(Expressed in Renminbi thousands unless otherwise indicated)

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.

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

These consolidated financial statements have been approved for issue by the Board of Directors on 12 April 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial (continued)

At 31 December 2006, the Group has net current liabilities of RMB2,729,223,000 (2005: RMB3,974,412,000). At 31 December 2006, the Group was granted banking facilities amounting to RMB14,422,910,000 (2005: RMB12,329,000,000). As at 31 December 2006, the facilities were utilised to the extent of RMB9,889,119,000 (2005: RMB8,844,540,000) and the available banking facilities amounted to RMB4,533,791,000 (2005: RMB3,484,460,000). In addition, during the year ended 31 December 2006, the Group had net cash inflow generated from operating activities amounted to RMB2,358,208,000 (2005: RMB1,068,180,000). The directors are confident that the available banking facilities and cash inflow generated from operating activities are adequate to meet the Group's obligations as and when they fall due and therefore the financial statements are prepared on a going concern basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 41.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries and minority interests (continued)

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Acquisition of minority interests in subsidiaries is treated as a transaction between equity holders. No gain or loss is recognised in the consolidated income statement on such changes. Assets and liabilities of the subsidiaries in which the Group subsequently increased 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.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(l)).

(Expressed in Renminbi thousands unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see notes 2(e) and 2(l)).

Where the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 2(l)).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(l)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Goodwill (continued)

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash-generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates are as follows:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(l)).

Investments are recognised/derecognised on the date the Group or the Company commits to purchase/sell the investments.

(g) Leasehold land held for own use under operating leases

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 held for own use under operating leases, which are amortised over the period of lease term on a straight-line basis.

(h) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(l)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(Expressed in Renminbi thousands unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant and equipment (continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Construction-in-progress

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 (see note 2(x)).

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(h).

(j) Limestone and clay mining rights

Limestone and clay mining rights that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(l)).

Amortisation of limestone and clay mining rights is charged to profit or loss on a straight-line basis over the assets' estimated useful lives from the date they are available for use. The useful lives of limestone and clay mining rights are 6 to 30 years.

Both the period and method of amortisation are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(l) Impairment of assets

(i) *Impairment of investments in equity securities and other receivables*

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— For other current and non-current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(Expressed in Renminbi thousands unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;
— construction-in-progress;
— pre-paid interests in leasehold land classified as being held under an operating lease;
— limestone and clay mining rights;
— investments in subsidiaries and associates; and
— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(ii) *Impairment of other assets (continued)*

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(m) Inventories

Inventories, other than spare parts and consumables, are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Spare parts and consumables are stated at cost less any provision for obsolescence.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(l)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

In accordance with the rules and regulations in the PRC, the Group has arranged for its local employees to join defined contribution retirement plans 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 plans. The assets of those plans are held separately from those of the Group in an independent fund managed by the PRC government. 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 above.

(Expressed in Renminbi thousands unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Provisions and contingent liabilities (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Dividends*

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(iv) *Government grants*

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income in the balance sheet and consequently recognised in profit or loss over the useful life of the asset.

(v) Repairs and maintenance

Expenditure on repairs and maintenance is charged to profit or loss as it is incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(x) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(y) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Related parties (continued)

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued certain new IFRSs and revised IASs that are first effective or available for early adoption for the current accounting period of the Group.

Note 2 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The adoption of these developments do not have a significant impact on the financial statements for the current and prior periods.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 42).

(Expressed in Renminbi thousands unless otherwise indicated)

4. REVENUE

The principal activities of the Group are manufacture and sales of clinkers and cement products.

Revenue represents the sales value of goods supplied to customers, net of value-added tax.

	2006	2005
	RMB'000	RMB'000
Sales of clinkers and cement products	**15,246,277**	10,826,214

5. OTHER REVENUE AND NET INCOME/(LOSS)

	2006	2005
	RMB'000	RMB'000
Other revenue		
Subsidy income	**265,595**	96,060
Interest income	**12,697**	13,767
Dividend income	**6,500**	—
	284,792	109,827

Subsidy income comprises refunds of value-added tax in connection with certain sales of cement and government grants received.

	2006	2005
	RMB'000	RMB'000
Other net income/(loss)		
Net gain/(loss) on disposal of fixed assets	**1,394**	(1,445)
Net realised gain on trading securities	**246**	—
Others	**3,192**	(2,902)
	4,832	(4,347)

(Expressed in Renminbi thousands unless otherwise indicated)

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2006 RMB'000	2005 RMB'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	**508,846**	427,251
Interest on bank advances and other borrowings wholly repayable over five years	**44,595**	8,925
Interest on discount of notes receivable	**10,459**	22,264
Total borrowing costs	**563,900**	458,440
Less: borrowing costs capitalised into construction-in-progress*	**(23,679)**	(10,998)
	540,221	447,442

* Borrowing costs have been capitalised at a rate of 5.76%–5.85% (2005: 5.02%–5.76%) per annum.

	2006 RMB'000	2005 RMB'000
(b) Staff costs		
Contributions to defined contribution retirement plans	**28,510**	20,653
Salaries, wages and other benefits	**431,984**	294,843
	460,494	315,496

(Expressed in Renminbi thousands unless otherwise indicated)

6. PROFIT BEFORE TAXATION (continued)

	2006 RMB'000	2005 RMB'000
(c) Other items		
Recognition of deferred income	**(23,257)**	(11,273)
Amortisation		
— interest in leasehold land held for own use under operating lease	**18,820**	21,605
— intangible assets	**10,228**	5,621
Depreciation	**919,088**	731,755
(Reversal of)/impairment losses on		
— trade and other receivables	**(2,332)**	5,036
— fixed assets	**5,600**	52,273
Auditors' remuneration	**3,560**	3,800

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
Current tax — PRC Enterprise Income Tax		
Provision for the year	**694,907**	334,287
Over-provision in respect of prior years	**(11,112)**	—
	683,795	334,287
Deferred tax		
Origination and reversal of temporary differences	**(27,178)**	(18,411)
	656,617	315,876

No provision for Hong Kong Profits Tax is made for 2005 and 2006 as the Group did not earn any income which is subject to Hong Kong Profits Tax.

(Expressed in Renminbi thousands unless otherwise indicated)

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(a) Taxation in the consolidated income statement represents: (continued)

Individual companies within the Group are generally subject to Enterprise Income Tax at 33% on taxable income determined according to the PRC tax laws except for:

—	Shanghai Mingzhu Conch Cement Co. Ltd ("Mingzhu Conch") 上海海螺明珠水泥有限責任公司 (Note i)	15%
—	Shanghai Conch Cement Sales Co. Ltd. ("Shanghai Sales") 上海海螺水泥銷售有限公司 (Note i)	15%
—	Anhui Conch Cement Product Co. Ltd. ("Conch Plant") 安徽海螺水泥有限公司 (Note ii)	30%
—	Prosperity Conch Cement Co. Ltd. ("Prosperity Conch") (previously known as Yingde Conch Cement Co., Ltd.) 英德海螺水泥有限責任公司 (Note iii)	0%
—	Xingye Kuiyang Conch Cement Co. Ltd. ("Kuiyang Conch") 興業葵陽海螺水泥有限責任公司 (Note iv)	0%
—	Fusui Xinning Conch Cement Co. Ltd. ("Xinning Conch") 扶綏新寧海螺水泥有限責任公司 (Note v)	0%
—	Xing'an Conch Cement Co. Ltd. ("Xing'an Conch") 興安海螺水泥有限責任公司 (Note vi)	0%

Notes:

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

(ii) Conch Plant was recognised by the local tax authorities as a sino-foreign enterprise, and thus is entitled to have a local Enterprise Income Tax exemption. The applicable Enterprise Income Tax rate is 30%.

(iii) Prosperity Conch is a sino-foreign enterprise. In 2006, Prosperity Conch was recognised by the local tax authorities as a productive sino-foreign enterprise, and thus is entitled to an Enterprise Income Tax exemption for the first two profitable years and a 50% reduction of Enterprise Income Tax for subsequent three years. 2006 is the first profitable year of Prosperity Conch. The applicable Enterprise Income Tax rate in 2006 is therefore 0%.

(iv) Kuiyang Conch was recognised by the local tax authorities as a company located in middle-west China, and thus is entitled to an Enterprise Income Tax exemption for the years ended 31 December 2006 to 2010. The applicable Enterprise Income Tax rate in 2006 is therefore 0%.

(v) Xinning Conch was recognised by the local tax authorities as a company located in middle-west China, and thus is entitled to an Enterprise Income Tax exemption for the years ended 2005 to 2009. The applicable Enterprise Income Tax rate in 2006 is therefore 0%.

(vi) Xing'an Conch was recognised by the local tax authorities as a company located in middle-west China, and thus is entitled to an Enterprise Income Tax exemption for the years ended 2006 and 2007. The applicable Enterprise Income Tax rate in 2006 is therefore 0%.

(Expressed in Renminbi thousands unless otherwise indicated)

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(b) Reconciliation between tax expense and accounting profit at the applicable tax rate:

	2006 **RMB'000**	2005 RMB'000
Profit before taxation	**2,521,383**	871,009
Notional tax on profit before taxation calculated at 33%	**832,056**	287,433
Tax effect of tax exemption of subsidiaries	**(124,803)**	—
Tax effect of different tax rates of subsidiaries	**(1,355)**	(3,846)
Tax effect of non-deductible expenses	**3,210**	13,209
Tax effect of non-taxable income	**(3,193)**	(780)
Tax effect of prior year's tax losses utilised during the year	**(34,860)**	—
Tax effect of unused tax losses not recognised	**2,970**	39,678
Income tax credits granted to subsidiaries	**(6,296)**	(19,818)
Over-provision in respect of prior years	**(11,112)**	—
Actual tax expense	**656,617**	315,876

(Expressed in Renminbi thousands unless otherwise indicated)

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fee RMB'000	Salaries, allowances and benefit in kind RMB'000	Discretionary bonuses RMB'000	Retirement plan contributions RMB'000	2006 Total RMB'000
Chairman					
Guo Wensan	—	70	371	7	448
Executive directors					
Yu Biao*	—	74	228	7	309
Li Shunan*	—	68	234	7	309
Guo Jingbin	—	70	165	7	242
Ren Yong	—	58	244	7	309
Independent non-executive directors					
Xue Tongzu	—	—	—	—	—
Ding Zhiming	—	—	—	—	—
Chen Yutang	—	—	—	—	—
	—	340	1,242	35	1,617

	Directors' fee RMB'000	Salaries, allowances and benefit in kind RMB'000	Discretionary bonuses RMB'000	Retirement plan contributions RMB'000	2005 Total RMB'000
Chairman					
Guo Wensan	—	70	94	5	169
Executive directors					
Yu Biao*	—	74	41	5	120
Li Shunan*	—	68	47	5	120
Guo Jingbin	—	70	45	5	120
Ren Yong	—	58	57	5	120
Independent non-executive directors					
Xue Tongzu	—	—	—	—	—
Ding Zhiming	—	—	—	—	—
Kuang Bingwen	—	—	—	—	—
	—	340	284	25	649

* The directors' remuneration is paid by the related parties of the Group.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none of them (2005: nil) is a director whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the five (2005: five) individuals with highest emoluments are as follows:

	2006 **RMB'000**	2005 RMB'000
Salaries and other emoluments	**430**	332
Discretionary bonuses	**2,191**	1,802
Retirement plan contributions	**30**	22
	2,651	2,156

The emoluments of the five (2005: five) individuals with the highest emoluments are within the following bands:

	2006 **Number of individuals**	2005 Number of individuals
RMB		
Nil–1,000,000	**5**	5

10. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB177,234,000 (2005: RMB50,105,000) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year:

	2006 RMB'000	2005 RMB'000
Final dividend proposed after the balance sheet date of RMB0.20 per ordinary share (2005: RMB0.07 per ordinary share)	**251,136**	87,898

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2006 RMB'000	2005 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.07 per ordinary share (2005: RMB0.13 per ordinary share)	**87,898**	163,238

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the year ended 31 December 2006 of RMB1,482,795,000 (2005: RMB385,832,000) and the weighted average number of shares in issue during the year ended 31 December 2006 of 1,255,680,000 (2005: 1,255,680,000).

(b) Diluted earnings per share

The diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the years ended 31 December 2006 and 2005.

(Expressed in Renminbi thousands unless otherwise indicated)

13. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segment

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

Geographical segments

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

	2006	2005
	RMB'000	RMB'000
Revenue from external customers		
— the PRC	**11,933,829**	8,980,177
— others	**3,312,448**	1,846,037
	15,246,277	10,826,214

(Expressed in Renminbi thousands unless otherwise indicated)

14. FIXED ASSETS

(a) The Group

	Buildings held for own use carried at cost RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Sub-total RMB'000	Interest in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2005	4,724,363	7,768,569	295,039	223,230	1,063,448	14,074,649	635,875	14,710,524
Additions	11,479	58,555	3,548	118,307	2,606,914	2,798,803	236,545	3,035,348
Acquisition through business combination	201,504	201,057	2,053	8,234	763,593	1,176,441	—	1,176,441
Transfer from construction in progress	971,770	1,479,730	34,584	11,620	(2,497,704)	—	—	—
Reclassification	78,680	(83,388)	2,857	1,851	—	—	—	—
Disposals	(11,435)	(2,007)	—	(12,407)	—	(25,849)	—	(25,849)
At 31 December 2005	5,976,361	9,422,516	338,081	350,835	1,936,251	18,024,044	872,420	18,896,464
At 1 January 2006	5,976,361	9,422,516	338,081	350,835	1,936,251	18,024,044	872,420	18,896,464
Additions	80,285	97,237	5,331	69,251	3,200,943	3,453,047	71,106	3,524,153
Transfer from construction in progress	1,103,503	1,864,747	28,902	4,812	(3,001,964)	—	—	—
Disposals	(7,404)	(4,925)	(1,007)	(2,188)	—	(15,524)	—	(15,524)
At 31 December 2006	**7,152,745**	**11,379,575**	**371,307**	**422,710**	**2,135,230**	**21,461,567**	**943,526**	**22,405,093**
Accumulated depreciation and impairment:								
At 1 January 2005	702,177	1,749,178	176,701	134,434	—	2,762,490	59,209	2,821,699
Acquisition through business combination	1,001	2,396	202	681	—	4,280	—	4,280
Charge for the year	169,481	478,804	46,571	36,899	—	731,755	21,605	753,360
Written back on disposals	(6,739)	(727)	—	(3,936)	—	(11,402)	—	(11,402)
Reclassification	162	(110)	(909)	857	—	—	—	—
Impairment loss	14,564	37,154	4	—	551	52,273	—	52,273
At 31 December 2005	880,646	2,266,695	222,569	168,935	551	3,539,396	80,814	3,620,210
At 1 January 2006	880,646	2,266,695	222,569	168,935	551	3,539,396	80,814	3,620,210
Charge for the year	200,358	644,503	25,844	48,383	—	919,088	18,820	937,908
Written back on disposals	(4,491)	(4,817)	(844)	(2,082)	—	(12,234)	—	(12,234)
Impairment loss	2,200	2,973	425	2	—	5,600	—	5,600
At 31 December 2006	**1,078,713**	**2,909,354**	**247,994**	**215,238**	**551**	**4,451,850**	**99,634**	**4,551,484**
Net book value:								
At 31 December 2006	**6,074,032**	**8,470,221**	**123,313**	**207,472**	**2,134,679**	**17,009,717**	**843,892**	**17,853,609**
At 31 December 2005	5,095,715	7,155,821	115,512	181,900	1,935,700	14,484,648	791,606	15,276,254

(i) Following the directors' assessment of value in use of the fixed assets, impairment loss of RMB5,600,000 (2005: RMB52,273,000) was recognised by the Group during the year ended 31 December 2006.

(ii) As at 31 December 2006, the carrying amount of interest in leasehold land held for own use under operating leases and property, plant and equipment of the Group pledged as security against the Group's non-current borrowings of RMB710,000,000 amounted to approximately RMB827,216,000 (2005: RMB521,117,000).

(iii) As at 31 December 2006, application for the registration of ownership of leasehold land held for own use under operating leases of the Group with net book value of approximately RMB24,000,000 (2005: RMB25,777,000) was still in progress.

14. FIXED ASSETS (continued)

(b) The Company

	Buildings held for own use carried at cost RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Sub-total RMB'000	Interest in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2005	205,019	409,748	5,761	27,731	75,264	723,523	50,000	773,523
Additions	6,709	1,300	88	1,000	335,797	344,894	—	344,894
Transfer from construction in progress	150,842	249,033	—	—	(399,875)	—	—	—
Disposals	(8,225)	(631)	—	(1,800)	—	(10,656)	—	(10,656)
At 31 December 2005	354,345	659,450	5,849	26,931	11,186	1,057,761	50,000	1,107,761
At 1 January 2006	354,345	659,450	5,849	26,931	11,186	1,057,761	50,000	1,107,761
Additions	—	298	614	3,517	8,042	12,471	—	12,471
Transfer from construction in progress	4,000	—	—	—	(4,000)	—	—	—
Disposals	(3,319)	(4,103)	—	(82)	—	(7,504)	—	(7,504)
At 31 December 2006	**355,026**	**655,645**	**6,463**	**30,366**	**15,228**	**1,062,728**	**50,000**	**1,112,728**
Accumulated depreciation and impairment:								
At 1 January 2005	104,051	205,075	4,624	21,583	—	335,333	167	335,500
Charge for the year	7,981	23,255	731	1,244	—	33,211	1,583	34,794
Written back on disposals	(5,854)	(480)	—	(1,710)	—	(8,044)	—	(8,044)
Impairment loss	8,927	18,967	4	—	—	27,898	—	27,898
At 31 December 2005	115,105	246,817	5,359	21,117	—	388,398	1,750	390,148
At 1 January 2006	115,105	246,817	5,359	21,117	—	388,398	1,750	390,148
Charge for the year	10,604	33,511	326	1,927	—	46,368	1,583	47,951
Written back on disposals	(751)	(250)	—	(82)	—	(1,083)	—	(1,083)
At 31 December 2006	**124,958**	**280,078**	**5,685**	**22,962**	**—**	**433,683**	**3,333**	**437,016**
Net book value:								
At 31 December 2006	**230,068**	**375,567**	**778**	**7,404**	**15,228**	**629,045**	**46,667**	**675,712**
At 31 December 2005	239,240	412,633	490	5,814	11,186	669,363	48,250	717,613

(i) Following the directors' assessment of value in use of the fixed assets, impairment loss of RMB27,898,000 was recognised by the Company during the year ended 31 December 2005.

(ii) As at 31 December 2006, the carrying amount of leasehold land held for own use under operating leases and property, plant and equipment of the Company pledged as security against the Company's non-current borrowings of RMB650,000,000 amounted to approximately RMB370,898,000 (2005: RMB210,219,000).

(Expressed in Renminbi thousands unless otherwise indicated)

15. INTANGIBLE ASSETS

(a) The Group

	Limestone mining rights RMB'000	Clay mining rights RMB'000	Total RMB'000
Cost:			
At 1 January 2005	146,525	15,575	162,100
Additions	16,727	30	16,757
At 31 December 2005	163,252	15,605	178,857
At 1 January 2006	163,252	15,605	178,857
Additions	63,619	2,171	65,790
At 31 December 2006	226,871	17,776	244,647
Accumulated amortisation:			
At 1 January 2005	29,690	433	30,123
Charge for the year	5,101	520	5,621
At 31 December 2005	34,791	953	35,744
At 1 January 2006	34,791	953	35,744
Charge for the year	8,744	1,484	10,228
At 31 December 2006	43,535	2,437	45,972
Net book value:			
At 31 December 2006	183,336	15,339	198,675
At 31 December 2005	128,461	14,652	143,113

The amortisation charge for the year is included in "administrative expenses" in the consolidated income statement.

The limestone and clay mining rights are valid for a period of 6 to 30 years.

As at 31 December 2006, application for the registration of ownership of the mining right of the Group with net book value of approximately RMB9,000,000 was still in progress.

(Expressed in Renminbi thousands unless otherwise indicated)

15. INTANGIBLE ASSETS (continued)

(b) The Company

	Limestone mining rights RMB'000
Cost:	
At 1 January 2005, 31 December 2005, 1 January 2006 and 1 December 2006	10,627
Accumulated amortisation:	
At 1 January 2005	3,790
Charge for the year	532
At 31 December 2005	4,322
At 1 January 2006	4,322
Charge for the year	531
At 31 December 2006	4,853
Net book value:	
At 31 December 2006	5,774
At 31 December 2005	6,305

The limestone mining rights are valid for a period of 20 years.

(Expressed in Renminbi thousands unless otherwise indicated)

16. GOODWILL

	The Group	
	2006	2005
	RMB'000	RMB'000
Carrying amount:		
At 1 January	**51,925**	46,950
Acquisitions through business combination	**—**	4,975
At 31 December	**51,925**	51,925

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") 安徽銅陵海螺水泥有限公司	1998
Fenyi Conch Cement Co., Ltd. ("Fenyi Conch") 分宜海螺水泥有限責任公司	2004
Anhui Wuhu Conch Construction and Installation Co., Ltd. ("Conch Construction") 安徽蕪湖海螺建築安裝工程有限責任公司	2005

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Tongling Conch	**30,830**	30,830
Fenyi Conch	**16,120**	16,120
Conch Construction	**4,975**	4,975
	51,925	51,925

(Expressed in Renminbi thousands unless otherwise indicated)

16. GOODWILL (continued)

Impairment tests for cash-generating units containing goodwill (continued)

The recoverable amounts of each of the above cash-generating units is determined based on value-in-use calculations. These calculations use cash flow projections primarily based on respective financial budgets covering a one-year period approved by management and pre-tax discount rates that reflect current market assessments of the time value of money and specific risks relating to the business segment.

17. INTEREST IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**5,071,824**	4,185,887

The particulars of subsidiaries, all of which are limited liability companies and joint stock limited companies established and operating in the PRC, at 31 December 2006 are as follows:

		Proportion of ownership interest			
Name of company	**Particulars of registered and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Ningguo Cement Plant 安徽省寧國水泥廠	RMB649,350,000	100%	100%	—	Manufacture and sale of clinker and cement products
Ningbo Conch Cement Co., Ltd. 寧波海螺水泥有限公司	RMB171,000,000	75%	75%	—	Manufacture and sale of clinker and cement products
Conch Plant 安徽海螺水泥有限公司	USD29,980,000	75%	75%	—	Manufacture and sale of clinker and cement products
Mingzhu Conch 上海海螺明珠水泥有限責任公司	RMB13,710,000	94.2%	76.2%	18%	Manufacture and sale of clinker and cement products
Tongling Conch 安徽銅陵海螺水泥有限公司	RMB565,000,000	68.14%	68.14%	—	Manufacture and sale of clinker and cement products

(Expressed in Renminbi thousands unless otherwise indicated)

17. INTEREST IN SUBSIDIARIES (continued)

Name of company	Particulars of registered and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Anhui Conch Machinery & Electric Co., Ltd. 安徽海螺機電設備有限公司	RMB10,000,000	100%	49%	51%	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 (Note b)	RMB1,000,000	100%	—	100%	In liquidation
Anhui Changfeng Conch Cement Co., Ltd. 安徽長豐海螺水泥有限公司	RMB10,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products
Zhangjiagang Conch Cement Co., Ltd. 張家港海螺水泥有限公司	RMB35,000,000	98.71%	98.71%	—	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	RMB60,000,000	75%	75%	—	Manufacture and sale of clinker and cement products
Nanjing Conch Cement Co., Ltd. 南京海螺水泥有限公司	RMB15,000,000	100%	99.75%	0.25%	Manufacture and sale of clinker and cement products
Nantong Conch Cement Co., Ltd. 南通海螺水泥有限公司	RMB15,000,000	100%	99%	1%	Manufacture and sale of clinker and cement products
Shanghai Sales 上海海螺水泥銷售有限公司	RMB5,000,000	100%	90%	10%	Sale of clinker and cement products

(Expressed in Renminbi thousands unless otherwise indicated)

17. INTEREST IN SUBSIDIARIES (continued)

Name of company	Particulars of registered and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Anhui Digang Conch Cement Co., Ltd. ("Digang Conch") 安徽荻港海螺水泥股份有限公司	RMB150,000,000	51%	51%	—	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	RMB14,000,000	76%	76%	—	Manufacture and sale of clinker and cement products
Anhui Zongyang Conch Cement Co., Ltd. ("Zongyang Conch") 安徽樅陽海螺水泥股份有限公司	RMB300,000,000	51%	51%	—	Manufacture and sale of clinker and cement products
Anhui Chizhou Conch Cement Co., Ltd. ("Chizhou Conch") 安徽池州海螺水泥股份有限公司	RMB318,000,000	51%	51%	—	Manufacture and sale of clinker products
Taizhou Conch Cement Co., Ltd. 泰州海螺水泥有限責任公司	RMB11,520,000	93.75%	93.75%	—	Manufacture and sale of clinker and cement products
Bengbu Conch Cement Co., Ltd. 蚌埠海螺水泥有限責任公司	RMB54,000,000	100%	96.7%	3.3%	Manufacture and sale of clinker and cement products
Wenzhou Conch Cement Co., Ltd. 溫州海螺水泥有限公司	RMB50,000,000	100%	95%	5%	Inactive
Fenyi Conch 分宜海螺水泥有限責任公司	RMB50,000,000	100%	90%	10%	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	RMB16,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products

(Expressed in Renminbi thousands unless otherwise indicated)

17. INTEREST IN SUBSIDIARIES (continued)

Name of company	Particulars of registered and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Jiande Conch Cement Co., Ltd. 建德海螺水泥有限責任公司	RMB50,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products
Jiangxi Lushan Conch Cement Co., Ltd. 江西盧山海螺水泥有限公司	RMB31,420,000	100%	98.7%	1.3%	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	RMB170,000,000	98.41%	95%	5%	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	RMB20,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products
Anhui Huaining Conch Cement Co., Ltd. ("Huaining Conch") 安徽懷寧海螺水泥有限責任公司	RMB150,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products
Zhongguo Cement Co., Ltd. 中國水泥廠有限公司	RMB100,000,000	100%	90%	10%	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	RMB20,000,000	100%	90%	10%	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	RMB20,000,000	95.1%	90%	10%	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	RMB20,000,000	95.1%	90%	10%	Manufacture and sale of clinker and cement products

(Expressed in Renminbi thousands unless otherwise indicated)

17. INTEREST IN SUBSIDIARIES (continued)

		Proportion of ownership interest			
Name of company	Particulars of registered and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Haimen Conch Cement Co., Ltd. 海門海螺水泥有限責任公司	RMB50,000,000	100%	90%	10%	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	RMB50,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products
Maanshan Conch Cement Co., Ltd. 馬鞍山海螺水泥有限責任公司	RMB50,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products
Jiangsu Baling Conch Cement Co., Ltd. 江蘇八菱海螺水泥有限公司	RMB32,960,000	75%	75%	—	Manufacture and sale of clinker and cement products
Shuangfeng Conch Cement Co., Ltd. 雙峰海螺水泥有限公司	RMB268,000,000	100%	90%	10%	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	RMB100,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products
Wuhu Conch Cement Co., Ltd. 蕪湖海螺水泥有限公司	RMB400,000,000	95.07%	87.75%	12.25%	Manufacture and sale of clinker and cement products
Hunan Conch Cement Co., Ltd. ("Hunan Conch") 湖南海螺水泥有限責任公司	RMB50,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products
Prosperity Conch 英德海螺水泥有限責任公司	RMB580,000,000	75%	70%	5%	Manufacture and sale of clinker and cement products

(Expressed in Renminbi thousands unless otherwise indicated)

17. INTEREST IN SUBSIDIARIES (continued)

Name of company	Particulars of registered and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Kuiyang Conch 興業葵陽海螺水泥有限責任公司	RMB200,000,000	100%	95%	5%	Manufacture and sale of clinker and cement products
Xinning Conch 扶綏新寧海螺水泥有限責任公司	RMB200,000,000	100%	95%	5%	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	RMB10,000,000	95%	95%	—	Industrial or public construction and installation
Xing'an Conch 興安海螺水泥有限責任公司	RMB200,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products
Ninghai Qiangjiao Conch Cement Co., Ltd. 寧海強蛟海螺水泥有限責任公司	RMB50,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products
Beiliu Conch Cement Co., Ltd. 北流海螺水泥有限責任公司	RMB150,000,000	96.81%	90%	10%	Manufacture and sale of clinker and cement products
Zhanjiang Conch Cement Co., Ltd. 湛江海螺水泥有限責任公司	RMB60,000,000	96.81%	90%	10%	Manufacture and sale of clinker and cement products
Xiangshan Conch Cement Co., Ltd. ("Xiangshan Conch") 象山海螺水泥有限責任公司 (Note a)	RMB60,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products
Jiangdu Conch Cement Co., Ltd. ("Jiangdu Conch") 江都海螺水泥有限責任公司 (Note a)	RMB150,000,000	99.36%	60%	40%	Manufacture and sale of clinker and cement products

(Expressed in Renminbi thousands unless otherwise indicated)

17. INTEREST IN SUBSIDIARIES (continued)

Name of company	Particulars of registered and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Yiyang Conch Cement Co., Ltd. ("Yiyang Conch") 弋陽海螺水泥有限責任公司 (Note a)	RMB100,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products
Shimen Conch Cement Co., Ltd. ("Shimen Conch") 石門海螺水泥有限責任公司 (Note a)	RMB180,000,000	100%	90%	10%	Manufacture and sale of clinker and cement products

United States Dollars referred to as "USD"

Notes:

(a) Newly setup subsidiaries
The companies were newly set up by the Company and its subsidiaries in 2006 by means of cash injection.

(b) Subsidiary in liquidation
The subsidiary was in the process of liquidation as at 31 December 2006.

18. INTEREST IN ASSOCIATES

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Unlisted shares, at cost	**—**	—	**157,429**	157,429
Share of net assets	**163,219**	164,042	**—**	—
	163,219	164,042	**157,429**	157,429

(Expressed in Renminbi thousands unless otherwise indicated)

18. INTEREST IN ASSOCIATES (continued)

The particulars of the associates, all of which are unlisted and operating in the PRC, at 31 December 2006 are as follows:

		Proportion of Ownership interest			
Name of associate	**Particulars of registered and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by an associate**	**Principal activity**
Anhui King Bridge Cement Co., Ltd. ("King Bridge Cement") 安徽朱家橋水泥有限公司	USD15,000,000	40%	40%	—	Manufacture and sale of clinker and cement products
Guangxi Fusui Conch Cement Co., Ltd. ("Fusui Conch")* 廣西扶綏海螺水泥有限責任公司	RMB200,000,000	22.55%	21.26%	3.94%	In liquidation
Guangxi Xingye Conch Cement Co., Ltd. ("Xingye Conch")* 廣西興業海螺水泥有限責任公司	RMB200,000,000	33.34%	32.62%	3.37%	In liquidation

* These two associates of the Group were in the process of liquidation as at 31 December 2005 and 2006.

Summary financial information on associates

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenue RMB'000	Profit after taxation RMB'000
2006					
King Bridge Cement	**151,190**	**13,091**	**138,099**	**96,636**	**7,942**
Fusui Conch	**217,508**	**12,901**	**204,607**	**—**	**—**
Xingye Conch	**207,090**	**3,065**	**204,025**	**—**	**—**
2005					
King Bridge Cement	149,360	9,035	140,325	77,557	9,305
Fusui Conch	221,721	17,114	204,607	—	—
Xingye Conch	207,090	3,065	204,025	—	—

(Expressed in Renminbi thousands unless otherwise indicated)

19. LOANS AND RECEIVABLES

	The Group	
	2006	2005
	RMB'000	RMB'000
Loans and receivables	**154,500**	104,000
Less: Current portion of loans and receivables (note 23)	**(26,000)**	(10,000)
	128,500	94,000

As at 31 December 2006, loans and receivables represented advances made to respective Local Finance Bureau of which RMB104,000,000 (2005: RMB42,000,000) are unsecured, interest bearing at 5.58% – 5.76% (2005: 5.58%) per annum and repayable in 2007 to 2010. The remaining balance of RMB50,500,000 (2005: RMB62,000,000) is unsecured, interest free and repayable in 2008 to 2010.

20. INVESTMENTS IN EQUITY SECURITIES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity securities — in the PRC	**1,168**	1,168	**1,010**	10

21. INVENTORIES

(a) Inventories in the balance sheets comprise:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**429,800**	374,438	**16,993**	22,845
Work in progress	**28,393**	68,177	**1,182**	5,599
Finished goods	**571,785**	322,599	**19,330**	5,084
Spare parts	**188,657**	198,930	**18,269**	18,358
	1,218,635	964,144	**55,774**	51,886

(Expressed in Renminbi thousands unless otherwise indicated)

21. INVENTORIES (continued)

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Carrying amount of inventories sold	**10,599,015**	8,277,415
Write-down of inventories	**1,889**	348
	10,600,904	8,277,763

22. TRADE RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**42,311**	44,714	**15,814**	7,042
Bank acceptance notes receivable	**503,405**	378,021	**118,719**	129,952
Commercial acceptance notes receivable	**4,504**	1,542	**—**	—
	550,220	424,277	**134,533**	136,994

All of the trade receivables are expected to be recovered within one year.

(Expressed in Renminbi thousands unless otherwise indicated)

22. TRADE RECEIVABLES (continued)

Included in trade receivables are trade debtors and notes receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**550,220**	423,764	**134,533**	136,994
Between 1 and 2 years	**—**	273	**—**	—
Between 2 and 3 years	**—**	34	**—**	—
Over 3 years	**—**	206	**—**	—
	550,220	424,277	**134,533**	136,994

The Group's credit policy is set out in note 35(a).

23. PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Purchase deposits	**309,908**	355,180	**127,424**	179,531
Investment deposits	**147,625**	101,842	**—**	—
Subsidies receivable	**15,957**	4,522	**—**	—
Current portion of loans and receivables (note 19)	**26,000**	10,000	**—**	—
Other receivables	**89,805**	98,128	**2,095**	8,782
	589,295	569,672	**129,519**	188,313

24. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts due from/to subsidiaries are unsecured, interest free and repayable on demand.

(Expressed in Renminbi thousands unless otherwise indicated)

25. AMOUNTS DUE FROM/TO RELATED PARTIES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts due from:				
Shanghai Conch Construction Material International Trading Company Limited ("Conch International Trading") 上海海螺建材國際貿易有限公司	**324,008**	153,995	**6,514**	4,678
Anhui Conch Holdings Labour Union ("Labour Union") 安徽海螺集團有限公司工會委員會	**—**	110,207	**—**	—
Shengzhen Anhui Construction and Material Co., Ltd. ("Shenzhen Construction") 深圳安徽建材有限公司	**—**	8,622	**—**	—
Shanghai Conch Logistics Company Limited ("Conch Logistics") 上海海螺物流有限公司	**7,087**	3,186	**—**	—
Anhui Conch Holdings Company Limited ("Conch Holdings") 安徽海螺集團有限責任公司	**—**	2,574	**—**	342
Anhui Conch Venture Investment Company Limited ("Conch Venture") 安徽海螺創業投資有限責任公司	**—**	1,113	**—**	—
Other related companies	**75**	645	**—**	83
	331,170	280,342	**6,514**	5,103

25. AMOUNTS DUE FROM/TO RELATED PARTIES (continued)

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Amounts due to:				
Conch Logistics 上海海螺物流有限公司	**24,100**	90,013	**—**	2,312
Xingye Conch 廣西興業海螺水泥有限責任公司	**56,800**	56,800	**56,800**	56,800
Fusui Conch 廣西扶綏海螺水泥有限責任公司	**41,373**	49,800	**41,373**	49,800
Conch International Trading 上海海螺建材國際貿易有限公司	**71,088**	21,958	**—**	—
Yingde Conch Plastic Material Co., Ltd. ("Yingde Plastic") 英德海螺塑料製品有限公司	**—**	15,611	**—**	—
Wuhu Conch Plastic Products Co., Ltd. ("Wuhu Plastic") 蕪湖海螺塑料製品有限公司	**346**	14,382	**196**	—
Anhui Ningchang Plastic Package Co., Ltd. ("Ningchang Company") 安徽寧昌塑料包裝有限公司	**2,502**	13,985	**446**	224
Conch Holdings 安徽海螺集團有限責任公司	**—**	1,513	**—**	1,525
Guangxi Guilin Conch Cement Co., Ltd. ("Guilin Conch") 廣西桂林海螺水泥有限責任公司	**—**	1,317	**—**	—
Other related companies	**3,333**	1,664	**—**	2,258
	199,542	267,043	**98,815**	112,919

The amounts due from/to related parties mainly arose from the related party transactions as disclosed in note 38. The amounts due from/to related parties are unsecured, interest free and repayable on demand.

(Expressed in Renminbi thousands unless otherwise indicated)

26. TRADE PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**753,290**	763,340	**55,411**	103,372
Commercial acceptance notes payable	**—**	—	**150,000**	400,000
	753,290	763,340	**205,411**	503,372

Aging analysis of trade payables, based on invoiced date, is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**723,581**	711,052	**202,314**	499,587
Between 1 and 2 years	**25,306**	46,093	**—**	475
Between 2 and 3 years	**254**	5,108	**—**	3,130
Over 3 years	**4,149**	1,087	**3,097**	180
	753,290	763,340	**205,411**	503,372

27. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Construction cost payables	**634,804**	578,414	**49,595**	53,581
Receipts in advance from customers	**247,699**	194,393	**53,414**	45,309
Retention monies	**247,634**	212,767	**10,502**	10,692
Expenses accruals	**224,443**	187,117	**39,612**	33,228
Value added tax payables	**81,081**	46,013	**9,467**	2,194
Other taxes payables	**53,507**	45,929	**7,166**	7,374
Acquisition cost of mining rights payable	**20,369**	—	**—**	—
Withholding tax payables	**16,260**	12,872	**—**	—
Other payables	**230,481**	169,042	**28,237**	9,227
	1,756,278	1,446,547	**197,993**	161,605

(Expressed in Renminbi thousands unless otherwise indicated)

28. NON-CURRENT INTEREST-BEARING BORROWINGS

(a) The analysis of the carrying amount of non-current interest-bearing borrowings is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans (note 30)				
— secured	**60,000**	60,000	**—**	—
— unsecured	**6,378,739**	4,085,180	**1,570,000**	270,000
	6,438,739	4,145,180	**1,570,000**	270,000
Other borrowings				
— secured (note (b)(i))	**650,000**	650,000	**650,000**	650,000
— unsecured (note (b)(ii))	**80,000**	80,000	**—**	—
	7,168,739	4,875,180	**2,220,000**	920,000

(b) Significant terms and repayment schedule of non-bank borrowings:

(i) Secured other borrowings of the Group and the Company are provided by the International Finance Corporation. The loan bears interest at 5.32% (2005: 5.32%) per annum and is repayable in September 2015. At 31 December 2006, the loan was secured by property, plant and equipment of the Group with carrying amount of approximately RMB756,510,000 (2005: RMB401,961,000) and leasehold land held for own use under operating leases of the Group with carrying amount of approximately RMB Nil (2005: RMB49,795,000). The Group is subject to various financial covenants that are tested on a yearly basis.

(ii) Unsecured other borrowings of the Group are national debt loan (國債轉貸) provided by the Anhui Finance Bureau. The loan bears interest at 2.55% (2005: 2.28%) per annum and repayable in June 2017.

(Expressed in Renminbi thousands unless otherwise indicated)

29. CURRENT INTEREST BEARING BORROWINGS

The analysis of the carrying amount of unsecured current interest-bearing borrowings is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans (note 30)	**3,450,380**	4,699,360	**630,000**	1,759,360
Other borrowings	**7,000**	7,000	**—**	—
	3,457,380	4,706,360	**630,000**	1,759,360

At 31 December 2006, unsecured other borrowings of the Group amounting to RMB7,000,000 were guaranteed by a third party.

At 31 December 2005, unsecured bank loan of the Group amounting to RMB7,500,000 and other borrowings amounting to RMB7,000,000 were guaranteed by third parties.

30. BANK LOANS

At 31 December 2006, the bank loans were repayable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand (note 29)	**3,450,380**	4,699,360	**630,000**	1,759,360
After 1 year but within 2 years	**2,408,939**	2,185,380	**250,000**	250,000
After 2 years but within 5 years	**3,779,800**	1,959,800	**1,320,000**	20,000
After 5 years	**250,000**	—	**—**	—
Total non-current bank loans	**6,438,739**	4,145,180	**1,570,000**	270,000
	9,889,119	8,844,540	**2,200,000**	2,029,360

30. BANK LOANS (continued)

At 31 December 2006, the bank loans were secured as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans				
— secured	**60,000**	60,000	**—**	—
— unsecured	**9,829,119**	8,784,540	**2,200,000**	2,029,360
	9,889,119	8,844,540	**2,200,000**	2,029,360

At 31 December 2006, the bank loans of the Group totalling RMB60,000,000 (2005: RMB60,000,000) were secured by property, plant and equipment of the Group with carrying value of approximately RMB65,587,000 (2005: RMB64,006,000) and leasehold land held for own use under operating leases of the Group with carrying amount of approximately RMB5,119,000 (2005: RMB5,355,000).

At 31 December 2006, unsecured bank loans of the Group and the Company totalling RMB7,086,119,000 (2005: RMB5,655,540,000) and RMB740,000,000 (2005: RMB220,000,000) respectively were guaranteed by Conch Holdings.

31. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheets represents

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Provision for PRC Enterprise Income Tax for the year	**694,907**	334,287	**37,002**	37,749
PRC Enterprise Income Tax paid	**(312,623)**	(129,476)	**(8,490)**	(10,450)
	382,284	204,811	**28,512**	27,299

(Expressed in Renminbi thousands unless otherwise indicated)

31. INCOME TAX IN THE BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Provision and impairment RMB'000	Unrealised profit RMB'000	Arising from business combination RMB'000	Tax losses RMB'000	Total RMB'000
Deferred tax arising from:					
At 1 January 2005	—	—	—	—	—
Credited to income statement	(8,440)	(9,971)	—	—	(18,411)
Charged to reserves	—	—	27,955	—	27,955
At 31 December 2005	(8,440)	(9,971)	27,955	—	9,544
Deferred tax arising from:					
At 1 January 2006	(8,440)	(9,971)	27,955	—	9,544
Credited to income statement	(1,355)	(15,264)	(559)	(10,000)	(27,178)
At 31 December 2006	**(9,795)**	**(25,235)**	**27,396**	**(10,000)**	**(17,634)**

	The Group	
	2006 RMB'000	2005 RMB'000
Net deferred tax assets recognised on the balance sheet	**(45,030)**	(18,411)
Net deferred tax liabilities recognised on the balance sheet	**27,396**	27,955
	(17,634)	9,544

(Expressed in Renminbi thousands unless otherwise indicated)

31. INCOME TAX IN THE BALANCE SHEET (continued)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB117 million (2005: RMB214 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses under current tax legislation will expire in 5 years.

32. LONG-TERM PAYABLES

	The Group	
	2006	2005
	RMB'000	RMB'000
Payables to minority shareholders of Mingzhu Conch (note (a))	**1,583**	1,583
Compensation payable (note (b))	**45,367**	55,312
Grants received	**—**	67,074
Others	**1,553**	548
	48,503	124,517
Less: Current portion of compensation payable (note (b))	**(10,757)**	(8,923)
	37,746	115,594

Notes:

(a) It represents a loan to Mingzhu Conch provided by its minority shareholders which is unsecured, interest free and has no fixed terms of repayment.

(b) In 1998 and 2002, pursuant to the purchase agreements 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 assumed obligations in compensation payable to the retired and redundant employees of these cement plants. At 31 December 2006, the remaining obligation amounted to approximately RMB45,367,000 (2005: RMB55,312,000). Compensation payable of RMB10,757,000 (2005: RMB8,923,000) is expected to be settled within one year.

33. DEFERRED INCOME

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**150,718**	99,518	**25,831**	16,154
Government grant received	**1,357**	62,473	**—**	11,605
Recognised in the income statement	**(23,257)**	(11,273)	**(11,985)**	(1,928)
At 31 December	**128,818**	150,718	**13,846**	25,831

According to the PRC tax laws and regulations, the Group can enjoy certain tax incentives in respect of purchases of domestically manufactured equipment.

The above income tax refunds are regarded as 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.

(Expressed in Renminbi thousands unless otherwise indicated)

34. CAPITAL AND RESERVES

(a) The Group

	Note	Share capital RMB'000 (Note (c))	Share premium RMB'000 (Note (d)(i))	Statutory surplus reserve RMB'000 (Note (d)(ii))	Statutory public welfare reserve RMB'000 (Note (d)(iii))	Capital reserve RMB'000 (Note (d)(iv))	Retained profits RMB'000 (Note (d)(v))	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2005		1,255,680	1,745,430	525,138	496,401	31,669	1,223,290	5,277,608	1,121,181	6,398,789
Dividends approved in respect of previous year	11(b)	—	—	—	—	—	(163,238)	(163,238)	—	(163,238)
Profit for the year		—	—	—	—	—	385,832	385,832	169,301	555,133
Acquisition of minority interest in subsidiaries		—	—	—	—	23,138	—	23,138	(72,101)	(48,963)
Dividends declared by non-wholly owned subsidiaries to minority shareholders		—	—	—	—	—	—	—	(136,761)	(136,761)
Minority interest arising from acquisition of subsidiaries		—	—	—	—	—	—	—	238	238
Appropriations to reserves		—	—	98,272	86,301	—	(184,573)	—	—	—
Others		—	—	—	—	171	—	171	(315)	(144)
At 31 December 2005		1,255,680	1,745,430	623,410	582,702	54,978	1,261,311	5,523,511	1,081,543	6,605,054
At 1 January 2006		1,255,680	1,745,430	623,410	582,702	54,978	1,261,311	5,523,511	1,081,543	6,605,054
Dividends approved in respect of previous year	11(b)	—	—	—	—	—	(87,898)	(87,898)	—	(87,898)
Profit for the year		—	—	—	—	—	1,482,795	1,482,795	381,971	1,864,766
Dividends declared by non-wholly owned subsidiaries to minority shareholders		—	—	—	—	—	—	—	(176,718)	(176,718)
Capital contribution received by non-wholly owned subsidiaries from minority shareholders		—	—	—	—	—	—	—	145,000	145,000
Transfer between reserves		—	—	582,702	(582,702)	—	—	—	—	—
Appropriations to reserves		—	—	296,990	—	—	(296,990)	—	—	—
At 31 December 2006		**1,255,680**	**1,745,430**	**1,503,102**	**—**	**54,978**	**2,359,218**	**6,918,408**	**1,431,796**	**8,350,204**

(Expressed in Renminbi thousands unless otherwise indicated)

34. CAPITAL AND RESERVES (continued)

(b) The Company

	Note	Share capital RMB'000 (Note (c))	Share premium RMB'000 (Note (d)(i))	Statutory surplus reserve RMB'000 (Note (d)(ii))	Statutory public welfare reserve RMB'000 (Note (d)(iii))	Capital reserve RMB'000 (Note (d)(iv))	Retained profits RMB'000 (Note (d)(v))	Total RMB'000
At 1 January 2005		1,255,680	1,745,430	252,395	252,395	31,669	613,892	4,151,461
Dividends approved in respect of previous year	11(b)	—	—	—	—	—	(163,238)	(163,238)
Profit for the year		—	—	—	—	—	50,105	50,105
Appropriations to reserves		—	—	40,738	40,738	—	(81,476)	—
At 31 December 2005		1,255,680	1,745,430	293,133	293,133	31,669	419,283	4,038,328
At 1 January 2006		1,255,680	1,745,430	293,133	293,133	31,669	419,283	4,038,328
Dividends approved in respect of previous year	11(b)	—	—	—	—	—	(87,898)	(87,898)
Profit for the year		—	—	—	—	—	177,234	177,234
Transfer between reserves		—	—	293,133	(293,133)	—	—	—
Appropriations to reserves		—	—	142,793	—	—	(142,793)	—
At 31 December 2006		**1,255,680**	**1,745,430**	**729,059**	**—**	**31,669**	**365,826**	**4,127,664**

(Expressed in Renminbi thousands unless otherwise indicated)

34. CAPITAL AND RESERVES (continued)

(c) Share capital

Authorised and issued share capital

	2006		2005	
	No. of shares ('000)	**Amount RMB'000**	No. of shares ('000)	Amount RMB'000
Authorised:				
State-owned shares of RMB1 each	**—**	**—**	622,480	622,480
H shares of RMB1 each	**433,200**	**433,200**	433,200	433,200
A shares of RMB1 each	**200,000**	**200,000**	200,000	200,000
A shares with trading restrictions of RMB1 each	**622,480**	**622,480**	—	—
	1,255,680	**1,255,680**	1,255,680	1,255,680
Issued and fully paid:				
At 1 January and 31 December:				
State-owned shares of RMB1 each	**—**	**—**	622,480	622,480
H shares of RMB1 each	**433,200**	**433,200**	433,200	433,200
A shares of RMB1 each	**200,000**	**200,000**	200,000	200,000
A shares with trading restrictions of RMB1 each	**622,480**	**622,480**	—	—
	1,255,680	**1,255,680**	1,255,680	1,255,680

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 (equivalent to HK$2.28) per share. The H shares were listed on the Stock Exchange of Hong Kong Limited 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 the Shanghai Securities 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 (equivalent to HK$8.2) per share in November 2003.

34. CAPITAL AND RESERVES (continued)

(c) Share capital (continued)

State-owned shares, A shares and H shares rank *pari passu* in all respects, except that ownership of state-owned shares and A shares are restricted to PRC nationals and legal persons and qualified foreign investment institutes, while H shares can only be owned and traded by overseas investors. Dividends on state-owned shares and A shares are payable in RMB, while dividends on H shares are payable in Hong Kong Dollars (the "HK$").

In December 2005, Conch Holdings reached an agreement with MS Asia Investment Limited ("MS") and the International Finance Corporation ("IFC"). According to the agreement, Conch Holdings 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 Holdings will hold 442.48 million state-owned shares (35.24% of total shares of the Company).

Since the above share transfer represents a transfer of state-owned shares to foreign investors, it will become effective only after approval from State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") and Ministry of Commerce of the PRC.

At 31 December 2006, the approval from SASAC for the above share transfer has been obtained, but approval from Ministry of Commence of the PRC has not yet obtained.

According to the resolution of the A shares shareholders' meeting held on 20 February 2006, the Proposal of Share Segregation Reform of Anhui Conch Cement Company Limited ("the Proposal") was approved whereby Conch Holdings agreed to pay cash consideration of RMB15 for every 10 floating A shares held by holders of floating A shares with a view to obtaining a restricted listing right for the non-floating state-owned shares of the Company held by Conch Holdings. After the implementation of the Proposal, the proportion and number of shares in the Company held by holders of A shares and state-owned shares as well as the total issued share capital of the Company will remain unchanged. The SASAC approved the Proposal on 15 February 2006.

Conch Holdings pledged 64.4 million (representing approximately 5.1% of the total issued share capital of the Company) state-owned shares it holds in the Company to China Minsheng Banking Corp. Ltd. on 28 February 2006. The pledge was made as a security for a loan borrowed by the Company from the bank on 28 February 2006. On 23 November 2006, the pledge was released.

(Expressed in Renminbi thousands unless otherwise indicated)

34. CAPITAL AND RESERVES (continued)

(d) Nature and purpose of reserves

(i) *Share premium*

Share premium represents net assets acquired from Conch Holdings in excess of par value of the state-owned shares issued, and proceeds from the issuance of H shares and A shares in excess of their par value, net of underwriting commissions, organisation costs and professional fees.

(ii) *Statutory surplus reserve*

In accordance with the Company Law of the PRC and the 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. When the balance of such reserve fund reaches 50% of each subsidiary'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 of each subsidiary must be maintained at a minimum of 25% of share capital after such usage.

For the year ended 31 December 2006, the directors have recommended that 10% (2005: 10%) of statutory net profit of each subsidiary be appropriated to statutory surplus reserve.

(iii) *Statutory public welfare reserve*

In accordance with the Company Law of the PRC and the articles of association, the Company and its subsidiaries were previously required to appropriate 5% to 10% of their annual statutory net profit (after offsetting any prior years' losses) to a statutory public welfare fund which could be utilised to build or acquire capital items, for the employees. Titles to these capital items remain with the Group.

According to the Company Law of the PRC revised on 27 October 2005, the Company and its subsidiaries will not appropriate their profit to statutory public welfare reserve from 1 January 2006 onwards.

According to the Notice of the Ministry of Finance on accounting issues relating to the implementation of the Company Law of the PRC (Cai Qi [2006] No. 67), the Company and its subsidiaries transferred the balance of the statutory public welfare reserve at 1 January 2006 to statutory surplus reserve.

34. CAPITAL AND RESERVES (continued)

(d) Nature and purpose of reserves (continued)

(iv) *Capital reserve*

The capital reserve comprises the following:

— the differences between the cost of acquisition of minority interests in a subsidiary and the fair value of the net assets additionally acquired; and

— cash contributed by Conch Holdings.

(v) *Retained earnings*

The distribution of dividends is made in accordance with the Company's articles of association at the recommendation of the Board of Directors and subject to approval by shareholders in general meetings. Pursuant to the Notice [1995] 31 issued by the 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 profits in the financial statements determined in accordance with (i) PRC accounting standards and regulations, and (ii) IFRSs.

At 31 December 2006, the Company's profits available for distribution to shareholders of the Company after transfers to reserves amounted to approximately RMB365,826,000 (2005: RMB419,283,000).

35. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group has a credit policy in place to ensure that sales of products are made to customers with an appropriate credit history and the exposures to these credit risks are monitored on an ongoing basis. In addition, the Group normally receives deposits from customers before delivery of products.

At the balance sheet date, the Group has no significant concentration of credit risk with any single counterparty or group of counterparties.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any guarantees which would expose the Group to credit risk.

(Expressed in Renminbi thousands unless otherwise indicated)

35. FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The directors have assessed the liquidity risk of the Group and details are set out in note 2(b).

(c) Interest rate risk

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

(i) The Group

	2006						2005					
	Effective interest rate %	**Total RMB'000**	**1 year or less RMB'000**	**1–2 years RMB'000**	**2–5 years RMB'000**	**More than 5 years RMB'000**	Effective interest rate %	Total RMB'000	1 year or less RMB'000	1–2 years RMB'000	2–5 years RMB'000	More than 5 years RMB'000
Repricing dates for assets/ (liabilities) which reprice before maturity												
Restricted cash deposits	**0.72%**	**3,379**	**3,379**	**—**	**—**	**—**	0.72%	5,787	5,787	—	—	—
Cash at bank and in hand	**0.72%–1.44%**	**1,137,609**	**1,137,609**	**—**	**—**	**—**	0.72%–1.44%	1,178,390	1,178,390	—	—	—
Bank loans	**5.02%–6.30%**	**(8,559,119)**	**(8,559,119)**	**—**	**—**	**—**	4.94%–5.76%	(7,764,540)	(7,764,540)	—	—	—
Other borrowings	**2.55%**	**(80,000)**	**(80,000)**	**—**	**—**	**—**	2.28%	(80,000)	(80,000)	—	—	—

	2006						2005					
	Effective interest rate %	**Total RMB'000**	**1 year or less RMB'000**	**1–2 years RMB'000**	**2–5 years RMB'000**	**More than 5 years RMB'000**	Effective interest rate %	Total RMB'000	1 year or less RMB'000	1–2 years RMB'000	2–5 years RMB'000	More than 5 years RMB'000
Maturity dates for assets/ (liabilities) which do not reprice before maturity												
Loans and receivables	**5.58%–5.76%**	**104,000**	**19,000**	**—**	**85,000**	**—**	5.58%	42,000	—	19,000	23,000	—
Bank loans	**5.18%–5.99%**	**(1,330,000)**	**(485,000)**	**(660,000)**	**(185,000)**	**—**	4.94%–5.76%	(1,080,000)	—	(485,000)	(595,000)	—
Other borrowings	**5.32%–5.40%**	**(657,000)**	**(7,000)**	**—**	**—**	**(650,000)**	5.32%–5.40%	(657,000)	(7,000)	—	—	(650,000)

(Expressed in Renminbi thousands unless otherwise indicated)

35 FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

(ii) The Company

	2006						2005					
	Effective interest rate %	Total RMB'000	1 year or less RMB'000	1–2 years RMB'000	2–5 years RMB'000	More than 5 years RMB'000	Effective interest rate %	Total RMB'000	1 year or less RMB'000	1–2 years RMB'000	2–5 years RMB'000	More than 5 years RMB'000
Repricing dates for assets/ (liabilities) which reprice before maturity												
Restricted cash deposits	0.72%	2,131	2,131	—	—	—	0.72%	1,162	1,162	—	—	—
Cash at bank and in hand	0.72%	596,360	596,360	—	—	—	0.72%	674,269	674,269	—	—	—
Bank loans	5.02%–6.30%	(1,950,000)	(1,950,000)	—	—	—	4.94%–5.76%	(2,029,360)	(2,029,360)	—	—	—

	2006						2005					
	Effective interest rate %	Total RMB'000	1 year or less RMB'000	1–2 years RMB'000	2–5 years RMB'000	More than 5 years RMB'000	Effective interest rate %	Total RMB'000	1 year or less RMB'000	1–2 years RMB'000	2–5 years RMB'000	More than 5 years RMB'000
Maturity dates for liabilities which do not reprice before maturity												
Bank loans	5.47%–5.76%	(250,000)	—	(150,000)	(100,000)	—	—	—	—	—	—	—
Other borrowings	5.32%	(650,000)	—	—	—	(650,000)	5.32%	(650,000)	—	—	—	(650,000)

(d) Fair values

The carrying values of the Group's current financial assets and liabilities approximate to their fair values due to the relatively short-term nature of these instruments.

The carrying values of the Group's non-current financial liabilities approximate to their fair values based on a discounted cash flow approach using interest rates available to the Group for similar indebtedness, except for other borrowings of RMB650,000,000 (2005: RMB650,000,000) as at 31 December 2006, the fair value of which amounted to RMB597,445,000 (2005: RMB637,415,000).

36. COMMITMENTS

(a) Capital commitments outstanding 31 December 2006 not provided for in the financial statements were as follows:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Contracted for	**2,210,776**	1,466,180	**97,676**	—
Authorised but not contracted for	**2,262,920**	1,129,017	**—**	—
	4,473,696	2,595,197	**97,676**	—

(b) As disclosed in note 38(b)(v), the Company is committed to pay trademark licence fee to Conch Holdings at RMB1,513,000 (2005: RMB1,513,000) per annum. The licence agreement did not indicate an expiry date.

37. CONTINGENT LIABILITIES

At 31 December 2006, the Company has issued guarantees to banks in respect of bank loans of the subsidiaries amounting to RMB1,713,000,000 (2005: RMB1,696,500,000). The directors do not consider it probable that a claim will be made against the Company under any of the guarantees.

38. MATERIAL RELATED PARTY TRANSACTIONS

(a) Related parties information

In addition to the associates and subsidiaries of the Group as disclosed in notes 17 and 18 of these financial statements, the directors were of the view that the following entities are related parties of the Group.

Name of related party	Nature of relationship
Conch Holdings 安徽海螺集團有限責任公司	Substantial shareholder of the Company
Conch Venture 安徽海螺創業投資有限責任公司	Shareholder of Conch Holdings and some directors of the Company are also directors and equity holders of Conch Venture
Labour Union 安徽海螺集團有限公司工會委員會	Substantial shareholder of Conch Venture and some directors of the Company are also members of the Labour Union

(Expressed in Renminbi thousands unless otherwise indicated)

38. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Related parties information (continued)

Name of related party	Nature of relationship
Wuhu Conch Profiles and Science Co., Ltd. ("Conch Profiles and Science") 蕪湖海螺型材科技股份有限公司	Subsidiary of Conch Holdings
Ningchang Company 安徽寧昌塑料包裝有限公司	Subsidiary of Conch Holdings
Wuhu Plastic 蕪湖海螺塑料製品有限公司	Subsidiary of Conch Holdings
Yingde Plastic 英德海螺塑料製品有限公司	Subsidiary of Conch Holdings
Conch International Trading 上海海螺建材國際貿易有限公司	Subsidiary of Conch Holdings
Conch Logistics 上海海螺物流有限公司	Subsidiary of Conch Holdings
Yingde Conch Profiles and Science Co., Ltd. ("Yingde Profiles and Science") 英德海螺型材科技有限公司	Subsidiary of Conch Holdings
Anhui Conch Construction Materials Design Centre ("Conch Design") 安徽海螺建材設計研究院	Subsidiary of Conch Holdings
Anhui Chaodong Cement Group Company Limited ("Chaodong Group") 安徽巢東水泥集團有限責任公司	A director of the Company is also Chairman of Chaodong Group
Conch Construction (note) 安徽蕪湖海螺建築安裝工程有限公司	Subsidiary of Conch Holdings in 2005
Yingde Longshan Cement Co., Ltd. ("Yingde Longshan") (note) 英德龍山水泥有限責任公司	The Labour Union was beneficiary owner of over 50% equity interest in Yingde Longshan in 2005
Shenzhen Construction (note) 深圳安徽建材有限公司	A director of the Company was also Chairmen of Shenzhen Construction
Guilin Conch (note) 廣西桂林海螺水泥有限責任公司	Some directors of the Company were also directors of Guilin Conch in 2005
Xuzhou Conch Cement Co., Ltd. ("Xuzhou Conch") (note) 徐州海螺水泥有限責任公司	Conch Venture was beneficiary owner of over 50% equity interests in Xuzhou Conch in 2005

Note: These companies were not related parties of the Group in 2006. They were either being disposed of by the related parties or the directors had resigned in late 2005 or in 2006.

(Expressed in Renminbi thousands unless otherwise indicated)

38. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Transactions between the Group and related companies

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(i) *Purchase of materials*

	2006	2005
	RMB'000	RMB'000
Wuhu Plastic	**159,406**	112,842
Ningchang Company	**103,539**	101,078
Yingde Plastic	**116,349**	68,459
Xuzhou Conch	**—**	1,025
Conch Profiles and Science	**4,005**	536
Yingde Profiles and Science	**1,280**	—
Other related companies	**—**	248
	384,579	284,188

(ii) *Sales of goods*

	2006	2005
	RMB'000	RMB'000
Shenzhen Construction	**56,326**	87,718

(iii) *Financing provided to related parties*

	2006	2005
	RMB'000	RMB'000
Guilin Conch	**—**	55,100
Fusui Conch	**—**	15,000
Xingye Conch	**—**	8,000
	—	78,100

The loans provided to related parties were repaid in 2005.

38. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Transactions between the Group and related companies (continued)

(iv) *Purchase of services*

	2006	2005
	RMB'000	RMB'000
Conch Construction	**—**	24,585
Yingde Longshan	**—**	204
Conch Design	**10,115**	—
Other related companies	**2,100**	4,105
	12,215	28,894

(v) *Transactions with Conch Holdings*

	2006	2005
	RMB'000	RMB'000
Trademark licence fees payable (note (a))	**1,513**	1,513
Composite services fees payable (note (b))	**2,689**	2,750
Loan guarantees obtained (note (c))	**7,086,119**	5,655,540

Notes:

(a) The Company has entered into a trademark licence agreement with Conch Holdings, pursuant to which Conch Holdings granted the Company an exclusive right to use and apply the Trademarks within and outside the PRC in respect of all cement and clinker products of the Group. In return, the Company agreed to pay RMB1,513,000 to Conch Holdings each year. Such services fees were charged to the Group starting from 1 January 1988.

(b) In accordance with the composite service agreement entered into between the Company and Conch Holdings, Conch Holdings charged the Company RMB2,689,178 (2005: RMB2,750,004) for various services and facilities rendered during the year ended 31 December 2006.

(c) Conch Holdings provided guarantees for certain borrowings of the Company and its subsidiaries. These guarantees are free of any charges to the Company and its subsidiaries (note 30).

38. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Transactions between the Group and related companies (continued)

(vi) *Transactions with or through Conch International Trading*

	2006 **RMB'000**	2005 RMB'000
Sales of goods (note (a))	**214,431**	7,991
Domestic sales through Conch International Trading (note (b))	**12,132**	161,639
Export sales through Conch International Trading (note (c))	**3,312,447**	1,846,037
Import of machineries, spare parts and accessory materials for production import through Conch International Trading (note (d))	**345,369**	334,241
Commission payable for export sales (note (c))	**33,092**	19,397
Commission payable for import of machinery, spare parts and accessory materials for production (note (d))	**4,157**	3,956

Notes:

(a) Conch International Trading purchases the Group's cement and clinker products and sells these products to independent third parties domestically in the PRC. The Group issued invoices to Conch International Trading and collected sale proceeds from it directly.

(b) The Group undertakes domestic sales through Conch International Trading. The Group delivers goods and issues invoices to the third parties. Conch International Trading collects receivables on behalf of the Group free of service charge.

(c) The Group exports cement and clinker products through Conch International Trading. Agency commission at a rate of 1.5% on export sales was charged to the Group.

(d) The Group also imports equipment, spare parts and accessory materials for production through Conch International Trading. Agency commission of 1.5% on purchase cost of equipment, spare parts and accessory materials was charged to the Group.

38. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Transactions between the Group and related companies (continued)

(vii) *Transactions with or through Conch Logistics*

	2006 RMB'000	2005 RMB'000
Shipping services provided by Conch Logistics	**212,331**	111,319
Shipping services arranged by Conch Logistics	**531,476**	530,352
Transportation fees received on behalf of Conch Logistics	**—**	26,608

(viii) *Others*

	2006 RMB'000	2005 RMB'000
Water and electricity fees payable on behalf of Ningchang Company	**1,311**	2,696

(c) Transactions with other state-controlled entities in the PRC

The Group operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Apart from transactions mentioned in note 38(b), the Group has transactions with other state-controlled entities include but not limited to the following:

— purchases of coal; and

— depositing and borrowing money.

38. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Transactions with other state-controlled entities in the PRC (continued)

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state controlled. The Group has established its approval process for purchases of coal and its financing policy for borrowing. Such approval process and financing policy do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's approval processes and financing policy, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions require disclosure as related party transactions:

	2006 **RMB'000**	2005 RMB'000
Purchase of coal	**1,463,080**	824,222
Interest expenses	**484,151**	377,093
Cash at bank	**1,140,722**	1,183,798
Purchase deposits	**124,100**	91,292
Bank loans	**9,019,119**	7,944,540

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2006 **RMB'000**	2005 RMB'000
Short-term employee benefits	**5,136**	3,426
Post-employment benefits	**75**	56
	5,211	3,482

Total remuneration is included in "staff costs" (see note 6(b)).

38. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(e) Conch Holdings Transaction and Conch Venture Transaction

(i) On 21 August 2006, the Company as purchaser and Conch Holdings as vendor entered into a sale and purchase agreement ("Conch Holdings Sale and Purchase Agreement") pursuant to which the parties conditionally agreed to transfer the 100% equity interest in Ningchang Company, 75% equity interest in Wuhu Plastic and 100% equity interest in Conch International Trading. In accordance with the Conch Holdings Sale and Purchase Agreement, the Company will issue an aggregate of 22,755,147 A Shares to Conch Holdings as payment for the consideration for such acquisitions. Both Ningchang Company and Wuhu Plastic are principally engaged in the production and sales of cement packaging bags. Conch International Trading is principally engaged in the import and export of clinkers and cement products and provision of logistic services.

(ii) On 21 August 2006, the Company as purchaser and Anhui Conch Venture Investment Company Limited ("Conch Venture") as vendor entered into a sale and purchase agreement ("Conch Venture Sale and Purchase Agreement") pursuant to which the parties conditionally agreed to transfer the 49% equity interest in Digang Conch, 49% equity interest in Zongyang Conch, 49% equity interest in Chizhou Conch and 31.86% equity interest in Tongling Conch. In accordance with the Conch Venture Sales and Purchase Agreement, the Company will issue an aggregate of 287,999,046 A Shares to Conch Venture as payment for the consideration for such acquisitions. Digang Conch, Zongyang Conch, Chizhou Conch and Tongling Conch are all principally engaged in the production of cement and/or clinker products.

The above transactions with Conch Holdings and Conch Venture have been submitted to the shareholders for approval in general meeting on 12 December 2006. Under the terms of the Conch Holdings Sale and Purchase Agreement and Conch Venture Sale and Purchase Agreement, completion of the above transactions are conditional upon, among other matters, obtaining the approval of China Securities Regulatory Commission ("CSRC").

(f) Chaodong Transaction

In 2006, the Company and Chaodong Group entered into a Share Transfer Agreement pursuant to which the Company agreed to acquire 39.3857 million shares of Anhui Chaodong Cement Company Limited ("Chaodong Company") (approximately 19.69% of the total number of shares of Chaodong Company) held by Chaodong Group at a price of RMB2.48 per share for a total cash consideration of approximately RMB98 million. The said share transfer is subject to the approval of CSRC.

39. NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) On 16 March 2007, the Tenth National People's Congress plenary session passed the Enterprise Income Tax Law ("New Tax Law") that imposes a single uniform income tax rate of 25% for most enterprises. The New Tax Law will be effective as of 1 January 2008. The New Tax Law contemplates various transition periods and measures for existing preferential tax policies and empowers the State Council to enact appropriate implementing rules. The New Tax Law does not have an impact on the financial statements of the Group for the year ended 31 December 2006.

(b) On 1 January 2007, the Group adopted the Accounting Standards System for Business Enterprises ("PRC New Accounting Standards") issued by the Ministry of Finance, the PRC on 15 February 2006, and ceased to adopt the existing Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises ("PRC Existing Accounting Standards"). The implementation of the PRC New Accounting Standards by the Group may result in changes in accounting policies and estimates made in accordance with PRC Existing Accounting Standards, and may have an impact on the Group's financial condition, operating results and distributable reserve under the PRC accounting standards.

(c) On 1 March 2007, the board of directors of the Company applied to the Shanghai Securities Exchange ("SSE") for the listing of the 62,784,000 shares with trading restrictions (representing approximately 5% of the total issued shares of the Company) in the Company held by Conch Holdings on the SSE. The SSE approved the listing of such 62,784,000 shares with trading restrictions on 7 March 2007.

(d) After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 11.

40. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

41. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

41. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairment for non-current assets

If circumstances indicate that the net book value of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of assets". The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, tariff and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, tariff and amount of operating costs.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, and anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

41. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) 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. In addition, these estimates could change significantly as a result of change in customer preference and competitor actions in response to serve industry cycles. Management measures these estimates at each balance sheet date.

(d) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(e) Going concern

The financial statements of the Group have been prepared on a going concern basis, the validity of which depends upon the available banking facilities granted by the banks to the Group. In addition, the Group estimates that there will be adequate cash inflow generated from operating activities to repay the debts as and when they fall due. The failure of having available banking facilities and adequate cash inflow generated from operating activities would affect the appropriateness of preparing the financial statements on a going concern basis.

42. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

(Expressed in Renminbi thousands unless otherwise indicated)

42. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
IFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to IAS 1	Presentation of financial statements: capital disclosures	1 January 2007