

# CONCH



2007 Interim Report

## Anhui Conch Cement Company Limited

(A Share: 600585 H Share: 0914)



## Important Notice

The Board of Directors and the Supervisory Committee, as well as the Directors, the Supervisors and the senior management of the Company hereby warrant that the information contained in this report does not contain any misrepresentation, misleading statements or material omission and jointly and severally accept responsibility for the truthfulness, accuracy and completeness of its contents contained therein.

Mr Guo Wensan, Chairman, Mr Ren Yong, General Manager and Mr Zhou Bo, Head of the Finance Department hereby declare that they warrant the financial statements contained herein are true and complete.

The financial statements set out herein are unaudited, but have been reviewed by the audit committee of the Board of the Company.

## Definitions

In this report, the following terms shall have the following meanings unless the context otherwise requires:

|                                     |   |   |
|-------------------------------------|---|---|
| The Company                         | : | Anhui Conch Cement Company Limited  |
| The Group                           | : | The Company and its subsidiaries  |
| Reporting Period                    | : | 1 January 2007 to 30 June 2007  |
| Directors                           | : | Directors of the Company  |
| Board                               | : | Board of Directors of the Company   |
| Investment Group                    | : | Anhui Provincial Investment Group Limited   |
| Conch Holdings                      | : | Anhui Conch Holdings Company Limited  |
| Conch Venture                       | : | Anhui Conch Venture Investment Company Limited  |
| H Share(s)                          | : | Foreign shares in the capital of the Company, which are listed on the Stock Exchange, with a nominal value of RMB1.00 per share |
| Stock Exchange                      | : | The Stock Exchange of Hong Kong Limited   |
| Listing Rules of the Stock Exchange | : | Rules Governing the Listing of Securities on The Stock Exchange   |
| SSE                                 | : | Shanghai Stock Exchange   |
| Listing Rules of SSE                | : | Listing Rules of the Shanghai Stock Exchange  |
| Clinker                             | : | Semi-finished products made in the process of cement production   |
| Hong Kong                           | : | Hong Kong Special Administrative Region   |
| RMB                                 | : | Renminbi  |
| PRC                                 | : | The People's Republic of China  |
| CSRC                                | : | China Securities Regulatory Commission  |

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## Corporate Information

- (I) **Official name of the Company**  
**(Chinese)** : 安徽海螺水泥股份有限公司  
**(English)** : ANHUI CONCH CEMENT  
COMPANY LIMITED  
**Abbreviation in English** : ACC
- (II) **Legal Representative of the Company** : Guo Wensan
- (III) **Secretary to the Board** : Zhang Mingjing  
**(Company Secretary)**  
**Contact number** : 0086 553 3118688  
**Fax number** : 0086 553 3114550  
**Company secretary (Hong Kong)** : Leo P Y Chiu  
**Contact number** : 00852-2111 3220  
**Fax number** : 00852-2111 3299  
**Securities Affairs Representative** : Yang Kaifa  
**Contact number** : 0086 553 3114546  
**Fax number** : 0086 553 3114550  
**Email address** : dms@conch.cn
- (IV) **Registered address and place of business of the Company** : 209 Beijing East Road,  
Wuhu City, Anhui Province,  
the PRC  
**Postal code** : 241000  
**Email address of the Company** : cement@conch.cn  
**Website of the Company** : <http://www.conch.cn>  
**Correspondence address in Hong Kong** : 41/F, Jardine House,  
1 Connaught Place,  
Hong Kong
- (V) **Company's designated newspapers for information disclosure in the PRC** : Shanghai Securities Journal  
**Websites for publication of this report** : <http://www.sse.com.cn>  
<http://www.hkex.com.hk>  
<http://www.conch.cn>  
**Place where the Company's interim report is available for inspection** : Secretariat to the Board

(VI) **Exchanges on which the Company's shares are listed:**

|                   |   |                |
|-------------------|---|----------------|
| <b>H Shares</b>   | : | Stock Exchange |
| <b>Stock code</b> | : | 0914           |
| <b>A Shares</b>   | : | SSE            |
| <b>Stock code</b> | : | 600585         |
| <b>Stock name</b> | : | Conch Cement   |

(VII) **Other information**

|  |   |  |
|--|---|--|
| <b>Registered number of business license</b> | : | 340000000000081  |
| <b>Tax registration numbers</b>              | : | GSHZ 34020214949036-X<br>DSWZ 34020214949036-X   |
| <b>Legal adviser as to PRC law</b>           | : | Jingtian & Gongcheng<br>15th Floor, Union Plaza,<br>20 Chaoyangmen Wai Dajie,<br>Beijing, the PRC  |
| <b>Legal adviser as to Hong Kong law</b>     | : | Chiu & Partners<br>41st Floor, Jardine House,<br>1 Connaught Place,<br>Central, Hong Kong  |
| <b>International auditors</b>                | : | KPMG, Certified Public<br>Accountants<br>8th Floor, Prince's Building,<br>10 Chater Road,<br>Central, Hong Kong                              |
| <b>PRC auditors</b>                          | : | KPMG Huazhen Certified Public<br>Accountants<br>8th Floor, Office Tower 2,<br>Oriental Plaza,<br>1 East Chang An Avenue,<br>Beijing, the PRC |

## (VIII) MAJOR FINANCIAL DATA AND INDICATORS

*Note:* During the Reporting Period, the issue of A shares by the Company to Conch Holdings as the consideration for the acquisition of its 100% equity interests in Anhui Ningchang Plastic Package Co., Ltd. (“Ningchang Company”), 75% equity interests in Wuhu Conch Plastic Products Co., Ltd. (“Wuhu Plastic”) and 100% equity interests in Shanghai Conch Construction Material International Trading Company Limited (“Conch International Trading”) (together the “Three Companies”) was completed. Such acquisition constituted a merger of companies under common control. According to the stipulations under the Accounting Standards for Business Enterprises promulgated by the Ministry of Finance of the PRC on 15 February 2006, the Company restated the figures for the balance sheet as at 31 December 2006 and for the period from January to June 2006. The comparative figures referred to in the following analysis are the restated data.

### 1. Major financial data and indicators prepared in accordance with accounting principles generally accepted in the PRC (“PRC Accounting Standards”)

Table 1:

| Items  | At the end of the Reporting Period | (RMB'000)                                 |  |
|--|------------------------------------|---|--|
|  |                                    | At the end of the previous financial year | Increase/ (decrease) as compared with the same period of the previous year (%) |
| Total assets   | <b>25,660,649</b>                  | 22,855,815                                | 12.27  |
| Total equity attributable to equity shareholders of the Company                        | <b>9,351,209</b>                   | 7,317,480                                 | 27.79  |
| Net assets attributable to equity shareholders of the Company per share (RMB)          | <b>6.80</b>                        | 5.72                                      | 18.88  |
| Adjusted net assets attributable to equity shareholders of the Company per share (RMB) | <b>6.80</b>                        | 5.72                                      | 18.88  |

## Corporate Information

Table 2:

| Items  | (RMB'000)               |                         |  |
|--|-------------------------|-------------------------|--|
|  | January to<br>June 2007 | January to<br>June 2006 | Increase/<br>(decrease) as<br>compared with<br>the same<br>period of the<br>previous year<br>(%) |
| Operating profit   | <b>1,227,567</b>        | 913,101                 | 34.44  |
| Profit before taxation   | <b>1,396,955</b>        | 1,050,370               | 33.00  |
| Profit attributable to<br>equity shareholders<br>of the Company            | <b>881,116</b>          | 585,891                 | 50.39  |
| Net profit after<br>extraordinary items                                    | <b>762,832</b>          | 457,295                 | 66.81  |
| Basic earnings per share<br>(RMB)  | <b>0.64</b>             | 0.46                    | 39.13  |
| Net cash flow from<br>operating activities                                 | <b>738,155</b>          | 894,228                 | (17.45)  |
| Net cash flow from<br>operating activities per<br>share (RMB)              | <b>0.54</b>             | 0.70                    | (23.22)  |
| Return on net assets<br>attributable to the<br>Parent Company<br>(diluted) | <b>9.42%</b>            | 9.17%                   | Increased<br>by 0.25<br>percentage<br>points   |



## Corporate Information

After deduction of extraordinary gains/(losses) and amounts of the Reporting Period are as follows:

|   | <i>(RMB'000)</i> |
|---|------------------|
| (1) Losses from disposal of long-term equity investment and fixed assets                                    | (600)            |
| (2) Government subsidy income   | 100,788          |
| (3) Pre-acquisition profit attributable by the subsidiaries acquired under common control during the period | 42,353           |
| (4) Effect of income tax on extraordinary gains/(losses)  | (40,126)         |
| (5) Other net extraordinary gains   | 21,384           |
| (6) Effect of extraordinary gains/(losses) on minority interests  | (5,515)          |
| <b>Net extraordinary gains/(losses)</b>   | <b>118,284</b>   |

### 2. *Financial summary prepared in accordance with the International Financial Reporting Standards ("IFRS")*

| Items   | January to<br>June 2007 | January to<br>June 2006 | <i>(RMB'000)</i>   |
|---|-------------------------|-------------------------|--|
|   |                         |                         | Increase/<br>(decrease) as<br>compared with<br>the same<br>period of the<br>previous year<br>(%) |
| Revenue   | <b>8,223,867</b>        | 6,700,574               | 22.73  |
| Net profit attributable to equity shareholders of the Company | <b>897,109</b>          | 589,912                 | 52.08  |
|   | <b>30 June<br/>2007</b> | 31 December<br>2006     | Increase/<br>(decrease)<br>(%)   |
| Total assets  | <b>25,596,478</b>       | 22,449,735              | 14.02  |
| Total liabilities   | <b>16,071,632</b>       | 13,863,748              | 15.93  |

**3. Explanations for differences between consolidated financial statements prepared in accordance with the PRC Accounting Standards and IFRS**

(RMB'000)

|  | Net profit                   |                              | Shareholders' equity |                     |
|--|------------------------------|------------------------------|----------------------|---------------------|
|  | 1 January to<br>30 June 2007 | 1 January to<br>30 June 2006 | 30 June<br>2007      | 31 December<br>2006 |
| Amount as reported in financial statements prepared in accordance with the PRC Accounting Standards                                | 1,011,900                    | 756,153                      | 9,739,966            | 8,817,185           |
| - Effect of depreciation on valuation surplus of assets not recognised under IFRS  | 2,613                        | 2,613                        | (1,352)              | (3,965)             |
| - Goodwill not amortised under IFRS  | -                            | 2,079                        | 10,346               | 10,346              |
| - One-off amortisation of pre-operating expenses under IFRS  | 7,133                        | 85                           | -                    | (7,133)             |
| - Effect on assets acquired through business combination recognised at fair value and assets amortisation/ depreciation under IFRS | (847)                        | (849)                        | 82,170               | 83,017              |
| - Reversal of revaluation surplus of land use rights upon reorganisation of the Group  | 1,919                        | 1,919                        | (154,144)            | (156,063)           |
| - Deferred income tax credit for investment in domestic equipment under IFRS   | (1,592)                      | 5,630                        | (130,410)            | (128,818)           |
| - Effect of deferred income tax on difference between PRC Accounting Standards and under IFRS                                      | 6,853                        | 280                          | (20,542)             | (27,396)            |
| - Others   | -                            | (5,280)                      | (1,187)              | (1,187)             |
| <b>Amount as reported under IFRS</b>   | <b>1,027,979</b>             | <b>762,629</b>               | <b>9,524,846</b>     | <b>8,585,986</b>    |

## Changes in Share Capital and Shareholdings of Substantial Shareholders

### (I) Changes in the total number of shares and the structure of share capital during the Reporting Period are as follows

During the Reporting Period, the issue of 22,755,147 and 287,999,046 A shares (“A Shares”) to Conch Holdings and Conch Venture respectively by the Company as the considerations for the acquisitions of respective assets from Conch Holdings and Conch Venture were approved by CSRC (Zheng Jian Gong Si Zi [2007] No. 74) on 24 April 2007. The registration of the new shares with the Shanghai branch of the China Securities Depository and Clearing Corporation Limited (“CSDCC Shanghai Branch”) was completed on 25 May 2007.

As at the date of this report, Conch Holdings and Conch Venture held 41.19% and 18.39% of the total issued shares of the Company respectively. The changes of shareholdings of Conch Holdings and Conch Venture in the Company during the Reporting Period were as follows:

| Name of shareholders | 1 January 2007            |                             | Change during the Reporting Period | 30 June 2007              |                             |
|----------------------|---------------------------|-----------------------------|------------------------------------|---------------------------|-----------------------------|
|                      | Number of shares (shares) | Percentage of shareholdings | Number of shares (shares)          | Number of shares (shares) | Percentage of shareholdings |
| Conch Holdings       | 622,480,000               | 49.57%                      | 22,755,147                         | <b>645,235,147</b>        | <b>41.19%</b>               |
| Conch Venture        | -                         | -                           | 287,999,046                        | <b>287,999,046</b>        | <b>18.39%</b>               |

The commencement date of listing and trading of the additional 22,755,147 A Shares and 287,999,046 A Shares acquired by Conch Holdings and Conch Venture respectively during the Reporting Period will be 26 May 2010.

Pursuant to the undertaking given by Conch Venture, for so long as it remains holder of the 287,999,046 A Shares of the Company, except the rights of a shareholder of a proprietary nature (including but not limited to rights to dividends), Conch Venture has given up its shareholder’s rights such as voting rights, rights to nominate candidates to be appointed as Directors/supervisors of the Company.

## Changes in Share Capital and Shareholdings of Substantial Shareholders

The changes in the total number of shares and the share capital structure of the Company before and after the issue of A Shares as described above are set out as follows:

| Classes of shares                  | Before change                |                             | Change                           | After change                 |                             |
|------------------------------------|------------------------------|-----------------------------|----------------------------------|------------------------------|-----------------------------|
|                                    | Number of shares<br>(shares) | Percentage of shareholdings | Number of new shares<br>(shares) | Number of shares<br>(shares) | Percentage of shareholdings |
| A. Restricted Shares               | 559,696,000                  | 44.57%                      | 310,754,193                      | 870,450,193                  | 55.57%                      |
| 1. State-owned legal person shares | 559,696,000                  | 44.57%                      | 22,755,147                       | 582,451,147                  | 37.18%                      |
| 2. Domestic legal person shares    | 0                            | 0                           | 287,999,046                      | 287,999,046                  | 18.39%                      |
| B. Unrestricted Shares             | 695,984,000                  | 55.43%                      | 0                                | 695,984,000                  | 44.43%                      |
| 1. Floating A shares               | 262,784,000                  | 20.93%                      | 0                                | 262,784,000                  | 16.78%                      |
| 2. Floating H shares               | 433,200,000                  | 34.50%                      | 0                                | 433,200,000                  | 27.65%                      |
| Total                              | 1,255,680,000                | 100%                        | 310,754,193                      | 1,566,434,193                | 100%                        |

## Changes in Share Capital and Shareholdings of Substantial Shareholders

### (II) Total number of shareholders and shareholdings of the top 10 shareholders and top 10 holders of shares without trading restrictions

As at 30 June 2007, the total number of registered shareholders of the Company was 4,580, and 61 of which were holders of H Shares.

| Name of shareholders   | Nature of shareholder   | Number of shares held at the end of the Reporting Period (shares) | Percentage of Shareholdings (%) | Class of Shares | Selling restrictions |
|--|-------------------------|---|---------------------------------|-----------------|----------------------|
| 1. Conch Holdings  | State-owned shareholder | 582,451,147   | 37.18                           | A Shares        | Yes (Note: 1)        |
|  | State-owned shareholder | 62,784,000  | 4.01                            | A Shares        | No (Note: 1)         |
| 2. Conch Venture   | Others                  | 287,999,046   | 18.39                           | A Shares        | Yes (Note: 2)        |
| 3. HKSCC Nominees Limited  | Foreign shareholder     | 432,522,997   | 27.61                           | H Shares        | No                   |
| 4. Agricultural Bank of China – Zhongyou Selected Core Equity Investment Fund  | Others                  | 18,721,018  | 1.20                            | A Shares        | No                   |
| 5. Fenghe Value Securities Investment Fund   | Others                  | 10,526,510  | 0.67                            | A Shares        | No                   |
| 6. China Construction Bank Corporation – Yinhu Selected Core Value Equity Investment Fund                              | Others                  | 6,673,005   | 0.43                            | A Shares        | No                   |
| 7. Bank of Communications – Fuguo Tianyi Value Securities Investment Fund  | Others                  | 6,488,300   | 0.41                            | A Shares        | No                   |
| 8. Industrial and Commercial Bank of China – Guangfa Strategic Aborative – select Composite Securities Investment Fund | Others                  | 5,698,150   | 0.36                            | A Shares        | No                   |
| 9. Bank of China – ChinaAMC Return II Fund   | Others                  | 4,676,314   | 0.30                            | A Shares        | No                   |
| 10. Industrial and Commercial Bank of China – Guangfa Stable Growth Securities Investment Fund                         | Others                  | 4,611,766   | 0.29                            | A Shares        | No                   |
| 11. Agricultural Bank of China – Dacheng Selected Value-added Composite Securities Investment Fund                     | Others                  | 4,569,791   | 0.29                            | A Shares        | No                   |



## Changes in Share Capital and Shareholdings of Substantial Shareholders

*Notes:*

- (1) Listing and trading of the 62,784,000 A Shares of the Company held by Conch Holdings commenced on 7 March 2007 and 582,451,147 A Shares were subject to trading restriction.
- (2) The 287,999,046 A Shares of the Company held by Conch Venture were subject to trading restriction.
- (3) During the Reporting Period, the shares of the Company held by Conch Holdings and Conch Venture were free of any pledge, moratorium or trust.
- (4) HKSCC Nominees Limited held 432,522,997 H Shares, representing 27.61% of the total share capital of the Company, and 99.84% of the issued H share capital of the Company, on behalf of its various clients.
- (5) So far as the Board is aware, the above mentioned holders are not connected to each other nor are parties acting in concert, except that as Conch Venture held 49% shares of Conch Holdings, and it and Conch Holdings, held 18.39% and 41.19% shares of the Company respectively, Conch Venture and Conch Holdings are connected to each other and are parties acting in concert, and that Guangfa Strategic Aborative – select Composite Securities Investment Fund and Guangfa Stable Growth Securities Investment Fund are under GF Fund Management Co., Ltd.
- (6) As at 30 June 2007, the following persons (other than the Directors, supervisors and chief executive of the Company) hold interests or short positions in the shares and underlying shares of the Company which are required to be entered in the register kept by the Company under section 336 of the Securities and Futures Ordinance (“SFO”) (Cap 571 of the Laws of Hong Kong):

| Name of shareholder                      | Number of ordinary shares held                          | Capacity                            | Percentage of shareholding of the relevant class of shares |
|--|---|-------------------------------------|--|
| Conch Holdings                           | 645,235,147 A shares<br>(long position) <i>(Note a)</i> | Beneficial owner                    | 56.94% <i>(Note b)</i>                                     |
| Investment Group                         | 645,235,147 A shares<br>(long position) <i>(Note a)</i> | Interests of controlled corporation | 56.94% <i>(Note b)</i>                                     |
| Conch Venture                            | 645,235,147 A shares<br>(long position) <i>(Note a)</i> | Interests of controlled corporation | 56.94% <i>(Note b)</i>                                     |
| Conch Venture                            | 287,999,046 A shares<br>(long position)                 | Beneficial owner                    | 25.41% <i>(Note b)</i>                                     |
| Morgan Stanley Private Equity Asia, Inc. | 133,200,000 A shares<br>(long position) <i>(Note c)</i> | Interests of controlled corporation | 11.75% <i>(Note b)</i>                                     |
| Morgan Stanley Private Equity Asia, LLC  | 133,200,000 A shares<br>(long position) <i>(Note c)</i> | Interests of controlled corporation | 11.75% <i>(Note b)</i>                                     |

## Changes in Share Capital and Shareholdings of Substantial Shareholders

| <b>Name of shareholder</b>                      | <b>Number of ordinary shares held</b>         | <b>Capacity</b>                               | <b>of the relevant class of shares</b> |
|---|---|---|--|
| Morgan Stanley Private Equity Asia, L.P.        | 133,200,000 A shares (long position) (Note c) | Interests of controlled corporation           | 11.75% (Note b)                        |
| MS Asia Pacific Holdings Limited                | 133,200,000 A shares (long position) (Note c) | Interests of controlled corporation           | 11.75% (Note b)                        |
| MS Asia Pacific Investment Limited              | 133,200,000 A shares (long position) (Note c) | Interests of controlled corporation           | 11.75% (Note b)                        |
| MS Asia Investment Limited                      | 133,200,000 A shares (long position) (Note c) | Others  | 11.75% (Note b)                        |
| International Finance Corporation               | 46,800,000 A shares (Note d)                  | Others  | 4.13% (Note b)                         |
| JPMorgan Chase & Co.                            | 1,110,000 H shares (long position)            | Beneficial owner                              | 0.26% (Note e)                         |
| JPMorgan Chase & Co.                            | 42,250,000 H shares (long position)           | Investment manager                            | 9.75% (Note e)                         |
| JPMorgan Chase & Co.                            | 35,760,200 H shares (long position)           | Custodian Corporation/ Approved lending agent | 8.25% (Note e)                         |
| Taiwan Cement Corporation                       | 55,830,000 H shares (long position)           | Interests of controlled corporation           | 12.89% (Note e)                        |
| The Capital Group Companies, Inc.               | 50,850,000 H shares (long position)           | Investment manager                            | 11.74% (Note e)                        |
| T.Rowe Price Associates Inc. and its affiliates | 38,654,000 H shares (long position)           | Investment manager                            | 8.92% (Note e)                         |
| Baring Asset Management Limited                 | 22,288,000 H shares (long position)           | Investment manager                            | 5.14% (Note e)                         |

*Notes:*

- (a) These 645,235,147 A shares are held in the name of Conch Holdings and in its capacity as the beneficial owner. The registered capital of Conch Holdings is RMB800 million, of which Investment Group holds 51% of the equity interests in Conch Holdings; and Conch Venture holds 49% of the equity interests in Conch Holdings. Pursuant to the SFO, both Investment Group and Conch Venture are deemed to own the entire interests in the shares of the Company held by Conch Holdings.

On 28 December 2005, Conch Holdings executed an agreement with strategic investors, MS Asia Investment Limited (a subsidiary of Morgan Stanley, hereinafter referred to as "MS") and International Finance Corporation (a member of the World Bank Group, hereinafter referred to as "IFC") (the "Transfer Agreement"), whereby Conch Holdings intended to transfer 132,000,000 and 48,000,000 shares to the two strategic investors, MS and IFC respectively. On 31 March 2006, Conch Holdings, MS and IFC entered a supplemental agreement to the Transfer Agreement (the "Supplemental Agreement"), pursuant to which adjustments were made to the number and prices of shares to be transferred to MS and IFC. As a result, the number of shares to be transferred to MS increased from 132,000,000 shares to 133,200,000 shares and the number of shares to be transferred to IFC decreased from 48,000,000 shares to 46,800,000 shares.

## Changes in Share Capital and Shareholdings of Substantial Shareholders

On 30 April 2006, the Company received the “Approval regarding the relevant transfer of some of the State-owned shares of Anhui Conch Cement Company Limited” (Guo Zi Chan Quan [2006] No. 477) from the State-owned Assets Supervision and Administration Commission, agreeing to the transfers of 133,200,000 shares and 46,800,000 shares out of 622,480,000 shares of the Company held by Conch Holdings to MS and IFC respectively. The approval lapsed on 26 April 2007. In addition, as at the end of the Reporting Period, the Company has not yet received the approval documents regarding the transfer of the aforesaid state-owned share from the Ministry of Commerce of the PRC, National Development and Reform Commission.

- (b) The total number of domestic shares was 1,133,234,193 shares, all of which are A Shares.
- (c) Pursuant to the Transfer Agreement and the Supplemental Agreement, MS intended to purchase 133,200,000 A shares. Although the shares transfer under the Transfer Agreement has yet to take effect, pursuant to the SFO, MS is deemed to be interested in the 133,200,000 shares. According to the disclosure of interests form submitted on 29 December 2005 by Morgan Stanley Private Equity Asia Inc. (“MS Inc.”), Morgan Stanley Private Equity Asia, LLC (“MS LLC”), Morgan Stanley Private Equity Asia L.P. (“MSLP”), MS Asia Pacific Holdings Limited (“MSPH”), MS Asia Pacific Investment Limited (“MSPI”) and MS, MS LLC was held as to 58.50% by MS Inc., MSPH and MSLP were held as to 100% and 1% respectively by MS LLC, MSPI was held as to 94.45% by MSLP, and MS was held by MSPH and MSPI as to 63.32% and 36.68% respectively. Pursuant to the SFO, MS Inc., MS LLC, MSLP, MSPH and MSPI are deemed to own the shareholding interests owned by MS.
- (d) Pursuant to the Transfer Agreement and the Supplemental Agreement, IFC intended to purchase 46,800,000 state-owned legal person shares. Although the shares to be transferred under the Transfer Agreement has yet to take effect, pursuant to the SFO, IFC is deemed to be interested in the 46,800,000 shares. However, according to the Company’s records, IFC has not submitted the relevant disclosure of interests forms to the Stock Exchange or to the Company.
- (e) The total number of H Shares in issue was 433,200,00 shares.

Save for the aforesaid shareholders, as at 30 June 2007, the Company is not aware of any interests required to be recorded pursuant to section 336 of the SFO (Chapter 571 of the Laws of Hong Kong).

### (III) PURCHASE, SALES AND REDEMPTION OF LISTED SHARES

For the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed shares of the Company.

### **(I) Appointment or termination of Directors, supervisors and senior management during the Reporting Period**

As approved by the 2006 annual general meeting of the Company held on 8 June 2007, Mr Guo Wensan, Mr Yu Biao, Mr Guo Jingbin, Mr Li Shunan and Mr Ren Yong were appointed as executive Directors of the fourth session of the Board; Mr Kang Woon, Mr Chan Yuk Tong and Mr Ding Meicai were appointed as independent non-executive Directors of the fourth session of the Board while Mr Wang Jun and Mr Wang Yanmou were appointed as supervisors of the fourth session of the Supervisory Committee. Mr Ding Junting was elected as the staff representative supervisor of the Company. The term of office of each Director and supervisor commenced on 1 June 2007, with a term of three years.

On 8 June 2007, the first meeting of the fourth session of the Board was convened, whereby Mr Guo Wensan was elected as chairman of the Board, and at the first meeting of the fourth session of the Supervisory Committee, Mr Wang Jun was elected as chairman of the Supervisory Committee.

Announcements regarding the above-mentioned matter were published by the Company on 13 April 2007 and 11 June 2007.

On 12 April 2007, the eleventh meeting of the third session of the Board appointed Mr Ren Yong as the general manager of the Company, Mr Qi Shengli, Mr Wang Pengfei, Mr He Chengfa, Mr Wang Jianchao and Ms. Zhang Mingjing as the deputy general managers of the Company. Mr Wu Likang and Mr Wang Biao ceased to hold the position of assistant to general manager of the Company.

Announcement regarding the above-mentioned matter was published by the Company on 13 April 2007.

### **(II) Interests of Directors and supervisors**

For the six months ended 30 June 2007, none of the Directors and supervisors of the Company nor any of their respective associates held any shares and debentures or other interests of the Company or its associated corporations, nor had they been granted or exercised any rights to subscribe for shares or debentures of the Company or its associated corporation, which are required to be recorded in the register kept and maintained in accordance with section 352 of the SFO that came into effect on 1 April 2003.

During the Reporting Period, none of the Directors and supervisors had any material interest in any contract entered into by the Company or its subsidiaries.

### **(III) Code on Corporate Governance Practices**

For the six months ended 30 June 2007, the Board was not aware of any information which would indicate that the Company did not comply with the code provisions (the “Code Provisions”) of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of the Stock Exchange.

### **(IV) Model Code**

The Company has adopted a set of code of practice with standards not lower than those prescribed in the Model Code as set out in Appendix 10 to the Listing Rules of the Stock Exchange regarding securities transactions by directors. Having made specific enquiry by the Company, all Directors confirmed that they had complied with the required standard regarding securities transactions by the directors as set out in the Model Code during the Reporting Period.

### **(V) Employees and their remuneration**

As at 30 June 2007, the Group had a total of 18,832 employees whose aggregate remuneration amounted to RMB289,422,894, which was the aggregate remuneration of the employees for the Reporting Period.



## Management Discussion and Analysis

### Business Environment

During the first half of 2007, there was a period-on-period increase of approximately 11.5% in GDP of the PRC, representing an increase of 0.6 percentage points as compared with the same period last year, a record high over the past 11 years. Fixed asset investments recorded a period-on-period increase of 25.9%. In light of such economic climate, the State introduced a series of reinforced austerity measures to prevent the overheat of economic development which has been growing in a relatively fast pace. (Source: National Bureau of Statistics)

During the first half of 2007, the cement industry actively implemented the State's austerity measures and the relevant policies on the cement industry, indicating positive development. The restructuring of the industry accelerated with more cement manufacturers of low production capacity were eliminated. The production capacity of new dry-processed cement accounted for approximately 53% of the total production capacity of cement as compared with 50% at the end of last year. Total exports volume of cement and clinker of the industry slightly increased as compared with the same period last year. Demand and supply of the cement market became more balanced. In addition to seasonal increase, the price of cement was generally higher than that of the corresponding period last year. (Source: National Development and Reform Commission)

### Operation Overview

During first half of 2007, the Company positively focused on the development of the macro economic environment and market conditions, and by increasing the selling price of its products and sales volume in a timely manner, the Company was able to overcome the adverse impact of the appreciation of Renminbi and the cancellation of export tax rebate and successfully achieved its product export target over its expected level. Meanwhile, the Company accelerated the construction progress of residual heat generating projects and implementing various energy-saving and emission reduction measures to relieve the cost pressure arising from the increase of price in coal and electricity and thereby steadily improve its overall operation. During the Reporting Period, the production and sales volumes, operating income and profit of cement and clinker products of our Group recorded significant growth over the same period last year.

## Management Discussion and Analysis

As at 30 June 2007, the Group recorded sales volume of 39,950,000 tonnes, representing an increase of 15.06% over the same period last year. The Group's income from principal operations, calculated in accordance with the PRC Accounting Standards, amounted to RMB8,223,860,000, representing an increase of 22.01% over the same period last year. Net profit attributable to the equity shareholders of the Company was RMB881,120,000, representing an increase of 50.39% over the same period last year. Earnings per share amounted to RMB0.64. The Group's sales revenue amounted to RMB8,223,870,000 calculated in accordance with the IFRS, representing an increase of 22.73% over the same period last year. Profit after tax and minority interests amounted to RMB897,110,000, representing an increase of 52.08% over the same period last year. Earnings per share amounted to RMB0.65.

During the Reporting Period, the increase in operating income of the Group was mainly due to the increase in selling prices and sales volume. Despite the fact that the first season is the low season for the sale of cement, market demand still grew steadily resulting from the pull of investment in fixed assets and the selling prices of the Group's cement and clinker products increased by different levels during the second season. In term of types of products, sales amount of grade 42.5 cement, grade 32.5 cement and clinker rose by 31.71%, 19.69% and 9.66% respectively as compared with the same period last year.

### Breakdown of sales amount by products (prepared in accordance with the PRC Accounting Standards)

(Unit: RMB'000)

| Products   | January to June 2007 |                | January to June 2006 |                |
|------------|----------------------|----------------|----------------------|----------------|
|            | Sales amount         | Percentage (%) | Sales amount         | Percentage (%) |
| Cement     |                      |                |                      |                |
| Grade 42.5 | 3,737,337            | 45.45%         | 2,837,491            | 42.10%         |
| Grade 32.5 | 2,467,382            | 30.00%         | 2,061,421            | 30.58%         |
| Sub-total  | 6,204,719            | 75.45%         | 4,898,912            | 72.68%         |
| Clinker    | 2,019,148            | 24.55%         | 1,841,330            | 27.32%         |
| Total      | 8,223,867            | 100.00%        | 6,740,242            | 100.00%        |

## Management Discussion and Analysis

During the Reporting Period, the Group's development strategy in Southern China was a remarkable success. Due to the full utilization of the production capacity of the four clinker production lines each with a daily capacity of 5,000 tonnes and four cement grinding machines each with an aggregate annual production capacity of 4.8 million tonnes of Yingde Conch Company Limited ("Prosperity Conch"), the Group's product prices and sales volume in Southern China rose significantly, and as a result, the sales amount recorded a period-on-period increase of 49.71%. Moreover, fuelled by the increase in infrastructure projects and investments in new rural construction projects, sales amount in the Eastern China such as Anhui Province and Fujian Province maintained substantial increases of 51.28% and 50.27% respectively.

### Breakdown of sales amount by regions (prepared in accordance with the PRC Accounting Standards)

(Unit: RMB'000)

| Region         | January to June 2007 |                | January to June 2006 |                | Difference as compared with the same period last year (%) |
|----------------|----------------------|----------------|----------------------|----------------|---|
|                | Sales amount         | Percentage (%) | Sales amount         | Percentage (%) |   |
| Eastern China  | 4,998,047            | 60.77          | 4,073,883            | 60.44          | 22.69   |
| Southern China | 1,601,557            | 19.48          | 1,069,784            | 15.87          | 49.71   |
| Export         | 1,624,263            | 19.75          | 1,596,575            | 23.69          | 1.73  |
| Total          | 8,223,867            | 100            | 6,740,242            | 100            | 22.01   |

## Management Discussion and Analysis

### Profit Analysis

An analysis of changes to the Group's major profit and loss items, prepared in accordance with the PRC Accounting Standards, is set out as follows:

#### Changes to the Group's major profit and loss items (prepared in accordance with the PRC Accounting Standards)

(Unit: RMB'000)

| Items   | Amount                |                       | Difference<br>as compared<br>with the<br>same period<br>last year<br>(%) |
|---|-----------------------|-----------------------|--|
|   | First half<br>of 2007 | First half<br>of 2006 |  |
| Income from principal operations                                  | <b>8,223,867</b>      | 6,740,242             | 22.01  |
| Profit from operations  | <b>1,227,567</b>      | 913,101               | 34.44  |
| Total profit  | <b>1,396,955</b>      | 1,050,371             | 33.00  |
| Net profit attributable the equity<br>shareholders of the Company | <b>881,116</b>        | 585,891               | 50.39  |
| Net cash flow from operating activities                           | <b>738,155</b>        | 894,228               | (17.45)  |

During the Reporting Period, the Group's profit from operations amounted to RMB1,227,570,000, representing a period-on-period increase of 34.44%; total profit amounted to RMB1,396,960,000, representing a period-on-period increase of 33.00%; net profit attributable to equity shareholders of the Company amounted to RMB881,120,000, representing a period-on-period increase of 50.39%. The increase in profit was mainly attributable to the general increase in prices and sales volume. However, total production cost for the period recorded an increase of 2.91% over the same period last year as a result of higher coal prices and electricity tariffs etc.

## Management Discussion and Analysis

### Gross profit by products for the period from January to June 2007 and period-on-period comparison (prepared in accordance with the PRC Accounting Standards)

(Unit: RMB'000)

| Products          | Income from principal operations | Cost of principal operations | Gross margin during the Reporting Period (%) | Gross margin for the same period in last year (%) | Change of Gross margin as compared with the same period in last year (percentage points) |
|-------------------|----------------------------------|------------------------------|--|---|--|
| Grade 42.5 cement | 3,737,337                        | 2,716,137                    | 27.32  | 25.03   | 2.29   |
| Grade 32.5 cement | 2,467,382                        | 1,649,413                    | 33.15  | 27.25   | 5.90   |
| Clinker           | 2,019,148                        | 1,428,290                    | 29.26  | 31.29   | (2.03)   |
| Total             | 8,223,867                        | 5,793,840                    | 29.55  | 27.42   | 2.13   |

During the Reporting Period, the Group's consolidated gross margin recorded a period-on-period increase of 2.13 percentage points. Nonetheless, under the impacts of appreciation in RMB and lifting of cement export tax refund, the gross margin of clinker had a period-on-period decrease of 2.03 percentage points.



## Management Discussion and Analysis

### Expenses for the period (prepared in accordance with the PRC Accounting Standards)

(Unit: RMB'000)

| Expenses during the period     | Amount during the Reporting Period | Amount of the same period last year | Percentage to income from principal operations during the Reporting Period (%) | Percentage to income from principal operations for the same period last year (%) | Difference on percentage to income from principal operations (%) |
|--------------------------------|------------------------------------|-------------------------------------|--|--|--|
| Selling and marketing expenses | 579,442                            | 502,232                             | 7.05   | 7.45   | (0.40)   |
| Administrative expenses        | 284,159                            | 215,240                             | 3.46   | 3.19   | 0.27   |
| Net finance expenses           | 301,076                            | 245,216                             | 3.66   | 3.64   | 0.02   |
| Total                          | 1,164,677                          | 962,688                             | 14.16  | 14.28  | (0.12)   |

During the Reporting Period, the Group exercised sound control over all expenses. Increases in selling and marketing expenses and finance expenses were mainly attributable to increase in sales volume and the upward adjustment of interest rate by the People's Bank of China.

### Financial Conditions

#### Asset and liability status

As at 30 June 2007, the Group's total assets, total liabilities and net assets, prepared in accordance with the PRC Accounting Standards, amounted to RMB25,700 million, RMB15,900 million and RMB9,700 million respectively.

The gearing ratio, prepared in accordance with the PRC Accounting Standards, was 62.04%, representing an increase of 0.62 percentage points over the end of last year; while the debt-to-equity ratio, prepared in accordance with IFRS was 1.21, representing a slight increase as compared with the end of last year.

## Management Discussion and Analysis

### Change in balance sheet items (prepared in accordance with the PRC Accounting Standards)

(Unit: RMB'000)

| Items  | As at<br>30 June<br>2007 | As at<br>31 December<br>2006 | Increase/<br>decrease<br>(%) |
|--|--------------------------|------------------------------|------------------------------|
| Fixed assets                                       | 16,304,935               | 14,919,314                   | 9.29                         |
| Current and other assets                           | 9,355,714                | 7,936,501                    | 17.88                        |
| Total assets                                       | 25,660,649               | 22,855,815                   | 12.27                        |
| Current liabilities                                | 7,101,077                | 6,832,145                    | 3.94                         |
| Non-current liabilities                            | 8,819,606                | 7,206,485                    | 22.38                        |
| Minority interest                                  | 388,757                  | 1,499,706                    | (74.08)                      |
| Equity interest attributable to<br>holding company | 9,351,209                | 7,317,480                    | 27.79                        |
| Total liabilities and equity                       | 25,660,649               | 22,855,815                   | 12.27                        |

### Liquidity and source of funds

As at 30 June 2007, the Group's total current assets and total current liabilities, prepared in accordance with the PRC Accounting Standards, were RMB4,483.04 million and RMB7,101.08 million respectively. The current ratio was 0.63:1.

As at 30 June 2007, the Group's total current assets and total current liabilities, prepared in accordance with IFRS, were RMB4,483.04 million and RMB7,101.08 million respectively. The net current liabilities were RMB2,618.04 million.

## Management Discussion and Analysis

Maturity analysis of bank loans and other borrowings of the Group as at 30 June 2007 is as follows:

| <b>Maturity date</b>                 | <b>As at<br/>30 June<br/>2007<br/>(RMB'000)</b> | <b>As at<br/>31 December<br/>2006<br/>(RMB'000)</b> |
|--------------------------------------|---|---|
| Due within 1 year                    | <b>3,597,380</b>                                | 3,457,380   |
| Due after 1 year but within 2 years  | <b>3,603,000</b>                                | 2,408,939   |
| Due after 2 years but within 5 years | <b>4,156,970</b>                                | 3,779,800   |
| Due after 5 years                    | <b>992,727</b>                                  | 980,000   |
| <b>Total</b>                         | <b>12,350,077</b>                               | 10,626,119  |

As at 30 June 2007, outstanding capital commitments in respect of the purchase of machinery and equipment for production purposes but not yet provided for in the accounts are as follows:

|                                   | <b>As at<br/>30 June<br/>2007<br/>(RMB'000)</b> | <b>As at<br/>31 December<br/>2006<br/>(RMB'000)</b> |
|-----------------------------------|---|---|
| Authorised and contracted for     | <b>5,547,593</b>                                | 2,210,776   |
| Authorised but not contracted for | <b>645,861</b>                                  | 2,262,920   |
| <b>Total</b>                      | <b>6,193,454</b>                                | 4,473,696   |

## Management Discussion and Analysis

A summary of the Group's net cash flow from January to June 2007, prepared in accordance with the PRC Accounting Standards, is set out as follows:

|   | <b>January to<br/>June 2007<br/>(RMB'000)</b> | <b>January to<br/>June 2006<br/>(RMB'000)</b> |
|---|---|---|
| Net cash flow from operating activities                   | <b>738,155</b>                                | 894,228                                       |
| Net cash flow used in investment activities               | <b>(2,544,520)</b>                            | (1,268,630)                                   |
| Net cash flow from financing activities                   | <b>1,306,897</b>                              | 186,359                                       |
| Net decrease in cash and cash equivalents                 | <b>(499,468)</b>                              | (188,042)                                     |
| Cash and cash equivalents at the<br>beginning of the year | <b>1,331,084</b>                              | 1,473,405                                     |
| Cash and cash equivalents at the end<br>of the period     | <b>831,616</b>                                | 1,285,363                                     |

During the Reporting Period, net cash outflow of the Group amounted to RMB499.47 million, an increase in net outflow of RMB311.43 million over the same period last year, due to the Group's needs for investments in project construction.

### **Capital expenditure**

During the Reporting Period, the aggregate expenses of investment activities and capital expenditure of the Group amounted to RMB2,500 million, which was mainly applied for the investment in the construction of cement, clinker and residual heat generating projects.

# Management Discussion and Analysis

## Project Investments of the Group

### 1. Investments in significant projects during the Reporting Period

(Unit: RMB'000)

| No. | Project name  | Progress of Project | Amount invested during Reporting Period |
|-----|---|---------------------|---|
| 1   | Technology upgrade project of a clinker production line with daily production capacity of 4,000 tonnes of Beiliu Conch Cement Company Limited ("Beiliu Conch")  | In operation        | 45,320                                  |
| 2   | Phase 2 of two clinker production lines each with daily production capacity of 5,000 tonnes and grinding station project of Wuhu Conch Cement Co., Ltd. ("Wuhu Conch")                                      | In operation        | 174,763                                 |
| 3   | Construction of two clinker production lines each with a daily production capacity of 5,000 tonnes of Anhui Xuancheng Conch Cement Co., Ltd.  | Under construction  | 296,815                                 |
| 4   | Phase 3 of two clinker production lines each with daily production capacity of 4,500 tonnes and residual heat electricity generation project of Anhui ChizhouConch Cement Compant Limited ("Chizhou Conch") | Under construction  | 285,697                                 |
| 5   | Technology upgrade project of Phase 3 of two clinker production lines each with a daily production capacity of 4,500 tonnes of Anhui Digang Conch Cement Company Limited ("Digang Conch")                   | Under construction  | 256,440                                 |
| 6   | Technology upgrade project of Phase 2 of a clinker production line with daily production capacity of 4,500 tonnes of Fusui Xinning Conch Cement Company Limited   | Under construction  | 136,817                                 |



## Management Discussion and Analysis

| No. | Project name  | Progress of Project | Amount invested during Reporting Period |
|-----|---|---------------------|---|
| 7   | Construction of a clinker production line with daily production capacity of 5,000 tonnes and grinding station and residual heat electricity generation project of Shimen Conch Cement Company Limited | Under construction  | 32,691                                  |
| 8   | Phase 2 of a project of cement grinding station with annual production capacity of 1,600,000 tonnes of Jiangsu Baling Conch Cement Co., Ltd. ("Baling Conch")   | In operation        | 26,387                                  |
| 9   | Construction of a cement grinding station with annual production capacity of 3,200,000 tonnes of Zhanjiang Conch Cement Company Limited   | Under construction  | 133,640                                 |
| 10  | Construction of a cement grinding station with annual production capacity of 3,200,000 tonnes and pier of Ninghai Qiangjiao Conch Co., Ltd.   | Under construction  | 61,195                                  |
| 11  | Construction of residual heat electricity generation project of Anhui Tongling Conch Cement Co., Ltd. ("Tongling Conch"), Anhui Zongyang Conch Cement Co., Ltd. ("Zongyang Conch") and Digang Conch   | Under construction  | 137,913                                 |

During the Reporting Period, two clinker production lines each with daily production capacity of 5,000 tonnes of Wuhu Conch and a clinker production line with daily production capacity of 4,000 tonnes of Beiliu Conch; as well as the expansion projects of cement grinding stations of Anhui Changfeng Conch Cement Company Limited ("Changfeng Conch"), Bengbu Conch Cement Co., Ltd. ("Bengbu Conch") and Baling Conch have been completed and put into operation. The residual heat electricity generation projects of the 16,300KW project of Tongling Conch, the 18,500KW project of Zongyang Conch, and the 18,500KW project of Digang Conch have been put into operation as scheduled.

### **2. Investment in major project companies during the Reporting Period**

During the Reporting Period, the Company did not make any new investment in project companies.

### **Outlook for the second half of 2007**

For the second half of 2007, with the anticipated robust development of the overall PRC macro economy, fixed asset investments will maintain a steady trend of growth. It is expected that the PRC Government will implement further austerity measures and adopt prudent and relatively stringent fiscal and currency policies. Approval for development of resources such as land and mine will remain stringent, which will be favourable for the development of major cement enterprises.

During the second half of the year, under the combined effect of energy saving and emission reduction as well as various environmental policies and measures adopted by the State, it is expected that obsolete cement factories will be phased out at an accelerating pace with a relatively mild increase in cement production capacity. Though confronting with the appreciation of RMB and the lifting of export tax refund policy, it is expected that export volumes of domestic cement and clinker will decrease. Nevertheless, driven by the investments in fixed assets and infrastructure projects, it is expected that overall demand of cement will maintain steady growth during the second half of the year and prices of the cement will be rising in a moderate pace.

In light of this, in the second half of the year, the Group will further strengthen its internal production management and improve its efficiency. The Group will also enhance the study of market trend to gain more control on the regional market. The Company will seek to increase its total sales volume while maintaining the export sales volume. The Company will also optimize and expand the sourcing of coal to ensure high quality and attractive price. At the same time, we are committed to becoming a model of recycling economy and environmentally friendly enterprise by developing residual heat electricity generation projects, promoting the application of advanced environmentally friendly technology with low energy consumption and implementing various energy saving and emission reduction measures.

### (I) CORPORATE GOVERNANCE

Since the listing of its shares on the Stock Exchange in Hong Kong in 1997 and in SSE in 2002, the Company has made strenuous efforts to enhance its structure of corporate governance and standardise its operations in compliance with the relevant listing rules and regulatory requirements in the PRC and overseas. The assets of the Company are intact and its business is independent. Its staff, organisation and finance are independent from the controlling shareholder. Each of the general meetings of the Company, meetings of the Board and the supervisory committee of the Company has discharged its own duties in a way to be cooperative, supervisory and balanced among each other to ensure there was an independent, effective and transparent decision-making process. Two professional committees, namely the Audit Committee and the Remuneration and Nomination Committee as set up by the Board comprising independent non-executive Directors as their members, have played an active role in enhancing efficiency in the decision-making process of the Board. The efficient operation of corporate governance of the Company is thereby safeguarded and the operational quality of the Company is continuously upgraded.

During the Reporting Period, the Company has reviewed and refined its corporate governance status pursuant to the “Notice on the relevant matters regarding the specific event for Strengthening Corporate Governance of Listed Companies” issued by CSRC (Zheng Jian Gong Si Zi No. 28 [2007]) on 29 March 2007. Furthermore, the Company has established a task group with the Chairman of our Board being the primary person in charge to monitor the review of corporate governance in accordance with the Company Law, Securities Law, administration rules as well as internal regulation under the Articles of Association of the Company to ensure the compliance with the Notice. An announcement in relation to internal review was published on 6 July 2007.

### **(II) IMPLEMENTATION OF THE PROFIT ALLOCATION PROPOSAL**

The resolution regarding the profit allocation proposal for 2006 was passed at the 2006 annual general meeting of the Company held on 8 June 2007.

On 27 April 2007, each of Conch Holdings and Conch Venture agreed to waive their dividends entitlement for the year 2006 payable to the 22,755,147 and 287,999,046 A shares acquired by them respectively as the consideration of acquisition of their assets by the Company. Therefore, based on a total of 1,255,680,000 shares, a final dividend of RMB2.00 in cash per ten shares (tax included) was paid to the shareholders, making a total of RMB251,136,000.

As at 2 July 2007, the said dividend was paid to all shareholders whose name appeared on the register of members on the registration date of entitlement. No profit allocation proposal was implemented by the Company and no surplus reserve was transferred to share capital during the first half of 2007.

### **(III) MATERIAL LITIGATION AND ARBITRATION**

For the six months ended 30 June 2007, the Group was not involved in any litigation or arbitration, which might have a significant impact on the Company's business operation, nor were any of the Directors, supervisors or senior management of the Company involved in any material litigation.

### **(IV) MATERIAL ACQUISITION, DISPOSALS AND REORGANISATIONS OF ASSETS**

#### **1. Acquisition of shares in Chaodong Joint Stock Company**

On 13 April 2007, the acquisition of a certain number of shares of Anhui Chaodong Cement Joint Stock Company Limited ("Chaodong Joint Stock Company") by the Company was approved by the CSRC (Zheng Jian Gong Si Zi No. 67 [2007]), and the registration of the transfer of shares with CSDCC Shanghai Branch was completed on 1 June 2007. On 9 May 2007, the Company paid Anhui Chaodong Cement Group Company Limited the consideration of RMB97,676,536 for acquisition of 39,385,700 shares in Chaodong Joint Stock Company (representing approximately 19.69% of the total shares of Chaodong Joint Stock Company). The consideration represented 6.96% of the total profit of the Company during the Reporting Period.

Pursuant to the resolution passed at the general meeting of Chaodong Joint Stock Company held on 8 May 2007 in relation to share segregation reform which was implemented on 18 July 2007, the 39,385,700 shares in Chaodong Joint Stock Company held by the Company represented 16.28% of the total share capital of Chaodong Joint Stock Company after the share segregation reform.

The acquisition of shares of Chaodong Joint Stock Company constitutes a connected transaction under the Listing Rules of SSE, but does not constitute a connected transaction under the Listing Rules of the Stock Exchange.

Acquisition of shares in Chaodong Joint Stock Company did not affect the continuance of the operations and the stability of the management of the Company and did not have significant impact on the financial position and operating results of the Company.

### **2. Acquisition of assets financed by the issue of shares**

On 21 August 2006, the Company entered into the Assets Purchase Agreement with Conch Holdings, whereby the Company intended to issue A shares to Conch Holdings as the consideration for the acquisition of the equity interests in Three Companies.

On 21 August 2006, the Company entered into the Assets Purchase Agreement with Conch Venture, whereby the Company intended to issue A shares to Conch Venture as the consideration for the acquisition of 49% of the equity interests in Digang Conch, 49% of the equity interests in Zongyang Conch, 49% of the equity interests in Chizhou Conch and 31.86% of the equity interests in Tongling Conch (together the “Four Companies”), all of which are subsidiaries in which the Company has controlling interests.

On 24 April 2007, according to “Approval on the issue of shares by Anhui Conch Cement Company Limited to Anhui Conch Holdings Company Limited and Anhui Conch Venture Investment Company Limited as consideration for purchase of assets” (Zheng Jian Gong Si Zi No. 74 [2007]), the issue of shares by the Company as consideration for the acquisitions of the respective equity interests in the above Three Companies and Four Companies for the acquisition was approved by CSRC. On the same day, CSRC issued “Approval in relation to granting Anhui Conch Holdings Company Limited and Anhui

## Major Events

Conch Venture Investment Company Limited a whitewash waiver from their obligations to make general offer to acquire shares of Anhui Conch Cement Company Limited” (Zheng Jian Gong Si Zi No. 75 [2007], which granted a waiver from the obligation of Conch Holdings and the parties acting in concert with it to make a general offer for acquisition of shares.

On 25 May 2007, the Company completed the acquisition of assets from Conch Holdings and Conch Venture. Ascenda Certified Public Accountants, Ltd. has issued a verification report in respect of the shares issued for the acquisition (Ascenda Yan (2007) GF No. 070004.

The Board of the Company has made relevant arrangement for the abovementioned issue of shares pursuant to the terms and conditions of the approvals and the authorisation from the general meeting of the Company. The registration of the issue of such new shares with CSDCC Shanghai Branch was completed on 25 May 2007. The Company completed the registration and filing of the issue of new shares and the amendments of the Articles of Association in respect of the change in the issue of new shares at Administration for Industry and Commerce, Anhui Branch on 4 July 2007. The registered capital of the Company increased to RMB1,566,434,193 from RMB1,255,680,000 while its total number of shares increased to 1,566,434,193 from 1,255,680,000.

The issue of shares for acquisition of assets constitutes a connected transaction under the Listing Rules of SSE and a connected transaction under the Listing Rules of the Stock Exchange.

The issue of shares for acquisition of assets enhanced the profitability of the Group and did not affect the continuance of the operations and the stability of the management of the Company.

### (V) CONNECTED TRANSACTIONS

#### A. Connected transactions in ordinary course of business

##### 1. *Use of trademark*

On 23 September 1997, the Company and Conch Holdings entered into the Trademark Licensing Agreement (“Trademark Licensing Agreement”), pursuant to which the Company may use the trademarks (including trademarks such as “海螺” and “Conch”) on permitted products in permitted regions pursuant to the period as set out in the terms of the Trademark Licensing Agreement. The valid period of the Trademark Licensing Agreement shall be the same as the valid period of the permitted trademarks, and should the permitted trademarks be extended, the Trademark Licensing Agreement in respect of the trademark shall be extended automatically. Pursuant to Trademark Licensing Agreement, the Company is required to pay RMB1.513 million for the use of the trademark of Conch Holdings on an annual basis.

During the Reporting Period, the amount payable pursuant to the Trademark Licensing Agreement amounted to RMB756,500. The Company has not yet paid to Conch Holdings the said amount during the Reporting Period.

##### 2. *Composite services*

The Company and Conch Holdings entered into the Composite Services Contract for a term of 10 years commencing on 1 September 1997 (date of establishment of the Company). The composite services provided by Conch Holdings to the Company include landscaping, education, medical, labour insurance and security, etc. Pursuant to the Composite Services Contract, the Group is required to pay Conch Holdings a fee of RMB1,381,700 which had been paid by the Company to Conch Holdings during the Reporting Period.

### **3. Procurement of clinker**

On 29 June 2007, upon the approval of the Board, Jiangmen Conch Cement Co., Ltd. (“Jiangmen Conch”), a wholly-owned subsidiary of the Company and Yingde Longshan Cement Co., Ltd. (“Longshan Company”) entered into a Clinker Procurement Agreement for the procurement of clinker by Jiangmen Conch from Longshan Company. The term of the agreement commenced on 29 June 2007 and will expire on 31 December 2007.

It is estimated that the amount of clinker purchased by Jiangmen Conch from Longshan Company for the year 2007 will not exceed RMB172,800,000. The selling price of clinkers is determined with reference to market price and after negotiation between the Group and Longshan Company which shall not be higher than that offered to other independent customers by Longshan Company. Jiangmen Conch will mainly consider the cost, product quality, market demand and the price of similar products offered by other third parties within the same area to determine whether the Group will procure clinker from Longshan Company or other independent suppliers.

Jiangmen Conch will settle the payment for clinker procured from Longshan Company by its working capital on a monthly basis. During the Reporting Period, Jiangmen Conch did not purchase any clinker from Longshan Company.

Please refer to the announcement published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 3 July 2007 for further details.

### **4. Procurement of spare parts and production ancillary materials**

On 29 June 2007, upon the approval of the Board, Prosperity Conch, a subsidiary of the Company, and Longshan Company entered into a Spare Parts and Production Ancillary Materials Procurement Agreement in relation to the mutual procurement of spare parts and production ancillary materials. The term of the agreement commenced on 29 June 2007 and will expire on 31 December 2007.



## Major Events

It is expected that in the year 2007, the amount of the mutual procurement of spare parts between Prosperity Conch and Longshan Company will not exceed RMB10 million, and the amount of mutual procurement of production ancillary materials will also not exceed RMB10 million with a total amount of not more than RMB20 million. Both Prosperity Conch and Longshan Company will continue to procure spare parts and production ancillary materials from other suppliers if the supply among themselves are not sufficient.

The selling price of spare parts and production ancillary materials offered by Prosperity Conch and Longshan Company respectively is the price they procured from their respective suppliers.

The payment for procuring spare parts and production ancillary materials by Prosperity Conch from Longshan Company will be settled by Prosperity Conch's internal resources on a monthly basis. During the Reporting Period, Prosperity Conch did not procure any spare parts and production ancillary materials from Longshan Company.

Please refer to the announcement published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 3 July 2007 for further details.

### **B. Residual heat power generation project**

1. On 8 May 2007, upon the approval of the Board, the Company and Anhui Conch Kawasaki Engineering Company Limited ("Conch Kawasaki") entered into a Design and Sale of Equipment Contract pursuant to which Conch Kawasaki will provide installation of equipment and design service for the residual heat power generation projects for three subsidiaries and a branch company of the Company. The total contract amount was RMB355,200,000.
2. On 29 June 2007, upon the approval of the Board, the Company and Conch Kawasaki entered into a Supply and Design of Equipment Contract pursuant to which Conch Kawasaki will provide a whole set of equipment and design service for the construction of residual heat power generation projects for 13 subsidiaries of the Company. The total contract price was RMB816,300,000. The contract will become effective upon obtaining approval at the general meeting.

The price of the transactions between the Company and Conch Kawasaki was determined with reference to the cost (mainly depends on the scale and technical requirements of the project) and the prevailing market prices as well as the price charged by Conch Kawasaki to other customers and after negotiation between both parties but shall not be less favourable than that offered by Conch Kawasaki to independent customers.

Conch Kawasaki provided a whole set of equipment and design services for all residual heat power generation projects of the Group during the Reporting Period. The Group had paid an aggregate amount of equipment cost and design fee in the sum of RMB119.37 million.

Please refer to the announcements published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 9 May 2007 and 3 July 2007 respectively for further details.

### **C. Cement and clinker project design**

On 29 June 2007, upon the approval of the Board, the Company entered into a Composite Project Design Contract with Anhui Conch Construction Materials Design Centre (“Conch Design”), pursuant to which, the parties agree that Conch Design will provide services including design and technological modification of clinker production lines and grinding mill systems for certain subsidiaries and a branch company of the Company totalling 21 in number for a total consideration of RMB36,150,000. The design fee was determined by the parties after arm’s length negotiation with reference to the scale charge for project design promulgated by the National Development and Reform Commission and Ministry of Construction in 2002 and based on the project scale, investment amount, scope of design, standard of technology and the prevailing market prices. The fees including the design will be settled in accordance with the progress of the project. During the Reporting Period, the design fee paid by the Group to Conch Design amounted to RMB6,812,000.

Please refer to the announcement published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 3 July 2007 for further details.

### **D. Acquisition of 25% equity interest in Wuhu Plastic**

On 29 June 2007, upon the approval of the Board, the Company entered into an Equity Transfer Agreement with Cheong Sing Merchandise Agency Limited (“Cheong Sing”), pursuant to which, the parties agreed that the Company acquired 25% of the equity interest in Wuhu Plastic held by Cheong Sing at a consideration of RMB13,760,000. The transaction will be effective upon approval by the relevant approving authorities.

The consideration for the acquisition of 25% equity interest in Wuhu Plastic from Cheong Sing was determined with reference to the price for the acquisition of 75% equity interest in Wuhu Plastic by the Company which was completed on 25 May 2007, (the consideration for that transaction was RMB41,290,000) as well as the percentage of equity interest in Wuhu Plastic acquired. The consideration will be funded by internal resources of the Company.

During the Reporting Period, application has been made for the approval of the Equity Transfer Agreement with the department of foreign investment. The Company has not paid the consideration to Cheong Sing.

The acquisition of 25% equity interest in Wuhu Plastic constitutes a connected transaction under the Listing Rules of the Stock Exchange but not under the Listing Rules of SSE.

Please refer to the announcement published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 3 July 2007 for further details.

**E. Please refer to “(IV) Material Acquisition, Disposals and Reorganisations of Assets” “1. Acquisition of shares in Chaodong Joint Stock Company” set out in this section for further information regarding the connected transaction of acquisition of shares in Chaodong Joint Stock Company.**

**F. Please refer to “(IV) Material Acquisition, Disposals and Reorganisations of Assets” “2. Acquisition of assets financed by the issue of shares” set out in this section for further information regarding the connected transactions of acquisition of the equity interests of the Three Companies by issuing shares to Conch Holdings and acquisition of the equity interests of the Four Companies by issuing shares to Conch Venture.**

### (VI) Transactions with the Three Companies and the Four Companies

#### 1. Transactions with the Three Companies

Pursuant to the “Assets Purchase Agreement” entered into by the Company and Conch Holdings on 21 August 2006, during the period from the date of execution of the agreement to the date of completion of the acquisition, any major decision of the Three Companies shall be subject to approval by the Company and the Company shall assume or shall be entitled to all the profit or loss (if any) of the Three Companies. On 25 May 2007, the acquisition of the equity interests in the Three Companies was completed.

During the Reporting Period, the Company purchased cement package bags from Ningchang Company and Wuhu Plastic (and their subsidiaries); Conch International Trading provided export sales of cement and clinker products and procurement of imported equipment for the Group; Shanghai Conch Logistics Company Limited, a subsidiary of Conch International Trading, provided non-exclusive shipping services for the delivery of the Group’s materials and equipment. The profit or loss arising from such transactions had no material impact on the operating results of the Group. The operating results of the Three Companies have been consolidated into the accounts of the Company during the Reporting Period.

#### 2. Transactions with the Four Companies

Pursuant to the “Assets Purchase Agreement” entered into by the Company and Conch Venture on 21 August 2006, during the period from the date of execution of the agreement to the date of completion of the acquisition, the Company and Conch Venture agreed to procure that the Four Companies shall not distribute any dividend and all accumulated profits of the Four Companies should be retained for the benefits of the Company upon completion of the transfer of the equity interests. On 25 May 2007, the acquisition of the equity interests in the Four Companies was completed.

## Major Events

During the Reporting Period, the Company purchased clinker or cement from Digang Conch, Zongyang Conch, Chizhou Conch and Tongling Conch, and the Four Companies also purchased clinker or cement from one another. The profit or loss arising from such transactions had no material impact on the operating results of the Group. The results of the Four Companies have been consolidated into accounts of the Company during the Reporting Period.

### (VII) MATERIAL CONTRACTS

1. The Company was not involved in any material custody, underwriting or leasing of assets of other companies, nor were any other companies involved in any custody, underwriting or leasing of assets of the Company during the Reporting Period or during the previous period but subsisting in the Reporting Period.
2. **Guarantees**

During the Reporting Period, external guarantees of the Company, which have been approved either by the Board or general meeting, were guarantees provided in respect of its own loans and loans of its subsidiaries.

During the Reporting Period, the guarantees provided by the Company for its subsidiaries amounted to RMB50 million, all being guarantees for collateral liabilities. As at 30 June 2007, the balance of guarantees provided by the Company for its subsidiaries amounted to RMB1,605.727 million, representing 12.52% of the net assets of the Company.

During the Reporting Period, the aggregate amount of guarantees provided by the Company for companies with a gearing ratio of over 70% amounted to RMB770 million and such amount did not exceed 50% of its latest audited net assets. The Company had not provided any guarantee for its controlling shareholder, beneficial controlling shareholders, other related parties nor any other entities which were not legal persons or individuals.

As at 30 June 2007, the Group's property, plant and equipment with net value of approximately RMB65,076,000 (31 December 2006: approximately RMB65,587,000) and the Group's land lease prepayment with net value of approximately RMB5,105,000 (31 December 2006: approximately RMB5,119,000) were pledged as security for the Group's bank borrowing of RMB60,000,000 (31 December 2006: approximately RMB60,000,000).

Other non-current pledged loans of the Group were provided by IFC. The loans are committed with fixed interest rate at 5.32% (31 December 2006: 5.32%) per annum and will expire in September 2015. As at 30 June 2007, the Group's property, plant and equipment with net value of approximately RMB740,410,000 (31 December 2006: approximately RMB756,510,000) were pledged as security the above loans. The Group has to satisfy certain financial conditions, which are reviewed by IFC annually, for such loans.

**3. During the Reporting Period, the Company did not make any material trustee investment arrangement.**

**4. Undertakings**

In respect of the acquisition of assets by issuing of shares which was completed on 25 May 2007, Conch Holdings and Conch Venture, shareholders holding more than 5% of the total issued shares of the Company, have undertaken that:

- (1) On 27 April 2007, each of Conch Holdings and Conch Venture undertook to waive their dividends entitlement for the year 2006 payable for the 22,755,147 A Shares and 287,999,046 A Shares issued to them respectively for the acquisition of assets by the Company. Conch Holdings and Conch Venture had fulfilled their undertaking during the Reporting Period.
- (2) On 17 January 2007, Conch Holdings undertook that within four months after completion of the acquisition of assets by issuing shares, it would complete the registration of the building ownership of the properties of Ningchang Company, Wuhu Plastic, Conch International Trading and their respective subsidiaries. Conch Holdings would indemnify the Company in accordance with the relevant agreement if the registration of such building ownership has not been completed during the undertaking period.

## Major Events

As at the end of the Reporting Period, except a property of 4,388.16 square meters of Wuhu Conch Logistics Company Limited (“Wuhu Logistics”, a subsidiary of Conch International Trading”), the building ownership of all other properties of the Three Companies and their respective subsidiaries has been registered. After negotiation, it has been agreed that Conch Holdings will pay to the Company RMB1,882,600 in cash which is determined with reference to the appraised value of the property of 4,388.16 square meter of RMB2,353,200 assessed by Beijing Guo You Da Zheng Asset Appraisal Company Limited as at the record date on 31 May 2006 and taking into account the asset value of RMB1,882,600 which is in proportion to the equity interests Conch Cement acquired in Wuhu Logistics by the Company.

- (3) Pursuant to the Asset Purchase Agreement entered into between the Company and Conch Venture on 21 August 2006, Conch Venture has agreed that if the aggregate audited net profit attributable to the equity interests of the Four Companies acquired by the Company for the year ended 31 December 2006 prepared in accordance with the PRC Accounting Standards is less than RMB319.198 million, Conch Venture agreed that the Company would repurchase such number of shares in the Company at an aggregate consideration of RMB1.00.

The aggregate audited net profit attributable to the equity interests of the Four Companies for the year ended 31 December 2006 audited by our accountants in accordance with the PRC Accounting Standards was RMB338,173,400 which is higher than RMB319.198 million. The Company did not have to repurchase any shares.

### **(VIII) USE OF COMPANY FUNDS BY CONTROLLING SHAREHOLDER AND ITS SUBSIDIARIES**

During the Reporting Period, none of the controlling shareholder nor its subsidiaries had used any of the Company's funds.

### **(IX) AUDIT COMMITTEE**

The Company has established an audit committee. The terms of reference adopted by the audit committee complied with the requirements of the Code Provisions. The audit committee is responsible for the review and supervision of the financial reporting process and the internal control system of the Group and the provision of advice and recommendations to the Board. The audit committee has reviewed the interim report of 2007.

### **(X) SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD**

In the second meeting of the fourth session of Board of the Company held on 25 June 2007, the resolutions regarding of public offer of new A Shares of the Company were passed by means of electronic communication. The Company plans to raise capital of not more than RMB12,037.52 million through a public offering of new A Shares of up to 200 million in 2007. On 28 June 2007, the Company issued notices of the first extraordinary general meeting for the year 2007, H Share class meeting and A Share class meeting for considering such matter.

The first extraordinary general meeting for the year 2007, H Share class meeting and A Share class meeting were convened on 15 August 2007, on which the resolutions regarding of public offer of new A Shares of the Company were passed. Please refer to the relevant announcement of the Company for details.



## Major Events

### (XI) INDEX OF OTHER MATERIAL INFORMATION

Other material information of the Company during the Reporting Period was published in the following newspapers:

| No. | Event   | Date of Publication | Newspaper                    | Page |
|-----|---|---------------------|------------------------------|------|
| 1   | Announcement regarding extension of expiry date of "Asset Purchase Agreement"                   | 2007.1.4            | Shanghai Securities Journal  | A16  |
|     |   | 2007.1.2            | Hong Kong Commercial Daily   | B1   |
|     |   | 2007.1.2            | International Herald Tribune | I    |
| 2   | Announcement regarding expected increase in profits of the results for the year 2006            | 2007.1.29           | Shanghai Securities Journal  | A23  |
|     |   | 2007.1.29           | Hong Kong Commercial Daily   | B3   |
|     |   | 2007.1.29           | China Daily                  | 8    |
| 3   | Announcement regarding listing of floating shares with trading restrictions                     | 2007.3.2            | Shanghai Securities Journal  | D5   |
|     |   | 2007.3.2            | Hong Kong Commercial Daily   | A5   |
|     |   | 2007.3.2            | China Daily                  | 11   |
| 4   | Extract of annual report and results announcement for the year 2006                             | 2007.4.13           | Shanghai Securities Journal  | D31  |
|     |   | 2007.4.13           | Hong Kong Commercial Daily   | B6   |
|     |   | 2007.4.13           | China Daily                  | 18   |
| 5   | Announcement regarding the resolution of the eleventh meeting of the third session of the Board | 2007.4.13           | Shanghai Securities Journal  | D31  |
|     |   | 2007.4.13           | Hong Kong Commercial Daily   | A12  |
|     |   | 2007.4.13           | China Daily                  | 23   |
| 6   | Announcement regarding the tenth meeting of the third session of the Supervisory Committee      | 2007.4.13           | Shanghai Securities Journal  | D31  |
|     |   | 2007.4.13           | Hong Kong Commercial Daily   | A13  |
|     |   | 2007.4.13           | China Daily                  | 22   |
| 7   | Notice of 2006 Annual General Meeting   | 2007.4.23           | Shanghai Securities Journal  | A15  |
|     |   | 2007.4.23           | Hong Kong Commercial Daily   | A8   |
|     |   | 2007.4.23           | China Daily                  | 16   |
| 8   | Announcement regarding clarification of book closure date for H Shares                          | 2007.4.24           | Hong Kong Commercial Daily   | B5   |
|     |   | 2007.4.24           | China Daily                  | 19   |

## Major Events

| No. | Event   | Date of     |                             | Page     |
|-----|---|-------------|-----------------------------|----------|
|     |   | Publication | Newspaper                   |          |
| 9   | 2007 First Quarterly Report   | 2007.4.30   | Shanghai Securities Journal | A129     |
|     |   | 2007.4.30   | Hong Kong Commercial Daily  | A12      |
|     |   | 2007.4.30   | China Daily                 | 16       |
| 10  | Announcement regarding the resolution of the Board  | 2007.4.30   | Shanghai Securities Journal | A129     |
|     |   | 2007.4.30   | Hong Kong Commercial Daily  | A5       |
|     |   | 2007.4.30   | China Daily                 | 17       |
| 11  | Announcement regarding the event that Conch Holdings and Conch Venture waived their entitlements for the dividend payable on shares for the year 2006                                     | 2007.4.30   | Shanghai Securities Journal | A129     |
|     |   | 2007.4.30   | Hong Kong Commercial Daily  | A5       |
|     |   | 2007.4.30   | China Daily                 | 17       |
| 12  | Announcement regarding the event that CSRC approved the application for issue of shares to Conch Holdings and Conch Venture for asset acquisition   | 2007.4.30   | Shanghai Securities Journal | A129     |
|     |   | 2007.4.30   | Hong Kong Commercial Daily  | 16       |
|     |   | 2007.4.30   | China Daily                 | 17       |
| 13  | Asset Acquisition Report concerning the issue of share to designated targets  | 2007.4.30   | Shanghai Securities Journal | A129-134 |
| 14  | Further announcement on connected and major transactions regarding Conch Holdings Transaction and Conch Venture Transaction; and announcement regarding resumption of trading of H Shares | 2007.5.7    | Hong Kong Commercial Daily  | A3       |
|     |   | 2007.5.7    | China Daily                 | 14       |
| 15  | Connected Transaction Announcement  | 2007.5.9    | Shanghai Securities Journal | D12      |
|     |   | 2007.5.9    | Hong Kong Commercial Daily  | B7       |
|     |   | 2007.5.9    | China Daily                 | 13       |

## Major Events

| No. | Event   | Date of Publication | Newspaper                   | Page      |
|-----|---|---------------------|-----------------------------|-----------|
| 16  | Announcement on Connected and Major Transactions and Application for Whitewash Waiver                         | 2007.5.29           | Shanghai Securities Journal | Cover (6) |
|     |   | 2007.5.29           | Hong Kong Commercial Daily  | A2        |
|     |   | 2007.5.29           | China Daily                 | 16        |
|     |   | 2007.4.24           | China Daily                 | 19        |
| 17  | Announcement regarding the resolution of 2006 Annual General Meeting  | 2007.6.11           | Shanghai Securities Journal | A13       |
|     |   | 2007.6.11           | Hong Kong Commercial Daily  | B6        |
|     |   | 2007.6.11           | China Daily                 | 8         |
| 18  | Announcement regarding the first meeting of the fourth session of the Board                                   | 2007.6.12           | Shanghai Securities Journal | B2        |
|     |   | 2007.6.12           | Hong Kong Commercial Daily  | B7        |
|     |   | 2007.6.12           | China Daily                 | 14        |
| 19  | Announcement regarding the first meeting of the fourth session of the Company's supervisory committee         | 2007.6.12           | Shanghai Securities Journal | B2        |
|     |   | 2007.6.12           | Hong Kong Commercial Daily  | B7        |
|     |   | 2007.6.12           | China Daily                 | 14        |
| 20  | Announcement regarding the distribution of dividends for the year 2006  | 2007.6.20           | Shanghai Securities Journal | D10       |
|     |   | 2007.6.20           | Hong Kong Commercial Daily  | B4        |
|     |   | 2007.6.20           | China Daily                 | 8         |
| 21  | Announcement regarding the resolution of the Board and the issue of A shares                                  | 2007.6.26           | Shanghai Securities Journal | D31       |
|     |   | 2007.6.26           | Hong Kong Commercial Daily  | B4        |
|     |   | 2007.6.26           | China Daily                 | 6         |
| 22  | Notice of the first extraordinary general meeting for the year 2007 and class meeting for holders of H shares | 2006.6.29           | Shanghai Securities Journal | D18       |
|     |   | 2006.6.29           | Hong Kong Commercial Daily  | B7        |
|     |   | 2006.6.29           | China Daily                 | 15        |

The aforementioned announcements can be accessed at the website of the SSE (<http://www.sse.com.cn>) by entering the stock code of the Company at "Listed Company Information Search".

## Interim Financial Report (Unaudited)

### Consolidated Income Statement

for the six months ended 30 June 2007 – unaudited  
(Expressed in Renminbi)

|                                    | Note | For the six months<br>ended 30 June |                               |
|------------------------------------|------|-------------------------------------|-------------------------------|
|                                    |      | 2007<br>RMB'000                     | 2006<br>(restated)<br>RMB'000 |
| <b>Revenue</b>                     | 3    | <b>8,223,867</b>                    | 6,700,574                     |
| Cost of sales                      |      | <b>(5,840,197)</b>                  | (4,855,396)                   |
| <b>Gross profit</b>                |      | <b>2,383,670</b>                    | 1,845,178                     |
| Other revenue                      | 5    | <b>311,849</b>                      | 921,371                       |
| Other net loss                     | 5    | <b>(7,599)</b>                      | (1,570)                       |
| Selling and marketing costs        |      | <b>(579,422)</b>                    | (502,231)                     |
| Administrative expenses            |      | <b>(275,679)</b>                    | (215,343)                     |
| Other operating expenses           |      | <b>(119,490)</b>                    | (729,849)                     |
| <b>Profit from operations</b>      |      | <b>1,713,329</b>                    | 1,317,556                     |
| Finance costs                      | 6(a) | <b>(302,419)</b>                    | (261,966)                     |
| Share of profits of associates     |      | <b>1,156</b>                        | 977                           |
| <b>Profit before taxation</b>      | 6    | <b>1,412,066</b>                    | 1,056,567                     |
| Income tax                         | 7    | <b>(384,087)</b>                    | (293,938)                     |
| <b>Profit for the period</b>       |      | <b>1,027,979</b>                    | 762,629                       |
| <b>Attributable to:</b>            |      |                                     |                               |
| Equity shareholders of the Company |      | <b>897,109</b>                      | 589,912                       |
| Minority interests                 |      | <b>130,870</b>                      | 172,717                       |
| <b>Profit for the period</b>       |      | <b>1,027,979</b>                    | 762,629                       |
| <b>Dividends</b>                   | 8    | <b>251,136</b>                      | 87,898                        |
| <b>Earnings per share</b>          | 9    |                                     |                               |
| Basic                              |      | <b>RMB0.65</b>                      | RMB0.46                       |
| Diluted                            |      | <b>N/A</b>                          | N/A                           |

The notes on pages 53 to 69 form part of this interim financial report.

## Interim Financial Report (Unaudited)

### Consolidated Balance Sheet

as at 30 June 2007 – unaudited  
(Expressed in Renminbi)

|   | Note       | As at<br>30 June<br>2007<br>RMB'000 | As at<br>31 December<br>2006<br>(restated)<br>RMB'000 |
|---|------------|-------------------------------------|---|
| <b>Non-current assets</b>   |            |                                     |   |
| Fixed assets  | 10         |                                     |   |
| – Property, plant and equipment   |            | 19,197,897                          | 17,093,540  |
| – Interest in leasehold land held for<br>own use under operating leases |            | 971,466                             | 860,427   |
| Intangible assets   |            | 213,302                             | 198,675   |
| Goodwill  |            | 51,925                              | 51,925  |
| Interest in associates  |            | 164,375                             | 163,219   |
| Loans and receivables   |            | 188,000                             | 128,500   |
| Investments in equity securities  |            | 168                                 | 168   |
| Available-for-sale equity securities                                    | 16(b)(iii) | 263,884                             | –   |
| Deferred tax assets   |            | 62,419                              | 57,465  |
|   |            | <b>21,113,436</b>                   | <b>18,553,919</b>                                     |
| <b>Current assets</b>   |            |                                     |   |
| Inventories   |            | 1,540,936                           | 1,272,879   |
| Trade receivables   | 11         | 1,170,263                           | 650,770   |
| Prepayment and other receivables  |            | 812,141                             | 633,481   |
| Amounts due from related parties  | 16(e)      | 120,251                             | 75  |
| Restricted cash deposits  |            | 7,835                               | 7,528   |
| Cash at bank and in hand  |            | 831,616                             | 1,331,083   |
|   |            | <b>4,483,042</b>                    | <b>3,895,816</b>                                      |
| <b>Current liabilities</b>  |            |                                     |   |
| Trade payables  | 13         | 1,085,333                           | 925,376   |
| Other payables and accruals   |            | 1,826,237                           | 1,572,645   |
| Bank loans and other borrowings   | 12         | 3,597,380                           | 3,457,380   |
| Amounts due to related parties  | 16(e)      | 223,360                             | 101,506   |
| Derivative financial instruments  |            | 31,180                              | 49,740  |
| Current portion of long term payables                                   |            | 8,536                               | 10,758  |
| Current taxation  |            | 329,049                             | 383,644   |
|   |            | <b>7,101,075</b>                    | <b>6,501,049</b>                                      |
| <b>Net current liabilities</b>  |            | <b>(2,618,033)</b>                  | <b>(2,605,233)</b>                                    |
| <b>Total assets less current liabilities</b>                            |            | <b>18,495,403</b>                   | <b>15,948,686</b>                                     |

## Interim Financial Report (Unaudited)

### Consolidated Balance Sheet

as at 30 June 2007 – unaudited  
(Expressed in Renminbi)

|  | Note | As at<br>30 June<br>2007<br>RMB'000 | As at<br>31 December<br>2006<br>(restated)<br>RMB'000 |
|--|------|-------------------------------------|---|
| <b>Non-current liabilities</b>   |      |                                     |   |
| Bank loans and other borrowings  | 12   | 8,752,697                           | 7,168,739   |
| Long term payables   |      | 66,908                              | 37,746  |
| Deferred income  |      | 130,410                             | 128,818   |
| Deferred tax liabilities   |      | 20,542                              | 27,396  |
|  |      | <b>8,970,557</b>                    | <b>7,362,699</b>                                      |
| <b>NET ASSETS</b>  |      |                                     |   |
|  |      | <b>9,524,846</b>                    | <b>8,585,987</b>                                      |
| <b>CAPITAL AND RESERVES</b>  |      |                                     |   |
| Share capital  |      | 1,566,434                           | 1,255,680   |
| Reserves   |      | 7,571,469                           | 5,886,608   |
| <b>Total equity attributable to equity<br/>shareholders of the Company</b> |      |                                     |   |
|  |      | <b>9,137,903</b>                    | <b>7,142,288</b>                                      |
| <b>Minority interests</b>  |      |                                     |   |
|  |      | <b>386,943</b>                      | <b>1,443,699</b>                                      |
| <b>TOTAL EQUITY</b>  |      |                                     |   |
|  |      | <b>9,524,846</b>                    | <b>8,585,987</b>                                      |

The notes on pages 53 to 69 form part of this interim financial report.

## Interim Financial Report (Unaudited)

### Consolidated Statement of Changes in Equity

for the six months ended 30 June 2007 – unaudited

(Expressed in Renminbi)

For the six months ended 30 June 2007 (unaudited)

|   | Attributable to equity shareholders of the Company |                             |                               |                               |   |                                |                  |                                  |                            |
|---|--|-----------------------------|-------------------------------|-------------------------------|---|--------------------------------|------------------|----------------------------------|----------------------------|
|   | Share<br>capital<br>RMB'000                        | Share<br>premium<br>RMB'000 | Capital<br>reserve<br>RMB'000 | Statutory                     | Statutory                               | Retained<br>profits<br>RMB'000 | Total<br>RMB'000 | Minority<br>interests<br>RMB'000 | Total<br>equity<br>RMB'000 |
|   |  |                             |                               | surplus<br>reserve<br>RMB'000 | public<br>welfare<br>reserve<br>RMB'000 |                                |                  |                                  |                            |
| As at 1 January 2007  |  |                             |                               |                               |   |                                |                  |                                  |                            |
| – as previously reported  | 1,255,680  | 1,745,430                   | 54,978                        | 1,503,102                     | –                                       | 2,359,218                      | 6,918,408        | 1,431,796                        | 8,350,204                  |
| – effects of business<br>combination under<br>common control<br>(note 14)             | –  | –                           | 65,099                        | 37,321                        | –                                       | 121,460                        | 223,880          | 11,903                           | 235,783                    |
| – as restated   | 1,255,680  | 1,745,430                   | 120,077                       | 1,540,423                     | –                                       | 2,480,678                      | 7,142,288        | 1,443,699                        | 8,585,987                  |
| Profit for the period   | –  | –                           | –                             | –                             | –                                       | 897,109                        | 897,109          | 130,870                          | 1,027,979                  |
| Shares issued for<br>acquisition of minority<br>interests (note 15)                   | 287,999  | 895,779                     | –                             | –                             | –                                       | –                              | 1,183,778        | (1,183,778)                      | –                          |
| Shares issued for<br>acquisition of subsidiaries<br>under common control<br>(note 14) | 22,755   | 42,344                      | (65,099)                      | –                             | –                                       | –                              | –                | –                                | –                          |
| Dividend approved in respect<br>of the previous year                                  | –  | –                           | –                             | –                             | –                                       | (251,136)                      | (251,136)        | –                                | (251,136)                  |
| Dividends declared by<br>non-wholly subsidiaries to<br>minority shareholders          | –  | –                           | –                             | –                             | –                                       | –                              | –                | (3,848)                          | (3,848)                    |
| Changes in fair value of<br>available-for-sale equity<br>securities (note 16(b)(iii)) | –  | –                           | 165,864                       | –                             | –                                       | –                              | 165,864          | –                                | 165,864                    |
| As at 30 June 2007  | 1,566,434  | 2,683,553                   | 220,842                       | 1,540,423                     | –                                       | 3,126,651                      | 9,137,903        | 386,943                          | 9,524,846                  |

## Interim Financial Report (Unaudited)

### Consolidated Statement of Changes in Equity

for the six months ended 30 June 2007 – unaudited

(Expressed in Renminbi)

For the six months ended 30 June 2006 (unaudited)

|   | Attributable to equity shareholders of the Company |               |                 |                           |                                  |                  |           |                    |              |
|---|--|---------------|-----------------|---------------------------|----------------------------------|------------------|-----------|--------------------|--------------|
|   | Share capital                                      | Share premium | Capital reserve | Statutory surplus reserve | Statutory public welfare reserve | Retained profits | Total     | Minority interests | Total equity |
|   | RMB'000  | RMB'000       | RMB'000         | RMB'000                   | RMB'000                          | RMB'000          | RMB'000   | RMB'000            | RMB'000      |
| As at 1 January 2006  |  |               |                 |                           |                                  |                  |           |                    |              |
| – as previously reported  | 1,255,680  | 1,745,430     | 54,978          | 623,410                   | 582,702                          | 1,261,311        | 5,523,511 | 1,081,543          | 6,605,054    |
| – effects of business combination under common control (note 14)          | -  | -             | 65,099          | 31,900                    | -                                | 192,349          | 289,348   | 8,519              | 297,867      |
| – as restated   | 1,255,680  | 1,745,430     | 120,077         | 655,310                   | 582,702                          | 1,453,660        | 5,812,859 | 1,090,062          | 6,902,921    |
| Profit for the period   | -  | -             | -               | -                         | -                                | 589,912          | 589,912   | 172,717            | 762,629      |
| Transfer between reserves   | -  | -             | -               | 582,702                   | (582,702)                        | -                | -         | -                  | -            |
| Dividend approved in respect of the previous year                         | -  | -             | -               | -                         | -                                | (87,898)         | (87,898)  | -                  | (87,898)     |
| Dividend declared by a subsidiary acquired under common control (note 14) | -  | -             | -               | -                         | -                                | (130,000)        | (130,000) | -                  | (130,000)    |
| Capital contribution from a minority shareholder                          | -  | -             | -               | -                         | -                                | -                | -         | 145,000            | 145,000      |
| As at 30 June 2006  | 1,255,680  | 1,745,430     | 120,077         | 1,238,012                 | -                                | 1,825,674        | 6,184,873 | 1,407,779          | 7,592,652    |

The notes on pages 53 to 69 form part of this interim financial report.



## Interim Financial Report (Unaudited)

### Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2007 – unaudited  
(Expressed in Renminbi)

|   | For the six months<br>ended 30 June |                    |
|---|-------------------------------------|--------------------|
|   | 2007                                | 2006<br>(restated) |
|   | RMB'000                             | RMB'000            |
| <b>Net cash generated from operating activities</b> | <b>738,155</b>                      | 894,229            |
| <b>Net cash used in investing activities</b>        | <b>(2,544,520)</b>                  | (1,268,630)        |
| <b>Net cash generated from financing activities</b> | <b>1,306,898</b>                    | 186,359            |
| <b>Net decrease in cash and cash equivalents</b>    | <b>(499,467)</b>                    | (188,042)          |
| <b>Cash and cash equivalents at 1 January</b>       | <b>1,331,083</b>                    | 1,473,405          |
| <b>Cash and cash equivalents at 30 June</b>         | <b>831,616</b>                      | 1,285,363          |

The notes on pages 53 to 69 form part of this interim financial report.

# Interim Financial Report (Unaudited)

## Notes

*(Expressed in Renminbi unless otherwise indicated)*

### 1 BASIS OF PREPARATION

This interim financial report of Anhui Conch Cement Company Limited (the “Company”) and its subsidiaries (the “Group”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) adopted by the International Accounting Standards Board (“IASB”). It was authorised for issuance on 17 August 2007.

At 30 June 2007, the Group has net current liabilities of RMB2,618,033,000 (2006 (restated): RMB2,605,233,000). At 30 June 2007, the Group was granted banking facilities amounting to RMB16,856,910,000 (2006: RMB14,422,910,000). As at 30 June 2007, the facilities were utilized to the extent of RMB12,357,180,000 (2006: RMB9,889,119,000) and the available banking facilities amounted to RMB4,499,730,000 (2006: RMB4,533,791,000). In addition, the Group had net cash inflow generated from operating activities amounted to RMB738,155,000 (2006 (restated): RMB894,229,000) during the period ended 30 June 2007. 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 interim financial report is prepared on a going concern basis.

The interim financial report has been prepared in accordance with substantially the same accounting policies adopted in the 2006 annual financial statements. Please refer to note 2 for the discussion of new and revised International Financial Reporting Standards (“IFRSs”) adopted by the Group in 2007.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2006 annual financial statements.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs. IFRSs include IAS and related interpretations.

# Interim Financial Report (Unaudited)

## Notes

*(Expressed in Renminbi unless otherwise indicated)*

### 1 BASIS OF PREPARATION (CONTINUED)

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company.

The financial information relating to the financial year ended 31 December 2006 that is included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRSs for that financial year but is derived from those financial statements. The Group's annual financial statements for the year ended 31 December 2006 are available at the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their audit report dated 12 April 2007.

### 2 NEW AND REVISED IFRSS

The IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2007. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements prepared under IFRSs for the year ending 31 December 2007, on the basis of IFRSs currently in issue.

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements prepared under IFRSs for the year ending 31 December 2007 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies applied in this interim financial report for the periods presented.

### 3 REVENUE AND SEGMENT INFORMATION

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.

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.

# Interim Financial Report (Unaudited)

## Notes

(Expressed in Renminbi unless otherwise indicated)

### 3 REVENUE AND SEGMENT INFORMATION (CONTINUED)

#### Geographical segments

All of the assets of the Group are located in the People's Republic of China ("the PRC"), which is considered as one geographic location with similar risks and returns.

|  | For the six months ended   |                            |
|--|----------------------------|----------------------------|
|  | 30 June<br>2007<br>RMB'000 | 30 June<br>2006<br>RMB'000 |
| <b>Revenue from external customers</b> |                            |                            |
| – the PRC                              | 6,599,604                  | 5,104,000                  |
| – others                               | 1,624,263                  | 1,596,574                  |
|  | <b>8,223,867</b>           | <b>6,700,574</b>           |

### 4 SEASONALITY OF OPERATIONS

The Group on average experiences higher cement demands in the second half of the year. As a result, the Group typically reports lower revenue and results in the first half of the year.

### 5 OTHER REVENUE AND NET LOSS

#### a) Other revenue

|                 | For the six months ended   |  |
|-----------------|----------------------------|--|
|                 | 30 June<br>2007<br>RMB'000 | 30 June<br>2006<br>(restated)<br>RMB'000 |
| Subsidy income  | 145,360                    | 134,473                                  |
| Interest income | 8,913                      | 18,215                                   |
| Others          | 157,576                    | 768,683                                  |
|                 | <b>311,849</b>             | <b>921,371</b>                           |

# Interim Financial Report (Unaudited)

## Notes

(Expressed in Renminbi unless otherwise indicated)

### 5 OTHER REVENUE AND NET LOSS (CONTINUED)

#### b) Other net loss

|                                      | For the six months ended |                               |
|--------------------------------------|--------------------------|-------------------------------|
|                                      | 30 June<br>2007          | 30 June<br>2006<br>(restated) |
|                                      | RMB'000                  | RMB'000                       |
| Net loss on disposal of fixed assets | 600                      | 719                           |
| Exchange loss                        | 6,999                    | 851                           |
|                                      | <b>7,599</b>             | <b>1,570</b>                  |

### 6 PROFIT BEFORE TAXATION

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

|   | For the six months ended |                               |
|---|--------------------------|-------------------------------|
|   | 30 June<br>2007          | 30 June<br>2006<br>(restated) |
|   | RMB'000                  | RMB'000                       |
| (a) Finance costs   |                          |                               |
| Interest on bank and other borrowings   | 324,637                  | 268,675                       |
| Less: borrowing costs capitalised into<br>construction-in-progress                    | (22,218)                 | (6,709)                       |
|   | <b>302,419</b>           | <b>261,966</b>                |
| (b) Other items   |                          |                               |
| Depreciation  | 533,523                  | 447,369                       |
| Amortisation of interest in leasehold land held for<br>own use under operating leases | 13,573                   | 11,179                        |
| Other amortisation  | 5,752                    | 3,195                         |
| Staff costs   | 289,423                  | 191,048                       |

# Interim Financial Report (Unaudited)

## Notes

(Expressed in Renminbi unless otherwise indicated)

### 7 INCOME TAX

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 the following companies:

|  |     |
|--|-----|
| Shanghai Mingzhu Conch Cement Co., Ltd. ("Mingzhu Conch")<br>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")<br>上海海螺水泥銷售有限公司 (Note i)  | 15% |
| Shanghai Conch Construction Material International Trading Co., Ltd.<br>("Conch International Trading")<br>上海海螺建材國際貿易有限公司 (Note i) | 15% |
| Anhui Conch Cement Product Co., Ltd. ("Conch Plant")<br>安徽海螺水泥有限公司 (Note ii)   | 30% |
| Prosperity Conch Cement Co., Ltd. ("Prosperity Conch")<br>英德海螺水泥有限責任公司 (Note iii)  | 0%  |
| Xinye Kuiyang Conch Cement Co., Ltd. ("Kuiyang Conch")<br>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")<br>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")<br>興安海螺水泥有限責任公司 (Note vi)   | 0%  |
| Wuhu Conch Plastic Products Co., Ltd. ("Wuhu Plastic")<br>蕪湖海螺塑膠製品有限公司 (Note vii)  | 15% |

Notes:

- (i) Mingzhu Conch, Shanghai Sales and Conch International Trading 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%.

# Interim Financial Report (Unaudited)

## Notes

(Expressed in Renminbi unless otherwise indicated)

### 7 INCOME TAX (CONTINUED)

- (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 in Enterprise Income Tax for the subsequent three years. The first profitable year of Prosperity Conch was in 2006. The applicable Enterprise Income Tax rate in 2007 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 2007 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 2007 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 2007 is therefore 0%.
- (vii) Wuhu Plastic was recognised by the local tax authorities as a company in the industry of environmental protection, and thus is entitled to a preferential tax rate of 15% from 2006 to 2008.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate currently adopted by the Company and its subsidiaries will change to 25% with effective from 1 January 2008. The existing preferential tax rate currently enjoyed by the subsidiaries referred to above will also be gradually transitioned to the new standard rate of 25% over a five-year transition period. As the detailed instruction for the transition to the new tax rate is yet to be issued, the Group estimated that the applicable income tax rate under the preferential tax policy will be expired at the shorter of the existing preferential tax period and the five-year transition period. The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, is recognised in the consolidated income statement of the Group for the six months ended 30 June 2007.

### 8 DIVIDENDS

A shareholders' meeting on 8 June 2007 approved the dividend appropriation for 2006 of approximately RMB251,136,000 (RMB0.20 per share) (six months ended 30 June 2006: RMB87,898,000 (RMB0.07 per share)).

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

# Interim Financial Report (Unaudited)

## Notes

*(Expressed in Renminbi unless otherwise indicated)*

### 9 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 six months ended 30 June 2007 of RMB897,109,000 (six months ended 30 June 2006 (restated): RMB589,912,000) and the weighted average number of shares in issue during the six months ended 30 June 2007 of 1,374,435,000 (six months ended 30 June 2006 (restated): 1,278,435,000).

During the period, the Company acquired certain subsidiaries under common control through issuance of 22,755,147 A Shares (see note 14). Therefore, the profit attributable to ordinary equity shareholders of the Company for the six months ended 30 June 2006 and the weighted average number of shares in issue during the six months ended 30 June 2006 are restated accordingly.

#### (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 six months ended 30 June 2007 and 2006.

### 10 FIXED ASSETS

#### (a) Acquisitions and disposals

During the six months ended 30 June 2007 the Group acquired interest in leasehold land held for own use under operating leases with cost of RMB118,595,000 (six months ended 30 June 2006 (restated): RMB17,879,000).

During the six months ended 30 June 2007 the Group acquired assets with cost of RMB2,674,745,000 (six months ended 30 June 2006 (restated): RMB1,265,168,000).

Assets with a carrying amount of RMB22,941,000 were disposed of during the six months ended 30 June 2007 (six months ended 30 June 2006 (restated): RMB31,692,000), resulting in a loss on disposal of RMB600,000 (six months ended 30 June 2006 (restated): RMB719,000).



# Interim Financial Report (Unaudited)

## Notes

(Expressed in Renminbi unless otherwise indicated)

### 10 FIXED ASSETS (CONTINUED)

#### (b) Capital commitments

Capital commitments outstanding at 30 June 2007 not provided for in the interim financial report were as follows:

|                                   | As at<br>30 June<br>2007<br>RMB'000 | As at<br>31 December<br>2006<br>RMB'000 |
|-----------------------------------|-------------------------------------|---|
| Contracted for                    | 5,547,593                           | 2,210,776                               |
| Authorised but not contracted for | 645,861                             | 2,262,920                               |
|                                   | <b>6,193,454</b>                    | 4,473,696                               |

### 11 TRADE RECEIVABLES

Credit terms granted by the Group to sales agents and other customers generally range from one to two months. An ageing analysis of trade receivables, net of impairment losses for bad and doubtful debts, is set out below:

|               | As at<br>30 June<br>2007<br>RMB'000 | As at<br>31 December<br>2006<br>(restated)<br>RMB'000 |
|---------------|-------------------------------------|---|
| Within 1 year | 1,170,263                           | 650,770   |

# Interim Financial Report (Unaudited)

## Notes

(Expressed in Renminbi unless otherwise indicated)

### 12 BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings are as follows:

|  | Note  | As at<br>30 June<br>2007<br>RMB'000 | As at<br>31 December<br>2006<br>RMB'000 |
|--|-------|-------------------------------------|---|
| <b>Non-current bank loans and other borrowings</b> |       |                                     |   |
| Bank loans   |       |                                     |   |
| - Secured  | (i)   | 60,000                              | 60,000                                  |
| - Unsecured  | (ii)  | 7,969,970                           | 6,378,739                               |
|  |       | <b>8,029,970</b>                    | 6,438,739                               |
| Other borrowings                                   |       |                                     |   |
| - Secured  | (iii) | 650,000                             | 650,000                                 |
| - Unsecured  | (iv)  | 72,727                              | 80,000                                  |
|  |       | <b>8,752,697</b>                    | 7,168,739                               |
| <b>Current bank loans and other borrowings</b>     |       |                                     |   |
| - Unsecured bank loans                             | (ii)  | 3,597,380                           | 3,450,380                               |
| - Other unsecured borrowings                       |       | -                                   | 7,000                                   |
|  |       | <b>3,597,380</b>                    | 3,457,380                               |

- (i) At 30 June 2007, the bank loans of the Group totalling RMB60,000,000 (31 December 2006: RMB60,000,000) were secured by property, plant and equipment of the Group with carrying value of approximately RMB65,076,000 (31 December 2006: RMB65,587,000) and leasehold land held for own use under operating leases of the Group with carrying amount of approximately RMB5,105,000 (31 December 2006: RMB5,119,000).
- (ii) At 30 June 2007, unsecured bank loans of the Group totalling RMB8,854,350,000 (31 December 2006: RMB7,086,119,000) were guaranteed by Anhui Conch Holdings Company Limited ("Conch Holdings").
- (iii) Other non-current secured borrowings of the Group are provided by the International Finance Corporation ("IFC"). The loan bears interest at a rate of 5.32% (31 December 2006: 5.32%) per annum and is repayable in September 2015. At 30 June 2007, the loan was secured by property, plant and equipment of the Group with carrying amount of approximately RMB740,410,000 (31 December 2006: RMB756,510,000). The Group is subject to various financial covenants that are reviewed by IFC on a yearly basis.

# Interim Financial Report (Unaudited)

## Notes

(Expressed in Renminbi unless otherwise indicated)

### 12 BANK LOANS AND OTHER BORROWINGS (CONTINUED)

- (iv) Other unsecured non-current borrowings of the Group are national debt loan provided by the Anhui Finance Bureau. The loan bears interest at a rate of 2.55% (31 December 2006: 2.55%) per annum and is repayable in June 2017.

At 30 June 2007 and 31 December 2006, the bank loans were repayable as follows:

|                                  | As at<br>30 June<br>2007<br>RMB'000 | As at<br>31 December<br>2006<br>RMB'000 |
|----------------------------------|-------------------------------------|---|
| Within 1 year or on demand       | 3,597,380                           | 3,450,380                               |
| After 1 year but within 2 years  | 3,603,000                           | 2,408,939                               |
| After 2 years but within 5 years | 4,156,970                           | 3,779,800                               |
| After 5 years                    | 270,000                             | 250,000                                 |
| Total non-current bank loans     | 8,029,970                           | 6,438,739                               |
|                                  | <b>11,627,350</b>                   | <b>9,889,119</b>                        |

### 13 TRADE PAYABLES

Ageing analysis of trade payables is as follows:

|                       | As at<br>30 June<br>2007<br>RMB'000 | As at<br>31 December<br>2006<br>(restated)<br>RMB'000 |
|-----------------------|-------------------------------------|---|
| Within 1 year         | 1,028,916                           | 895,623   |
| Between 1 and 2 years | 50,830                              | 25,306  |
| Between 2 and 3 years | 3,648                               | 268   |
| Over 3 years          | 1,939                               | 4,179   |
|                       | <b>1,085,333</b>                    | <b>925,376</b>  |

# Interim Financial Report (Unaudited)

## Notes

(Expressed in Renminbi unless otherwise indicated)

### 14 ACQUISITION OF SUBSIDIARIES UNDER COMMON CONTROL

On 21 August 2006, the Company as purchaser and Conch Holdings as vendor entered into a sale and purchase agreement (“Conch Holding Sale and Purchase Agreement”) pursuant to which both parties agreed to transfer the 100% equity interest in Anhui Ningchang Plastic Package Co., Ltd. (“Ningchang”), 75% equity interest in Wuhu Plastic and 100% equity interest in Conch International Trading. In accordance with the Conch Holding Sale and Purchase Agreement, the Company will issue an aggregate of 22,755,147 A Shares to Conch Holdings as purchase consideration for such acquisitions. Both Ningchang 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.

On 24 April 2007, the acquisition was approved by the China Securities Regulatory Commission (“the CSRC”). As the Company and the acquired companies were under the common control of Conch Holdings, the acquisition has been reflected in the interim financial report as a combination of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of the acquired companies have been accounted for at historical amounts and the consolidated financial statements of the Company prior to the acquisition have been restated to include the results of operations and assets and liabilities of the acquired companies on a combined basis. The A Shares issued by the Company as consideration paid for the acquisition of the acquired companies have been accounted for as an equity transaction in the consolidated statement of shareholders’ equity as at 30 June 2007.

The acquisition had the following effect on the Group’s assets and liabilities:

|  | <b>Recognised value<br/>on acquisition</b> |
|--|--|
|  | RMB’000                                    |
| Property, plant and equipment                                      | 80,716                                     |
| Interest in leasehold land held for own use under operating leases | 16,403                                     |
| Deferred tax assets  | 10,227                                     |
| Inventories  | 56,189                                     |
| Trade receivables  | 65,379                                     |
| Prepayment and other receivables                                   | 63,612                                     |
| Amounts due from related parties                                   | 317,137                                    |
| Cash at bank and in hand   | 101,455                                    |
| Trade payables   | (63,368)                                   |
| Other payables and accruals  | (236,869)                                  |
| Amounts due to related parties                                     | (85,651)                                   |
| Derivative financial instruments                                   | (40,906)                                   |
| Current taxation   | (4,842)                                    |
| <b>Net identifiable assets and liabilities</b>                     | <b>279,482</b>                             |

# Interim Financial Report (Unaudited)

## Notes

(Expressed in Renminbi unless otherwise indicated)

### 15 ACQUISITION OF MINORITY INTERESTS

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 both parties agreed to transfer the 49% equity interest in Anhui Digang Conch Cement Co., Ltd. (“Digang Conch”), 49% equity interest in Anhui Zongyang Conch Cement Co., Ltd. (“Zongyang Conch”), 49% equity interest in Anhui Chizhou Conch Cement Co., Ltd. (“Chizhou Conch”) and 31.86% equity interest in Anhui Tongling Conch Cement Co., Ltd. (“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 purchase 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.

On 24 April 2007, the acquisition was approved by the CSRC. The carrying amounts of the minority interests acquired amounted to RMB1,183,778,000 at the acquisition date.

### 16 RELATED PARTIES

#### (a) Related parties information

| <u>Name of related party</u>   | <u>Nature of relationship</u>                                 |
|--|---|
| Conch Holdings   | Substantial shareholder of the Company                        |
| Conch Venture  | Shareholder of Conch Holdings                                 |
| Wuhu Conch Profiles and Science Co., Ltd. (“Conch Profiles and Science”) | Subsidiary of Conch Holdings                                  |
| Anhui Conch Construction Materials Design Centre (“Conch Design”)        | Subsidiary of Conch Holdings                                  |
| Guangxi Fusui Conch Cement Co., Ltd. (“Fusui Conch”)                     | Associate of the Company                                      |
| Guangxi Xingye Conch Cement Co., Ltd. (“Xingye Conch”)                   | Associate of the Company                                      |
| Anhui Conch Kawasaki Engineering Company Limited (“Conch Kawasaki”)      | Joint venture of Conch Venture                                |
| Anhui Chaodong Cement Group Company Limited (“Chaodong Group”)           | A supervisor of the Company is the Chairman of Chaodong Group |

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## Notes

(Expressed in Renminbi unless otherwise indicated)

### 16 RELATED PARTIES (CONTINUED)

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

Apart from the transactions as disclosed in notes 14 and 15, the Group has also entered into the following material related party transactions:

##### (i) Transactions with Conch Holdings

|                                      | For the six months ended   |                            |
|--------------------------------------|----------------------------|----------------------------|
|                                      | 30 June<br>2007<br>RMB'000 | 30 June<br>2006<br>RMB'000 |
| Trademark licence fees paid          | 757                        | 757                        |
| Guarantee provided by Conch Holdings | 8,854,350                  | 6,706,540                  |
| Composite service fees paid          | 1,382                      | 1,770                      |

##### (ii) Transactions with other related parties

|                       | For the six months ended   |                            |
|-----------------------|----------------------------|----------------------------|
|                       | 30 June<br>2007<br>RMB'000 | 30 June<br>2006<br>RMB'000 |
| Purchase of materials | 1,694                      | 2,434                      |
| Receiving of services | 7,862                      | 1,050                      |
| Rendering of services | –                          | 535                        |

##### (iii) Transactions with Chaodong Group

In 2006, the Company and Chaodong Group entered into a Share Transfer Agreement pursuant to which the Company agreed to acquire 39,385,700 shares of Anhui Chaodong Cement Company Limited (“Chaodong Company”) (representing 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 RMB97,677,000. On 13 April 2007, the approval from the CSRC in respect of the aforesaid transaction was obtained, and the transfer of these A Shares was registered on the Shanghai Stock Exchange in June 2007.

The total investment cost in Chaodong Company of RMB98,020,000 is recognized as available-for-sale equity securities. At 30 June 2007, the fair value of these available-for-sale equity securities amounted to RMB263,884,000 which included an increase of RMB165,864,000 in the fair value during the period. Such increase has been recognized in the capital reserve.

# Interim Financial Report (Unaudited)

## Notes

(Expressed in Renminbi unless otherwise indicated)

### 16 RELATED PARTIES (CONTINUED)

#### (c) Transactions with other state-controlled entities

The Company is a state-controlled entity and 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 the notes above, the Group has conducted transactions with other state-controlled entities which include but are not limited to purchases of coal and depositing and borrowing money.

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 buying and pricing strategy, and approval process for purchases and sales of products and services. Such buying and pricing strategy and approval process 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 entity’s pricing strategy, buying and approval processes, 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:

|                   | For the six months ended            |   |
|-------------------|-------------------------------------|---|
|                   | 30 June<br>2007<br>RMB’000          | 30 June<br>2006<br>RMB’000              |
| Purchase of coal  | 616,767                             | 645,764                                 |
| Interest expenses | 285,021                             | 226,765                                 |
|                   |                                     |   |
|                   | As at<br>30 June<br>2007<br>RMB’000 | As at<br>31 December<br>2006<br>RMB’000 |
| Cash at bank      | 831,585                             | 1,334,192                               |
| Bank loans        | 11,059,907                          | 9,019,119                               |

# Interim Financial Report (Unaudited)

## Notes

(Expressed in Renminbi unless otherwise indicated)

### 16 RELATED PARTIES (CONTINUED)

#### (d) Key management personnel remuneration

Remuneration for key management personnel is as follows:

|                               | For the six months ended   |                            |
|-------------------------------|----------------------------|----------------------------|
|                               | 30 June<br>2007<br>RMB'000 | 30 June<br>2006<br>RMB'000 |
| Short-term employees benefits | 602                        | 388                        |
| Post-employment benefits      | 38                         | 31                         |
|                               | <b>640</b>                 | <b>419</b>                 |
| Directors and supervisors     | 362                        | 244                        |
| Senior management             | 278                        | 175                        |
|                               | <b>640</b>                 | <b>419</b>                 |

#### (e) Amount due from/to related parties

##### (i) Due from related parties

|                         | As at<br>30 June<br>2007<br>RMB'000 | As at<br>31 December<br>2006<br>(restated)<br>RMB'000 |
|-------------------------|-------------------------------------|---|
| Conch Kawasaki          | 119,370                             | –   |
| Other related companies | 881                                 | 75  |
|                         | <b>120,251</b>                      | <b>75</b>   |



# Interim Financial Report (Unaudited)

## Notes

(Expressed in Renminbi unless otherwise indicated)

### 16 RELATED PARTIES (CONTINUED)

#### (e) Amount due from/to related parties (Continued)

##### (ii) Due to related parties

|                         | As at<br>30 June<br>2007<br>RMB'000 | As at<br>31 December<br>2006<br>(restated)<br>RMB'000 |
|-------------------------|-------------------------------------|---|
| Conch Holdings          | 124,496                             | –   |
| Xingye Conch            | 56,800                              | 56,800  |
| Fusui Conch             | 41,373                              | 41,373  |
| Other related companies | 691                                 | 3,333   |
|                         | <b>223,360</b>                      | <b>101,506</b>  |

### 17 CONTINGENT LIABILITIES

At 30 June 2007, the Group did not have any material contingent liabilities.

### 18 NON-ADJUSTING POST BALANCE SHEET EVENTS

- (i) On 29 July 2007, the Board of Directors resolved that the Company, as a strategic investor, would participate in the subscription for Gansu Qilianshan Cement Co., Ltd. (“Qilianshan”)’s issue of A Shares to specific targets (“Specific Issue”).

Qilianshan intended to issue a total number of not more than 150 million shares under the Specific Issue, of which the Company intended to subscribe for 50 million shares to 58 million shares, with 50 million shares being the minimum number of shares for subscription; the subscription price payable by the Company would be not less than RMB3.20 per share. The final price would be determined upon agreement between the Company and Qilianshan’s Board of Directors as authorised by the shareholders’ meeting of Qilianshan, taken into consideration the practical circumstances and pursuant to the relevant requirements of the CSRC. The consideration for the Company’s subscription for the A Shares under Qilianshan’s Specific Issue would be paid by cash.

The implementation of the Specific Issue of Qilianshan is subject to the approval of the CSRC.

# Interim Financial Report (Unaudited)

## Notes

*(Expressed in Renminbi unless otherwise indicated)*

### 18 NON-ADJUSTING POST BALANCE SHEET EVENTS (CONTINUED)

- (ii) On 18 May 2007, a circular relating to “Reduction of export refund rate for some goods” (“the Circular”) was issued by the Ministry of Finance and the State Administration of Taxation. According to the Circular, the incentive of refund of 13% VAT for export clinker and cement sales was rescinded with effective from 1 July 2007. Therefore, the export sales of the Company are no longer entitled to export refund from that date.
  
- (iii) On 15 August 2007, the shareholders of the Company approved the public offering of not more than 200 million new A Shares of the Company on the Shanghai Stock Exchange in the Extraordinary General Meeting. The issuance of the aforesaid A Shares is subject to the approval of CSRC and other government authorities.

### 19 COMPARATIVE FIGURES

Certain comparative figures have been restated as a result of the business combination under common control (see note 14).

## Documents Available for Inspection

- (1) A copy of this interim report bearing the signature of the Chairman of the Board;
- (2) A copy of the financial statements bearing the signatures and seals of the officers-in-charge of the Company, the officer-in-charge of the accounting function and the officer-in-charge of the accounting department;
- (3) Copies of all documents publicly disseminated in newspapers designated by the CSRC during the Reporting Period;
- (4) A copy of the Articles; and
- (5) A copy of the interim report disseminated in Hong Kong's securities market.

**Anhui Conch Cement Company Limited**  
**Guo Wensan**  
*Chairman*

17 August 2007