMB130 million, and RMB110 million out of which was paid to the Labor Union in March 2006.

In December 2005, the Company, Shuangfeng Conch, Hai Chuang and the Labor Union entered into a supplementary agreement. According to the agreement, the Company, Shuangfeng Conch, Hai Chuang and the Labor Union re-assessed the fair value of Shuangfeng Conch previously determined provisionally as at 22 March 2004 and Hai Chuang and the Labor Union agreed to pay RMB111,320,000 in cash to Shuangfeng Conch to replenish the initial net assets deficit of Shuangfeng Conch as at 22 March 2004. Shuangfeng Conch received such amount in March 2006.

(All amounts in RMB thousands unless otherwise stated)

35 Business combination and acquisition of minority interests (Continued)

35.1 Shuangfeng Conch (Continued)

(ii) Subsequent adjustment on provisional fair value of acquired of identifiable assets, liabilities and goodwill

The Group regarded the re-assessment in December 2005 as a subsequent adjustment on the fair value of identified assets and liabilities acquired in the business combination. The accumulated impact on the fair value of identifiable assets and liabilities and the carrying amount of goodwill provisionally recognised were adjusted in 2005 accordingly.

The assets, liabilities and goodwill relating to the business combination	As previously reported	As adjusted
Current assets	140,229	140,229
Amounts due from related parties (Note 36.3)	–	111,320
Property, plant and equipment	181,511	181,511
Leasehold land and land use rights (Note 6)	–	29,136
Intangible assets-licences (Note 8)	–	55,575
Current liabilities	(13,060)	(13,060)
Deferred tax liabilities (Note 24)	–	(27,955)
Other non-current liabilities	(152,000)	(152,000)
Net assets of Shuangfeng Conch	156,680	324,756
Shares acquired	51%	51%
Net assets acquired	79,907	165,626
Total consideration	136,680	136,680
Goodwill/(Negative goodwill)	56,773	(28,946)

As part of the adoption of new IFRS 3 and following its transitional provision, the Group de-recognised the negative goodwill re-assessed as above with a corresponding adjustment to the retained earnings as at 1 January 2005 (Note 2.1).

(All amounts in RMB thousands unless otherwise stated)

35 Business combination and acquisition of minority interests (Continued)

35.1 Shuangfeng Conch (Continued)

(iii) Acquisition of minority interests

In January 2005, the Company and Huaining Conch acquired remaining 49% of the equity shares of Shuangfeng Conch from Development and Investment Co.. Details of the financial information of Shuangfeng Conch and the cash flow of the acquisition are as follows:

	Carrying Amount
Amount due from related parties (Note 36.3)	111,320
Other current assets	49,572
Property, plant and equipment	424,156
Leasehold land and land use rights	29,136
Intangible assets	55,575
Other long-term assets	10,891
Current liabilities	(180,474)
Deferred income tax liabilities	(27,955)
Other non-current liabilities	(157,000)
Net assets of Shuangfeng Conch	315,221
Equity share acquired	49%
Net asset acquired	154,458
Total consideration (cash paid)	131,320
The differences between the cost of acquisition and the carrying amount of acquired net assets	(23,138)

In accordance with the Group's accounting policy (Note 2.2(b)), the Group directly recognised the such differences between the cost of acquisition and the carrying amount of acquired net assets in other reserves.

35 Business combination and acquisition of minority interests (Continued)

35.2 Kuiyang Conch Project

Xingye Conch was set up by Hai Chuang and Guangxi Guilin Conch Cement Co., Ltd (廣西桂林海螺水泥有限責任公司) ("Guilin Conch") in September 2003. The paid-in capital of Xingye Conch was RMB20,000,000, which was contributed by Hai Chuang and Guilin Conch amounting to RMB19,000,000 and RMB1,000,000 respectively.

In September 2004, Hai Chuang, Guilin Conch and Fusui Conch entered into an investment agreement. According to the agreement, Hai Chuang and Guilin Conch contributed capital in the form of prepayments for CIP on behalf of Xingye Conch and meanwhile, Fusui Conch contributed capital in the form of cash to Xingye Conch amounting to approximately RMB135 million in total. After the capital injections, Hai Chuang, Guilin Conch and Fusui Conch owned 90.25%, 4.75% and 5% equity shares of Xingye Conch respectively.

In October 2004, Hai Chuang and Guilin Conch entered into an agreement. According to the agreement, Guilin Conch transferred all of its shares in Xingye Conch to Hai Chuang at a consideration of approximately RMB6 million. After the share transfer, Hai Chuang and Fusui Conch owned 95% and 5% equity shares of Xingye Conch respectively.

In October 2004, Hai Chuang and Yuan Heng Electronic Telecommunication (Shenzhen) Co., Ltd. (元亨電子資訊（深圳）有限公司) ("Yuan Heng") entered into an agreement. According to the agreement, Hai Chuang transferred all of its shares in Xingye Conch to Yuan Heng at a consideration of approximately RMB128 million. After the share transfer, Yuan Heng and Fusui Conch owned 95% and 5% equity shares of Xingye Conch respectively.

In October 2004, the Company entered into an investment agreement with Yuan Heng and Fusui Conch in respect of the capital injection at 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 32.62% of its equity shares. After the capital contribution, Yuan Heng, the Company and Fusui Conch owned 64.01%, 32.62% and 3.37% of the equity interests of Xingye Conch, respectively.

In May 2005, a wholly owned subsidiary of the Group, Kuiyang Conch and Xingye Conch entered into an assets acquisition agreement. According to the agreement, Kuiyang Conch acquired the operating assets and liabilities related to the cement manufacturing business from Xingye Conch at a consideration of approximately RMB246 million. Kuiyang Conch had paid off the consideration in May 2005.

(All amounts in RMB thousands unless otherwise stated)

35 Business combination and acquisition of minority interests (Continued)

35.2 Kuiyang Conch Project (Continued)

In September 2005, Kuiyang Conch and Xingye Conch entered into a supplementary agreement. According to the agreement, if the title of land use rights and mining rights which were included in the above-mentioned consideration cannot be transferred from Xingye Conch to Kuiyang Conch before 30 November 2005, Xingye Conch shall pay back the consideration related to the land use rights and mining rights amounting to RMB104,000,000. Kuiyang Conch will undertake the title transfer process on such land use rights and mining rights by itself directly from local government. As at 30 November 2005, the title of the land use rights and mining rights were still not transferred from Xingye Conch to Kuiyang Conch. Accordingly, in December 2005, Xingye Conch paid back the consideration of the land use rights and mining rights amounting to RMB104,000,000 in cash to Kuiyang Conch.

Furthermore, Kuiyang Conch and Xingye Conch agreed that from May 2005, the land use rights and mining rights of Xingye Conch used by Kuiyang Conch are free of charge.

As at 31 December 2005, Kuiyang Conch has not completed the title transfer procedures. The management considers that the processing fee for the title transfer is uncertain.

The acquired business contributed revenue of approximately RMB124 million and net profit of approximately RMB4 million to the Group for the period from date of acquisition to 31 December 2005.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
– Cash paid	142,158
– Decrease in receivables from Xingye Conch	28,311
Total purchase consideration	170,469
Fair value of net assets acquired	170,469
Goodwill	–

(All amounts in RMB thousands unless otherwise stated)

35 Business combination and acquisition of minority interests (Continued)

35.2 Kuiyang Conch Project (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair Value
Cash and cash equivalents	302
Other current assets	23,186
Property, plant and equipment (Note 7)	381,637
Other long-term assets	47
Trade payables	(103,336)
Other current liabilities	(1,367)
Short-term Borrowings	(130,000)
Net assets	170,469
Fair value of acquired net assets	170,469
Decrease in receivables from Xingye Conch	(28,311)
Cash paid	142,158
Cash and cash equivalents acquired	(302)
Net cash outflow on acquisition	141,856

The fair value of acquired identifiable assets and liabilities approximated the acquiree's carrying amount.

35.3 Xinning Conch Project

Fusui Conch was set up by Hai Chuang and Guilin Conch in September 2003. The paid-in capital of Fusui Conch was RMB20,000,000, which was contributed by Hai Chuang and Guilin Conch amounting to RMB19,000,000 and RMB1,000,000 respectively.

In September 2004, Hai Chuang, Guilin Conch and Xingye Conch entered into an investment agreement. According to the agreement, Hai Chuang and Guilin Conch contributed capital in the form of prepayments for CIP on behalf of Fusui Conch and meanwhile, Xingye Conch contributed capital in the form of cash to Fusui Conch amounting to approximately RMB157 million in total. After the capital injections, Hai Chuang, Guilin Conch and Xingye Conch owned 90.25%, 4.75% and 5% equity shares of Fusui Conch respectively.

35 Business combination and acquisition of minority interests (Continued)

35.3 Xinning Conch Project (Continued)

In October 2004, Hai Chuang and Guilin Conch entered into an agreement. According to the agreement, Guilin Conch transferred all of its shares in Fusui Conch to Hai Chuang at a consideration of approximately RMB7 million. After the share transfer, Hai Chuang and Xingye Conch owned 95% and 5% equity shares of Fusui Conch respectively.

In October 2004, Hai Chuang and Yuan Heng entered into an agreement. According to the agreement, Hai Chuang transferred all of its shares in Fusui Conch to Yuan Heng at a consideration of approximately RMB150 million. After the share transfer, Yuan Heng and Xingye Conch owned 95% and 5% equity shares of Fusui Conch respectively.

In October 2004, the Company entered into an investment agreement with Yuan Heng and Xingye Conch in respect of the capital injection at 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 21.26% of its equity shares. After the capital contribution, Yuan Heng, the Company and Xingye Conch owned 74.8%, 21.26% and 3.94% of the equity interests of Fusui Conch, respectively.

In May 2005, a wholly owned subsidiary of the Group, Xinning Conch and Fusui Conch entered into an assets acquisition agreement. According to the agreement, Xinning Conch acquired the operating assets and liabilities related to the cement manufacturing business from Fusui Conch at a consideration of approximately RMB248 million. Xinning Conch had paid off the consideration in May 2005.

In September 2005, Xining Conch and Fusui Conch entered into a supplementary agreement. According to the agreement, if the title of land use rights and mining rights which were included in the above-mentioned consideration cannot be transferred from Fusui Conch to Xinning Conch before 30 November 2005, Fusui Conch shall pay back the consideration related to the land use rights and mining rights amounting to RMB133,010,490. Xinning Conch will undertake the title transfer process on such land use rights and mining rights by itself directly from local government. As at 30 November 2005, the title of the land use rights and mining rights were still not transferred from Fusui Conch to Xinning Conch. Accordingly, in December 2005, Fusui Conch paid back the consideration of the land use rights and mining rights amounting to RMB125,000,000 in cash to Xinning Conch and also offset a receivable from Xinning Conch amounting to RMB8,010,490.

Furthermore, Xinning Conch and Fusui Conch agreed that from May 2005, the land use rights and mining rights of Fusui Conch used by Xinning Conch are free of charge.

(All amounts in RMB thousands unless otherwise stated)

35 Business combination and acquisition of minority interests (Continued)

35.3 Xinning Conch Project (Continued)

As at 31 December 2005, Xinning Conch has not completed the title transfer procedures. The management considers that the processing fee for the title transfer is uncertain.

The acquired business contributed revenue of approximately RMB107 million and net profit of approximately RMB3 million to the Group for the period from date of acquisition to 31 December 2005.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
– Cash paid	115,449
– Decrease in receivables from Fusui Conch	58,456
Total purchase consideration	173,905
Fair value of net assets acquired	173,905
Goodwill	–

The assets and liabilities arising from the acquisition are as follows:

	Fair Value	Acquiree's carrying amount
Current assets	5,014	5,014
Property, plant and equipment (Note 7)	400,121	384,212
Current liabilities	(231,230)	(231,230)
Net assets	173,905	157,996
Fair value of acquired net assets	173,905	
Decrease in receivables from Fusui Conch	(58,456)	
Cash paid	115,449	
Cash and cash equivalents acquired	–	
Cash outflow on acquisition	115,449	

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

35 Business combination and acquisition of minority interests (Continued)

35.4 Xing'an Conch Project

Guilin Conch was set up by Hai Chuang and the Labor Union in November 2002. The paid-in capital of Fusui Conch was RMB20,000,000, which was contributed by Hai Chuang and the Labor Union amounting to RMB19,800,000 and RMB200,000 respectively.

In April 2004, Hai Chuang and the Labor Union entered into an agreement to transfer all of their shares in Guilin Conch to AJ Entrust and Jingang Entrust at a total consideration of RMB20,000,000. After the share transfer, AJ Entrust and Jingang Entrust owned 90% and 10% equity shares of Guilin Conch.

In April 2004, AJ Entrust and Jingang Entrust entered into an agreement in respect of capital injection at Guilin Conch. According to the agreement, AJ Entrust and Jingang Entrust contributed re-valued surplus which was mainly due to revaluation appreciation of land use rights and mining rights amounting to RMB180,000,000 to increase the paid-in capital of Guilin Conch from RMB20 million to RMB200 million. AJ Entrust and Jingang Entrust remained 90% and 10% of the equity interests of Guilin Conch, respectively.

In May 2004, Ningguo Cement and Zhongguo Cement, wholly owned subsidiaries of the Group, entered into entrust agreements with Yuan Heng and Fusui Conch respectively. According to the trust agreement, Ningguo Cement and Zhongguo Cement entered into share transfer agreements with AJ Entrust and Jingang Entrust respectively. According to the above-mentioned agreements, Ningguo Cement and Zhongguo Cement acquired 90% and 10% shares of Guilin Conch from AJ Entrust and Jingang Entrust on behalf of Yuan Heng and Fusui Conch respectively. Ningguo Cement and Zhongguo Cement then paid off the considerations of RMB180,000,000 and RMB20,000,000 in cash on behalf of Yuan Heng and Fusui Conch.

In June 2004, Hai Chuang and the Labor Union received cash from AJ Entrust and Jingang Entrust amounting to RMB180,000,000.

In October 2004, Ningguo Cement and Zhongguo Cement entered into agreements with Hai Chuang and Fusui Conch respectively. According to the agreements, Ningguo Cement and Zhongguo Cement transferred 90% and 10% shares of Guilin Conch to Hai Chuang and Fusui Conch on behalf of Yuan Heng and Fusui Conch respectively. Guilin Conch then paid off the considerations of RMB180,000,000 and RMB20,000,000 in cash on behalf of Hai Chuang and Fusui Conch to Ningguo Cement and Zhongguo Cement.

(All amounts in RMB thousands unless otherwise stated)

35 Business combination and acquisition of minority interests (Continued)

35.4 Xing'an Conch Project (Continued)

In December 2004, Hai Chuang and Fusui Conch entered into an agreement. According to the agreement, Hai Chuang and Fusui Conch contributed capital in the form of prepayments for CIP on behalf of Guilin Conch amounting to RMB180,000,000 to Guilin Conch and reversed above-mentioned re-valuation surplus amounting to RMB180,000,000.

In August 2005, Hai Chuang and Xing'an County Economics Development Co., Ltd. ("Xing'an Development") entered into an agreement. According to the agreement, Hai Chuang transferred all of its shares in Guilin Conch to Xing'an Development at a consideration of approximately RMB180 million. After the share transfer, Xing'an Development and Fusui Conch owned 90% and 10% equity shares of Guilin Conch respectively.

In October 2005, a wholly owned subsidiary of the Group, Xing'an Conch entered into an assets acquisition agreement with Guilin Conch. According to the agreement, Xing'an Conch acquired the operating assets and liabilities related to the cement manufacturing business from Guilin Conch at a consideration of approximately RMB178 million. Xing'an Conch will undertake the title transfer process on the land use rights and mining rights of Guilin Conch by itself directly from local government.

Xing'an Conch and Guilin Conch agreed that from October 2005, the land use rights and mining rights of Guilin Conch used by Xing'an Conch are free of charge.

As at 31 December 2005, Xing'an Conch has not completed the title transfer procedures. The management considers that the processing fee for the title transfer is uncertain.

The acquired business contributed revenue of approximately RMB84 million and net profit of approximately RMB13 million to the Group for the period from date of acquisition to 31 December 2005.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
– Cash paid	177,418
– Increase in payables to Guilin Conch	1,317
Total purchase consideration	178,735
Fair value of net assets acquired	178,735
Goodwill	–

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

35 Business combination and acquisition of minority interests (Continued)

35.4 Xing'an Conch Project (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair Value	Acquiree's carrying amount
Cash and cash equivalents(i)	114,558	114,558
Other current assets	61,966	61,966
Property, plant and equipment (Note 7)	388,881	375,165
Current liabilities	(321,670)	(321,670)
Non-current liabilities	(65,000)	(65,000)
Net assets	178,735-	165,019
Fair value of acquired net assets	178,735	
Increase in Payables to Guilin Conch	(1,317)	
Cash paid	177,418	
Cash and cash equivalents acquired	(114,558)	
Net cash outflow on acquisition	62,860	

(i) On the acquisition date, the cash and cash equivalents of Guilin Conch amounting to approximately RMB114 million was not transferred to Xing'an Conch and Xing'an Conch recorded the deficit as "Amounts due from related parties" provisionally. In December 2005, Xing'an Conch received above amount from Guilin Conch.

(All amounts in RMB thousands unless otherwise stated)

35 Business combination and acquisition of minority interests (Continued)

35.5 Conch Construction

In April 2005, the Company and the Conch Group entered into an investment agreement. According to the agreement, the Company acquired 95% of the equity shares of Conch Construction from the Conch Group at a consideration of RMB5,700,000. In connection with the agreement, the paid-in capital of Conch Construction was increased from RMB6,000,000 to RMB10,000,000, which was contributed by the Company and the Conch Group in the proportion of 95% and 5% respectively. There was no material external revenue and profit contributed by the acquired business contributed for the period from the date of acquisition to 31 December 2005. Details of net assets acquired and goodwill are as follows:

Purchase consideration:

Cash paid	9,500
Fair value of net assets acquired	4,526
Goodwill	4,974

The assets and liabilities arising from the acquisition are as follows:

	Fair Value
Cash and cash equivalents	2,086
Other current assets	7,468
Available-for-sales financial assets	159
Property, plant and equipment (Note 7)	1,524
Current liabilities	(6,472)
Net assets of Conch Construction	4,765
Equity shares acquired	95%
Net assets acquired	4,526
Purchase consideration settled in cash	9,500
Cash and cash equivalents in subsidiary acquired	(2,086)
Net cash outflow on acquisition	7,414

The fair value of acquired identifiable assets and liabilities approximated the acquiree's carrying amount.

35.6 Nantong Conch

In January 2005, Zhongguo Cement Co. acquired 1% of equity share of Nantong Conch at a cash consideration of RMB150,000. After the acquisition, the Group holds 100% of Nantong Conch's equity share in aggregate.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

36 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

36.1 Related parties information

Save as the associates and subsidiaries of the Group disclosed in Note 9 and 10 of these consolidated financial statements, the directors were of the view that the following entities and person are related parties of the Group.

Name of related party	Nature of relationship
Conch Group	Substantial shareholder of the Company
Anhui Conch Exploiting and Investing Co., Ltd. ("Hai Chuang")	Shareholder of Conch Group and some directors of the Company are also directors and equity holders of Hai Chuang
Anhui Conch Group Labor Union ("Labor Union")	Substantial shareholder of Hai Chuang and some directors of the Company are also members of the Labor Union
Yingde Longshan Cement Co., Ltd. ("Yingde Longshan")	The Labor Union is beneficiary owner of over 50% equity interests in Yingde Longshan
Shenzhen Anhui Construction and Material Co., Ltd. ("Shenzhen Construction")	A director of the Company is also Chairmen of Shenzhen Construction
Guangxi Guilin Conch Cement Co., Ltd. ("Guilin Conch")	Some directors of the Company are also directors of Guilin Conch
Xuzhou Conch Cement Co., Ltd. ("Xuzhou Conch")	Hai Chuang is beneficiary owner of over 50% equity interests in Xuzhou Conch
Anhui Conch Construction and Installation Co., Ltd. ("Conch Construction")	Subsidiary of Conch Group
Wuhu Conch Profiles and Science Co., Ltd. ("Conch Profiles and Science")	Subsidiary of Conch Group
Anhui Ningchang Packaging Material Bags Co., Ltd. ("Ningchang Packaging")	Subsidiary of Conch Group
Anhui Wuhu Conch Plastic Material Co., Ltd. ("Wuhu Plastic")	Subsidiary of Conch Group
Yingde Conch Plastic Material Co., Ltd. ("Yingde Plastic")	Subsidiary of Conch Group
Shanghai Conch Construction Material International Trading Co., Ltd. ("Conch International")	Subsidiary of Conch Group
Shanghai Conch Logistics Co., Ltd. ("Conch Logistic")	Subsidiary of Conch Group

(All amounts in RMB thousands unless otherwise stated)

36 Related party transactions (Continued)

36.2 Save as the business combination disclosed in Note 35(1) to (5), other transactions between the Group and related companies:

(a) *Purchase of materials*

	For the year ended 2005	2004
Wuhu Plastic	**112,842**	–
Ningchang Packaging	**101,078**	223,088
Yingde Plastic	**68,459**	–
Xuzhou Conch	**1,025**	21,450
Conch Profiles and Science	**536**	2,036
Other related companies	**248**	–
	284,188	246,574

(b) *Sales of goods*

	For the year ended 2005	2004
Shenzhen Construction	**87,718**	–
Conch Construction	**–**	1,169
Yingde Longshan	**–**	1,037
	87,718	2,206

(c) *Financing provided to related parties*

	For the year ended 2005	2004
Guilin Conch (i)	**55,100**	310,488
Fusui Conch	**15,000**	43,000
Xingye Conch	**8,000**	44,000
	78,100	397,488

(i) From April 2004 to December 2004, the Company provided loans to Guilin Conch amounting to RMB310 million, and Guilin Conch repaid the loans during the period from September 2004 to March 2005.

Above-mentioned financing transactions are all interest free and repaid from those related parties in 2005.

(All amounts in RMB thousands unless otherwise stated)

36 Related party transactions (Continued)

36.2 Save as the business combination disclosed in Note 35(1) to (5), other transactions between the Group and related companies: (Continued)

(d) *Purchase of Services*

	For the year ended **2005**	2004
Conch Construction	**24,585**	62,494
Yingde Longshan	**204**	–
Other related companies	**4,105**	–
	28,894	62,494

(e) *Transactions with Conch Group*

	For the year ended **2005**	2004
Trademark licence fees paid to Conch Group (i)	**1,513**	1,513
Composite services fees paid to Conch Group (ii)	**2,750**	2,495
Loan guarantees provided by Conch Group (iii)	**5,655,540**	5,322,632

(i) The Company has entered into a trademark licence agreement with Conch Group, pursuant to which Conch Group 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 Conch Group 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 Conch Group, Conch Group charged the Company RMB2,750,004 for various services and facilities rendered in 2005.

(iii) Conch Group 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 22).

(All amounts in RMB thousands unless otherwise stated)

36 Related party transactions (Continued)

36.2 Save as the business combination disclosed in Note 35(1) to (5), other transactions between the Group and related companies: (Continued)

(f) *Transactions with or through Conch International*

	For the year ended 2005	2004
Sales to Conch International (i)	**7,991**	38,676
Domestic sales through Conch International (ii)	**161,639**	96,357
Overseas sales through Conch International (iii)	**1,846,037**	186,493
Import of machineries, spare parts and accessory materials for production import through Conch International (iii)	**334,241**	217,190
Commission paid to Conch International for overseas sales (iii)	**19,397**	2,782
Commission paid to Conch International for import of machinery, spare parts and accessory materials for production (iii)	**3,956**	2,840

(i) Conch International purchases the Group's cement and clinkers products and sells these products to other third parties in domestic market in the PRC. The Group issued invoice to Conch International and collect sale proceeds from it directly.

(ii) The Group undertakes domestic sales through Conch International by means of Conch International and third parties entering into sales agreement while the Group delivers goods and issues invoice to the third parties. Conch International then collects receivables on behalf of the Group at free of charge services.

(iii) In April 2004, the Company entered into a trading agreement ("Trading Agreement") with Conch International, appointing it as a non-exclusive agent to import machinery and sell the cement and clinker products of the subsidiaries of the Group to overseas suppliers. Pursuant to the Trading Agreement, the Group shall pay Conch International agency commission at a rate of ceiling of 1.5% on the top of sales or purchases amount made on behalf of the Company. The Trading Agreement was approved by an extraordinary general meeting of the Company in 2004 and will be effective for three years from 1 January 2004 to 31 December 2006.

(All amounts in RMB thousands unless otherwise stated)

36 Related party transactions (Continued)

36.2 Save as the business combination disclosed in Note 35(1) to (5), other transactions between the Group and related companies: (Continued)

(f) *Transactions with or through Conch International (Continued):*

The Group exports its products through Conch International, which enters into sales agreements with and collects relevant receivables from the third parties on behalf of the Group.

The Group also imports equipments, spare parts and accessory materials for production through Conch International, which enters into procurement agreements and pays relevant payables to the third parties on behalf of the Group. As at 31 December 2005, prepayments for import equipments, spare parts and accessory materials of the Group through Conch International amounted to approximately RMB120 million.

(g) *Transactions with or through Conch Logistics*

	For the year ended	
	2005	2004
Shipping services provided by Conch Logistics (i)	**111,319**	191,250
Shipping services arranged by Conch Logistics (ii)	**530,352**	588,776

(i) In April 2004, the Company entered into a logistics agreement ("the Logistics Agreement") with Conch Logistics, appointing it as a non-exclusive shipping services provider in the delivery of cement and clinker products between subsidiaries of the Company and in the delivery of coal ash and accessory materials for production from suppliers to 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 considered the market prices 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 and will be effective for three year from 1 January 2004 to 31 December 2006.

(ii) Except for the non-exclusive shipping services provided by Conch Logistics, the Group also accepted shipping services provided by third parties which were arranged by Conch Logistics. The above-mentioned third parties issue relevant shipping invoices to the Group directly and the Group pays relevant payables to the third parties through Conch Logistics.

(All amounts in RMB thousands unless otherwise stated)

36 Related party transactions (Continued)

36.2 Save as the business combination disclosed in Note 35(1) to (5), other transactions between the Group and related companies: (Continued)

(h) Others

	For the year ended 2005	2004
Transportation fees received on behalf of Conch Logistic	**26,608**	–
Water and electricity fees paid on behalf of Ningchang Packing	**2,696**	2,334
	29,304	2,334

36.3 Related party balances

The amounts due from/to related parties mainly arose from the related party transactions mentioned above. The amounts due from/to related parties are unsecured and non-interest bearing without fixed repayment terms.

	As at 31 December 2005	2004
Due from related parties		
Conch International	**153,995**	17,461
Labour Union (Note 35.1)	**110,207**	–
Shenzhen Construction	**8,622**	–
Conch Logistics	**3,186**	–
Conch Group	**2,574**	2,392
Hai Chuang (Note 35.1)	**1,113**	–
Guilin Conch	**–**	206,488
Xingye Conch	**–**	44,000
Fusui Conch	**–**	43,000
Other related companies	**645**	69
	280,342	313,410

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

36 Related party transactions (Continued)

36.3 Related party balances

	As at 31 December	
	2005	2004
Due to related parties		
Conch Logistics	**90,013**	79,182
Xingye Conch	**56,800**	–
Fusui Conch	**49,800**	–
Conch International	**21,958**	392
Yingde Plastic	**15,611**	–
Wuhu Plastic	**14,382**	–
Ningchang Packaging	**13,985**	29,758
Conch Group	**1,513**	–
Guilin Conch	**1,317**	–
Conch Construction	**–**	7,044
Other related companies	**1,664**	229
	267,043	116,605

37 Commitments

37.1 Capital commitments

Capital commitments relate to purchases of machinery and equipment for production purposes as at 31 December 2005 and 2004 not provided for in the accounts were as follows:

	2005	2004
Contracted but not provided for	**1,449,180**	683,522
Authorised but not contracted for	**1,129,017**	886,690
	2,578,197	1,570,212

37.2 License agreement

As mentioned in Note 36.2, as at 31 December 2005, the Company is committed to pay trademark licence fee to the Conch Group at RMB1,513,000 per annum. The licence agreement did not indicate the expiration date.

38 Events after the balance sheet date

(a) According to the resolution of the A shares shareholders' meeting held on 20 February 2006, the "Proposal of Share Merger Reform of Anhui Conch Cement Company Limited" was approved. According to the proposal, the Conch Group should pay cash consideration to A shares shareholders at RMB1.5 per share to obtain the limited listing right for those unlisted shares of the Company held by the Conch Group. The Company has published an announcement relating to above-mentioned Share Merger Reform on Shanghai Stock Exchange on 21 February 2006.

(b) The Group was informed on 2 March 2006 that, the Conch Group collateralised 64,400,000 shares out of total 622.48 million State-owned shares of the Company to a commercial bank for borrowings and the collateralisation period is one year starting from 28 February 2006.

(c) In April 2006, the Conch Group reached a supplementary share transfer agreement with MS and IFC, which made adjustment on the number and price of shares to be transferred to MS and IFC, and certain limitation on the further share transfer. According to the supplementary agreement, MS will increase the number of the Company's shares to be acquired from the Conch Group from 132 million to 133.2 million (about 10.61% of the Company's total shares), while IFC will reduce the number of the Company's shares to be acquired from the Conch Group from 48 million to 46.8 million (about 3.72% of the Company's total shares). The total number of shares to be transferred from the Conch Group to the above two strategic investors remains unchanged.

(d) On 25 April 2006, the Board of Directors proposed a final dividend of RMB0.07 per share for year 2005, RMB87,897,600 in total (Note 32). This proposal is pending for approval by the Company's shareholders.

39 Other matter

In December 2004, Hunan Conch, a wholly owned subsidiary of the Group, entered into a share transfer agreement with Xuefeng Group. According to the agreement, Hunan Conch will acquire in total 95.92% of the equity shares of Xuefeng Cement from Xuefeng Group. As at 31 December 2005, the above agreement has not been implemented. The Group has paid approximately RMB101,842,000 in advance relating to the acquisition to Xuefeng Group and Xuefeng Cement, and recorded it as "Other receivable" (Note 14). Since the title of certain land use rights owned by Xuefeng Group and Xuefeng Cement has been transferred to Hunan Conch, the management considers there are no substantial obstacles to the above acquisition and there are no material risks in collection of the above-mentioned receivable. No provision is provided for such receivable.

In year 2005, the Group has purchased cement and cement products produced by Xuzhou Conch (Note 36.1) amounting to RMB120 million through a third party.