

# 2007 ANNUAL REPORT

# Anhui Conch Cement Company Limited

(A Share: 600585 H Share: 0914)

# Important

The Board, Supervisory Committee and Directors, 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.

Mr. Guo Wensan (Chairman), Mr. Ren Yong (General Manager) and Mr. Zhou Bo (head of finance department) hereby declare that they warrant the financial statements contained herein are true and complete.

# Definitions

The following terms and expressions contained in this report shall, unless the context otherwise requires, have the meanings assigned to them as follows:

| | | |
|---|---|---|
| The Company/Company/ Conch | : | Anhui Conch Cement Company Limited |
| The Group | : | The Company and its subsidiaries |
| Digang Conch | : | Anhui Digang Conch Cement Co., Ltd. |
| Zongyang Conch | : | Anhui Zongyang Conch Cement Co., Ltd. |
| Chizhou Conch | : | Anhui Chizhou Conch Cement Co., Ltd. |
| Tongling Conch | : | Anhui Tongling Conch Cement Co., Ltd. |
| Ningchang Company | : | Anhui Ningchang Plastic Package Co., Ltd. |
| Wuhu Plastic | : | Wuhu Conch Plastic Products Co., Ltd. |
| Conch International Trading | : | Shanghai Conch Construction Material International Trading Co. Ltd. |
| Reporting Period | : | The period from 1 January 2007 to 31 December 2007 |
| Directors | : | Directors of the Company |
| Conch Holdings | : | Anhui Conch Holdings Co., Ltd. |
| Conch Venture | : | Anhui Conch Venture Investment Company Limited |
| Conch Profiles | : | Wuhu Conch Profiles and Science Co., Ltd. |
| H Shares | : | Foreign shares in the capital of the Company, which are listed on the Stock Exchange, with a nominal value of RMB1.00 per share, which are subscribed for and traded in Hong Kong dollars |
| Stock Exchange | : | The Stock Exchange of Hong Kong Limited |
| Listing Rules of the Stock Exchange | : | The Rules Governing the Listing of Securities on the Stock Exchange |
| SSE | : | Shanghai Stock Exchange |
| Listing Rules of SSE | : | Listing Rules of SSE |
| CSDCCL Shanghai Branch | : | The Shanghai Branch of the China Securities Depository and Clearing Corporation Limited |
| Clinker | : | Semi-finished products made in the process of cement |
| Hong Kong | : | Hong Kong Special Administrative Region |
| RMB | : | Renminbi, the lawful currency of the PRC, the currency unit used in this report, unless otherwise specified |
| PRC | : | The People's Republic of China |
| CSRC | : | China Securities Regulatory Commission |

# Contents

# Basic Corporate Information

| | | | |
|---|---|---|---|
| (1) | Official Chinese name of the Company | : | 安徽海螺水泥股份有限公司 |
| | Official English name of the Company | : | ANHUI CONCH CEMENT COMPANY LIMITED |
| | Abbreviation in English | : | ACC |
| (2) | Legal Representative of the Company | : | Guo Wensan |
| (3) | Secretary to the Board (Company Secretary) | : | Zhang Mingjing |
| | 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 |
| (4) | Registered address and office address 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 |
| | Contact address in Hong Kong | : | 41/F, Jardine House, 1 Connaught Place, Central, Hong Kong |
| (5) | Company's designated newspaper for information disclosure in the PRC | : | Shanghai Securities Journal |
| | Website for publication of this report | : | http://www.sse.com.cn |
| | Location where this annual report is available for inspection | : | Secretariat to the Board |
| (6) | Exchanges on which the Company's shares are listed | : | |
| | H Shares | : | Stock Exchange |
| | Stock code | : | 00914 |
| | A Shares | : | SSE |
| | Stock code | : | 600585 |
| | Stock name | : | Conch Cement |

# Basic Corporate Information

| | | | |
|---|---|---|---|
| (7) | Date of first registration of the Company | : | 1 September 1997 |
| | Place of first registration of the Company | : | Industrial and Commercial Administration Bureau, Anhui Province, the PRC |
| | Date of registration of changes in particulars of the Company | : | 4 July 2007 |
| | Place of registration of changes in particulars of the Company | : | Industrial and Commercial Administration Bureau, Anhui Province, the PRC |
| | Business license number for legal persons | : | 340000000000081 |
| | Tax registration number | : | GSHZ 34020214949036-X<br>DSHZ 34020214949036-X |
| (8) | Legal adviser as to PRC law | : | Jingtian & Gongcheng<br>15th Floor, Union Plaza,<br>20 Chaoyangmenwai Avenue,<br>Beijing, the PRC |
| | Legal adviser as to Hong Kong law | : | Chiu & Partners<br>41st Floor, Jardine House,<br>1 Connaught Place,<br>Central, Hong Kong |
| (9) | International auditor | : | KPMG Certified Public Accountants<br>8th Floor, Prince's Building,<br>10 Chater Road, Central,<br>Hong Kong |
| | PRC auditor | : | KPMG Huazhen Certified Public Accountants<br>8th Floor, Office Tower 2,<br>Oriental Plaza,<br>1 East Chang An Avenue,<br>Beijing, the PRC |
| (10) | H Shares share registrar and transfer office | : | Hong Kong Registrars Limited<br>17/F, Hopewell Centre<br>183 Queen's Road East,<br>Wanchai,<br>Hong Kong |

# Summary of Accounting Data and Operating Data

## (1) FINANCIAL SUMMARY PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") FOR THE YEAR ENDED 31 DECEMBER

*(Unit: RMB'000)*

| Item | 2007 | 2006 (Restated) | 2005 (Restated) | 2004 (Restated) | 2003 (Restated) |
|---|---|---|---|---|---|
| Revenue | **18,776,098** | 16,096,057 | 13,385,677 | 10,975,786 | 7,374,227 |
| Profit attributable to equity shareholders of the Company | **2,480,146** | 1,543,767 | 513,639 | 1,092,212 | 799,371 |
| Total assets | **30,921,284** | 22,737,644 | 20,024,756 | 16,744,017 | 13,688,119 |
| Total liabilities | **19,674,182** | 14,152,667 | 13,117,620 | 10,067,829 | 7,988,740 |

Note: In 2007, the Company changed its accounting policies for business combination under common control from purchase method to pooling-of-interests method and made retrospective adjustments accordingly. In 2007, the Company acquired certain companies from its holding company, Conch Holdings, which is a business combination under common control, and the comparative figures for 2003 to 2006 were thus restated in the above table.

## (2) ACCOUNTING DATA PREPARED IN ACCORDANCE WITH THE ACCOUNTING STANDARDS GENERALLY ACCEPTED IN THE PRC ("PRC ACCOUNTING STANDARDS")

For details of financial statements prepared based on PRC Accounting Standards, please refer to the annual report in Chinese version.

### 1. Profit indicators for the year

*(Unit: RMB'000)*

| Item | Amount |
|---|---|
| Operating profit | 3,170,584 |
| Profit before taxation | 3,484,988 |
| Net profit attributable to equity shareholders of the Company | 2,494,219 |
| Net profit after extraordinary items attributable to equity shareholders of the Company | 2,285,784 |
| Net cash generated from operating activities | 2,668,807 |

# Summary of Accounting Data and Operating Data

## 2. Extraordinary items and amount for the year

*(Unit: RMB'000)*

| Extraordinary items | Amount |
|---|---|
| (1) Loss on disposal of long term equity investment and fixed assets | (5,462) |
| (2) Government subsidy income | 220,828 |
| (3) Reversal of welfare payable | 13,994 |
| (4) Impact of business combination under common control | 53,566 |
| (5) Other extraordinary items | 16,085 |
| (6) Effect of extraordinary items on income tax | (83,217) |
| (7) Effect of extraordinary items on minority interests | (7,359) |
| Total | 208,435 |

## 3. Major accounting data and financial indicators for the preceding three years

*(Unit: RMB'000)*

| Items | **2007** | 2006 (As restated) | 2006 (As previously reported) | 2005 (As restated) | 2005 (As previously reported) |
|---|---|---|---|---|---|
| Revenue | **18,776,098** | 16,096,057 | 15,372,175 | 13,385,677 | 10,869,391 |
| Profit before taxation | **3,484,988** | 2,586,279 | 2,498,309 | 1,062,430 | 861,374 |
| Net profit attributable to shareholders of the Company | **2,494,219** | 1,518,736 | 1,427,931 | 550,963 | 406,892 |
| Net profit after extraordinary items attributable to shareholders of the Company | **2,285,784** | 1,354,381 | 1,325,424 | 394,078 | 385,016 |
| Basic earnings per share (RMB/share) | **1.70** | 1.19 | 1.14 | 0.43 | 0.32 |
| Diluted earnings per share (RMB/share) | **1.70** | 1.19 | 1.14 | 0.43 | 0.32 |
| Basic earnings per share after extraordinary items (RMB/share) | **1.55** | 1.06 | 1.06 | 0.31 | 0.31 |
| Diluted return on net assets (%) | **22.51** | 20.61 | 20.25 | 9.08 | 7.12 |
| Weighted average return on net assets (%) | **26.39** | 22.60 | 22.38 | 9.31 | 7.28 |
| Diluted return on net assets after extraordinary items (%) | **20.63** | 18.38 | 18.80 | 6.49 | 6.74 |
| Weighted average return on net assets after extraordinary items (%) | **24.19** | 20.16 | 20.77 | 6.66 | 6.89 |
| Net cash generated from operating activities | **2,668,807** | 3,052,730 | 2,926,949 | 2,358,515 | 1,523,523 |
| Net cash flows generated per share from operating activities (RMB/share) | **1.70** | 2.39 | 2.33 | 1.84 | 1.21 |

# Summary of Accounting Data and Operating Data

(Unit: RMB'000)

| Items | As at the end of 2007 | As at the end of 2006 (As restated) | As at the end of 2006 (As previously reported) | As at the end of 2005 (As restated) | As at the end of 2005 (As previously reported) |
|---|---|---|---|---|---|
| Total assets | **31,040,609** | 22,935,880 | 22,305,525 | 20,185,660 | 19,242,026 |
| Total equity attributable to shareholders of the Company | **11,079,605** | 7,370,154 | 7,051,706 | 6,069,316 | 5,711,434 |
| Net assets per share attributable to shareholders of the Company (RMB/share) | **7.07** | 5.76 | 5.62 | 4.75 | 4.55 |

## *Comparison of major accounting data and financial indicators between 2007 and 2006*

(Unit: RMB'000)

| Items | 2007 | 2006 (As restated) | Increase/ decrease (%) |
|---|---|---|---|
| Revenue | **18,776,098** | 16,096,057 | 16.65 |
| Profit before taxation | **3,484,988** | 2,586,279 | 34.75 |
| Net profit attributable to shareholders of the Company | **2,494,219** | 1,518,736 | 64.23 |
| Net profit after extraordinary items attributable to shareholders of the Company | **2,285,784** | 1,354,381 | 68.77 |
| Basic earnings per share (RMB/ share) | **1.70** | 1.19 | 42.86 |
| Diluted earnings per share (RMB/ share) | **1.70** | 1.19 | 42.86 |
| Basic earnings per share after extraordinary items (RMB/share) | **1.55** | 1.06 | 46.23 |
| Diluted return on net assets on fully diluted basis (%) | **22.51** | 20.61 | 9.22 |
| Weighted average return on net assets (%) | **26.39** | 22.60 | 16.77 |
| Diluted return on net assets after extraordinary items (%) | **20.63** | 18.38 | 12.24 |
| Weighted average return on net assets after extraordinary items (%) | **24.19** | 20.16 | 19.99 |
| Net cash generated from operating activities | **2,668,807** | 3,052,730 | (12.58) |
| Net cash generated per share from operating activities (RMB/share) | **1.70** | 2.39 | (28.87) |

# Summary of Accounting Data and Operating Data

*(Unit: RMB'000)*

| Items | **As at the end of 2007** | As at the end of 2006 (As restated) | Increase/ decrease (%) |
|---|---|---|---|
| Total assets | **31,040,609** | 22,935,880 | 35.34 |
| Total equity attributable to shareholders of the Company | **11,079,605** | 7,370,154 | 50.33 |
| Net assets per share attributable to shareholders of the Company (RMB/share) | **7.07** | 5.76 | 22.74 |

Note: In accordance with the new "Accounting Standards for Business Enterprises" and other relevant requirements, retrospective adjustments have been made to the relevant information previously stated in accordance with PRC Accounting Standards.

## 4. Explanations for differences between consolidated financial statements prepared in accordance with PRC Accounting Standards and IFRS

*(Unit: RMB'000)*

| | **Net profit** | | **Shareholders' equity** | |
|---|---|---|---|---|
| | **1 January to 31 December 2007 (Audited)** | 1 January to 31 December 2006 (Audited) | **As at 31 December 2007 (Audited)** | As at 31 December 2006 (Audited) |
| As reported in the statutory financial statements under PRC Accounting Standards | **2,494,219** | 1,518,736 | **11,079,605** | 7,370,154 |
| — Reversal of valuation surplus of land use rights upon transformation of the Group | **3,838** | 3,838 | **(152,225)** | (156,063) |
| — Deferral of income tax credit for investments in domestic equipment under IFRS | **(17,911)** | 18,508 | **(144,467)** | (83,898) |
| — Others | **—** | 2,685 | **—** | — |
| As reported under IFRS | **2,480,146** | 1,543,767 | **10,782,913** | 7,130,193 |

Note: Retrospective adjustments have been made to the relevant information for 2006 prepared in accordance with the new PRC Accounting Standards and other relevant requirements. In 2007, the accounting policy for the business combination under common control has been changed from purchase method to pooling-of-interest method in the financial reports for year 2007 prepared under IFRS and the relevant figures were adjusted retrospectively.

# Changes in Share Capital and Shareholders

## (1) CHANGES IN THE SHARE CAPITAL:

*(Unit: Shares)*

| Class of shares | Before change: Number | Before change: Ratio (%) | Increase/decrease (+, -): Issue of new shares | Increase/decrease (+, -): Others | Increase/decrease (+, -): Subtotal | After change: Number | After change: Ratio (%) |
|---|---|---|---|---|---|---|---|
| I. Shares with trading restrictions | 622,480,000 | 49.57 | +310,754,193 | -62,784,000 | +247,970,193 | 870,450,193 | 55.57 |
| 1. State-owned legal person shares | 622,480,000 | 49.57 | +22,755,147 | -62,784,000 | -40,028,853 | 582,451,147 | 37.18 |
| 2. Other domestic shares | 0 | | +287,999,046 | 0 | +287,999,046 | 287,999,046 | 18.39 |
| II. Shares without trading restrictions | 633,200,000 | 50.43 | 0 | +62,784,000 | +62,784,000 | 695,984,000 | 44.43 |
| 1. RMB-denominated ordinary shares ("A Shares") | 200,000,000 | 15.93 | 0 | +62,784,000 | +62,784,000 | 262,784,000 | 16.78 |
| 2. Overseas-listed foreign shares ("H Shares") | 433,200,000 | 34.50 | 0 | 0 | 0 | 433,200,000 | 27.65 |
| III. Total number of shares | 1,255,680,000 | 100 | +310,754,193 | 0 | +310,754,193 | 1,566,434,193 | 100 |

Notes:

1. During the Reporting Period, the trading restrictions in respect of 62,784,000 floating A Shares held by State-owned legal person (i.e. Conch Holdings) expired;

2. During the Reporting Period, the Company issued 22,755,147 and 287,999,046 A Shares to Conch Holdings and Conch Venture respectively, which are subject to a lock-up period of 3 years, as its considerations for the purchase of equities.

## (2) CHANGES IN SHARES WITH TRADING RESTRICTIONS:

*(Unit:Shares)*

| Name of Shareholders | Number of Shares with trading restrictions at the beginning of the year | Number of Shares released from trading restrictions during the Reporting Period | Increase in number of Shares with trading restrictions during the Reporting Period | Number of Shares with trading restrictions at the end of the year | Reasons for trading restrictions | Date of release from trading restrictions |
|---|---|---|---|---|---|---|
| Conch Holdings | 622,480,000 | 62,784,000 | 22,755,147 | 582,451,147 | Share segregation reform and private issue of shares | 7 March 2007; 25 May 2010 |
| Conch Venture | — | — | 287,999,046 | 287,999,046 | Private issue of shares | 25 May 2010 |
| Total | 622,480,000 | 62,784,000 | 310,754,193 | 870,450,193 | — | — |

Notes:

1. The trading restrictions in respect of 22,755,147 and 287,999,046 A Shares issued by the Company to Conch Holdings and Conch Venture respectively during the Reporting Period will expire on 25 May 2010;

2. Commitments of Conch Holdings under the share segregation reform: the non-floating shares of the Company held by Conch Holdings shall not be traded or transferred within the 12-month period from the date (2 March 2006) on which its non-floating shares became listed and tradable on the SSE, and the number of shares held by Conch Holdings in the Company to be sold through trading on the SSE shall not exceed 5% and 10% of the Company's total issued shares as at the time of implementation of the share segregation reform during the periods of 12 months and 24 months from the expiry date of the commitment period respectively. Pursuant to such commitment, 62,784,000 and 62,784,000 floating shares held by Conch Holdings with trading restrictions were listed and traded on 7 March 2007 and 3 March 2008 respectively, the remaining 496,912,000 shares with trading restrictions held by Conch Holdings will be listed and traded on 2 March 2009.

# Changes in Share Capital and Shareholders

## (3) ISSUANCE AND LISTING OF SECURITIES

1. During the Reporting Period, the Company issued 22,755,147 and 287,999,046 A Shares to Conch Holdings and Conch Venture respectively at the price of RMB13.30 per share as consideration for the acquisition of relevant assets of Conch Holdings and Conch Venture. Such issue was approved by CSRC on 24 April 2007 (Zheng Jian Gong Si Zi [2007] No.74) and registration with CSDCCL Shanghai Branch was completed on 25 May 2007. Subsequent to completion of such issue, the number of shares in the Company increased by 310,754,193 shares from a total of 1,255,680,000 shares to 1,566,434,193 shares. Shares issued to Conch Holdings and Conch Venture are subject to a lock-up period of 3 years and will become listed and tradable on 26 May 2010.

   Pursuant to the undertaking given by Conch Venture, for so long as it remains holder of 287,999,046 A shares of the Company issued in the aforementioned transaction, except the rights of a shareholder of a proprietary nature (including but not limited to rights to dividends), Conch Venture shall give up its shareholder's rights such as voting, rights to nominate candidates to be appointed as Directors/supervisors ("Supervisors") of the Company.

2. During the Reporting Period, the Company proposed to issue not more than 200 million A Shares in order to raise funds not exceeding RMB12.038 billion. The resolution for this public issue was considered and approved by the Board of Directors ("Board") of the Company on 25 June 2007, and approved by the First Extraordinary General Meeting of 2007, the First Domestic Shares Class Meeting of 2007 and H Shares Class Meeting of 2007 on 15 August 2007. On 30 January 2008, upon consideration by the 18th meeting of the Public Offering Review Committee of CSRC, the proposal of the Company in respect of public issuance of A Shares was approved conditionally, and pending written approval from CSRC.

## (4) SUMMARY OF TRADING OF THE COMPANY'S SHARES IN 2007

| | A Share/RMB | H Share/HK$ |
|---|---|---|
| Opening price on the first trading day of the year | 30.10 | 26.50 |
| Closing price on the last trading day of the year | 72.82 | 67.85 |
| Highest trading price during the year | 96.50 | 88.40 |
| Lowest trading price during the year | 26.10 | 20.50 |

# Changes in Share Capital and Shareholders

## (5) SHAREHOLDERS

1 As at 31 December 2007, the total number of shareholders was 9,375, of which 50 were holders of H Shares.

2 As at 31 December 2007, the shareholdings of the top 10 shareholders and the top 10 holders of floating shares of the Company were as follows:

| Name of shareholder | Nature of shareholder | Number of shares held at 31 December 2007 | Percentage of shareholding (%) | Class of shares |
|---|---|---|---|---|
| 1 Conch Holdings (Note 1) | State-owned | 629,957,260 | 40.22 | A Share |
| 2 HKSCC Nominees Limited (Note 2) | Foreign | 432,840,997 | 27.63 | H Share |
| 3 Conch Venture | Other | 287,999,046 | 18.39 | A Share |
| 4 Rongtong New Blue Chip Securities Investment Fund | Other | 9,272,992 | 0.59 | A Share |
| 5 China Construction Bank – Yinhua Selected Core Value Equity Investment Fund | Other | 8,461,557 | 0.54 | A Share |
| 6 China Construction Bank-China AMC Advantage Growth Securities Investment Fund | Other | 7,000,000 | 0.45 | A Share |
| 7 Industrial and Commercial Bank of China – Guangfa Stable Growth Securities Investment Fund | Other | 6,826,316 | 0.44 | A Share |
| 8 Agricultural Bank of China – China Post Core Selected Stock Fund | Other | 6,000,000 | 0.38 | A Share |
| 9 Industrial and Commercial Bank of China – Guangfa Strategic Aborative-select Composite Securities Investment Fund | Other | 5,884,792 | 0.38 | A Share |
| 10 Industrial and Commercial Bank of China – Guangfa Jufeng Securities Investment Fund | Other | 5,360,671 | 0.34 | A Share |
| 11 Industrial and Commercial Bank of China – China Universal Balanced Growth Securities Investment Fund | Other | 5,144,256 | 0.33 | A Share |

# Changes in Share Capital and Shareholders

Notes:

(1) Among the above-mentioned shareholders, Conch Holdings held 629,957,260 A Shares in the Company, representing 40.22% of the total share capital of the Company; of which 47,506,113 A Shares were floating shares without trading restriction, representing 3.03% of the total share capital of the Company; and 582,451,147 A Shares were floating shares with trading restrictions. During the Reporting Period, Conch Holdings reduced its shareholding in the Company by 15,277,887 A Shares, representing 0.98% of the total share capital of the Company.

(2) HKSCC Nominees Limited held 432,840,997 H Shares, representing 27.63% of the total share capital of the Company, and 99.92% of the issued H share capital of the Company, on behalf of its various clients.

(3) So far as the Board is aware, Conch Holdings and Conch Venture have connected relationship and are parties acting in concert; Guangfa Strategic Aborative-select Composite Securities Investment Fund, Guangfa Stable Growth Securities Investment Fund and Guangfa Jufeng Securities Investment Fund are under GF Fund Management Co., Ltd. Save for the aforesaid, the Board is not aware of any connected relationship or parties acting in concert existed among the above-mentioned shareholders.

(4) The Company is not aware of any pledge or moratorium of shares held by shareholders holding more than 5% of the issued share capital of the Company.

(5) As at 31 December 2007, the following persons (other than the Directors or chief executives of the Company) held 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") (Chapter 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 | 629,957,260 A Shares (long position) (Note a) | Beneficial owner | 55.59% (Note b) |
| Anhui Provincial Investment Group Limited | 629,957,260 A Shares (long position) (Note a) | Interests of a controlled corporation | 55.59% (Note b) |
| Conch Venture | 917,956,306 A Shares (long position) (Note a) | Interests of a controlled corporation and beneficial owner | 81.00% (Note b) |
| JPMorgan Chase & Co. | 1,318,029 H Shares (long position) | Beneficial owner | 0.30% (Note c) |
| JPMorgan Chase & Co. | 678,000 H Shares (short position) | Beneficial owner | 0.16% (Note c) |
| JPMorgan Chase & Co. | 59,504,000 H Shares (long position) (Note d) | Investment Manager | 13.74% (Note c) |

# Changes in Share Capital and Shareholders

| Name of shareholder | Number of ordinary shares held | Capacity | Percentage of shareholding of the relevant class of shares |
|---|---|---|---|
| JPMorgan Chase & Co. | 34,767,700 H Shares (long position) (Note d) | Custodian | 8.03% (Note c) |
| The Capital Group Companies, Inc. | 19,867,500 H Shares (long position) (Note e) | Investment Manager | 4.59% (Note c) |
| Taiwan Cement Corporation | 55,830,000 H Shares (long position) | Interests of a controlled corporation | 12.89% (Note c) |
| T. Rowe Price Associates, Inc. and its affiliates | 34,880,000 H Shares (long position) | Investment Manager | 8.05% (Note c) |
| Fidelity International Limited | 25,542,000 H Shares (long position) | Investment Manager | 5.9% (Note c) |
| The Northern Trust Company | 30,064,000 H Shares (long position) | N/A | 6.94% (Note c) |
| Northern Trust Fiduciary Services (Ireland) Limited | 22,514,000 H Shares (long position) | Trustee | 5.2% (Note c) |
| Baring Asset Management Limited | 26,884,000 H Shares (long position) (Note f) | Investment Manager | 6.21% (Note c) |

Notes:

(a) These 629,957,260 A Shares were 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 RMB408 million is attributable to Anhui Provincial Investment Group Limited ("Anhui Provincial Investment Group") (representing 51% of the equity interests in Conch Holdings); and RMB392 million is attributable to Conch Venture (representing 49% of the equity interests in Conch Holdings). Pursuant to the SFO, both Anhui Provincial Investment Group and Conch Venture were deemed to own the entire interests in the shares of the Company held by Conch Holdings.

Among the 917,956,306 A Shares held by Conch Venture, 629,957,260 A Shares were held in the name of Conch Holdings and 287,999,046 A Shares were held by Conch Venture as beneficial owner.

# Changes in Share Capital and Shareholders

On 28 December 2005, Conch Holdings executed a share transfer agreement with MS Asia Investment Limited (a subsidiary of Morgan Stanley, "MS") and International Finance Corporation (a member of the World Bank Group, "IFC") (the "Transfer Agreement"), whereby it 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, pursuant to which adjustments were made to the number and prices of shares to be transferred to MS and IFC, 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.

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)(國資產權[2006]477號《關於安徽海螺水泥股份有限公司部分國有股轉讓有關問題的批覆》) from the State-owned Assets Supervision and Administration Commission, agreeing to the transfer of 133,200,000 shares and 46,800,000 shares of the Company held by Conch Holdings to MS and IFC respectively, out of its 622,480,000 shares then held by Conch Holdings. The said approval lapsed on 26 April 2007. As at the end of the Reporting Period, the said share transfers have not yet been approved by the Ministry of Commerce of the PRC and the National Development and Reform Commission of the PRC.

(b) The total number of domestic shares in issue was 1,133,234,193 shares, all of which were A Shares.

(c) The total number of H Shares in issue was 433,200,000 shares.

(d) According to the disclosure of interests form submitted by JPMorgan Chase & Co. on 20 December 2007, these shares were held through certain subsidiaries of JPMorgan Chase & Co..

(e) According to the disclosure of interests form submitted by The Capital Group Companies, Inc. on 9 November 2007, these shares were held through certain subsidiaries of The Capital Group Companies, Inc.

(f) According to the disclosure of interests form submitted by Baring Asset Management Limited on 19 July 2007, these shares were held through certain subsidiaries of Baring Asset Management Limited.

Save for the aforesaid shareholders, as at 31 December 2007, the Company was not aware of any interests required to be recorded pursuant to section 336 of the SFO.

3 Information on the controlling shareholder of the Company

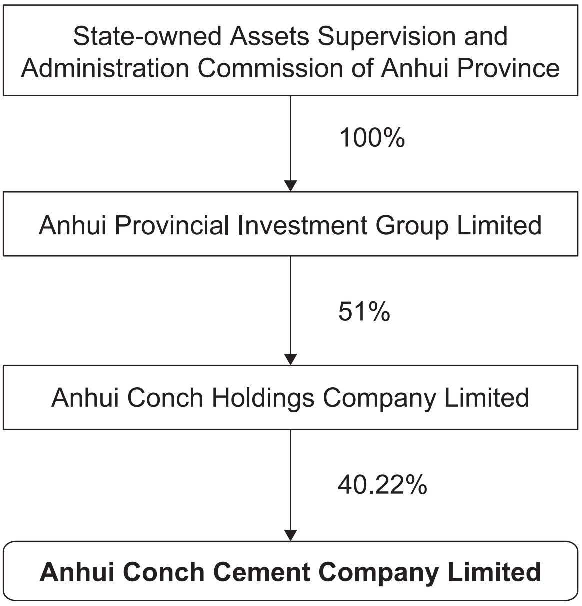
| | |
|---|---|
| Name in English: | Anhui Conch Holdings Company Limited |
| Legal representative: | Guo Wensan |
| Date of establishment: | 8 November 1996 |
| Registered capital: | RMB800 million |
| Principal business activities: | Asset management, investment, financing, property transactions, construction materials, chemical and industrial products, transportation and warehousing, construction project, development and technical services of technical products, imports and exports trading |

During the Reporting Period, there was no change in the controlling shareholder and de-facto controller of the Company.

# Changes in Share Capital and Shareholders

4 Information on the Company's controlling shareholders

Anhui Provincial Investment Group is a state-owned company solely owned by State-owned Assets Supervision and Administration Commission of Anhui Province ("Anhui SASAC"), and accordingly, Anhui SASAC is the de facto controller of the Company. As at 31 December 2007, the shareholding relationship structure between the Company and Conch Holdings, Anhui Provincial Investment Group and Anhui SASAC was as follows:




5 Public float

As at the date of this report, based on publicly available information and to the knowledge of the Directors, the Company maintained the prescribed public float under the Listing Rules of the Stock Exchange.

# Changes in Share Capital and Shareholders

## (6) PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2007, neither the Company nor its subsidiaries purchased, sold or redeemed any listed securities of the Company.

## (7) PRE-EMPTIVE RIGHTS

Pursuant to the articles of association of the Company (the "Articles") and the laws of the PRC, the Company is not required to offer to its existing shareholders the pre-emptive rights to acquire new shares in proportion to their shareholdings.

## (8) TRANSACTIONS IN RESPECT OF ITS OWN SECURITIES

As at 31 December 2007, the Group had neither issued nor authorised the issue of any convertible securities, options, warrants or other similar rights. As at 31 December 2007, the Group had no redeemable securities.

## (9) TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

For the year ended 31 December 2007, holders of the Company's securities were not entitled to any tax relief and exemptions by virtue of their holdings of such securities under their legal status of the PRC.

# Directors, Supervisors, Senior Management and Staff

## (1) BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| Name | Position | Sex | Age | Tenure |
|---|---|---|---|---|
| Guo Wensan | Chairman | Male | 53 | 1 June 2007 — 31 May 2010 |
| Kang Woon | Independent non-executive Director | Male | 45 | 1 June 2007 — 31 May 2010 |
| Ding Meicai | Independent non-executive Director | Male | 66 | 1 June 2007 — 31 May 2010 |
| Chan Yuk Tong | Independent non-executive Director | Male | 45 | 1 June 2007 — 31 May 2010 |
| Yu Biao | Executive Director | Male | 54 | 1 June 2007 — 31 May 2010 |
| Guo Jingbin | Executive Director | Male | 50 | 1 June 2007 — 31 May 2010 |
| Li Shunan | Executive Director | Male | 50 | 1 June 2007 — 31 May 2010 |
| Ren Yong | Executive Director and general manager | Male | 45 | 1 June 2007 — 31 May 2010 |
| Wang Jun | Chairman of Supervisory Committee | Male | 51 | 1 June 2007 — 31 May 2010 |
| Wang Yanmou | Supervisor | Male | 76 | 1 June 2007 — 31 May 2010 |
| Ding Junting | Supervisor elected by staff | Male | 52 | 1 June 2007 — 31 May 2010 |
| Qi Shengli | Deputy general manager | Male | 43 | 12 April 2007 — 11 April 2010 |
| Wang Pengfei | Deputy general manager | Male | 46 | 12 April 2007 — 11 April 2010 |
| He Chengfa | Deputy general manager | Male | 42 | 12 April 2007 — 11 April 2010 |
| Wang Jianchao | Deputy general manager | Male | 44 | 12 April 2007 — 11 April 2010 |
| Zhang Mingjing | Deputy general manager and secretary to the Board (Company Secretary) | Female | 46 | 12 April 2007 — 11 April 2010 |
| Chiu Pak Yue, Leo | Company secretary (Hong Kong) | Male | 44 | 12 April 2007 — 11 April 2010 |

None of the above Directors, Supervisors and members of the senior management held or traded any securities of the Company during the Reporting Period.

# Directors, Supervisors, Senior Management and Staff

Particulars of Directors, Supervisors and members of the senior management who held positions in Conch Holdings, the controlling shareholder of the Company and other entities (other than the subsidiaries of the Company), are set out as follows:

| Name | Position held in Conch Holdings and duration of appointment | Any remuneration and allowances received from Conch Holdings | Position held in other companies and duration of appointment | Any remuneration and allowances received from those companies |
|---|---|---|---|---|
| Guo Wensan | Chairman and general manager (from January 1997 to present) | Yes | — | — |
| Li Shunan | Vice Chairman and deputy general manager (from January 1997 to present) | No | Chairman of Shanghai Conch International Investment & Development Company Limited ("Conch International") (from December 2005 to present) Director (from May 2000 to present) and chairman (from October 2005 to present) of Conch Profiles | From Conch Profiles |
| Yu Biao | Director and deputy general manager (from December 1998 to present) | Yes | Director of Conch Profiles (from May 2000 to present)<br><br>Chairman of Anhui Chaodong Cement Holdings Company Limited ("Chaodong Group") (from January 2004 to May 2007) | No |

# Directors, Supervisors, Senior Management and Staff

| Name | Position held in Conch Holdings and duration of appointment | Any remuneration and allowances received from Conch Holdings | Position held in other companies and duration of appointment | Any remuneration and allowances received from those companies |
|---|---|---|---|---|
| Guo Jingbing | Director and deputy general manager (from January 1997 to present) | Yes | — | — |
| Ren Yong | Director (from December 2003 to present) | No | — | — |
| Wang Jun | Disciplinary Committee Secretary (From January 1997 to present) | Yes | Chairman of supervisory committee of Conch Profiles (from May 2000 to September 2007) | No |
| | Deputy Party Secretary (From July 2002 to present) | | Chairman of Anhui Conch Construction Material Co., Ltd. (from March 2004 to present) | |
| | | | Director of Conch International (from December 2005 to present) | |
| | | | Chairman of Conch Venture (August 2006 to present) | |
| | | | Chairman of Chaodong Group (from May 2007 to present) | |
| Ding Junting | Deputy Chairman of the trade union (from February 2001 to present) | No | Chairman of Yingde Conch International Hotel Company Limited (from August 2003 to present) | No |
| Qi Shengli | — | — | Chairman of supervisory committee of Conch Profiles (from September 2007 to present) | No |
| | | | Chairman of supervisory committee of Conch International (from December 2005 to present) | |
| He Chengfa | — | — | Chairman of Anhui Conch Kawasaki Engineering Company Limited ("Conch Kawasaki) (from December 2006 to present) | No |

# Directors, Supervisors, Senior Management and Staff

## Biography of Directors, Supervisors and senior management

### *Executive Directors*

**Mr. Guo Wensan**, senior engineer, Chairman of the Company. Mr. Guo graduated from Shanghai Tongji University in 1978. He joined the Group in 1980 and has held various managerial positions. He has over 20 years of experience in corporate management and is an experienced cement manufacturing technology expert. Mr. Guo has received the second prize for the "National Science and Technology Progress Award" (國家科學技術進步獎二等獎) from the State Council of the PRC for key new dry-processed cement production technology and equipment development and engineering application project. Mr. Guo has received honours such as the "First of May" (「五一」) Labour Medal and the national construction materials exemplary award. He received the "gold award for contributions" (「貢獻獎」金質獎章) from the People's Government of Anhui Province. Mr. Guo was a representative of the 16th Congress of the Communist Party of China and the 11th National People's Congress of China. Mr. Guo is also the vice president of China Building Materials Federation and an expert of the expert committee of China International Engineering Consulting Corporation.

**Mr. Yu Biao**, senior engineer, executive Director of the Company. Mr. Yu graduated from Anhui Construction Materials College in 1980 and joined the Group thereafter. Mr. Yu has held various managerial positions such as deputy general manager of the Company. He has in-depth knowledge in the engineering technology of cement and ample experience in the management of engineering projects. He was appointed as a member of the Cement Subdivision of Education Committee of the former State Administration for Construction Materials. Mr. Yu is also the vice chairman of China Cement Association.

**Mr. Guo Jingbin**, engineer, executive Director of the Company. Mr. Guo graduated from Shanghai Construction Materials College in 1980 and joined the Group thereafter. Mr. Guo has held various managerial positions such as secretary to the Board and deputy general manager. He has ample experience in capital markets.

**Mr. Li Shunan**, senior engineer, executive Director of the Company. Mr. Li graduated from Anhui Construction Materials College in 1980 and joined the Group thereafter. Mr. Li has held various managerial positions such as the plant director of Anhui Ningguo Cement Plant ("Ningguo Cement Plant") and deputy general manager of the Company. He is very experienced in the engineering technology and production management in the cement industry.

**Mr. Ren Yong**, engineer, executive Director and general manager of the Company. Mr. Ren graduated from Shanghai Construction Materials College and participated in the former professional training program in MBA provided by the State Economic and Trade Organization and the professional training program in MBA provided by the Business School of Stockholm University, Sweden in 1998. Mr. Ren joined the Group in 1982 and has held various managerial positions such as plant director of the divisional plant of Ningguo Cement Plant, deputy general manager of Tongling Conch and director of the sales division of the Company.

### *Independent Non-executive Directors*

**Mr. Kang Woon**, independent non-executive Director of the Company. Mr. Kang holds a doctoral degree in law awarded by the University of Texas at Austin, USA. Mr. Kang is a registered lawyer of the High Court of the New York State of the USA. He is also a member of the Law Society of England and Wales. Mr. Kang was appointed as an independent non-executive Director of the first and second sessions of the Board and a Supervisor of the third session of the supervisory committee ("Supervisory Committee") of the Company.

**Mr. Chan Yuk Tong**, independent non-executive Director of the Company, is a fellow member (FCPA) of Hong Kong Institute of Certified Public Accountants and a member (CPA) of CPA Australia. Mr. Chan graduated from the University of Newcastle in Australia with a bachelor's degree in commerce and also obtained a master's degree in business administration from the Chinese University of Hong Kong. Mr. Chan had worked for the G2000 Group, Tak Sing Alliance Holdings Limited, China Pipe Group Limited (formerly World Trade Bun Kee Limited), and Ernst & Young, and has over 20 years of experience in finance management. Mr. Chan is also a director of several companies listed on the Stock Exchange, namely, Vitop Bioenergy Holdings Limited, Daisho Microline Holdings Limited, Kam Hing International Holdings Limited, Carico Holdings Limited and BYD Electronic (International) Company Limited, and a director of six private companies in Hong Kong, including Cachet Certified Public Accountants Limited.

**Mr. Ding Meicai**, independent non-executive Director of the Company. Mr. Ding graduated from Anhui Agricultural University. Mr. Ding is a PRC Certified Public Accountant, a PRC registered asset appraiser and a senior economist. He is currently an honourable chairman of Anhui Province Engineering Cost Association, and the Chairman of Anhui New Vision Information Industry Co. Ltd. and a part-time professor of Anhui University of Finance and Economics. Mr. Ding was the Chief Director of the

# Directors, Supervisors, Senior Management and Staff

State-owned Assets Administration Bureau of Anhui Province, deputy director of the Finance Office of Anhui Province, chairman of each of the Anhui Institute of Certified Public Accountants and the Anhui Institute of Certified Asset Appraisers.

## *Supervisors*

**Mr. Wang Jun**, senior engineer, chairman of the Supervisory Committee of the Company. Mr. Wang graduated from Anhui University in 1982 and joined the Group thereafter. Mr. Wang has held various positions such as director of quantitative automation department and personnel department and party secretary of Ningguo Cement Plant.

**Mr. Wang Yanmou**, Supervisor of the Company. Mr. Wang graduated from China Dongnan University in 1956 and obtained an associate doctor's degree in the former Soviet Union in 1962. Mr. Wang was the president of China Building Material Academy, director of the State Construction Material Industry Bureau and China Silicates Institute. Since 1997, he has been a consultant of the expert committee of China International Engineering Consulting Corporation. He is a special consultant of China Investment Association and the honourable chairman of China Building Materials Federation. Mr. Wang was a delegate of the Eighth CNPCC. Mr. Wang was appointed as an independent non-executive Director of the first and second sessions of the Board. He is currently an independent non-executive director of Conch Profiles.

**Mr. Ding Junting**, Supervisor elected by staff. Mr. Ding graduated from Auhui Institute of Mechanical and Electrical Engineering and joined the Group in 1980. Mr. Ding is currently the vice chairman of the trade union of Conch Holdings and the chairman of the trade union of Wuhu Conch Cement Co., Ltd. ("Wuhu Conch").

Staff exchange and training

# Directors, Supervisors, Senior Management and Staff

## *Senior Management*

**Mr. Qi Shengli**, economist, deputy general manager of the Company. Mr. Qi graduated from Wuhan Industrial University and joined the Group in 1989. He has held various positions such as deputy director of personnel department of Ningguo Cement Plant and director of personnel department of the Company. Mr. Qi is the chairman of Chizhou Conch and Anhui Xuancheng Conch Cement Co., Ltd. ("Xuancheng Conch").

**Mr. Wang Pengfei**, deputy general manager of the Company. Mr. Wang graduated from the State Construction Materials Technical School and joined the Group in 1984. He has held various positions such as deputy plant director of Ningguo Cement Plant. He is currently the chairman of Digang Conch, Zongyang Conch, Anhui Huaining Conch Cement Co., Ltd., Wuhu Conch and Shuangfeng Conch Cement Co., Ltd. ("Shuangfeng Conch").

**Mr. He Chengfa**, engineer, deputy general manager of the Company. Mr. He graduated from Wuhan Industrial University and joined the Group in 1990. He has held various positions such as deputy chief mechanical engineer of Ningguo Cement Plant and director of equipment department of the Company. Mr. He is currently the chairman of Anhui Conch Machinery & Electric Co., Ltd. ("Conch Machinery & Electric").

**Mr. Wang Jianchao**, assistant economist, deputy general manager of the Company. Mr. Wang graduated from Huangshan University and joined the Group in 1982. He has held various positions such as deputy director of the import and export department of Conch Holdings, director of the international business department and director of supplies department of the Company. Mr. Wang is now the chairman of Shanghai Conch Cement Co., Ltd., Ningchang Company and Wuhu Plastic.

**Ms. Zhang Mingjing**, deputy general manager of the Company. Ms. Zhang graduated from Anhui Normal University in July 1988 and joined the Group in November 1987. She has held various positions such as director of external economic and trade department and deputy director of development department, secretary to the board of Ningguo Cement Plant. She is currently the general manager of Shanghai Conch Cement Sales Company Limited.

### *Secretaries to the Board (Company Secretary)*

**Ms. Zhang Mingjing**, Please refer to the biography of "Senior Management."

**Mr. Chiu Pak Yue, Leo,** Hong Kong practising solicitor. He graduated from the University of Hong Kong. He is a partner of Chiu & Partners, Solicitors and is a member of the securities laws committee of the Law Society of Hong Kong. Mr. Chiu has handled a variety of financial and commercial legal matters in Hong Kong and for multinational companies, including listing, merger and acquisitions, privatisation, issue of European bonds and derivatives and corporate restructuring.

# Directors, Supervisors, Senior Management and Staff

## *(2) APPOINTMENT OR RETIREMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD*

The term of office of the members of the third session of the Board and the Supervisory Committee expired on 31 May 2007. The 2006 Annual General Meeting of the Company, which was held on 8 June 2007, considered and approved the appointment of Mr. Guo Wensan, Mr. Yu Biao, Mr. Guo Jingbin, Mr. Li Shunan and Mr. Ren Yong as the executive Directors of the fourth session of the Board of the Company; Mr. Kang Woon, Mr. Chan Yuk Tong and Mr. Ding Meicai as the independent non-executive Directors of the fourth session of the Board of the Company; Mr. Wang Jun and Mr. Wang Yanmou as the Supervisors of the fourth session of the Supervisory Committee of the Company. Mr. Ding Junting has been the Supervisor elected by staff. The term of office of each of the Directors and Supervisors is three years commencing from 1 June 2007.

On 8 June 2007, the first meeting of the fourth session of the Board elected Mr. Guo Wensan as the chairman of the fourth session of the Board of the Company and on 9 June 2007, the first meeting of the fourth session of the Supervisory Committee elected Mr. Wang Jun as the chairman of the fourth session of the Supervisory Committee of the Company.

On 12 April 2007, the eleventh meeting of the third session of the Board of the Company 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. With the approval of the eleventh meeting of the third session of the Board, Mr. Wu Likang and Mr. Wang Biao resigned from the position of assistants to general manager.

The tenure of office for Mr. Lee Kwok Ming, senior finance manager (and Hong Kong qualified accountant) of the Company, was from 1 May 2006 to 30 April 2007. Mr. Lee Kwok Ming ceased to be senior finance manager of the Company from 1 May 2007. Since the Company has not located suitable candidate, the position of senior finance manager (and Hong Kong qualified accountant) of the Company was vacant as at the date of this report.

# Directors, Supervisors, Senior Management and Staff

## (3) INTERESTS IN SERVICE CONTRACTS AND CONTRACTS OF DIRECTORS AND SUPERVISORS

For details of the term of service contracts entered into by the Company and the respective executive Directors and Supervisors, please refer to the aforesaid “(1) Basic information of Directors, Supervisors and senior management”.

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

During the Reporting Period, none of the Directors and/or Supervisors has entered into a service contract with the Company which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## (4) INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARE CAPITAL

During the Reporting Period, none of the Directors and Supervisors of the Company and their respective spouses and children under the age of 18 has any shares, debentures or other interests in the Company and its associated corporation as defined in the SFO, nor had they been granted any rights to subscribe for shares or debentures of the Company or its associated corporation as defined in the SFO. Such shares or interests shall be recorded in the register required to be kept and prepared by the Company under Section 352 of the SFO.

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## *(5) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT FOR THE YEAR*

### 1. Remuneration received by Directors and Supervisors from the Company for the year:

Please refer to the section headed “Remuneration received by senior management from the Company for the year” for details of the remuneration received by Mr. Ren Yong, an executive Director and the general manager of the Company for the year. The remuneration received by Mr. Ding Junting, the Supervisor elected by staff from Wuhu Conch (a wholly-owned subsidiary of the Company) in 2007 is set out below:

*(unit: RMB)*

| Name | Position | Basic salary and allowances | Bonus | Pension | Total |
|---|---|---|---|---|---|
| Ding Junting | Supervisor — Staff representative | 77,527 | 99,531 | 8,836 | 185,894 |

During the Reporting Period, Mr. Guo Wensan, the chairman of the Company, Mr. Yu Biao, Mr. Li Shunan and Mr. Guo Jinbin, executive Directors and Mr. Wang Jun, the chairman of the Supervisory Committee, did not receive any remuneration from the Group, and will not demand the Group for payment of remuneration for the Reporting Period.

2. **During the Reporting Period, no remuneration had been paid to Mr. Kang Woon, Mr. Chan Yuk Tong and Mr. Ding Meicai, independent non-executive Directors, and Mr. Wang Yanmou, external Supervisor, other than the relevant allowances paid by the Company (as detailed below):**

| Name | Position | Allowances (RMB) |
|---|---|---|
| Kang Woon | Independent non-executive Director | 50,000 |
| Chan Yuk Tong | Independent non-executive Director | 100,000 |
| Ding Meicai | Independent non-executive Director | 50,000 |
| Wang Yanmou | Supervisor | 30,000 |
| | Total | 230,000 |

3. **Remuneration received by senior management from the Company for the year**

| Name | Position | Total remuneration for the year (RMB) |
|---|---|---|
| Ren Yong | Executive Director and general manager | 548,078 |
| Qi Shengli | Deputy general manager | 866,648 |
| Wang Pengfei | Deputy general manager | 861,464 |
| He Chengfa | Deputy general manager | 865,042 |
| Wang Jianchao | Deputy general manager | 736,795 |
| Zhang Mingjing | Deputy general manager and secretary to the Board | 839,442 |
| | Total | 4,717,469 |

Notes:

1. The remunerations (inclusive of pension, medical and unemployment insurances) of the above-mentioned senior management were amounts before taxation.

2. Pursuant to the relevant requirements of State-owned Assets Supervision and Administration Commission of Anhui Province, as Mr. Ren Yong is also a director of Conch Holdings, his annual remuneration was pegged to the annual appraisal indicators of Conch Holdings.

### 4. Decision-making processing and basis for determining remuneration

The Remuneration and Nomination Committee of the Board is responsible for determining the remuneration policy and proposals of executive Directors and senior management with reference to their terms of reference. The remuneration of executive Directors and internal Supervisors of the Company shall be determined and paid in accordance with the accomplishment of annual targets and works under their respective jurisdiction and the operating performance of the Company. The remuneration of senior management shall be determined and paid in accordance with the annual production and operation plan and financial budget as considered and approved by the Board, the accomplishment of day-to-day management tasks and the standard of monthly remuneration and annual remuneration multiple as considered and approved by the Board.

## *(6) HIGHEST PAID INDIVIDUALS*

During the Reporting Period, the five highest paid individuals of the Group were members of senior management of the Company. Please refer to the paragraph headed “(5) Remuneration of Directors, Supervisors and senior management for the year” and Note 9 to the financial statements prepared in accordance with IFRS in this annual report for details of their remuneration.

## *(7) EMPLOYEES*

As at 31 December 2007, the Group employed 20,760 employees, of which 14,833 were production staff members, 669 were sales staff members, 3,879 were technical staff members, 398 were finance staff members, 878 were administrative and management staff members; 5,715 of them had secondary and higher education, of which 4,587 received tertiary education or above. The aggregate remuneration of the employees of the Group amounted to RMB431.90 million. The Company was not required to bear expenses of resigned or retired staff.

## *(8) PENSION INSURANCE*

Details of the pension insurance are set out in Note 6(b) to the financial statements prepared in accordance with IFRS. Pension booked in the income statement of the Group for the year ended 31 December 2007 amounted to RMB66.81 million.

## *(9) STAFF HOUSING*

Pursuant to the relevant regulations of the PRC government, contributions based on a certain percentage of the employees’ salaries shall be made by the Group to the housing welfare fund. Save for this, the Group has no other responsibilities nor any plan for provision of staff housing. For the year ended 31 December 2007, the total housing welfare fund paid by the Group amounted to approximately RMB22.03 million.

# Report on Corporate Governance

## *(1) CORPORATE GOVERNANCE*

Since the listing of the Company on the Stock Exchange and the SSE in 1997 and 2002 respectively, the Company has been continuously improving its corporate governance structure and regulating the operation of the Company in accordance with the relevant domestic and overseas listing rules and regulatory requirements. General meetings, the Board and the Supervisory Committee, each with its specific responsibilities, are independent, efficient and transparent in decision-making and they support and supervise each other, maintaining balances among them. The Board of the Company has established two specialised committees, the Audit Committee and the Remuneration and Nomination Committee, comprising the independent non-executive Directors, positively enhance the efficiency of the Board in decision-making and promote the efficient operation of our corporate governance, the quality of the Company's operations have thereby been improved.

During the Reporting Period, pursuant to the 《Notice on Issues Concerning Campaign to Strengthen Corporate Governance of Listed Companies》 (Zheng Jian Gong Si Zi [2007]No. 28) (《關於開展加强上市公司治理專項活動有關事項的通知》（證監公司字[2007]28號文）) promulgated by the CSRC, the Company has effectively conducted and successfully completed the five phases of the corporate governance campaign: self-inspection, public evaluation, examination by regulatory authority, rectification and improvement, and ratification of evaluation. The Company was recognised as one of the model listed companies in corporate governance campaign in Anhui by the Anhui Securities Regulatory Bureau of CSRC and listed as one of the model companies in SSE corporate governance by SSE.

Effective implementation of such corporate governance campaign has further enhanced the sense of responsibility and legal consciousness among Directors, Supervisors, senior management and all professional management departments. At the same time, the internal professional management systems and the internal control system of the Company were fully straightened. Coupled with amendment and enhancements of the relevant systems based on the latest laws and regulations, the operation of the Company has been further regulated.

# Report on Corporate Governance

Corporate governance should be a continuous process of perfection and enhancement. The requirement for corporate governance has been increasingly demanding and specific with the rapid development of the Company. Not only do we need to satisfy domestic and foreign regulatory requirements in terms of structure, but we need to keep on enhancing the actual operational efficiency of corporate governance, so as to achieve "consistence in effectiveness in both its structure and substance". Although the corporate governance structure of the Company has been established pursuant to international standards and its operation has generally complied with domestic and overseas regulatory requirements, further active exploration and continued improvement and perfection are still required to make the corporate governance standards of the Company become the professional standard and then the working practice of management at all levels, with a view to establishing a top tier and everlasting listed company.

## (2) PERFORMANCE OF DUTIES BY INDEPENDENT NON-EXECUTIVE DIRECTORS

During the Reporting Period, the independent non-executive Directors had, in accordance with the requirements of the Working Regulations for Independent Directors, the Articles, the "Terms of Reference of the Remuneration and Nomination Committee" and the "Terms of Reference of the Audit Committee", dutifully performed their duties by adhering to the principles of integrity and diligence; attended the Board meetings and general meetings for 2007 in person, convened various specialised committee meetings and participated in the major decision making of the Company in order to safeguard the interests of the medium and small shareholders in accordance with the law.

After reviewing the cumulative and current external guarantees provided by the Company for the year ended 31 December 2007, the independent non-executive Directors formed the independent opinion set out below: the Company has been regulating its external guarantees and managing the risk of such guarantees by strictly complied with the relevant requirements under the Articles, the "Notice on Certain Issues relating to Regulating the Funding Transactions between Listed Companies and Related Parties and the External Guarantees Provided by Listed Companies" (Zheng Jian Fa [2003] No. 56) (證監發2003(56)號《關於規範上市公司與關聯方資金往來及上市公司對外擔保的若干問題的通知》) and the "Notice on Regulations Governing the External Guarantees Provided by Listed Companies" (Zheng Jian Fa [2005] No. 120) 證監發[2005]120號 promulgated by the CSRC. The decision-making procedure of the Company in providing external guarantees is in compliance with the requirements of relevant laws, regulations and rules and the Articles. The information and the risk of providing external guarantees by the Company is sufficient and complete.

A self-owned jetty of Wuhu Conch

As all three independent non-executive Directors of the Company are members of the Audit Committee, please refer to "(5) Corporate Governance — 7. Audit Committee of the Board" for information concerning the work carried out by the independent non-executive Directors in the course of the preparation of this annual report.

### (3) *INDEPENDENCE BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER IN RESPECT OF OPERATIONS, STAFF, ASSETS, ORGANISATION AND FINANCE*

#### 1. Operations

The Company has a production system, supplementary production system and ancillary facilities independent of the controlling shareholders. The Company owns directly or, by means of agreement, obtains the land use rights, mining rights and trademark licensing rights relating to its core operation of cement production.

#### 2. Staff

The Company has an organisational structure, labour force, personnel and wages management system and production premises completely independent of its controlling shareholder, and the senior management of the Company (including general manager, deputy general managers, secretary to the Board, chief financial officer and chief sales officer) are dedicated to the Company and receive their remuneration from the Company. They do not hold any executive office concurrently at the holding company.

#### 3. Assets

The ownership rights of production assets of the Company are clearly delineated and are separate from those of the controlling shareholder. The Company has not pledged its assets, interests or goodwill as guarantee for the controlling shareholder or its subsidiaries. None of the Company's assets is occupied by the controlling shareholder without consideration. The Company is able to use its assets independently for its operating activities without any restriction.

#### 4. Organisation

The Company has an organisational structure completely independent of the controlling shareholder. The Board, managers and the operation management team of the Company are all independent of the controlling shareholder. There is no hierarchical relationship between the organisation of the controlling shareholder and that of the Company.

#### 5. Finance

The Company has established its independent accounting and financial management systems. It has its own bank accounts and pays its taxes in accordance with the law. It makes its own financial decisions independently and the controlling shareholder does not interfere with the financial operation and use of capital of the Company. Financially, it is completely independent of the controlling shareholder.

## Report on Corporate Governance

### *(4) ESTABLISHMENT AND IMPLEMENTATION OF AN APPRAISAL AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT*

The Company strengthens both the incentive for and regulation of senior management by implementing the annual remuneration system and the target and responsibility based appraisal. The Board of Directors enters into responsibility letters with members of senior management and members of staff of its subsidiaries every year in respect of appraisal by targets for the year as shown by production and sales volume, sales revenue, costs, profit and management in order to examine the work and management situation, finetuning of management procedures and standardisation of internal management, thereby promoting the standard of management. During the Reporting Period, the members of the senior management had been awarded with their annual remuneration according to the level of accomplishment of target missions and annual evaluation results.

### *(5) CORPORATE GOVERNANCE*

**1.** During the Reporting Period, the Company has complied with all the code provisions set out in Appendix 14 of the Code on Corporate Governance Practices to the Listing Rules of the Stock Exchange.

The financial statements and annual results for 2007 of the Company have been reviewed by the Audit Committee of the Board.

**2. Securities transactions by Directors**

The Company has adopted a code of practice with standards not lower than those prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules of the Stock Exchange for securities transactions by Directors. Pursuant to the specific enquiries made by the Company, all Directors confirmed that they had complied with the Model Code in relation to securities transactions by Directors during the Reporting Period.

## 3. The Board

Composition of the Board is as follows:

| Name | Position |
|---|---|
| Guo Wensan | Chairman |
| Kang Woon | Independent non-executive Director |
| Chan Yuk Tong | Independent non-executive Director |
| Ding Meicai | Independent non-executive Director |
| Yu Biao | Executive Director |
| Guo Jingbin | Executive Director |
| Li Shunan | Executive Director |
| Ren Yong | Executive Director and general manager |

There is no financial, business or other material relationship between members of the Board and between the Chairman and the chief executive officer.

During the Reporting Period, three meetings of the Board were held on-site, the attendance rates of the Directors are as follows:

| Name | Attendance rate |
|---|---|
| Guo Wensan | 100% |
| Kang Woon | 100% |
| Chan Yuk Tong | 100% |
| Ding Meicai | 100% |
| Yu Biao | 100% |
| Guo Jingbin | 100% |
| Li Shunan | 100% |
| Ren Yong | 100% |

Furthermore, the Board has voted on the relevant resolutions by means of communication and written resolutions during the Reporting Period, the voting rates of the Directors are as follows:

| Name | Voting rate |
|---|---|
| Guo Wensan | 100% |
| Kang Woon | 100% |
| Chan Yuk Tong | 100% |
| Ding Meicai | 100% |
| Yu Biao | 100% |
| Guo Jingbin | 100% |
| Li Shunan | 100% |
| Ren Yong | 100% |

During the Reporting Period, the Board exercised its powers pursuant to Chapters 11 and 11A of the Articles, and the management exercised its powers pursuant to Chapter 13 of the Articles. Please refer to "Report of the Directors" of the annual report for details of the work of the Board, and "Management Discussion and Analysis" of the annual report for details of the work of the management.

## 4. Chairman and Chief Executive Officer

The positions of Chairman and chief executive officer of the Company are filled by Mr. Guo Wensan and Mr. Ren Yong respectively.

The principal duties of the Chairman of the Board are: (a) to lead the Board and ensure that the Board operates effectively and perform its duties and discuss any significant and appropriate matters on a timely basis; (b) to ensure that all the Directors at the meetings of the Board are properly informed of the current affairs; and (c) to ensure that the Directors receive sufficient information, which are complete and reliable, on a timely basis.

The principal duties of the Chief Executive Officer are: (a) to manage the daily operation of the Group with the assistance of executive Directors and senior management; and (b) to implement major strategies and development plans adopted by the Board.

## 5. Tenure of independent non-executive Directors

For the tenure of independent non-executive Directors, please refer to the aforesaid section "1. Basic Information of Directors, Supervisors and senior management" of "Directors, Supervisors, Senior Management and Staff". The Company has received the confirmation letters from Mr. Kang Woon, Mr. Chan Yuk Tong and Mr. Ding Meicai, independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules of the Stock Exchange in respect of their independence for the year. The Company concurs with their independence.

## 6. Remuneration and nomination of Directors

Pursuant to the Listing Rules of the Stock Exchange, the Company has established the Remuneration and Nomination Committee under the Board, which is principally responsible for formulating the remuneration policy for the executive Directors of the Company, determining the remuneration proposal for each of the Directors as well as their succession plan. The Remuneration and Nomination Committee is a non-standing committee under the Board, which is accountable to the Board.

Members of the Remuneration and Nomination Committee of the third session of the Board of the Company were Ms. Xue Tongzu, Mr. Ding Zhiming and Mr. Chan Yuk Tong, of which Ms. Xue Tongzu was the chairman. On 31 May 2007, the tenure of the third session of the Board expired. On 8 June 2007, the fourth session of the Board appointed Mr. Kang Woon, Mr. Chan Yuk Tong and Mr. Ding Meicai, independent non-executive Directors, as members of the Remuneration and Nomination Committee of the fourth session of the Board, with Mr. Kang Woon being appointed as the chairman of the Committee.

During the Reporting Period, the Remuneration and Nomination Committee held a meeting on 8 April 2007. All committee members attended the meeting, it considered and approved the following resolutions: (i) recommendation of candidates of the fourth session of the Board and Supervisory Committee of the Company; (ii) proposal to the general meeting to authorise the Remuneration and Nomination Committee of the Board to determine the remuneration of the Directors and Supervisors of the fourth session of the Board and Supervisory Committee; (iii) appointment of Mr. Qi Shengli as secretary to the Remuneration and Nomination Committee of the Board. The above resolution (i) was considered and approved by the eleventh meeting of the third session of the Board on 12 April 2007 and the annual general meeting for 2006 on 8 June 2007.

The Remuneration and Nomination Committee had reviewed the remunerations in respect of the Directors, Supervisors and members of senior management as disclosed and gave the following opinion: the remunerations in respect of the Directors, Supervisors and members of senior management as disclosed are consistent with the annual performance appraisal results of the committee.

## 7. Audit Committee of the Board

The Board has established the Audit Committee under the Board pursuant to the Listing Rules of the Stock Exchange to monitor the independence and work efficiency of external auditors, the financial reporting procedures and efficiency of internal control system, in order to assist the work of the Board. The Audit Committee is a non-standing organization under the Board and is accountable to the Board.

The Audit Committee of the third session of the Board of the Company comprised Ms. Xue Tongzu, Mr. Ding Zhiming and Mr. Chan Yuk Tong, with Ms. Xue Tongzu being the chairman. On 31 May 2007, the tenure of the third session of the Board expired. On 8 June 2007, the fourth session of the Board appointed Mr. Kang Woon and Mr. Ding Meicai, and re-appointed Mr. Chan Yuk Tong, independent non-executive Directors, as members of the Audit Committee of the fourth session of the Board, with Mr. Kang Woon being appointed as the chairman of the Committee.

During the Reporting Period, the Audit Committee held two meetings, which were attended by all of the committee members:

At the meeting on 8 April 2007, the Audit Committee considered and approved (i) the financial statements for the year ended 31 December 2006 prepared in accordance with IFRS; (ii) the financial statements for the year ended 31 December 2006 prepared in accordance with PRC Accounting Standards; and (iii) the connected transactions occurred in 2006.

# Report on Corporate Governance

At the meeting on 15 August 2007, the Audit Committee considered and approved (i) the unaudited interim (half-year) financial statements for 2007 prepared in accordance with IFRS and PRC Accounting Standards respectively; (ii) the interim report for 2007 and its summary and the interim results announcement; and (iii) the connected transactions occurred in the first half of 2007.

Since the commencement of the audit of the financial statements of the Company for the year ended 31 December 2007, the Audit Committee has been participating in the whole process. On 14 January 2008, the Audit Committee discussed with the auditors of the Company, KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants (collectively referred to as "KPMG") by telephone, to determine the time table for the audit of the annual report. On 17 January 2008, prior to the commencement of audit by the auditors, the Audit Committee first reviewed the 2007 financial statements prepared by the Company and agreed to allow the auditors to conduct on-site audit for 2007 in the Company. On 19 March 2008, the audited results for 2007 have been reviewed by the Audit Committee and the Audit Committee considered that the auditors had completed the audit conscientiously within the scheduled time frame. At the meeting on 24 March 2008, the Audit Committee considered and approved the following resolutions: (i) the financial statements for the year ended 31 December 2007 prepared in accordance with IFRS; (ii) the financial statements for the year ended 31 December 2007 prepared in accordance with PRC Accounting Standards; (iii) recommendation to the Board to re-appoint KPMG Huazhen Certified Public Accountants, and KPMG Certified Public Accountants as the PRC auditor and the international auditor of the Company respectively; and (iv) the connected transactions occurred in 2007.

On 26 March 2008, the Audit Committee issued a summary report in respect of the audit of the Company for 2007 performed by KPMG and made objective assessment on the work conducted by KPMG: during the process of conducting the audit of Conch for 2007, KPMG was able to adhere strictly to the China's Auditing Standards for Certified Public Accountants and Accounting Standards for Business Enterprises and other regulations in performing its audit and was able to perform its audit functions well. Accordingly, it is proposed that KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants be re-appointed as the PRC auditor and the international auditor of the Company respectively.

## 8. Auditors and remuneration

Pursuant to the resolution considered and approved by the annual general meeting for 2006, the Company engaged KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants as the PRC auditor and the international auditor of the Company for the year ended 31 December 2007 respectively. The annual audit remuneration payable to KPMG by the Company for the year ended 31 December 2007 amounted to approximately RMB3.95 million. In addition, the Company was required to reimburse KPMG for lodging and travelling expenses incurred for on-site auditing.

During the Reporting Period, in the course of preparing relevant submission materials for the proposal of public issue of A Shares of the Company, KPMG also provided audit or review services to the Company on the relevant financial information required for its public issue of A Shares, mainly including: i) audit of the consolidated pro forma financial statements for the years of 2004, 2005 and 2006; ii) issuance of a report on the internal control system of Conch; iii) issuance of a report in relation to the Statement on the Uses of Proceeds Raised (Issue of Shares for Purchase of Assets) in 2007 approved by the Board; iv) issuance of a special statement on "the computation of return on consolidated net assets and earnings per share".

Save for the financial audit/review services above and the vote scrutinizing services at general meetings of the Company in accordance with the Listing Rules of the Stock Exchange, KPMG did not provide any other services for a fee to the Group. KPMG is the newly appointed auditor of the Company for the year ending 31 December 2006. The person-in-charge of the audit and the endorsing accountant are not required to rotate for the time being in accordance with the "Requirements on the Regular Rotation of the Endorsing Accountants for Securities and Futures Auditing Services" (《關於證券期貨審計業務簽字註冊會計師定期輪換的規定》) of the CSRC and the Ministry of Finance of the PRC.

For the relevant remunerations paid to the auditors for the year, please refer to Note 6 to the financial statements prepared in accordance with IFRS.

## (6) ESTABLISHMENT AND SOUNDNESS OF INTERNAL CONTROL SYSTEM

Since the listing of the Company, by the formulation and implementation of the strategic targets and pursuant to the requirements of the Company Law and the Articles and relevant laws and regulations, we have established a standardised legal person governing structure and a comprehensive supervision and control mechanism of the holding company and its subsidiaries. We have been establishing and improving the development of the internal control system at the Company, and its subsidiaries level and each of its business segments. The audit office of the Company is responsible for monitoring and inspecting the establishment, improvement and implementation of the internal control system of the Group through regular or irregular special audit on the operating activities of the Group, to ensure the internal control system has been implemented effectively and the standard of risk management and the quality of operation of the Group continued to improve. Details are as follows:

(1) In respect of financial management, the Company adopts a comprehensive budgetary management system and implements a uniform financial management system and an appointment system for financial officers in order to ensure financial independence. The Company implements a centralised capital management system, whereby all financings are reviewed and approved by the headquarters of the Company. Financing channels are centrally arranged by the finance management department in order to control financial risks.

(2) In respect of material supply and management, the Company has established a mature resources procurement management process and decision-making system. The Company has implemented a public tender system for procurement to control the risk of procurement. Meanwhile, the Company organises the centralised

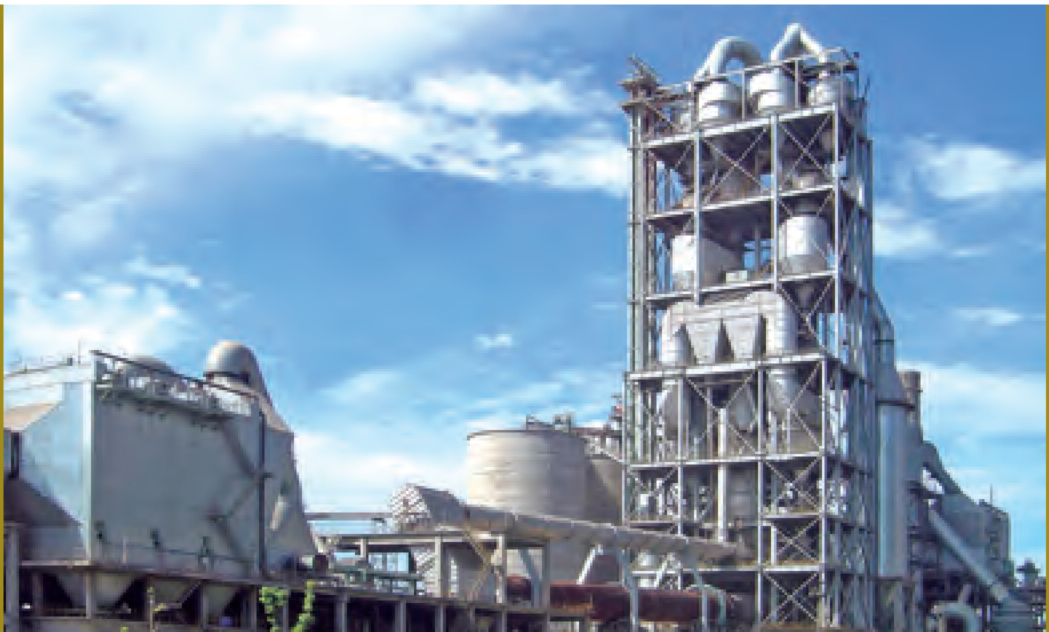
procurement of bulk fuel material such as coal, major auxiliary materials and mining equipment and accessories, in order to control procurement price and monitor the material reserve and consumption quota of the subsidiaries. While the subsidiaries are responsible for material inspection and information feedback, this implemented supervision over material procurement department, achieving a two-way monitoring mechanism between procurement and consumption.

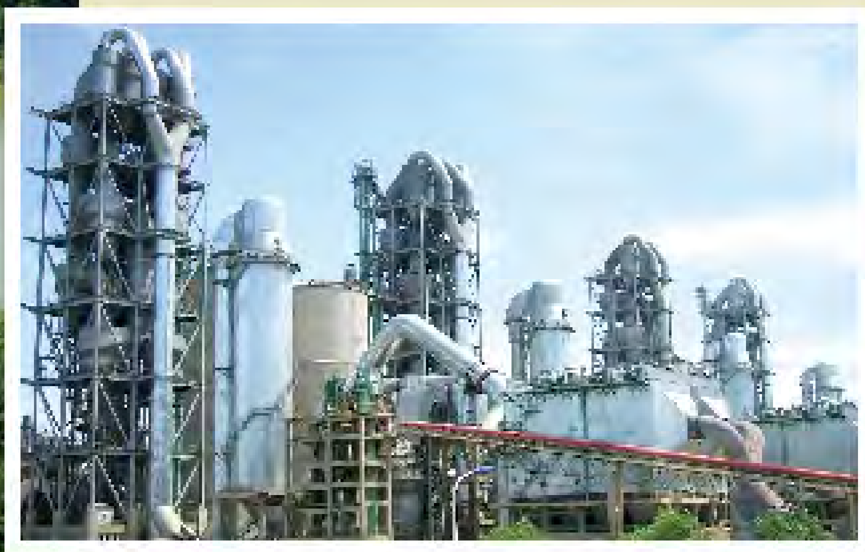
(3) In respect of sales management, the Company implemented the unified computerised management over sales and product delivery and a system of delivery upon payment to manage its capital risk. The Company has set up a comprehensive sales management model to achieve centralised market management and regional pricing. The sales department has the right to adjust selling prices of the Company's products in each region to manage sales risk.

(4) In respect of management of investment projects, the Company strictly adheres to its investment management system. The headquarters of the Company is responsible for organising and formulating medium- to long-term development strategies and planning and conducting research and studies on investment projects which shall be submitted to the investment management committee of the Company for review which then make proposal to the Board. The project would be implemented after obtaining the approval of the Board. This ensures the safety of project investment and avoids the investment risk effectively.

(5) In respect of human resources development and management, the Company formulates the human resources management system, recruitment procedures and employment measures in accordance with the Labour Law to avoid employment risk. Moreover, the Company formulates individual training programmes based on the professional characteristics of staff and implements an internal training and promotion mechanism, which has further strengthened the cohesion of the staff. All such measures serve to provide talents to secure the swift and sustainable development of the Company.

In the future, the Company will also keep improving the establishment and implementation of its internal control system in accordance with the requirements of the Guidance for Internal Control System for Listed Companies of the SSE.





# Summary of General Meetings

During the Reporting Period, the Company held four general meetings, one class meeting of domestic shareholders and one class meeting of H shareholders, details of which are set out as follows:

## (1) ANNUAL GENERAL MEETING OF 2006

On 8 June 2007, the Annual General Meeting for 2006 of the Company was held in the conference room of the Company. Resolutions passed at the annual general meeting were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 11 June 2007.

## (2) FIRST EXTRAORDINARY GENERAL MEETING OF 2007, THE FIRST CLASS MEETING OF DOMESTIC SHAREHOLDERS OF 2007 AND THE FIRST CLASS MEETING OF H SHAREHOLDERS OF 2007

On 15 August 2007, the first extraordinary general meeting of 2007, the first class meeting of domestic shareholders of 2007 and the first class meeting of H shareholders of 2007 of the Company were held in the conference room of the Company. Resolutions passed at the general meeting and the class meetings were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 16 August 2007.

## (3) SECOND EXTRAORDINARY GENERAL MEETING OF 2007

On 3 September 2007, the second extraordinary general meeting of 2007 of the Company was held in the conference room of the Company. Resolutions passed at the general meeting were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 4 September 2007.

## (4) THIRD EXTRAORDINARY GENERAL MEETING OF 2007

On 27 November 2007, the third extraordinary general meeting of 2007 of the Company was held in the conference room of the Company. Resolutions passed at the general meeting were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 28 November 2007.

# Management Discussion and Analysis

## *BUSINESS ENVIRONMENT*

In 2007, the macroeconomic environment of the PRC sustained robust and stable growth. GDP for the year grew by 11.4%, an increase of 1.1 percentage points over that of the previous year; the year-on-year nationwide increase in fixed assets investment was 24.8%, an increase of 0.8 percentage point over that of the previous year. The State introduced a series of fiscal and monetary austerity measures during the year, and raised the reserve requirement ratio on 10 occasions and the interest rates on loans and deposits of banks on 6 occasions, to restrain monetary and credit growth. The Ministry of Finance and the State Administration of Taxation jointly announced the withdrawal of the export tax refund policy for certain merchandises, including cement, in order to lower export volumes and curb the robust economic growth of the PRC from becoming overheat. *(Source: National Bureau of Statistics of China)*

In 2007, the State successively introduced the Energy Conservation Law and relevant laws and regulations regarding consolidated working proposal on energy conservation and pollution reduction plans, which have aroused community consciousness of energy conservation, pollution reduction and environmental protection and accelerated the elimination of obsolete cement production lines. During the year, obsolete cement production lines with a total capability of 80 million tonnes were eliminated. Fixed assets investments in the cement industry returned to a rational level. In 2007, the additional production capacity of the new dry processed cement amounted to approximately 80 million tonnes and raising the total production capacity of the new dry-processed cement to approximately 780 million tonnes at the end of 2007, with its proportion to the total production increasing from approximately 50% last year to approximately 55% this year. In 2007, cement output of the PRC amounted to 1.354 billion tonnes, an increase of 9.68% over that of 2006. There had been further capacity concentrating in the industry, as evidenced by an increase in proportion of output from the top ten cement manufacturers to 23% of the industry total. Meanwhile, the cement industry actively developed resource recycling technology to enhance efficiency. In 2007, the cement sector completed the installation of facilities with pure low-temperature residual heat electricity generation capacity of approximately 530,000 kw. This had played an important role in energy conservation, pollution reduction and environmental protection in the industry. *(Source: Digital Cement)*

## *ANALYSIS OF OPERATION*

### Operations

In 2007, the Group upheld the principle of scientific development and seized the opportunity brought along by the accelerated structural adjustment of the cement industry and the steady increase in demand of cement, with an aim of “energy saving, optimization and upgrading, pollution reduction and environmental protection”, the production and operation management of the Company had been steadily enhanced. As a result, all of the Group’s economic and technical indicators were ahead of its peers in the industry; the Group’s production lines for cement and clinker and the residual heat electricity generation projects have been completed and put into operation as scheduled; and maintained steady growth in its output and sales volumes, operating income and profit. The Company’s overall efficiency was at a record level.

# Management Discussion and Analysis

During the Reporting Period, the Group's revenue from principal activities under the PRC Accounting Standards amounted to RMB18.511 billion, net profit attributable to equity shareholders of the Company amounted to RMB2.494 billion and earnings per share was RMB1.70. Revenue from sales of cement and commodity clinker under IFRS amounted to RMB18.511 billion, profit after taxation and minority interests amounted to RMB2.48 billion and earnings per share was RMB1.69.

## Production

During the Reporting Period, the Group's output maintained a steady growth, and produced a total of 69.87 million tonnes of clinker, representing a year-on-year increase of 15.76%, and 64.1 million tonnes of cement, representing a year-on-year increase of 12.59%.

In 2007, the Group pushed forward cost management with an emphasis on "energy conservation and pollution reduction". It had promoted the application of new energy-saving and environmentally friendly technologies and implemented energy-saving technology revamping. Weak points in workflow had been strengthened to achieve breakthrough in bottlenecks in production. These had led to an average utilization rate of over 90% for the Group's main equipment. Frequency conversion and speed adaptation were completed for 15 large wind turbines to reduce electricity consumption per tonne of clinker, leading to saving in energy consumption of 17 million kwH during the Reporting Period.

At the same time, the Group continued to enhance the professional technology management level of the Group by better utilising the professional technology management committees, such as craftsmanship, mine and equipment committees. During the Reporting Period, the Group emphasized on the standardisation of the operation management of residual heat electricity generation, by enhancing the training in operational skills. The measure served to ensure high operational efficiency of residual heat electricity generation, with an average electricity generating capacity of 40 kwH/tonne of clinker.

In 2007, the Group paid special attention in resolving certain issues in its environmental protection management work. In particular, following the inspection by the State Environmental Protection Administration of China in respect of the failure of Wuhu Conch's first production line to receive official certification within the prescribed time, the Group took active corresponding rectification measures, and the production line was later certified for operation on 30 September 2007. Meanwhile, the Company took advantage of the opportunity to straighten up the Group's environmental protection management in all aspects with further improvement, in environmental protection management system and management setup. The operational efficiency of environmental protection facilities was upgraded and the relevant environmental protection approval procedures for project construction and operation commencement were strictly followed. During the Reporting Period, the Group successfully passed the environmental assessments of the State Environmental Protection Administration of China in respect of its re-financing projects.

At the same time, as for the management of project construction, the Group upgraded the efficiency of preparation work for projects and standardised supervision over construction processes through continual process finetuning in order to have effective control over total investment amount, work progress and construction quality. In 2007, project investment of RMB 5.817 billion was completed. Six production lines each with a daily production capacity of 5,000 tonnes of clinker and 20 cement mill systems commenced production and 7 residual heat electricity generation units were put into operation in stages according to schedule, all of which have attained their respective production capacities and targets.

As of the end of 2007, the Group's production capacity for clinker and cement amounted to 69 million tonnes and 81 million tonnes respectively, and its total installed capacity of residual heat electricity generation units reached 168,900 kw, representing 31% of the total installed capacity of residual heat electricity generation units of the cement industry nationwide.

## Sales

During the Reporting Period, the aggregate sales volume of the Group's cement and clinker amounted to 86.52 million tonnes, a year-on-year increase of 14.57%.

In 2007, the Group further emphasised on market trend analysis and seized the opportunities arising from the growth in demand from infrastructure development of provinces in Central China and construction of new rural areas to further penetrate the domestic market. While ensuring full utilization of its production capacity and maximisation of its market share, the Group raised its product selling prices taking advantage of the periodical changes in market demand. Meanwhile, having overcome the unfavourable factors such as the withdrawal of the export tax refund policy, appreciation of Renminbi and continued rise in freight rates, the Group actively developed the international market, with its export volume remained at almost the same level as that the previous year and maintained its share of the international market.

During the Reporting Period, the Company's strategy of developing the Southern China market continued to yield admirable results, as evidenced by the continued increase in market share. The Group's sales amount in Central and Southern China regions increased by 50.46% and 59.64%, respectively.

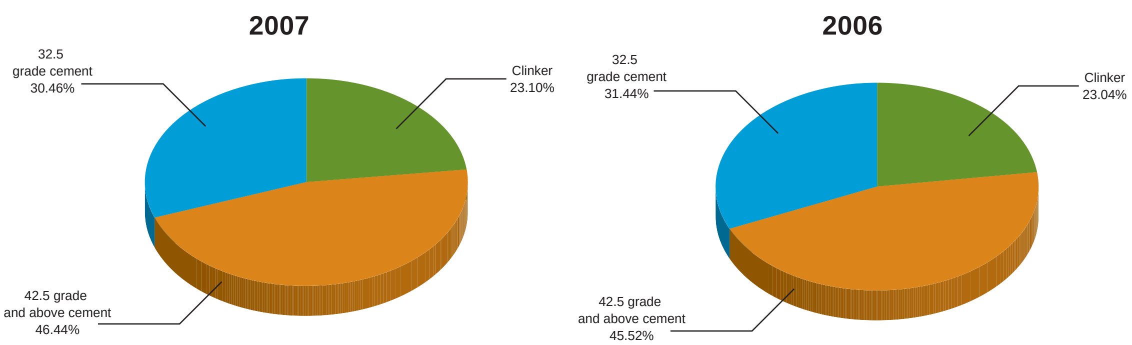
# Management Discussion and Analysis

**Regional sales volumes**

| Region | 2007 Sales (RMB'000) | 2007 Percentage (%) | 2006 Sales (RMB'000) | 2006 Percentage (%) | Increase/ (decrease) of percentage in sales (%) | Increase/ (decrease) in percentage points |
|---|---|---|---|---|---|---|
| East China (Jiangsu, Zhejiang, Shanghai, Fujian) | **7,325,028** | **39.57** | 6,580,483 | 43.16 | 11.31 | (3.59) |
| Central China (Anhui, Jiangxi, Hunan) | **4,636,892** | **25.05** | 3,081,793 | 20.21 | 50.46 | 4.84 |
| South China (Guangdong, Guangxi) | **3,626,334** | **19.59** | 2,271,553 | 14.90 | 59.64 | 4.69 |
| Export | **2,922,962** | **15.79** | 3,312,448 | 21.73 | (11.76) | (5.94) |
| Total | **18,511,216** | **100** | 15,246,277 | 100 | 21.41 | — |

During the Reporting Period, the sales proportions of commodity clinker, 32.5 grade cement and 42.5 grade cement were basically constant with those of the previous year. The overall selling prices of the Group's products increased by 5.97% over that of the previous year.

**Percentage of sales by type of products**




## Profit

In 2007, the Group's revenue from principal activities under the PRC Accounting Standards amounted to RMB18.511 billion, an increase of 21.41% over that of the previous year; net profit attributable to equity shareholders of the Company amounted to RMB 2.494 billion, an increase of 64.23% over that of the previous year. Revenue from cement and commodity clinker under IFRS amounted to RMB18.511 billion, an increase of 21.41% over that of the previous year. The Group's profit after taxation and minority interests amounted to RMB2.48 billion, an increase of 60.66% over that of the previous year. The substantial increase in the Group's profit was mainly attributable to increases in sales volumes and product selling prices, as well as the Group's efforts in reducing various types of consumption and stringent cost control.

**Major items in the income statement prepared in accordance with the PRC Accounting Standards**

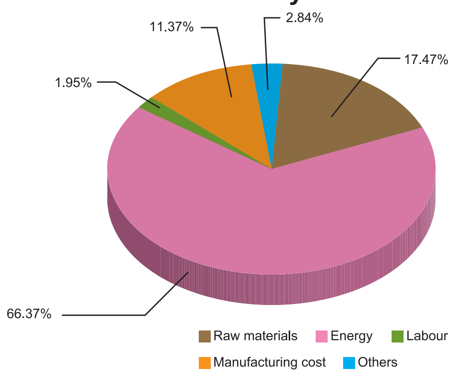
| Item | 2007 (RMB'000) | 2006 (RMB'000) (As restated) | Increase (+) Decrease (-) (%) |
|---|---|---|---|
| Revenue from principal activities | **18,511,216** | 15,246,277 | 21.41 |
| Profit from principal activities | **5,698,591** | 4,395,275 | 29.65 |
| Total Profit | **3,484,988** | 2,586,279 | 34.75 |
| Net profit attributable to equity shareholders of the Company | **2,494,219** | 1,518,736 | 64.23 |
| Net cashflow generated from operating activities | **2,668,807** | 3,052,730 | (12.58) |

**Major items in the income statement prepared in accordance with IFRS**

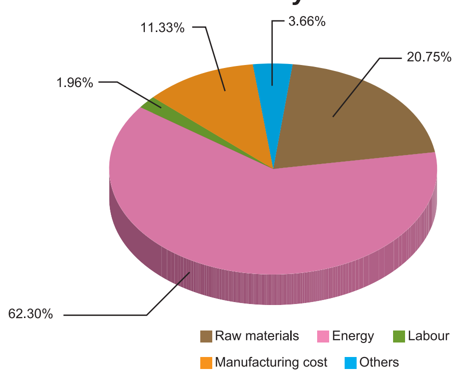
| Item | 2007 (RMB'000) | 2006 (RMB'000) (As restated) | Increase(+) Decrease(-) (%) |
|---|---|---|---|
| Revenue from cement and commodity clinker | **18,511,216** | 15,246,277 | 21.41 |
| Gross profit | **5,728,911** | 4,486,282 | 27.70 |
| Profit before taxation and minority interests | **3,501,423** | 2,604,845 | 34.42 |
| Profit after taxation and minority interests | **2,480,146** | 1,543,767 | 60.66 |

During the Reporting Period, the consolidated average costs of the Group rose slightly. Energy expenses accounted for 66.37% of the Group's total costs, an increase of 4.07 percentage points over that of the previous year. This was mainly due to increases in coal prices. The Group had 11 residual heat electricity generation units in operation as at the end of 2007 and had saved costs of approximately RMB280 million, and had effectively mitigated the pressure on production costs brought along by coal prices upsurge.

**Cost structure for year 2007**




**Cost structure for year 2006**



## Management Discussion and Analysis

During the Reporting Period, benefited from increases in sales volumes and prices of products, the Group reported a 21.41%, year-on-year increase in its revenue from principal activities with gross margin increased by 1.98 percentage points from that of the previous year, The year-on-year increase in revenue from principal activities in relation to cement was 21.33%, with gross margin increased by 3.67 percentage points from that of the previous year; the year-on-year increase in revenue from principal activities in relation to commodity clinker was 21.70%. Nevertheless, due to the increase in prices of coal which rendered an increase in cost of clinker, the gross margin of clinker decreased by 3.64 percentage points.

**2007 gross profit by products and comparison**

| Product type | Revenue from principal activities (RMB'000) | Cost of principal activities (RMB'000) | Gross profit margins (%) | Changes in revenue from principal activities over last year (%) | Changes in cost of principal activities over last year (%) | Change of percentage points in gross margins over last year |
|---|---|---|---|---|---|---|
| Cement | **14,235,898** | **9,541,086** | **32.98** | **21.33** | **15.03** | **3.67** |
| Clinker | **4,275,318** | **3,137,459** | **26.61** | **21.70** | **28.05** | **(3.64)** |
| Total | **18,511,216** | **12,678,545** | **31.51** | **21.41** | **18.00** | **1.98** |

During the Reporting Period, the aggregate proportion of the Group's three major expenses to its revenues was basically the same as that of the previous year. Among the three expenses, the percentage of selling expenses and the percentage of financial expenses were lower than those of last year, whilst the percentage of administrative expenses was slightly higher than that of last year. This was mainly due to rises in staff salaries, insurance premium and environmental protection costs during the Reporting Period.

**Changes in major expenses items prepared in accordance with the PRC Accounting Standards**

| Expenses for the year | Amount (RMB'000) | | As a percentage of revenue from principal activities (%) | | Changes(%) |
|---|---|---|---|---|---|
| | **2007** | 2006 (As restated) | **2007** | 2006 (As restated) | |
| Selling expenses | **1,219,228** | 1,090,766 | **6.49%** | 6.78% | (0.29) |
| Administrative expenses | **720,757** | 518,299 | **3.84%** | 3.22% | 0.62 |
| Financial expenses (net) | **607,127** | 523,373 | **3.23%** | 3.25% | (0.02) |
| Total | **2,547,112** | 2,132,438 | **13.57%** | 13.25% | 0.32 |

# Management Discussion and Analysis

## ANALYSIS OF FINANCIAL POSITION

### Assets and Liabilities Structure

**Changes in assets and liabilities prepared in accordance with the PRC Accounting Standards**

| Item | 2007 (RMB'000) | 2006 (RMB'000) (As restated) | Increase/ (decrease) (RMB'000) | Changes (%) |
|---|---|---|---|---|
| Fixed assets | **18,860,176** | 14,982,497 | 3,877,679 | 25.88 |
| Current and other assets | **12,180,433** | 7,953,383 | 4,227,050 | 53.15 |
| Total assets | **31,040,609** | 22,935,880 | 8,104,729 | 35.34 |
| Current liabilities | **9,600,434** | 6,832,145 | 2,768,289 | 40.52 |
| Non-current liabilities | **9,892,411** | 7,233,881 | 2,658,530 | 36.75 |
| Minority interests | **468,159** | 1,499,701 | (1,031,542) | (68.78) |
| Total equity attributable to equity shareholders of the Company | **11,079,605** | 7,370,154 | 3,709,451 | 50.33 |
| Total liabilities and shareholders' equity | **31,040,609** | 22,935,880 | 8,104,729 | 35.34 |

During the Reporting Period, with the optimisation of its loan structure, gradual completion of construction projects and increase in profit level, the Group's financial position had been further improved.

As at 31 December 2007, the Group's total assets prepared in accordance with the PRC Accounting Standards amounted to RMB31.041 billion, an increase of 35.34% over that of the previous year. The increase was mainly due to the addition and expansion of projects during the Reporting Period. Net assets attributable to shareholders of the Company amounted to RMB11.080 billion, an increase of RMB3.709 billion over that of the end of the previous year; total liabilities amounted to RMB19.493 billion, an increase of RMB5.427 billion over that of the end of the previous year.

As at 31 December 2007, the Group's current and other assets prepared in accordance with the PRC Accounting Standards increased by RMB4.227 billion over that of the end of the previous year. It was mainly due to increase in construction materials, available-for-sale financial assets and bills receivable. The Group's non-current liabilities increased by RMB2.659 billion over that of the end of the previous year, which was mainly due to increase in long-term borrowings.

As at 31 December 2007, the Group's total current assets prepared in accordance with the PRC Accounting Standards amounted to RMB6.987 billion and total current liabilities amounted to RMB9.6 billion, and the current ratio arrived at by dividing current assets over current liabilities was 0.73:1.

As at 31 December 2007, the Group's minority interests prepared in accordance with the PRC Accounting Standards decreased by RMB1.032 billion which was mainly due to the acquisition of minority interests of four of its subsidiaries by the Company in 2007.

# Management Discussion and Analysis

As at 31 December 2007, the Group's gearing ratio calculated in accordance with the PRC Accounting Standards was 62.8%, an increase of 1.47 percentage points over that of the end of the previous year. It was mainly due to increase in loans. The net debt ratio calculated in accordance with the IFRS was 1.19, a slight increase over that of the end of the previous year.

During the Reporting Period, the Group actively improved its loan structure, enhanced its current ratio as well as stringently controlled its financial risks. Reasonable financing was arranged to ensure meeting the requirements of its normal production and operations and capital expenditure. Thus, the interest coverage ratio rose to 5.69, which was higher than that of the previous year.

## Liquidity and sources of funds

Maturity analysis of the Group's bank and other loans as at 31 December 2007 was as follow:

| | **As at 31 December 2007 (RMB'000)** | As at 31 December 2006 (RMB'000) |
|---|---|---|
| Due within 1 year | **4,937,633** | 3,457,380 |
| Due after 1 year but within 2 years | **4,265,300** | 2,348,939 |
| Due after 2 years but within 5 years | **4,324,000** | 3,839,800 |
| Due after 5 years | **1,232,727** | 980,000 |
| Total | **14,759,660** | 10,626,119 |

As at the end of the Reporting Period, the Group's loans due within 1 year included discounted bank acceptance bills of RMB579 million which had been exercised but had yet to expire and commercial acceptance bills of RMB430 million which were not yet due. Without taking into account the above factors, the proportion of the Groups' long-term loans increased from 67.46% at the end of 2006 to 71.43% of its total liabilities at the end of 2007.

**Comparison of net cash flow prepared in accordance with the PRC Accounting Standards**

| | **2007 (RMB'000)** | 2006 (RMB'000) (As restated) |
|---|---|---|
| Net cash flows from operating activities | **2,668,807** | 3,052,730 |
| Net cash flows from investment activities | **(5,735,330)** | (3,318,587) |
| Net cash flows from financing activities | **3,142,997** | 117,685 |
| Increase in cash and cash equivalents | **76,474** | (148,172) |
| Cash and cash equivalents at the beginning of the year | **1,335,233** | 1,483,405 |
| Cash and cash equivalents at the end of the year | **1,411,707** | 1,335,233 |

# Management Discussion and Analysis

During the Reporting Period, the Group seized the favourable opportunity resulting from steady increase in market demand, to raise its product selling prices amidst significant upsurge in sales volume. This had led to a significant increase in cash inflow from operations when compared with that of last year. However, due to the significant rise in the proportion of bank acceptance bills received had not been included in the cash flow, net cash flows from operating activities during the Reporting Period amounted to RMB2.669 billion, with a decrease of RMB384 million from that of last year. Net cash and cash equivalents increased by RMB76.47 million over that of the previous year which was mainly due to increase in additional bank loans.

## Capital Expenditure

During the Reporting Period, total investment activities and capital expenditure of the Group amounted to RMB5.817 billion, which was used in the construction of cement and clinker production lines and the residual heat electricity generation projects.

As at 31 December 2007, the Group's investment in associates amounted to RMB163 million.

As at 31 December 2007, capital commitments in respect of the purchase of machinery and equipment from suppliers that were committed but have not been provided for in the financial statements were as follows:

| | **As at 31 December 2007 (RMB'000)** | As at 31 December 2006 (RMB'000) |
|---|---|---|
| Authorised and contracted for | **2,877,795** | 2,210,776 |
| Authorised but not contracted for | **6,148,976** | 2,262,920 |
| Total | **9,026,771** | 4,473,696 |

## Reasons for and Effects of Changes in Accounting Policies and Accounting Estimates

In accordance with the requirements of notices on the 38 specific standards in under the Accounting Standards for Business Enterprises No. 1 — Inventory (Cai Kuai [2006] No. 3) 財會[2006]3號 issued by the Ministry of Finance, with effect from 1 January 2007, listed companies which have implemented the 38 specific standards shall cease to implement the existing standards, the Accounting System for Business Enterprises and the Accounting System for Financial Institutions. Accordingly, the Group has commenced to implement the new Accounting Standards for Business Enterprises and the subsequently promulgated Accounting Standards for Business Enterprises — Application Guidelines, the Accounting Standards for Business Enterprises — Interpretation No. 1 and other relevant requirements since 1 January 2007.

The Group made retrospective adjustments on items involved in the changes in accounting policy arising from the implementation of Accounting Standards for Business Enterprises on the date of initial application as required under the Accounting Standards for Business Enterprises No. 38 — initial Application of Accounting Standards for Business Enterprises and Accounting Standards for Business Enterprises — Interpretation No. 1.

# Management Discussion and Analysis

For details and effects of changes in accounting policies and accounting estimates of the Group, please refer to note 3 — significant accounting policies and accounting estimates and note 4 — changes in accounting policies set out in the section headed “Notes to the financial statements” in financial statements prepared in accordance with PRC Accounting Standards in this report.

## Outlook for 2008

In 2008, the State will pursue a prudent fiscal policy and a tightened monetary policy with more emphasis on strengthening and finetuning macroeconomic austerity measures. These are aiming at further regulating the mode of economic growth, and realising steady and robust economic growth. On the basis of structural optimisation, efficiency enhancement, consumption reduction and environmental protection, structural realignment of the cement industry will further accelerate with further concentration in the industry.

In 2008, nationwide fixed asset investment will maintain an appropriate growth. Driven by the construction in new rural areas and the infrastructure development in Central China, the scale of investment in construction will be further expanded, in particular, the gradual commencement of large scale key construction projects, such as high speed rail, highway, airport and port and nuclear power station. These developments will fuel the rise in demand for cement. The official implementation of the new standards for cement on 1 June 2008 will expedite the elimination of obsolete cement production capacity. The reduction in enterprise income tax rate to 25% will also contribute to the enhancement of corporate profitability.

On the other hand, surge in prices of energy, such as oil and coal and the appreciation of Renminbi will have certain adverse effects on enterprise’s cost control and development of international markets.

In 2008, the Group, will continue to place equal emphasis on profitability and market share. It will enhance its internal management standards, implement regionalised management model. The Group will study in depth the market trend and to ride on its momentum, finetune its market structure, and to stabilise as well as gradually raise the product prices in certain market segments. It will also increase the quality of sales and marketing, in order to enhance its overall competitive strengths.

In light of the rising trend of coal prices, the Company will adopt effective measures through establishing strategic cooperation relationship with large coal enterprises to widen coal supply channels, to safeguard its coal supply. It will strengthen its revamping of technology, in order to facilitate energy conservation and pollution reduction, to reduce unit energy consumption and to minimise adverse effects on costs resulting from coal price upsurge.

In addition, the Group will continue to promote the application of various new technologies in energy conservation and environmental protection, and will push ahead the development of residual heat electricity generation and urban waste treatment projects. In 2008, the Group will have 19 residual heat electricity generation projects put into operation, and will increase the residual heat electricity generating capacity of the Group to 493,000 kw, which is capable of generating 3,790 million kwH of electricity per year. This will not only significantly reduce production costs, but also enhance the operation efficiency of the Company, with significant contribution to social environment. When translating into thermal power generation, the aforementioned capacity would mean the saving of approximately 1.36 million tonnes of standard coal consumption and reducing 3.3 million tones of carbon dioxide emission.

# Management Discussion and Analysis

In 2008, the Group will further expand its scale of operation by continuing the construction of eight production lines each with a daily production capacity of 5,000 tonnes of clinker and one production line with a daily production capacity of 2,500 tonnes of clinker and 20 sets of cement grinding system. It is expected that the Group will increase its production capacity by 14 million tonnes of clinker and 15 million tonnes of cement, upon the full operation of the aforementioned projects. Meanwhile, the Group intends to construct a number of clinker and grinding production lines in Anhui, Jiangsu, Fujian, Guangdong and Guangxi.

In 2008, according to the development plans of the Company, the planned capital expenditure is approximately RMB7 billion, which will mainly be satisfied by internal resources and bank loans. If the Company successfully proceed with the public issue of A shares, part of the expenditure will be funded by the proceeds from the A share issue. Currently, the average annual interest rate of the Group's bank borrowings is approximately 5.98%.

The management estimated that the sales volume of the Group will exceed 100 million tonnes in 2008, with corresponding growth in sales revenue. Affected by the increase in borrowing interest rates, it is estimated that there will be a higher increase in financial expenses and the aggregate proportion of selling, administrative and financial expenses to revenue will increase slightly, while consolidated average product costs will basically be the same as that of last year.

Looking to the future, the market presents both positive and negative factors. The management of the Company will respond proactively to the challenges, and to overcome hardship and grasp opportunities with a firm determination. They will implement the development plans of the Company with an aim to create value for investors with an excellent operating results, and to develop Conch into an internationally-renowned enterprise.

The management of the Company would like to express their sincere appreciation to the shareholders and investors for their supervision and support.

# Report of the Directors

## (1) PRINCIPAL ACTIVITIES

Being the largest cement and clinker producer and distributor in the PRC, the Group has been persistent in the development of its core activities, namely, the production and sales of various high quality cement, and commodity clinker required for production of high-grade cement. The "Conch" branded cement produced by the Company has been widely applied in the building of roads, bridges, housing and various landmark construction projects. The product has been well-recognised by customers. Commodity clinker is mainly sold to cement grinding stations. The "Conch" brand has been honoured as "Famous Trademark in China", and it has been rated as the first batch of 300 "Chosen Protected National Brandnames" in the PRC and has been ranked 23rd among the top 500 valuable trademarks in the PRC. (Source: China Institute of Brandname Research)

## (2) PRINCIPAL INVESTMENTS DURING THE REPORTING PERIOD

### 1. Principal investments during the Reporting Period

*(Unit: RMB'000)*

| Item | Project name | Progress | Capital Committed during the Reporting Period |
|---|---|---|---|
| 1 | The technology revamping project of a clinker production line with a daily production capacity of 4,000 tonnes and the cement mill project with a capacity of 1.6 million tonnes of Beiliu Conch Cement Company Limited ("Beiliu Conch") | In operation | 323,998 |
| 2 | The second clinker production line (phase two) with a daily production capacity of 5,000 tonnes and the cement mill project with a capacity of 3.2 million tonnes of Wuhu Conch | In operation | 195,093 |
| 3 | The two clinker production lines each with a daily production capacity of 5,000 tonnes and the cement mill project with a capacity of 1.6 million tonnes of Xuancheng Conch | In operation | 466,802 |
| 4 | The two clinker production lines (phase three) each with a daily production capacity of 4,500 tonnes of Chizhou Conch | In operation (note 1) | 631,603 |

# Report of the Directors

*(Unit: RMB'000)*

| Item | Project name | Progress | Capital Committed during the Reporting Period |
|---|---|---|---|
| 5 | The clinker production line (phase two) with a daily production capacity of 4,500 tonnes and the cement mill project of Fusui Xinning Conch Cement Company Limited ("Xinning Conch") | In operation | 342,628 |
| 6 | The cement mill project with a capacity of 2.40 million tonnes of Bengbu Conch Cement Company Limited | In operation | 70,504 |
| 7 | The cement mill project (phase one) with a capacity of 1.60 million tonnes of Zhanjiang Conch Cement Company Limited ("Zhanjiang Conch") | In operation | 185,314 |
| 8 | The cement mill project with a capacity of 3.20 million tonnes and jetty project of Ninghai Qiangjiao Conch Cement Company Limited ("Qiangjiao Conch") | In operation | 116,691 |
| 9 | The cement mill project (phase two) with a capacity of 1.60 million tonnes of Jiangsu Baling Conch Cement Company Limited | In operation | 36,045 |
| 10 | Residual heat electricity generation projects of Digang Conch, Chizhou Conch, Tongling Conch and Zongyang Conch | In operation | 881,946 |
| 11 | The technology revamping of the two clinker production lines (phase three) each with a daily production capacity of 4,500 tonnes of Digang Conch | Under construction (note 2) | 271,378 |
| 12 | The technology revamping of the clinker production line (phase two) each with a daily production capacity of 4,000 tonnes of Xing'an Conch Cement Co. Ltd. | Under construction | 49,550 |
| 13 | The clinker production line (phase one) with a daily production capacity of 4,500 tonnes of Yiyang Conch Cement Company Limited ("Yiyang Conch") | Under construction | 261,097 |

# Report of the Directors

*(Unit: RMB'000)*

| Item | Project name | Progress | Capital Committed during the Reporting Period |
|---|---|---|---|
| 14 | The clinker production line (phase two) with a daily production capacity of 4,500 tonnes and the cement grinding system of Shuangfeng Conch | Under construction | 129,908 |
| 15 | The clinker production line (phase one) with a daily production capacity of 5,000 tonnes and the cement mill system of Shimen Conch Cement Company Limited ("Shimen Conch") | Under construction | 205,849 |
| 16 | The clinker production line (phase one) with a daily production capacity of 4,000 tonnes of Hunan Conch Cement Co., Ltd. | Under construction | 57,118 |
| 17 | The clinker production line (phase two) with a daily production capacity of 2,500 tonnes of Fenyi Conch Cement Co., Ltd. | Under construction | 19,689 |
| 18 | The cement mill project with a capacity of 3.2 million tonnes of Tongling Conch | Under construction | 72,125 |
| 19 | Residual heat electricity generation projects of Xuancheng Conch, Beiliu Conch, Xinning Conch, Shuangfeng Conch and Shimen Conch | Under construction | 123,906 |
| 20 | The cement equipment and spare parts processing centre project of Conch Machinery & Electric | Under construction | 92,011 |

Note:

1. The second clinker production line (phase three) with a daily production capacity of 4,500 tonnes of Chizhou Conch has been put into operation in March 2008.

2. The first clinker production line (phase three) with a daily production capacity of 4,500 tonnes of Digang Conch has been put into operation in January 2008.

### 2. Increase in capital contribution to some of the subsidiaries during the Reporting Period

During the Reporting Period, the Company increased its capital contribution to some of the subsidiaries (being subsidiaries 100% held by the Company directly or indirectly) to satisfy their capital requirements for project construction or operation development, details of which are as follows:

*(Unit: RMB'000)*

| Item | Name of company | Amount of increase of capital contributions | Registered capital after increase of capital contributions |
|---|---|---|---|
| 1 | Xuancheng Conch | 232,500 | 332,500 |
| 2 | Zhanjiang Conch | 40,000 | 100,000 |
| 3 | Qiangjiao Conch | 60,240 | 110,240 |
| 4 | Yiyang Conch | 120,000 | 220,000 |
| 5 | Digang Conch | 130,000 | 280,000 |
| 6 | Shimen Conch | 51,000 | 231,000 |

**3.** To further improve corporate governance and promote the standardised operation of the Company, the Board agreed, on 22 June 2007, to withdraw the registration of its wholly-owned subsidiary, Ningguo Cement Plant and establish a branch company named Anhui Conch Cement Company Limited Ningguo Cement Plant. The branch company has been registered and established on 15 October 2007.

**4.** During the Reporting Period, the Company had not invested in any newly established project companies.

## *(3) PRINCIPAL SUBSIDIARIES AND ASSOCIATES*

As at 31 December 2007, the Company had 57 subsidiaries ("subsidiaries") and 3 invested companies ("associates"), details of which were set out in notes 17 and 18 to the financial statements prepared in accordance with IFRS in this report.

# Report of the Directors

During the Reporting Period, relevant details of the principal subsidiaries which accounted for more than 10% of the Group's net profit (prepared in accordance with the PRC Accounting Standards) are set out below:

*(Unit: RMB'000)*

| Item | Name | Revenue from principal activities | Profit from principal activities | Net profit |
|---|---|---|---|---|
| 1 | Prosperity Conch Cement Company Limited ("Prosperity Conch") | 1,646,480 | 502,963 | 437,160 |
| 2 | Tongling Conch | 2,416,457 | 714,032 | 314,217 |
| 3 | Zongyang Conch | 1,613,866 | 513,278 | 250,720 |

The principal activities of the above subsidiaries are production and sales of cement and commodity clinkers. Among the above companies, Prosperity Conch experienced a substantial increase in operating results over the corresponding period of previous year, with a 358.98% increase in net profit. The increase was mainly attributable to the intensified elimination of obsolete cement production capacity, and strong market demand in the region of Prosperity Conch's operation leading to substantial increases in its sales volume and product selling prices.

## (4) WORK OF THE BOARD

Major resolutions and matters approved by the Board during the Reporting Period are set out as follows:

1. On 10 January 2007, the Board considered and approved the resolution in respect of the auditors' remuneration for 2006 in accordance with the authority granted by the annual general meeting for 2005.

2. On 16 March 2007, the Board considered and approved the resolution in respect of the increase in capital contribution to Xuancheng Conch.

3. On 12 April 2007, the eleventh meeting of the third session of the Board considered and approved the resolutions in respect of the annual report for 2006, the nomination of candidates for the fourth session of the Board and the Supervisory Committee and the appointment of the Company's operation management. Details of the meeting of the Board and resolutions considered and approved were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 13 April 2007.

4. On 27 April 2007, the Board considered and approved the first quarterly report for 2007. Details of the meeting of the Board and resolutions approved were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 30 April 2007.

Report of the Directors

5. On 8 May 2007, the Board considered and approved the connected transactions and the relevant Supply and Design of Equipment Contract entered into between the Company and its related subsidiaries and a branch company and Conch Kawasaki. Details of the resolutions were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 9 May 2007.

6. On 28 May 2007, the Board considered and approved the resolution in respect of the amendment to the Articles of the Company.

7. On 8 June 2007, the first meeting of the fourth session of the Board considered and approved the resolution in respect of the election of Mr. Guo Wensan as the chairman of the fourth session of the Board. Details of the meeting of the Board and resolutions approved were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 12 June 2007.

8. On 22 June 2007, the Board considered and approved the resolution in respect of the establishment of a branch company and cancelling the legal person status of Ningguo Cement Plant.

9. On 25 June 2007, the Board convened the second meeting of the fourth session of the Board by means of communication. Details of the meeting of the Board and resolutions approved were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 26 June 2007.

10. On 29 June 2007, the Board considered and approved the resolutions in respect of the connected transaction of the residual heat electricity generation projects between the Company and Conch Kawasaki, the connected transaction regarding the procurement of clinker and production spare parts and ancillary materials from Yingde Longshan Cement Co., Ltd. ("Longshan Company") by the Company's subsidiaries and the connected transaction regarding the provision of cement and clinker project design services by Anhui Conch Construction Materials Design Centre ("Conch Design") to the Company. Details of the resolutions approved by the meeting of the Board were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 3 July 2007.

11. On 7 July 2007, the Board considered and approved the Self-inspection Report and Rectification Plan concerning "the Campaign to Strengthen Corporate Governance of Listed Company" of Conch Cement", the "Regulations concerning the Information Disclosure Management of Conch Cement" and "Rules for the Management of the Use of Proceeds Raised by Conch Cement" . Details of the resolutions approved at the meeting of the Board were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 7 July 2007.

12. On 29 July 2007, the Board considered and approved the resolution in respect of the "Agreement relating to the Subscription for Shares under Qilianshan's Specific Issue" entered into between the Company and Gansu Qilianshan Cement Co., Ltd. Details of the resolutions approved by the meeting of the Board were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 31 July 2007.

13. On 6 August 2007, the Board considered and approved the resolution in respect of the increase in capital contribution to Zhanjiang Conch.

14. On 12 August 2007, the Board considered and approved the resolution in respect of the increase in capital contribution to Qiangjiao Conch.

15. On 17 August 2007, the third meeting of the fourth session of the Board considered and approved the 2007 interim report and the internal management system of the Company including the rules of procedure of the three meetings. Details of the meeting of the Board and resolutions passed were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 18 August 2007.

16. On 24 August 2007, the Board considered and approved the resolution in respect of the increases in capital contributions to Shimen Conch, Digang Conch and Yiyang Conch.

17. On 11 October 2007, the Board considered and approved the resolution in respect of the Board's Statement Concerning the Use of Proceeds Raised in 2007 (Issue of Share for Purchase of Assets). Details of the resolutions approved by the meeting of the Board were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 12 October 2007.

18. On 26 October 2007, the Board considered and approved the third quarterly report for 2007.

19. On 1 November 2007, the Board considered and approved the "Rectification Report on the "Corporate Governance Campaign" of Anhui Conch Cement Company Limited" and the resolution in respect of the transfer of 20% equity interests in Wuhu Conch Logistics Company Limited ("Wuhu Logistics") held by Conch Holdings to Conch International Trading.

20. On 5 December 2007, the Board considered and approved the resolution in respect of the investment in and the establishment of Huaian Chuzhou Conch Cement Company Limited.

### The Board's Implementation of the resolutions approved at general meetings

During the Reporting Period, the Board had implemented the resolutions approved at general meetings, particulars of which are set out as follows:

#### *1. Profit distribution proposal of 2006:*

On 8 June 2007, the annual general meeting of 2006 of the Company considered and approved the resolution in respect of the profit distribution proposal for 2006; the payment of a final dividend of RMB0.20 (inclusive of tax) per share, totalling RMB251.136 million based on the total share capital of 1,255,680,000 shares by the end of 2006. The abovementioned dividend was distributed on 2 July 2007 to shareholders whose name appeared on the register of member on the record date.

### 2. Determination of remunerations of the PRC auditor and international auditor

Pursuant to the authorisation by the annual general meeting of 2006, the remunerations of the PRC auditor, KPMG Huazhen Certified Public Accountants, and international auditor, KPMG Certified Public Accountants, were determined.

### *3. Matters relating to issue of shares for purchase of assets*

On 25 May 2007, the Company completed the registration of the newly issued shares with CSDCCL Shanghai Branch and the acquisition of assets was completed. On 4 July 2007, the Company completed the filing procedure in respect of the registration of change in particulars of the new shares and the amendments to the Articles with the Industrial and Commercial Administration Bureau of Anhui Province. The registered capital of the Company increased from RMB1,255,680,000 to RMB1,566,434,193 and the total number of shares increased from 1,255,680,000 shares to 1,566,434,193 shares.

### *4. Matters relating to the public issue of A Shares*

On 22 August 2007, in accordance with the authorisation granted by the first extraordinary general meeting of 2007, the Company duly submitted a full set of submission materials in respect of the public issue of A Shares to CSRC. On 30 January 2008, upon consideration by the 18th working meeting of the Public Offering Review Committee of CSRC, the public issue of A Shares by the Company was conditionally approved, the implementation of which shall be subject to the written approval of CSRC.

## *(5) PROFIT DISTRIBUTION PROPOSAL*

Based on the financial data prepared in accordance with PRC Accounting Standards and IFRS, the Group's profit after taxation and minority interests for 2007 amounted to RMB2,494,220,000 and RMB2,480,150,000 respectively. In view of the substantial capital requirement of the Company for a number of proposed construction projects in 2008 with a capital expenditure of RMB7.0 billion and the uncertainty in the schedule for the implementation of the public issue, the Board did not recommend any profit distribution for the year ended 31 December 2007. The profit will be used for investment in the construction of new dry process cement clinker production lines, residual heat electricity generation projects and energy-saving technology revamping projects to further expand the production capacity of the Company and realise energy conservation and pollution reduction so as to enhance the competitiveness of the Company.

The proposal is subject to consideration and approval by the annual general meeting for 2007.

## *(6) TAXATION*

Details of taxation are set out in notes 7 to the financial statements prepared in accordance with IFRS, and in notes 5 (taxation), 41 and 47 to the financial statements prepared in accordance with PRC Accounting Standards.

## (7) MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2007, the aggregate sales of the Group to its five largest customers amounted to RMB1.63 billion, representing 8.80% of the total sales of the Group; and the largest customer accounted for 2.92% of the total sales of the Group; the aggregate purchases from the five largest suppliers amounted to RMB1.981 billion, representing 12.83% of the total purchases of the Group; and the largest supplier accounted for 3.33% of the total purchases of the Group.

Save for those disclosed above, none of the Directors, Supervisors or their respective associates (as defined in the Listing Rules of the Stock Exchange) or to the knowledge of the Board, persons interested in 5% or more of the issued shares of the Company has any interests in any of the five largest customers and five largest suppliers of the Company for the year ended 31 December 2007. The major raw materials and energy used by the Company are denominated in RMB.

## (8) LEASEHOLD LAND, REAL PROPERTY, PLANT AND EQUIPMENT

Movements in leasehold land, real property, plant and machinery of the Company for the year ended 31 December 2007 are set out in note 14 to the financial statements prepared in accordance with IFRS.

## (9) TOTAL ASSETS

As at 31 December 2007, the Group's total assets as determined in accordance with IFRS amounted to approximately RMB30,921,280,000, an increase of approximately RMB8,183,640,000 over that of last year.

## (10) RESERVES

Movements in reserves of the Company and the Group for the year ended 31 December 2007 are set out in note 35 to the financial statements prepared in accordance with IFRS.

## (11) DEPOSITS, LOANS AND CAPITALISED INTEREST

Details of the Company's loans as at 31 December 2007 are set out in notes 29 and 30 to the financial statements prepared in accordance with IFRS. Banks for the Company's deposits as at 31 December 2007 are reputable commercial banks. The Group has no entrusted deposits and fixed deposits which cannot be withdrawn upon expiry. During the year, interest capitalised in respect of construction-in-progress amounted to RMB109.34 million, details of which are set out in note 6 to the financial statements prepared in accordance with IFRS.

## (12) EXCHANGE RATE RISK AND RELATED HEDGING BY FINANCIAL INSTRUMENTS

The small amount of equipment and spare parts imported by the Group were normally settled in US dollars or Euro, while cement and clinker exports were normally settled in US dollars. Any changes in the exchange rates of such foreign currencies against RMB will affect the purchase cost and income of the Group. To avoid the foreign exchange risk, with respect to import, the Group usually utilises the US dollars received from exports to settle the purchase costs of the equipment denominated in US dollars directly and hedges the risk of the exchange rate of Euro by buying foreign currency in advance and forward contracts to pay for equipment denominated in Euro, after taking into account the analysis of the movement trends of Euro and relevant forecast. As for export, due to the unilateral movement of the exchange rates of US dollars against RMB, there is a lack of effective hedging tools in the market. The Group normally avoids the risk of the change in exchange rate of US dollar by early settlement of trade receivable or timely settlement of foreign exchange and forward contract, the Group will also consider to use other currencies for imports settlement.

## (13) CHANGE IN NEWSPAPER FOR DISCLOSURE OF INFORMATION IN THE PRC

The newspaper for disclosure of information by the Company in the PRC had not been changed during the Reporting Period, which was Shanghai Securities Journal.

# Report of the Supervisory Committee

## *(1) REPORT ON THE WORKS OF THE SUPERVISORY COMMITTEE IN 2007*

During the Reporting Period, a total of five Supervisory Committee meetings were held. Details of these meetings and their resolutions are as follows:

1. On 12 April 2007, the tenth meeting of the third session of the Supervisory Committee, which was held in the conference room of the Company, considered and approved the report of the Supervisory Committee for 2006, the financial statements prepared in accordance with IFRS and PRC Accounting Standards respectively for 2006, the annual report for 2006 and its summary and the results announcement, the profit distribution proposal for 2006 and the connected transactions occurred in 2006.

2. On 27 April 2007, the eleventh meeting of the third session of the Supervisory Committee, which was held by means of communication, considered and approved the first quarterly report for 2007 of the Company.

3. On 9 June 2007, the first meeting of the fourth session of the Supervisory Committee, which was held in the conference room of the Company, elected Mr. Wang Jun as the chairman of the fourth session of the Supervisory Committee of the Company.

4. On 17 August 2007, the second meeting of the fourth session of the Supervisory Committee, which was held in the conference room of the Company, considered and approved the unaudited financial statements of the Company for the six months ended 30 June 2007 prepared in accordance with PRC Accounting Standards and IFRS respectively, the interim report for 2007, its summary and the results announcements.

5. On 26 October 2007, the meeting of the Supervisory Committee, which was held by means of communication, considered and approved the third quarterly report for 2007 of the Company.

# Report of the Supervisory Committee

## *(2) INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON CERTAIN ISSUES OF THE COMPANY IN 2007*

1. In 2007, the Supervisory Committee attended the Board meetings and general meetings. In accordance with the relevant laws and regulations, it had supervised the process of convening general meetings and Board meetings, matters to be resolved, the process of decision making, the implementation by the Board of resolutions approved by shareholders at general meetings and the performance of the duties of Directors and managers of the Company. The Supervisory Committee considered that the Board had conducted regulated operation in accordance with the laws and regulations of the Company Law and the Securities Law of the PRC, the Listing Rules of the SSE and the Articles, and rigorously implemented the resolutions of general meetings and made operating decisions scientifically and reasonably. It had also established a sound system for internal management and control. None of the Directors, managers and other members of senior management committed any act which violated any laws, regulations or the Articles in the course of performing their duties, or prejudicial to the interests of the Company.

2. The financial statements of the Company for 2007 gave a true and objective view on the financial conditions and operating results of the Company. The audit report issued by KPMG on the financial statements were objective and fair.

3. During the Reporting Period, acquisitions or disposal of assets were made by the Company at reasonable prices, and no insider dealings were conducted by the senior management or parties who possess confidential information, nor was there any act which jeopardised the interests of shareholders or caused loss to the Company's assets.

4. During the Reporting Period, the connected transactions of the Company were conducted in accordance with the law and were priced at market prices with sufficient reference and were fair and reasonable and not prejudicial to the interests of the Company.

# Significant Events

## (1) MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Group was not involved in any litigation or arbitration which might have a material impact on the Group's business operation, nor was any of the Directors, Supervisors or senior management of the Company involved in any material litigation or arbitration.

## (2) SHAREHOLDINGS IN OTHER LISTED COMPANIES

The Company held certain equity interests in Anhui Chaodong Cement Company Limited ("Chaodong Company"). Please refer to the section headed "(3) Material acquisitions — 1. Acquisition of Chaodong Company" in this report.

## (3) MATERIAL ACQUISITIONS

### 1. Acquisition of Chaodong Company

On 2 June 2006, the Company entered into the share transfer agreement ("Share Transfer Agreement") with Chaodong Group, pursuant to which, the Company acquired 39,385,700 shares of Chaodong Company held by Chaodong Group at a total consideration of RMB93.738 million, equivalent to RMB2.38 per share.

On 20 November 2006, the State-owned Assets Supervision and Administration Commission of the Anhui Province granted its consent in the document WGZCQH[2006] No.453 on the "Approval for the Transfer of Shares in Anhui Chaodong Cement Company Limited to Anhui Conch Cement Company Limited" (皖國資產權函[2006]453號《關於安徽海螺水泥股份有限公司受讓安徽巢東水泥股份有限公司股份的批覆》), in respect of the acquisition by the Company of the 39,385,700 shares of Chaodong Company held by Chaodong Group, the transfer consideration was adjusted from RMB2.38 per share to RMB2.48 per share; the total consideration was thereby adjusted from RMB93,738,000 to RMB97,676,500 (the "Chaodong Company Acquisition").

On 13 April 2007, the Chaodong Company Acquisition was approved by CSRC (Zheng Jian Gong Si Zi [2007] No. 67), and the registration of the shares with the CSDCCL Shanghai Branch was completed on 1 June 2007. On 9 May 2007, the total consideration and relevant taxes paid by the Company to Chaodong Group for the transfer of 39,385,700 shares of Chaodong Company (representing approximately 16.28% of the total issued shares of Chaodong Company as of the date of this report), amounted to RMB98,019,695, representing 22.57% of the total profit of the Company during the Reporting Period.

Pursuant to the Share Transfer Agreement, the Company shall not trade in the aforesaid 39,385,700 shares within three years from the date of its holding of such shares. According to the valuation by Jones Lang LaSalle Sallmanns, as at 31 December 2007, the fair value of the 39,385,700 shares in Chaodong Company held by the Company was RMB326,901,310, which was treated as "available-for-sale financial assets" under the requirement of the PRC Accounting Standards. RMB228,881,615 is recorded in capital reserve under PRC Accounting Standards, which is the difference between the fair value of RMB326,901,310 and the investment cost of RMB98,019,695.

# Significant Events

The Chaodong Company Acquisition constituted a connected transaction under the Listing Rules of SSE, but did not constitute a connected transaction under the Listing Rules of the Stock Exchange.

The Chaodong Company Acquisition did not affect the continuity of the operations and the stability of the management of the Company and did not have any significant impact on the financial position and operating results of the Company.

## 2. Issue of Shares for Purchase of Assets

Pursuant to an asset purchase agreement entered into between the Company and Conch Holdings on 21 August 2006, the Company intended to issue A Shares to Conch Holdings as the consideration for the acquisition of the 100% equity interests in Ningchang Company, 75% equity interests in Wuhu Plastic and 100% equity interests in Conch International Trading (collectively, the “Three Companies”). The consideration for the acquisition of the Three Companies from Conch Holdings was determined by the net asset valuation method. Based on the asset valuation report as at 31 May 2006 issued by China Faith Appraisers Co., Ltd., the total consideration for the acquisition of the Three Companies from Conch Holdings by the Company was determined at RMB302,643,500. The Company intended to issue 22,755,147 A Shares to Conch Holdings at an issue price of RMB13.30 per share as the consideration for the purchase of assets.

Pursuant to another asset purchase agreement (“Asset Purchase Agreement”) entered into between the Company and Conch Venture on 21 August 2006, 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 (collectively, the “Four Companies”), being the Company’s subsidiaries in which the Company has controlling interests. The price at which the equity interests of the Four Companies were purchased from Conch Venture was determined by the reasonable price-earnings ratio method and the asset valuation method, which was determined at RMB3,830,387,300. The Company intended to issue 287,999,046 A Shares at an issue price of RMB13.30 per share as the consideration for the purchase of assets.

On 24 April 2007, according to “Approval of 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” (《關於核准安徽海螺水泥股份有限公司向安徽海螺集團有限責任公司和安徽海螺創業投資有限責任公司發行股份購買資產的批覆》（證監公司字[2007]74號）) (Zheng Jian Gong Si Zi [2007] No. 74), the issue of shares by the Company as considerations for the acquisitions of the respective equity interests in the aforementioned Three Companies and Four Companies was approved by CSRC. On the same day, CSRC issued “Approval in relation to granting Anhui Conch Holdings Company Limited and Anhui Conch Venture Investment Company Limited a whitewash waiver of their

# Significant Events

obligations to make a general offer for shares in Anhui Conch Cement Company Limited" (《關於核准豁免安徽海螺集團有限責任公司和安徽海螺創業投資有限責任公司要約收購安徽海螺水泥股份有限公司股票義務的批覆》(證監公司字[2007]75號)) (Zheng Jian Gong Si Zi [2007] No. 75), which granted a waiver of the obligation of Conch Holdings and the parties acting in concert with it to make a general offer.

On 25 May 2007, the Company completed the acquisition of assets with Conch Holdings and Conch Venture. Ascenda Certified Public Accountants, Ltd. issued a capital verification report in respect of the shares issue (Ascenda Yan [2007] GF Zi No. 070004). On 25 May 2007, the registration of the issue of such new shares with CSDCCL Shanghai Branch was completed.

The acquisition of assets by the issue of shares constituted a connected transaction under both the Listing Rules of SSE and the Listing Rules of the Stock Exchange.

The issue of shares for acquisition of assets enhanced the level of profit of the Group and did not affect the continuity of the operations and the stability of the management of the Company.

## *(4) MATERIAL CONNECTED TRANSACTIONS*

### 1. Material transactions related to day-to-day operations

#### *(1) Use of trademark*

On 23 September 1997, the Company and its holding company, 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 valid period of permitted trademarks be extended, the Trademark Licensing Agreement in respect of the trademarks shall be extended automatically. Pursuant to Trademark Licensing Agreement, the Company is required to pay RMB1.513 million per annum for the use of the trademark to the holding company. The Company has paid the fee to the holding company for the use of the trademark during the Reporting Period. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of the SSE, the connected transaction is not subject to the announcement and the independent shareholders' approval.

# Significant Events

### *(2) Composite services*

The Company and its holding company, Conch Holdings entered into a composite services contract ("Composite Services Contract") for a term of 10 years commencing from 1 September 1997 (being date of establishment of the Company). The composite services provided by the holding company to the Company include landscaping, education, medical, labour insurance and security. During the Reporting Period, the Group was required to pay the holding company a fee of RMB3.26 million pursuant to the Composite Services Contract, which was paid by the Company during the Reporting Period. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of the SSE, the connected transaction is not subject to the announcement and the independent shareholders' approval requirements.

The above Composite Services Contract expired on 31 August 2007. During the valid period of the Composite Services Contract, as a result of the continued intensification of the reform in State-owned enterprises by the PRC government, all labour services and industrial companies of Conch Holdings were invalidated and community auxiliary organisations operated by enterprises, such as hospitals and schools were also reformed. Anhui Conch Engineering Construction and Installation Company Limited has become a subsidiary of the Company. At present, as there is no need for the Company and Conch Holdings to provide a large volume of composite services to each other, it is, therefore, unnecessary to enter into any agreement for composite services. In respect of the composite services of insignificant volume required by either party to be provided by the other, they will be provided and settled on normal commercial terms prevailing in the market.

### *(3) Procurement of clinker*

On 29 June 2007, as approved by the Board of the Company, Jiangmen Conch Cement Co., Ltd. ("Jiangmen Conch"), a wholly-owned subsidiary of the Company, and Longshan Company entered into the clinker procurement agreement ("Clinker Procurement Agreement") for the procurement of clinker by Jiangmen Conch from Longshan Company. The term of the agreement commenced from 29 June 2007 and expired on 31 December 2007.

The selling price of clinkers was determined with reference to market prices, and after negotiation between the Group and Longshan Company, and 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 in the same area in determining whether it would procure clinker from Longshan Company or other independent suppliers.

Jiangmen Conch would settle the payment for clinker procured from Longshan Company by its working capital on a monthly basis. During the Reporting Period, Jiangmen Conch procured 158,900 tonnes of clinker from Longshan Company which amounted to RMB29.79 million, which has not exceeded the procurement amount prescribed under the Clinker Procurement Agreement.

# Significant Events

For details of the abovementioned clinker procurement transaction, please refer to the announcement published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 3 July 2007. Such connected transaction is not subject to the approval of a general meeting of independent shareholders.

### *(4) Procurement of spare parts and production ancillary materials*

On 29 June 2007, as approved by the Board of the Company, Prosperity Conch, a subsidiary of the Company, and Longshan Company entered into the spare parts and production ancillary material procurement agreement ("Spare Parts and Production Ancillary Materials Procurement Agreement") in relation to the mutual procurement of spare parts and production ancillary materials between Prosperity Conch and Longshan Company. The term of the agreement commenced from 29 June 2007 and expired on 31 December 2007. It was estimated that the amount of procurement of spare parts and production ancillary materials from each other between Prosperity Conch and Longshan Company in 2007 would not exceed RMB10 million and RMB10 million, respectively, and the aggregate amount would not exceed RMB20 million. Both Prosperity Conch and Longshan Company would continue to procure spare parts and production ancillary materials from other suppliers if their respective supplies were not sufficient.

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

The payment for spare parts and production ancillary materials mutually procured between Prosperity Conch and Longshan Company would be settled by their respective working capital on a monthly basis. During the Reporting Period, the procurement amount for spare parts and production ancillary materials between Prosperity Conch and Longshan Company were RMB2.58 million and RMB4.66 million respectively, which have not exceeded the procurement amounts prescribed under the Spare Parts and Production Ancillary Materials Procurement Agreement.

For relevant details, please refer to the announcement published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 3 July 2007. Such connected transaction is not subject to the approval of a general meeting of independent shareholders.

### *(5) Residual heat electricity generation projects*

On 8 May 2007, as approved by the Board of the Company, the Company and Conch Kawasaki entered into a supply and design of equipment contract pursuant to which Conch Kawasaki would provide a whole set of equipment and design services for the construction of residual heat electricity generation projects for four subsidiaries (branch companies) of the Company, including Wuhu Conch. The aggregate contract amount was RMB355.2 million.

# Significant Events

On 29 June 2007, as approved by the Board of the Company, the Company and Conch Kawasaki entered into another supply and design of equipment contract ("Supply and Design of Equipment Contract") pursuant to which Conch Kawasaki would provide a whole set of equipment and design services for the construction of residual heat electricity generation projects for 13 subsidiaries of the Company, including Chizhou Conch. The aggregate contract amount was RMB816.3 million. On 3 September 2007, the Supply and Design of Equipment Contract with an aggregate contract amount of RMB816.3 million was considered and approved by the second extraordinary general meeting of 2007 of the Company.

The transaction price between the Company and Conch Kawasaki was determined with reference to the project cost, which was mainly based on project scale and standard of technology, and the prevailing market prices as well as the price charged by Conch Kawasaki to other customers and after negotiation between the parties but was not less favourable than that offered by Conch Kawasaki to independent customers.

During the Reporting Period, Conch Kawasaki provided a whole set of equipment and design services for the construction of all residual heat electricity generation projects of the Group. The total amount of equipment and design fee settled by the Group was RMB41.52 million.

For relevant details, please refer to the announcements published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 9 May 2007, 3 July 2007 and 4 September 2007 respectively.

### *(6) Project design of cement and clinker projects*

On 29 June 2007, as approved by the Board of the Company, the Company and Conch Design entered into the composite project design contract ("Composite Project Design Contract") pursuant to which Conch Design would provide services such as design and technology modification of clinker production lines and grinding systems for 21 subsidiaries of the Company, including Tongling Conch. The total contract amount was RMB36.15 million. The design fee was determined by the parties after arm's length negotiation with reference to the charge scale 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 design fee would be settled according to the progress of the project. During the Reporting Period, the design fee paid by the Group to Conch Design was RMB16.15 million.

For relevant details, please refer to the announcement published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 3 July 2007. Such connected transaction is not subject to the approval of a general meeting of independent shareholders.

# Significant Events

### (7) *Acquisition of 25% equity interests in Wuhu Plastic*

On 29 June 2007, as approved by the Board of the Company, the Company and Cheong Sing Merchandise Agency Limited ("Cheong Sing Company") entered into the equity transfer agreement ("Equity Transfer Agreement") pursuant to which the Company agreed to acquire 25% equity interests in Wuhu Plastic held by Cheong Sing Company at a consideration of RMB13.76 million. The aforesaid consideration was determined with reference to the consideration for the Company's acquisition of 75% of the equity interests in Wuhu Plastic, which was completed on 25 May 2007 and the proportion of this acquisition of the equity interests in Wuhu Plastic. The transaction was filed to the State-owned assets administration department on 26 November 2007 and approved by the State Administration of Foreign Exchange on 30 January 2008. On 29 February 2008, the change of industrial and commercial registration for this transaction was completed. The consideration for such equity transfer was satisfied by the Company's internal resources.

Acquisition of 25% equity interests in Wuhu Plastic constituted a connected transaction under the Listing Rules of the Stock Exchange, but did not constitute a connected transaction under the Listing Rules of SSE.

For relevant details, please refer to the announcement published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 3 July 2007. Such connected transaction is not subject to the approval of a general meeting of independent shareholders.

### (8) *Acquisition of 20% equity interests in Wuhu Logistics*

On 28 November 2007, the Board approved (with interested Directors abstained from voting) the share transfer agreement ("Share Transfer Agreement") which was entered into between Conch International Trading, a wholly-owned subsidiary of the Company, and Conch Holdings, it was approved that Conch International Trading would acquire 20% equity interests in Wuhu Logistics held by Conch Holdings at a consideration of RMB10.709 million, which was determined based on the appraised net assets of Wuhu Logistics as at 31 August 2007. As at 6 March 2008, the transaction has been filed with the State-owned assets administration department and the formalities for the relevant change of industrial and commercial registration for this transaction has been completed. The consideration of such equity transfer was paid by the Group's internal resources.

Acquisition of 20% equity interests in Wuhu Logistics by Conch International Trading constituted a connected transaction under both the Listing Rules of the Stock Exchange and the Listing Rules of SSE. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of SSE, such connected transaction is exempted from announcement and independent shareholders' approval requirements.

***(9)*** For details of the connected transaction in relation to Chaodong Company Acquisition, please refer to "Material acquisitions — (1) Acquisition of Chaodong Company" in this section.

Significant Events

(10) For details of the connected transactions in relation to the issue of shares for the acquisition of the Three Companies from Conch Holdings and issue of shares for the acquisition of the Four Companies from Conch Venture, please refer to "Material acquisitions — (2) Issue of Shares for Purchase of Assets" in this section.

### Confirmation by independent non-executive Directors on the connected transactions

During the Reporting Period, connected transactions were required in the Company's normal operations, and were entered into on normal commercial terms and at arm's length pursuant to the agreements (if any), and as far as the Company is concerned, the terms are fair and reasonable, and have not exceeded the caps (if any) approved by the Stock Exchange or the caps (if any) approved at general meetings, and were reviewed by auditors and confirmed by independent non-executive Directors.

The auditor of the Company has reviewed the continuing connected transactions (1) to (4) above (hereinafter referred to as "transactions") and issued letters to the Board of Directors, indicating that: (1) those transactions have been approved by the Board of Directors of the Company; (2) they were not aware of any indications which would make them believe that those connected transactions were not conducted in line with the terms of the agreements of the relevant transactions or their prices were not made in line with the Group's pricing policy; and (3) they were not aware of any matters which would make them believe that the annual aggregate amount of each of connected transactions exceed the annual cap as disclosed in the announcements made by the Company.

## (5) 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 periods but subsisting in the Reporting Period.

### 2. Guarantees

During the Reporting Period, the external guarantees provided by the Company were related to its own loans and loans of its subsidiaries, and all the guarantees have been approved either by the Board or the general meetings.

During the Reporting Period, the additional guarantees provided by the Company for its subsidiaries amounted to RMB495 million, all being guarantees for collateral liabilities; as at 31 December 2007, the balance of guarantees provided by the Company for its subsidiaries amounted to RMB1,578 million, representing 12.95% of the net assets of the Company.

During the Reporting Period, the Company had not provided any guarantee for its controlling shareholder, beneficial controlling shareholders, other related parties and any other entities which were not legal persons or individuals. The aggregate amount of guarantees provided by the Company did not exceed 50% of the Company's latest audited net assets; the aggregate amount of the guarantee provided by the Company to companies with a gearing ratio of over 70% amounted to RMB720 million.

# Significant Events

As at 31 December 2007, Ningbo Conch Cement Company Limited, a subsidiary of the Company, pledged to the bank, land, machines and equipment at a book value of RMB63.77 million as the security for a long-term loan in the sum of RMB60 million.

As at 31 December 2007, Ningguo Cement Plant and branch company, Baimashan Cement Plant of Anhui Conch Cement Company Limited pledged their assets with a book value of RMB844 million under PRC Accounting standards to IFC as the security for their long-term loan in the sum of RMB650 million.

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

## 4. Commitments

In respect of the acquisition of assets by the issue of shares which was completed on 25 May 2007, Conch Holdings and Conch Venture, being 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 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 issue of 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.

As at the end of the Reporting Period, save for a building of 4,388.16 square meters of 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 in accordance with the valuation of the property assessed by China Faith Appraisers Co., Ltd. as at the valuation date on 31 May 2006, the value of the property of 4,388.16 square meters was RMB2,353,200, taking into account the proportion of acquisition of the equity interests in Wuhu Logistics by the Company, the asset value thereof was RMB1,882,600. On 20 September 2007, Conch Holdings had paid RMB1,882,600 in full to the Company in cash.

# Significant Events

(3) Pursuant to the Assets 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 Conch 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 Conch could repurchase a certain amount of shares in Conch at a 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 the Company's auditors in accordance with the PRC Accounting Standards was RMB338.1734 million which is higher than RMB319.198 million. No share was repurchased by Conch.

Moreover, Conch Venture undertook that if the aggregate audited net profit attributable to the equity interests of the Four Companies acquired by Conch for the three years of 2006, 2007 and 2008 prepared in accordance with the PRC Accounting Standards is on average less than RMB319.198 million, Conch Venture agreed that Conch could repurchase a certain amount of shares in Conch at consideration of RMB1.00. However, such undertakings have not yet expired. The repurchase of shares shall be subject to the audited results on the net profits of the Four Companies for 2008.

# Notice of 2007 Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the 2007 annual general meeting (the "**Annual General Meeting**") of Anhui Conch Cement Company Limited (the "**Company**") will be held at the registered office of the Company at 9:00 a.m. on Monday, 2 June 2008.

The following matters are proposed to be resolved at the Annual General Meeting:

1. To consider and if thought fit, to approve the report of the board (the "**Board**") of directors (the "**Directors**") for the year ended 31 December 2007.

2. To consider and if thought fit, to approve the report of the supervisory committee (the "**Supervisory Committee**") for the year ended 31 December 2007.

3. To consider and if thought fit, to approve the audited financial reports prepared in accordance with the accounting standards generally accepted in the People's Republic of China (the "**PRC**") and International Financial Reporting Standards respectively for the year ended 31 December 2007.

4. To consider and if thought fit, to approve the proposal of not distributing the Company's profit for the year 2007.

5. To consider and if thought fit, to approve the reappointment of KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants as the PRC and international auditors of the Company respectively, and the authorisation of the Board to determine the remuneration of the auditors.

6. To consider and if thought fit, to approve the amendment to the Article of Association of the Company (the "**Article of Association**") by way of special resolution. (For details of the amendment, please refer to Appendix 1)

7. To consider and if thought fit, to approve the guarantees provided by the Company for the bank borrowings of certain subsidiaries of the Company. (For detail of the guarantees, please refer to Appendix 2.)

8. To consider and if thought fit, to approve the "Rules Governing the Shareholders' Meetings of Anhui Conch Cement Company Limited", the "Rules Governing the Meetings of the Board of Anhui Conch Cement Company Limited", and the "Rules Governing the Meetings of the Supervisory Committee of Anhui Conch Cement Company Limited" (For details, please refer to the Company's announcements published on the website of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 17 August 2007)

# Notice of 2007 Annual General Meeting

9. To consider and if thought fit, to approve the following resolutions by way of special resolutions:

   (a) "**THAT** subject to the limitations under (c) and (d) below and in accordance with the requirements of the Rules Governing the Listing of Securities (the "**Listing Rules**") on Stock Exchange, the Company Law of the PRC, and other applicable laws and regulations (in each case, as amended from time to time), an unconditional general mandate be and is hereby granted to the Board to exercise once or in multiple times during the "Relevant Period" (as defined below) all the powers of the Company to allot and issue ordinary shares ("**new shares**") on such terms and conditions as the Board may determine and that, in the exercise of their powers to allot and issue shares, the authority of the Board shall include (without limitation):

      (i) the determination of the class and number of the shares to be allotted;

      (ii) the determination of the issue price of the new shares;

      (iii) the determination of the opening and closing dates of the issue of new shares;

      (iv) the determination of the class and number of new shares (if any) to be issued to the existing shareholders;

      (v) to make or grant offers, agreements and options which might require the exercise of such powers; and

      (vi) in the case of an offer or issue of shares to the shareholders of the Company, excluding shareholders who are residents outside the PRC or the Hong Kong Special Administrative Region ("**Hong Kong**") on account of prohibitions or requirements under overseas laws or regulations or for some other reasons which the Board consider expedient;

   (b) upon the exercise of the powers granted under paragraph (a), the Board may during the "Relevant Period" make or grant offers, agreements and options which might require the shares relating to the exercise of the authority thereunder being allotted and issued after the expiry of the "Relevant Period";

   (c) the aggregate amount of the overseas listed foreign shares to be allotted or conditionally or unconditionally agreed to be allotted (whether pursuant to the exercise of options or otherwise) by the Board pursuant to the authority granted under paragraph (a) above (excluding any shares which may be allotted upon the conversion of the capital reserve into capital in accordance with the Company Law of the PRC or the Articles of Association of the Company) shall not exceed 20 per cent (20%) of the aggregate number of the overseas listed foreign shares of the Company in issue as at the date of passing of this Resolution;

   (d) the Board in exercising the powers granted under paragraph (a) above shall (i) comply with the Company Law of the PRC, other applicable laws and regulations of the PRC, and the Listing Rules (in each case, as amended from time to time) and (ii) be subject to the approvals of China Securities Regulatory Commission ("**CSRC**") and relevant authorities of the PRC;

# Notice of 2007 Annual General Meeting

(e) for the purposes of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the date on which the powers granted by this Resolution is revoked or varied by a special resolution of the Company in general meeting; or

(iii) the date falling 12 months from the date of passing of this Resolution;

(f) the Board shall, subject to the relevant approvals of the relevant authorities and the exercise of the power granted under paragraph (a) above in accordance with the Company Law and other applicable laws and regulations of the PRC, increase the Company's registered capital to such amount as shall equal the aggregate nominal amounts of the relevant number of shares allotted and issued upon the exercise of the powers granted under paragraph (a) of this Resolution, provided that the registered capital of the Company shall not exceed 120 per cent (120%) of the amount of registered capital of the Company as at the date of passing of this Resolution;

(g) subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the H Shares in the Company's share capital proposed to be issued by the Company and to the approval of CSRC for the issue of shares, the Board be and it is hereby authorised to amend, as it may deem appropriate and necessary, Articles 23, 24 and 27 of the Articles of Association of the Company to reflect the change in the share capital structure of the Company in the event of an exercise of the powers granted under paragraph (a) to allot and issue new shares.

*(The purpose of resolution number 9 is to grant a general mandate by the Annual General Meeting to the Board to allot and issue new shares subject to applicable laws, regulations and rules.)*

By order of the Board
**Anhui Conch Cement Company Limited**
**Zhang Mingjing**
*Company Secretary*

Wuhu City, Anhui Province, the PRC
16 April 2008

*As at the date of this notice, the Board comprises (i) Mr Guo Wensan, Mr Yu Biao, Mr Guo Jingbin, Mr Li Shunan, and Mr Ren Yong as executive Directors, and (ii) Mr Kang Woon, Mr Chan Yuk Tong, and Mr Ding Meicai as independent non-executive Directors.*

# Notice of 2007 Annual General Meeting

Notes:

1. Persons entitled to attend the Annual General Meeting

   Holders of H Shares whose names appear on the register of members maintained by Hong Kong Registrars Limited at 4:30 p.m., Friday, 2 May 2008 are entitled to attend the Annual General Meeting after completing the registration procedures for the meeting.

2. Registration for attendance at Annual General Meeting

   (1) Holders of H shares who intend to attend the Annual General Meeting have to complete (without prejudice to their right of attendance) the reply slip attached, deposit the same, together with the copies of the transfers, share certificates or receipts of share transfer and their identity cards, at the registered office of the Company or the Company's H share registrar-Hong Kong Registrars Limited at 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by Friday, 9 May 2008.

   (2) Shareholders may deliver the documents required for registration to the registered office of the Company in person, by mail or by facsimile (86-553-311 4550). Upon receipt of the requisite documents for registration, the Company will complete the registration procedures for attendance at the Annual General Meeting on behalf of the shareholders and send a duplicate copy of the meeting attendance card to the shareholders by mail or by facsimile. Shareholders attending the meeting must produce the duplicate copy or facsimile copy of the meeting attendance cards and exchange them for formal meeting attendance cards.

3. Appointment of proxies

   (1) Each shareholder who has the right to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies in writing, whether they are shareholders of the Company or not, to attend and vote on his/her behalf at the Annual General Meeting.

   (2) Proxies of the shareholders must be appointed in writing and the appointment must be signed by the shareholder or their agent who has been duly authorised in writing. If the instrument of the appointment of proxy is signed by an agent of the shareholder, the power of attorney or other authority of the agent must be notarially certified. In order to be valid, the notarially certified copy of such power of attorney or other authority, together with the instrument of the appointment of proxy, shall be deposited at the Company's H share registrar-Hong Kong Registrars Limited at the address given in Note (4), not less than 24 hours before the time appointed for holding of the Annual General Meeting.

   (3) If a shareholder appoints more than one proxy, his/her proxies may only exercise his/her appointor's voting rights when the resolution concerned is to be decided by poll.

4. The register of members of the Company for H shares will close from Saturday, 3 May 2008 to Monday, 2 June 2008, both days inclusive. In order to qualify for attendance at the Annual General Meeting, transfers accompanied by share certificates and other appropriate documents must be lodged with the Company's H share registrar-Hong Kong Registrars Limited at 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by 4:30 p.m. on Friday, 2 May 2008.

5. The Annual General Meeting is expected to take half day. Shareholders or their proxies attending the Annual General Meeting should bear their own lodging and travelling costs.

# Notice of 2007 Annual General Meeting

## *APPENDIX 1: DETAILS OF THE AMENDMENTS TO CERTAIN ARTICLES OF THE ARTICLES OF ASSOCIATION*

### 1. Supplement to the original Article 101:

A new clause shall be added after Clause 12 of article ("**Article**") 101 of the original Articles of Association of the Company ("**Original Articles**") as Clause 13, and the numerical order of the original Clauses 13 to 16 shall be adjusted accordingly. The serial number of the original Clauses 13 to 16 in the text of the Original Articles should be amended accordingly.

The text of the newly added Clause is set out as follows:

(13) Subject to laws and regulations and the applicable listing rules, to approve the matters relating to the acquisition or disposal of assets by the Company during any period of one year, the aggregate amount of which (including amounts of liabilities and expenses) shall not exceed 30% of the latest audited total assets of the Company; to decide external investment projects, the amount of which shall not exceed 30% of the latest audited net assets of the Company.

### 2. Amendment to the original Article 163:

The original Article 163 shall be deleted in its entirety. Any reference to the serial number or content of that Article in the text of the Original Articles should be deleted accordingly.

The text of the original Article 163 to be deleted is set out as follows:

Article 163 The Company may appropriate 5% to 10% of the profit after taxation to the statutory public welfare reserve if and when necessary, the relevant proposal prepared by the Board of Directors shall be submitted to the general meeting for approval.

The text of the new Article 163 is set out as follows:

Article 163 Should the general meeting breach the requirement of this Article by distributing profits to shareholders before the Company has offset its loss and made appropriation to the statutory public welfare reserve, the shareholders shall return the profit to the Company which has been distributed to them in breach of the relevant requirement.

### 3. Amendment to the original Article 167:

The original Article 167 shall be deleted in its entirety. Any reference to the serial number or content of that Article in the text of the Original Articles should be deleted accordingly.

The text of the original Article 167 to be deleted is set out as follows:

Article 167 The Company should utilize the statutory public welfare reserve for the employees' welfare from time to time.

# Notice of 2007 Annual General Meeting

The text of the new Article 167 is set out as follows:

Article 167 Profit after taxation, after offsetting losses and making appropriation to the statutory public surplus reserve, shall be distributed to the shareholders in proportion to their shareholdings, other than distributions not made in proportion to the shareholders' shareholdings pursuant to the relevant provisions of the Articles of Association.

The Company shall not participate in profit distribution in respect of shares held under its name.

## 4. Amendment to the original Article 168:

The original Article 168 shall be deleted in its entirety. Any reference to the serial number or content of that Article in the text of the Original Articles should be deleted accordingly.

The text of the original Article 168 to be deleted is set out as follows:

Article 168 Subject to Articles 160, 161 and 163, the dividend for the year shall be distributed to the shareholders in proportion to their shareholdings within 6 months after the end of each fiscal year. The dividend for the year shall be subject to the general meeting's approval.

The text of the new Article 168 is set out as follows:

Article 168 After the approval of the profit distribution proposal by the Company's general meeting, the Board of Directors shall complete the matters in relation to dividend (or scrip shares) distribution within two months after the date of the said general meeting.

## *APPENDIX 2: THE GUARANTEES PROVIDED BY THE COMPANY FOR THE BANK BORROWINGS OF THE FOLLOWING SUBSIDIARIES:*

*(unit: RMB million)*

| Name of subsidiaries being guaranteed | Shareholding of the Company | Gearing ratio | Guaranteed amount | Term of guarantee |
|---|---|---|---|---|
| 1. Hunan Conch Cement Co., Ltd. | 100% | 83.36% | 200 | 6 years |
| 2. Taizhou Conch Cement Co., Ltd. | 100% | 99.20% | 50 | 1 year |
| 3. Shangyu Conch Cement Co., Ltd. | 100% | 87.79% | 50 | 1 year |
| 4. Taicang Conch Cement Co., Ltd. | 100% | 85.60% | 300 | 1 year |
| 5. Zhongguo Cement Co., Ltd. | 100% | 74.47% | 100 | 3 years |
| 6. Huai'an Conch Cement Co., Ltd. | 100% | 78.23% | 50 | 3 years |
| 7. Anhui Conch Machinery & Electric Co., Ltd. | 100% | 87.07% | | 1 year |
| **Total** | | | **800** | |

# Independent Auditor's Report

To the shareholders of
**Anhui Conch Cement Company Limited**
*(Incorporated in The People's Republic of China with limited liability)*

We have audited the consolidated financial statements of Anhui Conch Cement Company Limited (the "Company") set out on pages 84 to 182, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 March 2008

# Consolidated Income Statement

for the year ended 31 December 2007
(Expressed in Renminbi Yuan)

| | Note | 2007 RMB'000 | 2006 RMB'000 (Restated) (note 3(a)(i)) |
|---|---|---|---|
| **Revenue** | 4,13 | 18,776,098 | 16,096,057 |
| Cost of sales and services rendered | | (13,047,187) | (11,609,775) |
| **Gross profit** | | 5,728,911 | 4,486,282 |
| Other revenue | 5 | 325,901 | 308,053 |
| Other net income | 5 | 17,343 | 5,709 |
| Selling and marketing costs | | (1,219,228) | (1,090,765) |
| Administrative expenses | | (722,049) | (564,436) |
| **Profit from operations** | | 4,130,878 | 3,144,843 |
| Finance costs | 6(a) | (633,161) | (543,175) |
| Share of profits of associates | | 3,706 | 3,177 |
| **Profit before taxation** | 6 | 3,501,423 | 2,604,845 |
| Income tax | 7(a) | (813,197) | (677,388) |
| **Profit for the year** | | 2,688,226 | 1,927,457 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | 10,35(a) | 2,480,146 | 1,543,767 |
| Minority interests | 35(a) | 208,080 | 383,690 |
| **Profit for the year** | 35(a) | 2,688,226 | 1,927,457 |
| **Dividends payable to equity shareholders of the Company attributable to the year:** | 11 | | |
| Final dividend proposed after the balance sheet date | | — | 251,136 |
| **Earnings per share** | 12 | | |
| — Basic | | RMB1.69 | RMB1.21 |
| — Diluted | | RMB1.69 | RMB1.21 |

The notes on pages 93 to 182 form part of these financial statements.

# Consolidated Balance Sheet

at 31 December 2007
(Expressed in Renminbi Yuan)

| | Note | 2007 RMB'000 | 2007 RMB'000 | 2006 RMB'000 (Restated) (note 3(a)(i)) | 2006 RMB'000 (Restated) (note 3(a)(i)) |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Fixed assets | 14(a) | | | | |
| — Property, plant and equipment | | | 21,469,915 | | 17,129,091 |
| — Interests in leasehold land held for own use under operating leases | | | 999,377 | | 860,125 |
| | | | 22,469,292 | | 17,989,216 |
| Intangible assets | 15(a) | | 231,520 | | 198,976 |
| Goodwill | 16 | | 16,120 | | 16,120 |
| Interest in associates | 18 | | 162,925 | | 163,219 |
| Loans and receivables | 19 | | 199,306 | | 128,500 |
| Other investments in equity securities | 20 | | 10 | | 168 |
| Available-for-sale equity securities | 21 | | 326,901 | | — |
| Deferred tax assets | 32(b) | | 79,642 | | 57,465 |
| | | | 23,485,716 | | 18,553,664 |
| **Current assets** | | | | | |
| Inventories | 22 | 1,562,552 | | 1,272,879 | |
| Trade receivables | 23 | 3,470,929 | | 939,689 | |
| Prepayments and other receivables | 24 | 530,464 | | 632,725 | |
| Amounts due from related parties | 26 | 423,140 | | 75 | |
| Tax recoverable | 32(a) | 30,799 | | — | |
| Restricted cash deposits | | 5,977 | | 3,379 | |
| Cash at bank and in hand | | 1,411,707 | | 1,335,233 | |
| | | 7,435,568 | | 4,183,980 | |
| **Current liabilities** | | | | | |
| Trade payables | 27 | 1,930,814 | | 1,019,507 | |
| Other payables and accruals | 28 | 2,240,716 | | 1,767,434 | |
| Bank loans and other borrowings | 30 | 4,937,633 | | 3,457,380 | |
| Amounts due to related parties | 26 | 108,013 | | 101,506 | |
| Current portion of long term payables | 33 | 9,156 | | 10,757 | |
| Derivative financial instruments | 36(d)(i) | — | | 49,740 | |
| Current taxation | 32(a) | 406,998 | | 383,644 | |
| | | 9,633,330 | | 6,789,968 | |
| **Net current liabilities** | | | 2,197,762 | | 2,605,988 |
| **Total assets less current liabilities** | | | 21,287,954 | | 15,947,676 |

# Consolidated Balance Sheet

at 31 December 2007
(Expressed in Renminbi Yuan)

| | Note | 2007 RMB'000 | 2007 RMB'000 | 2006 RMB'000 (Restated) (note 3(a)(i)) | 2006 RMB'000 (Restated) (note 3(a)(i)) |
|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | |
| Bank loans and other borrowings | 29(a) | **9,822,027** | | 7,168,739 | |
| Long-term payables | 33 | **50,053** | | 37,746 | |
| Deferred income | 34 | **148,441** | | 128,818 | |
| Deferred tax liabilities | 32(b) | **20,331** | | 27,396 | |
| | | | **10,040,852** | | 7,362,699 |
| **NET ASSETS** | | | **11,247,102** | | 8,584,977 |
| **CAPITAL AND RESERVES** | 35(a) | | | | |
| Share capital | | | **1,566,434** | | 1,255,680 |
| Reserves | | | **9,216,479** | | 5,874,513 |
| **Total equity attributable to equity shareholders of the Company** | | | **10,782,913** | | 7,130,193 |
| **Minority interests** | | | **464,189** | | 1,454,784 |
| **TOTAL EQUITY** | | | **11,247,102** | | 8,584,977 |

Approved and authorised for issue by the board of directors on 27 March 2008.

**Guo Wen San**
*Directors*

**Guo Jin Bin**
*Directors*

The notes on pages 93 to 182 form part of these financial statements.

# Balance Sheet

at 31 December 2007
(Expressed in Renminbi Yuan)

| | Note | 2007 RMB'000 | 2007 RMB'000 | 2006 RMB'000 (Restated) (note 3(a)(i)) | 2006 RMB'000 (Restated) (note 3(a)(i)) |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Fixed assets | 14(b) | | | | |
| — Property, plant and equipment | | | **641,104** | | 629,045 |
| — Interests in leasehold land held for own use under operating leases | | | **54,412** | | 46,667 |
| | | | **695,516** | | 675,712 |
| Intangible assets | 15(b) | | **5,243** | | 5,774 |
| Investments in subsidiaries | 17 | | **13,054,151** | | 5,071,824 |
| Interest in associates | 18 | | **157,429** | | 157,429 |
| Other investments in equity securities | 20 | | **10** | | 1,010 |
| Available-for-sale equity securities | 21 | | **326,901** | | — |
| Deferred tax assets | 32(b) | | **15,086** | | — |
| | | | **14,254,336** | | 5,911,749 |
| **Current assets** | | | | | |
| Inventories | 22 | **64,593** | | 55,774 | |
| Trade receivables | 23 | **922,835** | | 134,533 | |
| Prepayments and other receivables | 24 | **55,816** | | 129,519 | |
| Amounts due from subsidiaries | 25 | **3,858,477** | | 3,254,983 | |
| Restricted cash deposits | | **3,891** | | 2,131 | |
| Cash at bank and in hand | | **469,639** | | 596,360 | |
| | | **5,375,251** | | 4,173,300 | |

# Balance Sheet

at 31 December 2007
(Expressed in Renminbi Yuan)

| | Note | 2007 RMB'000 | 2007 RMB'000 | 2006 RMB'000 (Restated) (note 3(a)(i)) | 2006 RMB'000 (Restated) (note 3(a)(i)) |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Trade payables | 27 | **649,232** | | 218,492 | |
| Other payables and accruals | 28 | **155,863** | | 184,912 | |
| Bank loans and other borrowings | 30 | **463,214** | | 630,000 | |
| Amounts due to subsidiaries | 25 | **3,572,441** | | 2,563,450 | |
| Amounts due to related parties | 26 | **108,013** | | 98,173 | |
| Current taxation | 32(a) | **26,558** | | 28,512 | |
| | | **4,975,321** | | 3,723,539 | |
| **Net current assets** | | | **399,930** | | 449,761 |
| **Total assets less current liabilities** | | | **14,654,266** | | 6,361,510 |
| **Non-current liabilities** | | | | | |
| Bank loans and other borrowings | 29(a) | **2,650,000** | | 2,220,000 | |
| Deferred income | 34 | **12,692** | | 13,846 | |
| | | | **2,662,692** | | 2,233,846 |
| **NET ASSETS** | | | **11,991,574** | | 4,127,664 |
| **CAPITAL AND RESERVES** | 35(b) | | | | |
| Share capital | | | **1,566,434** | | 1,255,680 |
| Reserves | | | **10,425,140** | | 2,871,984 |
| **TOTAL EQUITY** | | | **11,991,574** | | 4,127,664 |

Approved and authorised for issue by the board of directors on 27 March 2008.

**Guo Wen San**
*Directors*

**Guo Jin Bin**
*Directors*

The notes on pages 93 to 182 form part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2007
(Expressed in Renminbi Yuan)

| | Note | 2007 RMB'000 | 2006 RMB'000 (Restated) |
|---|---|---|---|
| **Total equity at 1 January** | | | |
| — as previously reported | | 8,350,204 | 6,605,054 |
| — effect of the change of accounting policy for business combination under common control | 3(a)(i),35(a) | (1,010) | 4,216 |
| — restatement of the opening balances and comparative figures for business combination under common control in 2007 | 3(a)(i),35(a) | 235,783 | 297,866 |
| — as restated | | 8,584,977 | 6,907,136 |
| **Net income recognised directly in equity:** | | | |
| Change in fair value of available-for-sale equity securities | 35(a) | 228,882 | — |
| **Net profit for the year** | 35(a) | 2,688,226 | 1,927,457 |
| **Total recognised income and expenses for the year** | | 2,917,108 | 1,927,457 |
| Attributable to: | | | |
| Equity shareholders of the Company | | 2,709,028 | 1,543,767 |
| Minority interests | | 208,080 | 383,690 |
| | | 2,917,108 | 1,927,457 |
| Dividend declared and approved during the year | 35(a) | (251,136) | (87,898) |
| Dividend declared by a subsidiary acquired under common control to a former shareholder | 35(a) | — | (130,000) |
| Dividends declared by non-wholly owned subsidiaries to minority shareholders | 35(a) | (3,847) | (176,718) |
| | | (254,983) | (394,616) |
| **Movements in equity arising from transactions between non-wholly owned subsidiaries and their minority shareholders** | | | |
| Capital contribution received by non-wholly owned subsidiaries from minority shareholders | 35(a) | — | 145,000 |
| **Total equity at 31 December** | | 11,247,102 | 8,584,977 |

The notes on pages 93 to 182 form part of these financial statements.

# Consolidated Cash Flow Statement

for the year ended 31 December 2007
(Expressed in Renminbi Yuan)

| | Note | 2007 RMB'000 | 2007 RMB'000 | 2006 RMB'000 (Restated) (note 3(a)(i)) | 2006 RMB'000 (Restated) (note 3(a)(i)) |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Profit before taxation | | 3,501,423 | | 2,604,845 | |
| Adjustments for: | | | | | |
| — Depreciation | 14(a) | 1,110,079 | | 930,166 | |
| — Impairment loss on trade and other receivables | | 2,856 | | — | |
| — Impairment loss on fixed assets | 14(a) | — | | 5,600 | |
| — Amortisation of interest in leasehold land held for own use under operating leases | 14(a) | 22,526 | | 19,022 | |
| — Amortisation of intangible assets | 15(a) | 10,906 | | 10,306 | |
| — Finance costs | 6(a) | 633,161 | | 543,175 | |
| — Interest income | 5 | (23,607) | | (27,222) | |
| — Share of profits of associates | | (3,706) | | (3,177) | |
| — Gain on disposal of an associate | 5 | — | | (7,800) | |
| — Net loss/(gain) on disposal of fixed assets | 5 | 5,994 | | (5,192) | |
| — Gain on disposal of other investment in equity securities | 5 | (532) | | — | |
| — Net realised gain on trading securities | 5 | — | | (246) | |
| — Write down of inventories | 22(b) | — | | 1,889 | |
| — Loss on change in fair value of forward foreign exchange contracts | 6(c) | — | | 49,740 | |
| **Operating profit before changes in working capital** | | 5,259,100 | | 4,121,106 | |
| Increase in inventories | | (289,673) | | (172,654) | |
| Increase in trade receivables | | (2,527,567) | | (484,368) | |
| Decrease in prepayments and other receivables | | 67,420 | | 40,851 | |
| (Increase)/decrease in amounts due from related parties | | (7,255) | | 302,263 | |
| Increase/(decrease) in trade payables | | 911,307 | | (109,571) | |
| Increase in other payables and accruals | | 66,754 | | 29,678 | |
| Increase/(decrease) in amounts due to related parties | | 6,507 | | (29,071) | |
| Increase/(decrease) in long term payables | | 10,706 | | (76,014) | |
| Increase/(decrease) in deferred income | | 19,623 | | (21,900) | |

# Consolidated Cash Flow Statement

for the year ended 31 December 2007
(Expressed in Renminbi Yuan)

| | Note | 2007 RMB'000 | 2007 RMB'000 | 2006 RMB'000 (Restated) (note 3(a)(i)) | 2006 RMB'000 (Restated) (note 3(a)(i)) |
|---|---|---|---|---|---|
| **Cash generated from operations** | | **3,516,922** | | 3,600,320 | |
| — Income tax paid | | **(849,885)** | | (548,837) | |
| — Interest paid | | **(735,563)** | | (562,278) | |
| **Net cash generated from operating activities** | | | **1,931,474** | | 2,489,205 |
| **Investing activities** | | | | | |
| Payment for the purchase of fixed assets | | **(5,386,450)** | | (3,364,083) | |
| Payment for the purchase of interest in leasehold land held for own use under operating leases | | **(152,551)** | | (82,699) | |
| Proceeds from disposal of trading securities | | **—** | | 15,246 | |
| Payment for purchase of trading securities | | **—** | | (15,000) | |
| Proceeds from disposal of fixed assets | | **23,706** | | 36,366 | |
| New loans to government | | **(134,625)** | | (75,500) | |
| Repayment of loans from government | | **32,132** | | 41,000 | |
| Payment for purchase of intangible assets | | **(43,450)** | | (45,421) | |
| Payment for purchase of available-for-sale equity securities | | **(98,019)** | | — | |
| Repayment of other receivables from related parties | | **—** | | 111,320 | |
| Interest received | | **23,607** | | 27,222 | |
| Proceeds from disposal of an associate | | **—** | | 27,800 | |
| Proceeds from disposal of other investment in equity securities | | **690** | | — | |
| Dividends received from an associate | | **4,000** | | 4,000 | |
| (Increase)/decrease in restricted cash deposits | | **(2,598)** | | 2,408 | |
| **Net cash used in investing activities** | | | **(5,733,558)** | | (3,317,341) |

# Consolidated Cash Flow Statement

for the year ended 31 December 2007
(Expressed in Renminbi Yuan)

| | Note | 2007 RMB'000 | 2007 RMB'000 | 2006 RMB'000 (Restated) (note 3(a)(i)) | 2006 RMB'000 (Restated) (note 3(a)(i)) |
|---|---|---|---|---|---|
| **Financing activities** | | | | | |
| Proceeds from new bank loans and other borrowings | | **7,684,133** | | 6,299,854 | |
| Repayment of bank loans and other borrowings | | **(3,550,592)** | | (5,370,275) | |
| Capital contributions received by non-wholly owned subsidiaries from minority shareholders | | **—** | | 145,000 | |
| Dividends paid to former shareholders of a subsidiary acquired under common control | | **—** | | (130,000) | |
| Dividends paid to minority shareholders of non-wholly owned subsidiaries | | **(3,847)** | | (176,718) | |
| Dividends paid to equity shareholders of the Company | | **(251,136)** | | (87,898) | |
| **Net cash generated from financing activities** | | | **3,878,558** | | 679,963 |
| **Net increase/(decrease) in cash and cash equivalents** | | | **76,474** | | (148,173) |
| **Cash and cash equivalents at 1 January** | | | **1,335,233** | | 1,483,406 |
| **Cash and cash equivalents at 31 December** | | | **1,411,707** | | 1,335,233 |

## *SIGNIFICANT NON-CASH TRANSACTIONS*

On 24 April 2007, the Group issued 287,999,046 A shares to acquire the minority interests of certain subsidiaries and 22,755,147 A shares to acquire certain companies under common control upon approval of the China Securities Regulatory Commission, details of which are set out in note 39(e).

The notes on pages 93 to 182 form part of these financial statements.

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 GENERAL INFORMATION

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2008.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

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

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

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries, and the Group's interest in associates.

On 24 April 2007 the Company acquired certain companies from Anhui Conch Holdings Co., Ltd., details of which are set out in note 39(e)(i). As the acquired companies were under the common control of Anhui Conch Holdings Co., Ltd., the acquisition has been reflected in the consolidated financial statements 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.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— financial instruments classified as available-for-sale or as trading securities (see note 2(f)); and

— derivative financial instruments (see note 2(g)).

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 43.

### (c) Subsidiaries and minority interests

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

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Subsidiaries and minority interests (continued)

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

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

Acquisition of minority interests in subsidiaries is treated as a transaction between equity holders. No gain or loss is recognised in the consolidated income statement on such changes. Assets and liabilities of the subsidiaries in which the Group subsequently increased its ownership interests are stated at carrying amount. The differences between the cost of acquisition and the carrying amount of the net assets additionally acquired are directly recognised in equity.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(m)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (d) Associates

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

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

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Associates (continued)

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

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

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 2(m), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (e) Goodwill

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

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

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

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

### (f) Other investments in equity securities

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

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Other investments in equity securities (continued)

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends earned on these investments as these are recognised in accordance with the policies set out in note 2(v)(ii).

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

Investments in equity securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Dividend income from these investments is recognised in accordance with the policy set out in note 2(v)(ii). When these investments are derecognised or impaired (see note 2(m)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

### (g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

### (h) Leasehold land held for own use under operating leases

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

### (i) Property, plant and equipment

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

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(y)).

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Property, plant and equipment (continued)

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

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

| | | |
|---|---|---|
| — | Buildings | 30 years |
| — | Plant and machinery | 15 years |
| — | Furniture, fixtures and office equipment | 5 years |
| — | Vehicles | 5–10 years |

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

### (j) Construction-in-progress

Construction-in-progress represents buildings and plant under construction and machinery and equipment under installation and testing, and is stated at cost less accumulated impairment loss, if any. The cost includes cost of construction, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to borrowing costs (see note 2(y)).

Construction-in-progress is not depreciated until such time as the assets are completed and ready for operational use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in note 2(i).

### (k) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Intangible assets (other than goodwill) (continued)

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets' estimated useful lives from the date they are available for use. The estimated useful lives of the intangible assets are as follows:

| | | |
|---|---|---|
| — | limestone and clay mining rights | 5–30 years |
| — | others | 5–10 years |

Both the period and method of amortisation are reviewed annually.

### (l) Operating lease charges

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

Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

### (m) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries and associates: see note 2(m)(ii)) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that come to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Impairment of assets (continued)

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

If any such evidence exists, any impairment loss is determined and recognised as follows:

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

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

— For available-for-sale equity securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Impairment of assets (continued)

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

#### (ii) Impairment of other assets

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

— property, plant and equipment;

— construction-in-progress;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— intangible assets;

— investments in subsidiaries and associates (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and

— goodwill.

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Impairment of assets (continued)

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

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

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

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

#### (iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(m)(i) and (ii)).

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Impairment of assets (continued)

#### (iii) Interim financial reporting and impairment (continued)

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

### (n) Inventories

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

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

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

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

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

### (o) Trade and other receivables

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

### (p) Interest-bearing borrowings

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (q) Trade and other payables

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

### (r) Cash and cash equivalents

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

### (s) Employee benefits

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

In accordance with the rules and regulations in the PRC, the Group has arranged for its local employees to join defined contribution retirement plans organised by the PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plans. The assets of those plans are held separately from those of the Group in an independent fund managed by the PRC government. The Group is required to make monthly defined contributions to these plans at rates between 20.5% and 28% with the base of their total salary subject to a certain ceiling. The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed above.

### (t) Income tax

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

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

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Income tax (continued)

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

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

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

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

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

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Income tax (continued)

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

— the same taxable entity; or

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

### (u) Financial guarantees issued, provisions and contingent liabilities

#### (i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(u)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

#### (ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(u)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 2(u)(iii).

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (u) Financial guarantees issued, provisions and contingent liabilities (continued)

#### (iii) Provisions and contingent liabilities

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

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

### (v) Revenue recognition

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

#### (i) Sale of goods

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

#### (ii) Dividends

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

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

#### (iii) Interest income

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

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (v) Revenue recognition (continued)

#### (iv) Government grants

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

### (w) Repairs and maintenance

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

### (x) Translation of foreign currencies

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

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

### (y) Borrowing costs

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

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

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (z) Related parties

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

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

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

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

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

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

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

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

### (aa) Segment reporting

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

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (aa) Segment reporting (continued)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

## 3 CHANGES IN ACCOUNTING POLICIES

### Effect of new and revised IFRSs

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

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of IFRS 7, Financial instruments: Disclosures, and the amendment to IAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in note 36.

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 35(f).

Both IFRS 7 and the amendment to IAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 44).

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 CHANGES IN ACCOUNTING POLICIES (continued)

### Change of accounting policy for business combination under common control

As business combination under common control is explicitly excluded from the scope of IFRS 3, Business combination, the purchase method was adopted by the Group in prior years such that any excess of the cost of business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities was recognised as goodwill.

Effective from 1 January 2007, the above accounting policy was revised and the pooling-of-interests method was adopted to align with the accounting policies of the Group's PRC statutory financial statements as a result of the implementation of China Accounting Standards for Business Enterprises (2006). Under the pooling-of-interests method, the assets and liabilities of the acquirees are accounted for at historical amounts and the consolidated financial statements of the Company prior to the business combination need to be restated to include the results of operations and assets and liabilities of the acquirees on a combined basis. In comply with IAS 8, Accounting policies, change in accounting estimates and errors, the new accounting policy was applied retrospectively.

### (a) Restatement of prior periods and opening balances

The following tables disclose the retrospective adjustments that have been made in accordance with the new accounting policy adopted and the restatement of opening balances and comparative figures for entities acquired under common control during the year ended 31 December 2007 (see note 39(e)(i)) to each of the line items in the consolidated income statement, balance sheet, cash flow statement and other significant related disclosure item, as well as the Company's balance sheet, as previously reported for the year ended 31 December 2006. The effects of the changes in accounting policies on the balances at 1 January 2006 and 2007 are disclosed in note 35.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 CHANGES IN ACCOUNTING POLICIES (continued)

### (a) Restatement of prior periods and opening balances (continued)

#### (i) Effect on the consolidated financial statements

*Consolidated income statement for the year ended 31 December 2006*

| | 2006 RMB'000 (As previously reported) | Effect of changes in accounting policy for business combination under common control RMB'000 | Restatement of opening balances and comparative figures for the business combination under common control in 2007 RMB'000 | 2006 RMB'000 (As restated) |
|---|---|---|---|---|
| **Revenue** | 15,246,277 | — | 849,780 | 16,096,057 |
| Cost of sales and services rendered | (10,831,119) | (5,225) | (773,431) | (11,609,775) |
| **Gross profit** | 4,415,158 | (5,225) | 76,349 | 4,486,282 |
| Other revenue | 284,792 | — | 23,261 | 308,053 |
| Other net income | 4,832 | — | 877 | 5,709 |
| Selling and marketing costs | (1,148,672) | — | 57,907 | (1,090,765) |
| Administrative expenses | (497,683) | — | (66,753) | (564,436) |
| **Profit from operations** | 3,058,427 | (5,225) | 91,641 | 3,144,843 |
| Finance costs | (540,221) | — | (2,954) | (543,175) |
| Share of profits of associates | 3,177 | — | — | 3,177 |
| **Profit before taxation** | 2,521,383 | (5,225) | 88,687 | 2,604,845 |
| Income tax | (656,617) | — | (20,771) | (677,388) |
| **Profit for the year** | 1,864,766 | (5,225) | 67,916 | 1,927,457 |
| **Attributable to:** | | | | |
| Equity shareholders of the Company | 1,482,795 | (3,560) | 64,532 | 1,543,767 |
| Minority interests | 381,971 | (1,665) | 3,384 | 383,690 |
| **Profit for the year** | 1,864,766 | (5,225) | 67,916 | 1,927,457 |
| **Earnings per share** | | | | |
| — Basic | RMB1.18 | — | RMB0.03 | RMB1.21 |
| — Diluted | RMB1.18 | — | RMB0.03 | RMB1.21 |
| **Other significant disclosure items** | | | | |
| Depreciation | 919,088 | 5,225 | 5,853 | 930,166 |
| Amortisation-others | 10,228 | — | 78 | 10,306 |
| Amortisation-land | 18,820 | — | 202 | 19,022 |
| Staff costs | 460,494 | — | 37,365 | 497,859 |

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 CHANGES IN ACCOUNTING POLICIES (continued)

### (a) Restatement of prior periods and opening balances (continued)

#### (i) Effect on the consolidated financial statements (continued)

*Consolidated balance sheet at 31 December 2006*

| | 2006 RMB'000 (As previously reported) | Effect of changes in accounting policy for business combination under common control RMB'000 | Restatement of opening balances and comparative figures for the business combination under common control in 2007 RMB'000 | 2006 RMB'000 (As restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Fixed assets | | | | |
| — Property, plant and equipment | 17,009,717 | 34,795 | 84,579 | 17,129,091 |
| — Interests in leasehold land held for own use under operating leases | 843,892 | — | 16,233 | 860,125 |
| | 17,853,609 | 34,795 | 100,812 | 17,989,216 |
| Intangible assets | 198,675 | — | 301 | 198,976 |
| Goodwill | 51,925 | (35,805) | — | 16,120 |
| Interest in associates | 163,219 | — | — | 163,219 |
| Loans and receivables | 128,500 | — | — | 128,500 |
| Other investments in equity securities | 1,168 | — | (1,000) | 168 |
| Deferred tax assets | 45,030 | — | 12,435 | 57,465 |
| | 18,442,126 | (1,010) | 112,548 | 18,553,664 |
| **Current assets** | | | | |
| Inventories | 1,218,635 | — | 54,244 | 1,272,879 |
| Trade receivables | 550,220 | — | 389,469 | 939,689 |
| Prepayments and other receivables | 589,295 | — | 43,430 | 632,725 |
| Amounts due from related parties | 331,170 | — | (331,095) | 75 |
| Restricted cash deposits | 3,379 | — | — | 3,379 |
| Cash at bank and in hand | 1,137,609 | — | 197,624 | 1,335,233 |
| | 3,830,308 | — | 353,672 | 4,183,980 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 CHANGES IN ACCOUNTING POLICIES (continued)

### (a) Restatement of prior periods and opening balances (continued)

#### (i) Effect on the consolidated financial statements (continued)

*Consolidated balance sheet at 31 December 2006 (continued)*

| | 2006 RMB'000 (As previously reported) | Effect of changes in accounting policy for business combination under common control RMB'000 | Restatement of the opening balances and comparative figures for the business combination under common control in 2007 RMB'000 | 2006 RMB'000 (As restated) |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Trade payables | 753,290 | — | 266,217 | 1,019,507 |
| Other payables and accruals | 1,756,278 | — | 11,156 | 1,767,434 |
| Bank loans and other borrowings | 3,457,380 | — | — | 3,457,380 |
| Amounts due to related parties | 199,542 | — | (98,036) | 101,506 |
| Current portion of long term payables | 10,757 | — | — | 10,757 |
| Derivative financial instruments | — | — | 49,740 | 49,740 |
| Current taxation | 382,284 | — | 1,360 | 383,644 |
| | 6,559,531 | — | 230,437 | 6,789,968 |
| **Net current liabilities** | (2,729,223) | — | 123,235 | (2,605,988) |
| **Total assets less current liabilities** | 15,712,903 | (1,010) | 235,783 | 15,947,676 |
| **Non-current liabilities** | | | | |
| Bank loans and other borrowings | 7,168,739 | — | — | 7,168,739 |
| Long-term payables | 37,746 | — | — | 37,746 |
| Deferred income | 128,818 | — | — | 128,818 |
| Deferred tax liabilities | 27,396 | — | — | 27,396 |
| | 7,362,699 | — | — | 7,362,699 |
| **NET ASSETS** | 8,350,204 | (1,010) | 235,783 | 8,584,977 |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | 1,255,680 | — | — | 1,255,680 |
| Reserves | 5,662,728 | (12,096) | 223,881 | 5,874,513 |
| **Total equity attributable to equity shareholders of the Company** | 6,918,408 | (12,096) | 223,881 | 7,130,193 |
| **Minority interests** | 1,431,796 | 11,086 | 11,902 | 1,454,784 |
| **TOTAL EQUITY** | 8,350,204 | (1,010) | 235,783 | 8,584,977 |

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 CHANGES IN ACCOUNTING POLICIES (continued)

### (a) Restatement of prior periods and opening balances (continued)

#### (i) Effect on the consolidated financial statements (continued)

*Consolidated cash flow statement for the year ended 31 December 2006*

| | 2006 RMB'000 (As previously reported) | Effect of changes in accounting policy for business combination under common control RMB'000 | Restatement of the opening balances and comparative figures for the business combination under common control in 2007 RMB'000 | 2006 RMB'000 (As restated) |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Profit before taxation | 2,521,383 | (5,225) | 88,687 | 2,604,845 |
| Adjustment for: | | | | |
| — Depreciation | 919,088 | 5,225 | 5,853 | 930,166 |
| — Amortisation of interest in leasehold land held for own use under operating leases | 18,820 | — | 202 | 19,022 |
| — Amortisation of intangible assets | 10,228 | — | 78 | 10,306 |
| — Finance costs | 540,221 | — | 2,954 | 543,175 |
| — Interest income | (12,697) | — | (14,525) | (27,222) |
| — Dividend income | (6,500) | — | 6,500 | — |
| — Gain on disposal of an associate | — | — | (7,800) | (7,800) |
| — Gain on disposal of fixed assets | (1,394) | — | (3,798) | (5,192) |
| — Loss on change in fair value of forward foreign exchange contracts | — | — | 49,740 | 49,740 |
| — Other movements | 4,066 | — | — | 4,066 |
| **Operating profit before changes in working capital** | 3,993,215 | — | 127,891 | 4,121,106 |
| Increase in inventories | (256,380) | — | 83,726 | (172,654) |
| Increase in trade receivables | (125,943) | — | (358,425) | (484,368) |
| (Increase)/decrease in prepayments and other receivables | (130,943) | — | 171,794 | 40,851 |
| (Increase)/decrease in amounts due from related parties | (50,828) | — | 353,091 | 302,263 |
| Decrease in trade payables | (10,050) | — | (99,521) | (109,571) |
| Increase in other payables and accruals | 170,198 | — | (140,520) | 29,678 |
| Decrease in amounts due to related parties | (67,501) | — | 38,430 | (29,071) |
| Other movements | (97,914) | — | — | (97,914) |
| **Cash generated from operations carried forward** | 3,423,854 | — | 176,466 | 3,600,320 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 CHANGES IN ACCOUNTING POLICIES (continued)

### (a) Restatement of prior periods and opening balances (continued)

#### (i) Effect on the consolidated financial statements (continued)

*Consolidated cash flow statement for the year ended 31 December 2006 (continued)*

| | 2006 RMB'000 (As previously reported) | Effect of changes in accounting policy for business combination under common control RMB'000 | Restatement of the opening balances and comparative figures for the business combination under common control in 2007 RMB'000 | 2006 RMB'000 (As restated) |
|---|---|---|---|---|
| **Operating activities (continued)** | | | | |
| **Cash generated from operations brought forward** | 3,423,854 | — | 176,466 | 3,600,320 |
| — Income tax paid | (506,322) | — | (42,515) | (548,837) |
| — Interest paid | (559,324) | — | (2,954) | (562,278) |
| **Net cash generated from operation activities** | 2,358,208 | — | 130,997 | 2,489,205 |
| **Investing activities** | | | | |
| Payments for the purchase of fixed assets | (3,314,780) | — | (49,303) | (3,364,083) |
| Payments for the purchase of leasehold land held under operating leases | (71,106) | — | (11,593) | (82,699) |
| Proceeds from disposal of fixed assets | 4,684 | — | 31,682 | 36,366 |
| Proceeds from disposal of an associate | — | — | 27,800 | 27,800 |
| Interest received | 12,697 | — | 14,525 | 27,222 |
| Dividend received from other investment in equity securities | 6,500 | — | (6,500) | — |
| Other movements | 38,053 | — | — | 38,053 |
| **Net cash used in investing activities** | (3,323,952) | — | 6,611 | (3,317,341) |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 CHANGES IN ACCOUNTING POLICIES (continued)

### (a) Restatement of prior periods and opening balances (continued)

#### (i) Effect on the consolidated financial statements (continued)

*Consolidated cash flow statement for the year ended 31 December 2006 (continued)*

| | 2006 RMB'000 (As previously reported) | Effect of changes in accounting policy for business combination under common control RMB'000 | Restatement of the opening balances and comparative figures for the business combination under common control in 2007 RMB'000 | 2006 RMB'000 (As restated) |
|---|---|---|---|---|
| **Financing activities** | | | | |
| Dividend paid to former shareholders of a subsidiary acquired under common control | — | — | (130,000) | (130,000) |
| Repayment of bank loans | (5,255,275) | — | (115,000) | (5,370,275) |
| Other movements | 6,180,238 | — | — | 6,180,238 |
| **Net cash generated from financing activities** | 924,963 | — | (245,000) | 679,963 |
| **Net decrease in cash and cash equivalents** | (40,781) | — | (107,392) | (148,173) |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 CHANGES IN ACCOUNTING POLICIES (continued)

### (a) Restatement of prior periods and opening balances (continued)

#### (ii) Effect on the Company's balance sheet as at 31 December 2006

*Balance sheet at 31 December 2006*

| | 2006 RMB'000 (As previously reported) | Restatement of the opening balances and comparative figures for the business combination under common control in 2007 RMB'000 | 2006 RMB'000 (As restated) |
|---|---|---|---|
| **Non-current assets** | 5,911,749 | — | 5,911,749 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 3,248,469 | 6,514 | 3,254,983 |
| Amounts due from related parties | 6,514 | (6,514) | — |
| Other current assets | 918,317 | — | 918,317 |
| | 4,173,300 | — | 4,173,300 |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | 2,562,808 | 642 | 2,563,450 |
| Amounts due to related parties | 98,815 | (642) | 98,173 |
| Trade payables | 205,411 | 13,081 | 218,492 |
| Other payables and accruals | 197,993 | (13,081) | 184,912 |
| Other current liabilities | 658,512 | — | 658,512 |
| | 3,723,539 | — | 3,723,539 |
| **Net current assets** | 449,761 | — | 449,761 |
| **Total assets less current liabilities** | 6,361,510 | — | 6,361,510 |
| **Non-current liabilities** | 2,233,846 | — | 2,233,846 |
| **NET ASSETS** | 4,127,664 | — | 4,127,664 |
| **CAPITAL AND RESERVES** | 4,127,664 | — | 4,127,664 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 CHANGES IN ACCOUNTING POLICIES (continued)

### (b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement, balance sheet and cash flow statement for the year ended 31 December 2007 is higher or lower than it would have been had the previous policy for business combination under common control still been applied in the year, where it is practicable to make such estimates.

#### (i) Effect on the consolidated financial statements

*Estimated effect on the consolidated income statement for the year ended 31 December 2007*

| | Estimated effect of new policy for business combination under common control RMB'000 |
|---|---|
| **Revenue** | (604,232) |
| Cost of sales and services rendered | 559,243 |
| **Gross profit** | (44,989) |
| Other revenue | (12,377) |
| Other net income | (11,371) |
| Selling and marketing costs | 6,900 |
| Administrative expenses | 9,667 |
| **Profit from operations** | (52,170) |
| Finance costs | — |
| Share of profits of associates | — |
| **Profit before taxation** | (52,170) |
| Income tax | 11,213 |
| **Profit for the year** | (40,957) |
| Attributable to: | |
| Equity shareholders of the Company | (40,849) |
| Minority interests | (108) |
| **Profit for the year** | (40,957) |
| **Earnings per share** | |
| — Basic | RMB (0.03) |
| — Diluted | RMB (0.03) |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 CHANGES IN ACCOUNTING POLICIES (continued)

### (b) Estimated effect of changes in accounting policies on the current period (continued)

*Estimated effect on the consolidated balance sheet as at 31 December 2007*

| | Estimated effect of new policy for business combination under common control RMB'000 |
|---|---|
| **Non-current assets** | |
| Goodwill | 312,199 |
| **NET ASSETS** | 312,199 |
| **CAPITAL AND RESERVES** | |
| Statutory surplus reserve | (37,320) |
| Share premium | 525,582 |
| Retained profits | (176,063) |
| **Total equity attributable to equity shareholders of the Company** | 312,199 |
| **TOTAL EQUITY** | 312,199 |

*Estimated effect on the consolidated cash flow statement for the year ended 31 December 2007*

| | Estimated effect of new policy for business combination under common control RMB'000 |
|---|---|
| **Operating activities** | |
| Profit before taxation | 52,170 |
| Adjustment for: | |
| — Depreciation | 3,352 |
| — Amortisation of interest in leasehold land held for own use under operating leases | 117 |
| — Amortisation of intangible assets | 25 |
| — Interest income | (451) |
| **Operating profit before changes in working capital carried forward** | 55,213 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 CHANGES IN ACCOUNTING POLICIES (continued)

### (b) Estimated effect of changes in accounting policies on the current period (continued)

*Estimated effect on the consolidated cash flow statement for the year ended 31 December 2007 (continued)*

| | Estimated effect of new policy for business combination under common control RMB'000 |
|---|---|
| **Operating profit before changes in working capital brought forward** | 55,213 |
| Increase in inventories | (1,945) |
| Decrease in trade receivables | 35,171 |
| Increase in prepayments and other receivables | (20,182) |
| Increase in amounts due from related parties | (235,770) |
| Decrease in trade payables | (108,718) |
| Increase in other payables and accruals | 125,797 |
| Increase in amounts due to related parties | 65,929 |
| **Cash generated from operations** | (84,505) |
| Income tax paid | (10,259) |
| **Net cash generated from operating activities** | (94,764) |
| **Investing activities** | |
| Payments for the purchase of fixed assets | (1,856) |
| Interest received | 451 |
| **Net cash used in investing activities** | (1,405) |
| **Net decrease in cash and cash equivalents** | (96,169) |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 4 REVENUE

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

Revenue represents the sales value of goods supplied to customers, net of value-added tax and surcharges, and other service income.

| | 2007 RMB'000 | 2006 RMB'000 (Restated) |
|---|---|---|
| Sales of clinkers and cement products | 18,511,216 | 15,246,277 |
| Sales of chemical and other products | 228,093 | 829,296 |
| Other service income | 36,789 | 20,484 |
| | 18,776,098 | 16,096,057 |

## 5 OTHER REVENUE AND NET INCOME

| | 2007 RMB'000 | 2006 RMB'000 (Restated) |
|---|---|---|
| **Other revenue** | | |
| Subsidy income | 302,294 | 280,831 |
| Interest income | 23,607 | 27,222 |
| | 325,901 | 308,053 |

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

| | 2007 RMB'000 | 2006 RMB'000 (Restated) |
|---|---|---|
| **Other net income** | | |
| Net (loss)/gain on disposal of fixed assets | (5,994) | 5,192 |
| Net realised gain on trading securities | — | 246 |
| Gain on disposal of other investment in equity securities | 532 | — |
| Gain on disposal of an associate | — | 7,800 |
| Net exchange gain/(loss) | 4,701 | (5,372) |
| Others | 18,104 | (2,157) |
| | 17,343 | 5,709 |

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 6 PROFIT BEFORE TAXATION

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

| | 2007 RMB'000 | 2006 RMB'000 (Restated) |
|---|---|---|
| (a) Finance costs | | |
| Interest on bank advances and other borrowings wholly repayable within five years | 659,392 | 511,800 |
| Interest on bank advances and other borrowings wholly repayable after five years | 51,937 | 44,595 |
| Interest on discount of notes receivable | 31,176 | 10,459 |
| Total borrowing costs | 742,505 | 566,854 |
| Less: Borrowing costs capitalised into construction-in-progress* | (109,344) | (23,679) |
| | 633,161 | 543,175 |

* Borrowing costs have been capitalised at a rate of 5.02%–6.88% (2006: 5.76%–5.85%) per annum.

| | Note | 2007 RMB'000 | 2006 RMB'000 (Restated) |
|---|---|---|---|
| (b) Staff costs | | | |
| Contributions to defined contribution retirement plans | | 66,805 | 41,995 |
| Salaries, wages and other benefits | | 572,182 | 455,864 |
| Other compensation | 33(b) | 23,655 | — |
| | | 662,642 | 497,859 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 6 PROFIT BEFORE TAXATION (continued)

| | 2007 RMB'000 (Restated) | 2006 RMB'000 |
|---|---|---|
| (c) Other items | | |
| Recognition of deferred income in respect of government grant received | (12,597) | (23,257) |
| Amortisation | | |
| — interest in leasehold land held for own use under operating leases | 22,526 | 19,022 |
| — intangible assets | 10,906 | 10,306 |
| Depreciation | 1,110,079 | 930,166 |
| Impairment losses/(reversal of impairment losses) on | | |
| — trade receivables | (3,673) | (930) |
| — prepayments and other receivables | 6,529 | (1,402) |
| — property, plant and equipment | — | 5,600 |
| Loss on change in fair value of forward foreign exchange contracts | — | 49,740 |
| Auditors' remuneration | | |
| — audit services | 8,810 | 3,560 |
| — other services | 30 | — |

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

| | 2007 RMB'000 | 2006 RMB'000 (Restated) |
|---|---|---|
| **Current tax-PRC Enterprise Income Tax** | | |
| Provision for the year | 826,579 | 726,658 |
| Under/(over)-provision in respect of prior years | 15,860 | (9,657) |
| | 842,439 | 717,001 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | (44,243) | (39,613) |
| Effect of decrease in tax rate on deferred tax balances at 31 December | 15,001 | — |
| | (29,242) | (39,613) |
| | 813,197 | 677,388 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

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

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

No provision for Hong Kong Profits Tax is made for 2006 and 2007 as the Group did not earn any income which is subject to Hong Kong Profits Tax.

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

| | |
|---|---|
| Shanghai Mingzhu Conch Cement Co. Ltd.<br>上海海螺明珠水泥有限責任公司 (Note i) | 15% |
| Shanghai Conch Cement Sales Co., Ltd.<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>上海海螺建材國際貿易有限公司 (Note i) | 15% |
| Anhui Conch Cement Product Co., Ltd.<br>安徽海螺水泥有限公司 (Note ii) | 30% |
| Prosperity Conch Cement Co., Ltd.<br>英德海螺水泥有限責任公司 (Note iii) | 0% |
| Xinye Kuiyang Conch Cement Co., Ltd.<br>興業葵陽海螺水泥有限責任公司 (Note iv) | 0% |
| Fusui Xinning Conch Cement Co., Ltd.<br>扶綏新寧海螺水泥有限責任公司 (Note v) | 0% |
| Xing'an Conch Cement Co. Ltd.<br>興安海螺水泥有限責任公司 (Note vi) | 0% |
| Beiliu Conch Cement Co., Ltd.<br>北流海螺水泥有限公司(Note vii) | 0% |
| Wuhu Conch Plastic Products Co., Ltd.<br>蕪湖海螺塑膠製品有限公司 (Note viii) | 15% |

Notes:

(i) Shanghai Mingzhu Conch Cement Co. Ltd., Shanghai Conch Cement Sales Co., Ltd. and Shanghai Conch Construction Material International Trading Co., Ltd. were established in Shanghai Pudong new district. Accordingly, the applicable Enterprise Income Tax rate is 15%.

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

(iii) Prosperity Conch Cement Co., Ltd. is a sino-foreign enterprise. In 2006, Prosperity Conch Cement Co., Ltd. was recognised by the local tax authorities as a productive sino-foreign enterprise, and thus is entitled to an Enterprise Income Tax exemption for the first two profitable years and a 50% reduction of Enterprise Income Tax for subsequent three years. 2007 is the second profitable year of Prosperity Conch Cement Co., Ltd. The applicable Enterprise Income Tax rate in 2007 is therefore 0%.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

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

(iv) Xinye Kuiyang Conch Cement Co., Ltd. was recognised by the local tax authorities as a company located in mid-west China, and thus is entitled to an Enterprise Income Tax exemption for the five years ending 31 December 2010. The applicable Enterprise Income Tax rate in 2007 is therefore 0%.

(v) Fusui Xinning Conch Cement Co., Ltd. was recognised by the local tax authorities as a company located in mid-west China, and thus is entitled to an Enterprise Income Tax exemption for the five years ending 31 December 2009. The applicable Enterprise Income Tax rate in 2007 is therefore 0%.

(vi) Xing'an Conch Cement Co. Ltd. was recognised by the local tax authorities as a company located in mid-west China, and thus is entitled to an Enterprise Income Tax exemption for the years ended 31 December 2006 and 2007. The applicable Enterprise Income Tax rate in 2007 is therefore 0%.

(vii) Beiliu Conch Cement Co., Ltd. was recognised by the local tax authorities as a company located in mid-west China, and thus is entitled to an Enterprise Income Tax exemption for the five years ending 31 December 2011. The applicable Enterprise Income Tax rate in 2007 is therefore 0%.

(viii) Wuhu Conch Plastic Products Co., Ltd. was recognised by the local tax authorities as a company in the industry of environmental protection, and thus is entitled to a preferential Enterprise Income Tax rate of 15% from the years ended 31 December 2006 to 2008. The applicable Enterprise Income Tax rate in 2007 is therefore 15%.

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 ("CIT Law") which has become effective on 1 January 2008. As a result of the new tax law, the statutory income tax rate currently adopted by the Company and subsidiaries, other than the aforesaid subsidiaries in (i) to (viii), will change to 25% with effective from 1 January 2008.

As of 1 January 2008, those subsidiaries engaging in manufacturing activities and previously enjoyed preferential policy in the form of reduced tax rate shall have five years from the time when the CIT Law takes effect to transit progressively to the new statutory tax rate. During this period, the subsidiaries that enjoyed the 15% enterprise income tax rate shall be subject to the 18% tax rate for the year 2008, 20% for the year 2009, 22% for the year 2010, 24% for the year 2011, and 25% for the year 2012.

As of 1 January 2008, those subsidiaries which previously enjoyed fixed-term preferential enterprise income tax treatment in the form of tax reduction and exemption shall continue to enjoy preferential treatment for their initial term as prescribed under the previous income tax laws until the initial terms expires.

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 year ended 31 December 2007.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

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

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

| | 2007<br>RMB'000 | 2006<br>RMB'000<br>(Restated) |
|---|---|---|
| Profit before taxation | **3,501,423** | 2,604,845 |
| Notional tax on profit before taxation calculated at 33% | **1,155,470** | 859,599 |
| Tax effect of tax exemption enjoyed by subsidiaries | **(303,353)** | (124,801) |
| Tax effect of different tax rates applicable to subsidiaries | **(19,816)** | (17,544) |
| Tax effect of non-deductible expenses | **14,303** | 9,025 |
| Tax effect of non-taxable income | **(7,902)** | (1,048) |
| Tax effect of prior years' tax losses utilised during the year | **(4,684)** | (34,860) |
| Tax effect of recognising prior years' unrecognised timing differences | **(34,172)** | — |
| Tax effect of unused tax losses not recognised | **—** | 2,970 |
| Income tax credits granted to subsidiaries | **(17,510)** | (6,296) |
| Under/(over)-provision in prior years | **15,860** | (9,657) |
| Effect of decrease in tax rate on deferred tax | **15,001** | — |
| Actual tax expense | **813,197** | 677,388 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 8 DIRECTORS' REMUNERATION

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

| | Directors' fee RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonuses RMB'000 | Retirement plan contributions RMB'000 | 2007 Total RMB'000 |
|---|---|---|---|---|---|
| **Chairman** | | | | | |
| Guo Wensan* | — | — | — | — | — |
| **Executive directors** | | | | | |
| Yu Biao* | — | — | — | — | — |
| Li Shunan* | — | — | — | — | — |
| Guo Jingbin* | — | — | — | — | — |
| Ren Yong | — | 92 | 447 | 9 | 548 |
| **Independent non-executive directors** | | | | | |
| Kang Woon | — | 50 | — | — | 50 |
| Ding Meicai | — | 50 | — | — | 50 |
| Chan Yuk Tong | — | 100 | — | — | 100 |
| **Supervisors** | | | | | |
| Wang Jun* | — | — | — | — | — |
| Wang Yanmou | — | 30 | — | — | 30 |
| Ding Junting | — | 77 | 100 | 9 | 186 |
| | — | 399 | 547 | 18 | 964 |

* No remuneration is paid or payable by the Group for the year. In addition, no remuneration is due to these directors and supervisor in respect of their services in connection with the management of the affairs of the Group.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 8 DIRECTORS' REMUNERATION (continued)

| | Directors' fee RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonuses RMB'000 | Retirement plan contributions RMB'000 | 2006 Total RMB'000 |
|---|---|---|---|---|---|
| **Chairman** | | | | | |
| Guo Wensan | — | 70 | 371 | 7 | 448 |
| **Executive directors** | | | | | |
| Yu Biao** | — | 74 | 228 | 7 | 309 |
| Li Shunan** | — | 68 | 234 | 7 | 309 |
| Guo Jingbin | — | 70 | 165 | 7 | 242 |
| Ren Yong | — | 58 | 244 | 7 | 309 |
| **Independent non-executive directors** | | | | | |
| Xue Tongzu | — | — | — | — | — |
| Ding Zhiming | — | — | — | — | — |
| Chan Yuk Tong | — | — | — | — | — |
| **Supervisors** | | | | | |
| Wang Jun | — | 63 | 162 | 7 | 232 |
| Kang Woon | — | — | — | — | — |
| Wang Yanmou | — | — | — | — | — |
| | — | 403 | 1,404 | 42 | 1,849 |

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none of them (2006: nil) is a director whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the five (2006: five) individuals with highest emoluments are as follows:

| | 2007<br>RMB'000 | 2006<br>RMB'000 |
|---|---|---|
| Salaries and other emoluments | 520 | 430 |
| Discretionary bonuses | 3,606 | 2,191 |
| Retirement plan contributions | 44 | 30 |
| | 4,170 | 2,651 |

The emoluments of the five (2006: five) individuals with the highest emoluments are within the following bands:

| | 2007<br>Number of individuals | 2006<br>Number of individuals |
|---|---|---|
| Nil — RMB970,550 (equivalent to HK$1,000,000) | 5 | 5 |

## 10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB290,673,000 (2006: RMB177,234,000) which has been dealt with in the financial statements of the Company.

## 11 DIVIDENDS

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

| | 2007<br>RMB'000 | 2006<br>RMB'000 |
|---|---|---|
| No final dividend proposed after the balance sheet date (2006: RMB0.20 per ordinary share) | — | 251,136 |

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

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 11 DIVIDENDS (continued)

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

| | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.20 per ordinary share (2006: RMB0.07 per ordinary share) | 251,136 | 87,898 |

## 12 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the year ended 31 December 2007 of RMB2,480,146,000 (2006(restated): RMB1,543,767,000) and the weighted average number of shares in issue during the year ended 31 December 2007 of 1,470,434,000 (2006(restated): 1,278,435,000).

**Weighted average number of ordinary shares**

| | 2007 thousand | 2006 thousand |
|---|---|---|
| Ordinary shares issued at 1 January | | |
| — as previously reported | 1,255,680 | 1,255,680 |
| — effect of shares issued in April 2007 for business combination under common control (note(39)(e)(i)) | 22,755 | 22,755 |
| — as restated | 1,278,435 | 1,278,435 |
| Shares issued in April 2007 for acquisition of minority interests (note(39)(e)(ii)) | 191,999 | — |
| Weighted average number of ordinary shares at 31 December | 1,470,434 | 1,278,435 |

During the year ended 31 December 2007, the Company acquired certain companies under common control through issuance of 22,755,147 A shares. Therefore, the profit attributable to ordinary equity shareholders of the Company for the year ended 31 December 2006 and the weighted average number of shares in issue during the year ended 31 December 2006 are restated accordingly.

### (b) Diluted earnings per share

The Company had no dilutive potential ordinary shares outstanding during the years ended 31 December 2007 and 2006.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 13 SEGMENT REPORTING

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

### Business segment

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

### Geographical segments

The Group's assets are all located in the PRC, which is considered as one geographic location with similar risks and returns.

| | **2007 RMB'000** | 2006 RMB'000 **(Restated)** |
|---|---|---|
| Revenue from external customers | | |
| — the PRC | **15,853,136** | 12,783,609 |
| — others | **2,922,962** | 3,312,448 |
| | **18,776,098** | 16,096,057 |

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 14 FIXED ASSETS

### (a) The Group

| | Buildings held for own use RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and office equipment RMB'000 | Vehicles RMB'000 | Construction-in-progress RMB'000 | Sub-total RMB'000 | Interest in leasehold land held for own use under operating leases RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At 1 January 2006 | | | | | | | | |
| — as previously reported | 5,976,361 | 9,422,516 | 338,081 | 350,835 | 1,936,251 | 18,024,044 | 872,420 | 18,896,464 |
| — effect of change in accounting policy for business combination under common control | — | 78,375 | — | — | — | 78,375 | — | 78,375 |
| — restatement of opening balances and comparative figures for business combination under common control in 2007 | 27,346 | 66,071 | 1,958 | 39,032 | 425 | 134,832 | 5,314 | 140,146 |
| — as restated | 6,003,707 | 9,566,962 | 340,039 | 389,867 | 1,936,676 | 18,237,251 | 877,734 | 19,114,985 |
| Additions (restated) | 95,873 | 102,230 | 5,579 | 80,885 | 3,218,158 | 3,502,725 | 82,697 | 3,585,422 |
| Transfer from construction-in-progress (restated) | 1,118,459 | 1,864,747 | 28,902 | 4,812 | (3,016,920) | — | — | — |
| Disposals (restated) | (7,404) | (4,992) | (1,007) | (33,870) | — | (47,273) | — | (47,273) |
| At 31 December 2006 (as restated) | 7,210,635 | 11,528,947 | 373,513 | 441,694 | 2,137,914 | 21,692,703 | 960,431 | 22,653,134 |
| At 1 January 2007 | | | | | | | | |
| — as previously reported | 7,152,745 | 11,379,575 | 371,307 | 422,710 | 2,135,230 | 21,461,567 | 943,526 | 22,405,093 |
| — effect of change in accounting policy for business combination under common control | — | 78,375 | — | — | — | 78,375 | — | 78,375 |
| — restatement of opening balances and comparative figures for business combination under common control in 2007 | 57,890 | 70,997 | 2,206 | 18,984 | 2,684 | 152,761 | 16,905 | 169,666 |
| — as restated | 7,210,635 | 11,528,947 | 373,513 | 441,694 | 2,137,914 | 21,692,703 | 960,431 | 22,653,134 |
| Additions | 120,186 | 28,859 | 5,126 | 36,914 | 5,298,192 | 5,489,277 | 152,551 | 5,641,828 |
| Transfer from construction-in-progress | 1,799,930 | 2,982,264 | 22,829 | 21,346 | (4,826,369) | — | — | — |
| Disposals | (43,796) | (61,390) | (164) | (5,402) | — | (110,752) | — | (110,752) |
| Reclassifications | (9,227) | — | — | — | — | (9,227) | 9,227 | — |
| At 31 December 2007 | 9,077,728 | 14,478,680 | 401,304 | 494,552 | 2,609,737 | 27,062,001 | 1,122,209 | 28,184,210 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 14 FIXED ASSETS (continued)

### (a) The Group (continued)

| | Buildings held for own use RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and office equipment RMB'000 | Vehicles RMB'000 | Construction-in-progress RMB'000 | Sub-total RMB'000 | Interest in leasehold land held for own use under operating leases RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment:** | | | | | | | | |
| At 1 January 2006 | | | | | | | | |
| — as previously reported | 880,646 | 2,266,695 | 222,569 | 168,935 | 551 | 3,539,396 | 80,814 | 3,620,210 |
| — effect of change in accounting policy for business combination under common control | — | 38,355 | — | — | — | 38,355 | — | 38,355 |
| — restatement of opening balances and comparative figures for business combination under common control in 2007 | 6,124 | 52,175 | 1,154 | 6,687 | — | 66,140 | 470 | 66,610 |
| — as restated | 886,770 | 2,357,225 | 223,723 | 175,622 | 551 | 3,643,891 | 81,284 | 3,725,175 |
| Charge for the year (restated) | 201,006 | 651,962 | 26,108 | 51,090 | — | 930,166 | 19,022 | 949,188 |
| Written back on disposals (restated) | (4,491) | (4,830) | (844) | (5,880) | — | (16,045) | — | (16,045) |
| Impairment loss | 2,200 | 2,973 | 425 | 2 | — | 5,600 | — | 5,600 |
| At 31 December 2006 (as restated) | 1,085,485 | 3,007,330 | 249,412 | 220,834 | 551 | 4,563,612 | 100,306 | 4,663,918 |
| At 1 January 2007 | | | | | | | | |
| — as previously reported | 1,078,713 | 2,909,354 | 247,994 | 215,238 | 551 | 4,451,850 | 99,634 | 4,551,484 |
| — effect of change in accounting policy for business combination under common control | — | 43,580 | — | — | — | 43,580 | — | 43,580 |
| — restatement of opening balances and comparative figures for business combination under common control in 2007 | 6,772 | 54,396 | 1,418 | 5,596 | — | 68,182 | 672 | 68,854 |
| — as restated | 1,085,485 | 3,007,330 | 249,412 | 220,834 | 551 | 4,563,612 | 100,306 | 4,663,918 |
| Charge for the year | 249,738 | 769,756 | 36,356 | 54,229 | — | 1,110,079 | 22,526 | 1,132,605 |
| Written back on disposals | (23,571) | (56,164) | (563) | (756) | (551) | (81,605) | — | (81,605) |
| At 31 December 2007 | 1,311,652 | 3,720,922 | 285,205 | 274,307 | — | 5,592,086 | 122,832 | 5,714,918 |
| **Net book value:** | | | | | | | | |
| At 31 December 2007 | 7,766,076 | 10,757,758 | 116,099 | 220,245 | 2,609,737 | 21,469,915 | 999,377 | 22,469,292 |
| At 31 December 2006 (as restated) | 6,125,150 | 8,521,617 | 124,101 | 220,860 | 2,137,363 | 17,129,091 | 860,125 | 17,989,216 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 14 FIXED ASSETS (continued)

### (a) The Group (continued)

(i) Following the directors' assessment of the value in use of the fixed assets, no impairment loss (2006: RMB5,600,000) was recognised by the Group during the year ended 31 December 2007.

(ii) As at 31 December 2007, the carrying amount of interest in leasehold land held for own use under operating leases and property, plant and equipment pledged as security against the Group's current borrowings of RMB60,000,000 (2006: nil) and non-current borrowings of RMB650,000,000 (2006: RMB710,000,000) amounted to approximately RMB755,245,000 (2006: RMB827,216,000).

(iii) As at 31 December 2007, application for the registration of ownership of leasehold land acquired during the year for own use under operating leases with cost of approximately RMB60,000,000 (2006: RMB24,000,000) was still in progress.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 14 FIXED ASSETS (continued)

### (b) The Company

| | Buildings held for own use RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and office equipment RMB'000 | Vehicles RMB'000 | Construction-in-progress RMB'000 | Sub-total RMB'000 | Interest in leasehold land held for own use under operating leases RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At 1 January 2006 | 354,345 | 659,450 | 5,849 | 26,931 | 11,186 | 1,057,761 | 50,000 | 1,107,761 |
| Additions | — | 298 | 614 | 3,517 | 8,042 | 12,471 | — | 12,471 |
| Transfer from construction-in-progress | 4,000 | — | — | — | (4,000) | — | — | — |
| Disposals | (3,319) | (4,103) | — | (82) | — | (7,504) | — | (7,504) |
| At 31 December 2006 | 355,026 | 655,645 | 6,463 | 30,366 | 15,228 | 1,062,728 | 50,000 | 1,112,728 |
| At 1 January 2007 | 355,026 | 655,645 | 6,463 | 30,366 | 15,228 | 1,062,728 | 50,000 | 1,112,728 |
| Additions | 1,706 | 3,610 | 468 | 1,775 | 68,694 | 76,253 | — | 76,253 |
| Transfer from construction-in-progress | 3,800 | 5,187 | — | — | (8,987) | — | — | — |
| Disposals | (16,538) | (11,702) | (46) | (110) | — | (28,396) | — | (28,396) |
| Reclassifications | (9,227) | — | — | — | — | (9,227) | 9,227 | — |
| At 31 December 2007 | 334,767 | 652,740 | 6,885 | 32,031 | 74,935 | 1,101,358 | 59,227 | 1,160,585 |
| **Accumulated depreciation and impairment:** | | | | | | | | |
| At 1 January 2006 | 115,105 | 246,817 | 5,359 | 21,117 | — | 388,398 | 1,750 | 390,148 |
| Charge for the year | 10,604 | 33,511 | 326 | 1,927 | — | 46,368 | 1,583 | 47,951 |
| Written back on disposals | (751) | (250) | — | (82) | — | (1,083) | — | (1,083) |
| At 31 December 2006 | 124,958 | 280,078 | 5,685 | 22,962 | — | 433,683 | 3,333 | 437,016 |
| At 1 January 2007 | 124,958 | 280,078 | 5,685 | 22,962 | — | 433,683 | 3,333 | 437,016 |
| Charge for the year | 10,935 | 32,540 | 198 | 2,334 | — | 46,007 | 1,482 | 47,489 |
| Written back on disposals | (9,874) | (9,416) | (36) | (110) | — | (19,436) | — | (19,436) |
| At 31 December 2007 | 126,019 | 303,202 | 5,847 | 25,186 | — | 460,254 | 4,815 | 465,069 |
| **Net book value:** | | | | | | | | |
| At 31 December 2007 | 208,748 | 349,538 | 1,038 | 6,845 | 74,935 | 641,104 | 54,412 | 695,516 |
| At 31 December 2006 | 230,068 | 375,567 | 778 | 7,404 | 15,228 | 629,045 | 46,667 | 675,712 |

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 14 FIXED ASSETS (continued)

### (b) The Company (continued)

(i) Following the directors' assessment of the value in use of the fixed assets, no impairment loss (2006: nil) was recognised by the Company during the year ended 31 December 2007.

(ii) As at 31 December 2007, the carrying amount of leasehold land held for own use under operating leases and property, plant and equipment pledged as security against the Company's non-current borrowings of RMB650,000,000 (2006: RMB650,000,000) amounted to approximately RMB376,842,646 (2006: RMB370,890,000).

## 15 INTANGIBLE ASSETS

### (a) The Group

| | Limestone mining rights RMB'000 | Clay mining rights RMB'000 | Others (note) RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2006 | | | | |
| — as previously reported | 163,252 | 15,605 | — | 178,857 |
| — restatement of opening balances and comparative figures for business combination under common control in 2007 | — | — | 777 | 777 |
| — as restated | 163,252 | 15,605 | 777 | 179,634 |
| Additions | 63,619 | 2,171 | — | 65,790 |
| At 31 December 2006 (as restated) | 226,871 | 17,776 | 777 | 245,424 |
| At 1 January 2007 | | | | |
| — as previously reported | 226,871 | 17,776 | — | 244,647 |
| — restatement of opening balances and comparative figures for business combination under common control in 2007 | — | — | 777 | 777 |
| — as restated | 226,871 | 17,776 | 777 | 245,424 |
| Additions | 42,137 | 565 | 748 | 43,450 |
| At 31 December 2007 | 269,008 | 18,341 | 1,525 | 288,874 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 15 INTANGIBLE ASSETS (continued)

### (a) The Group (continued)

| | Limestone mining rights RMB'000 | Clay mining rights RMB'000 | Others (note) RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Accumulated amortisation:** | | | | |
| At 1 January 2006 | | | | |
| — as previously reported | 34,791 | 953 | — | 35,744 |
| — restatement of opening balances and comparative figures for business combination under common control in 2007 | — | — | 398 | 398 |
| — as restated | 34,791 | 953 | 398 | 36,142 |
| Charge for the year (restated) | 8,744 | 1,484 | 78 | 10,306 |
| At 31 December 2006 (as restated) | 43,535 | 2,437 | 476 | 46,448 |
| At 1 January 2007 | | | | |
| — as previously reported | 43,535 | 2,437 | — | 45,972 |
| — restatement of opening balances and comparative figures for business combination under common control in 2007 | — | — | 476 | 476 |
| — as restated | 43,535 | 2,437 | 476 | 46,448 |
| Charge for the year | 10,427 | 389 | 90 | 10,906 |
| At 31 December 2007 | 53,962 | 2,826 | 566 | 57,354 |
| **Net book value:** | | | | |
| At 31 December 2007 | 215,046 | 15,515 | 959 | 231,520 |
| At 31 December 2006 (as restated) | 183,336 | 15,339 | 301 | 198,976 |

Note: Others mainly represented the acquisition cost for the rights of the increased electricity capacities.

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

The limestone and clay mining rights are valid for a period of 5 to 30 years.

As at 31 December 2007, application for the registration of ownership of mining rights acquired during the year with cost of approximately RMB42,102,000 (2006: RMB9,000,000) was still in progress.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 15 INTANGIBLE ASSETS (continued)

### (b) The Company

| | Limestone mining rights RMB'000 |
|---|---|
| **Cost:** | |
| At 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007 | 10,627 |
| **Accumulated amortisation:** | |
| At 1 January 2006 | 4,322 |
| Charge for the year | 531 |
| At 31 December 2006 | 4,853 |
| At 1 January 2007 | 4,853 |
| Charge for the year | 531 |
| At 31 December 2007 | 5,384 |
| **Net book value:** | |
| At 31 December 2007 | 5,243 |
| At 31 December 2006 | 5,774 |

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

## 16 GOODWILL

| | The Group 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| **Carrying amount:** | | |
| At 1 January and 31 December | | |
| — as previously reported | **51,925** | 51,925 |
| — effect of change in accounting policy for business combination under common control | **(35,805)** | (35,805) |
| — as restated | **16,120** | 16,120 |

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 16 GOODWILL (continued)

### Impairment tests for cash-generating units containing goodwill

As set out in IAS 36 Impairment of assets, cash generating units are the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of the cash flows from other assets. For the purpose of impairment testing of goodwill, goodwill is allocated to a group of cash-generating units (being subsidiaries acquired in each acquisition). Such group of cash-generating units represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and also is within the segment determined in accordance with IAS 14 Segment reporting.

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

## 17 INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Unlisted shares, at cost | **13,054,151** | 5,071,824 |

The particulars of subsidiaries, all of which are either limited liability companies or joint stock limited companies established and operating in the PRC, at 31 December 2007 are as follows:

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 17 INVESTMENTS IN SUBSIDIARIES (continued)

| Name of company | Particulars of registered and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|
| Anhui Conch Machinery & Electric Co., Ltd. ("Conch Machinery") 安徽海螺機電設備有限公司 | RMB10,000,000 | 100% | 100% | — | Provision of installation and repair services of machinery |
| Anhui Changfeng Conch Cement Co., Ltd. ("Changfeng Conch") 安徽長豐海螺水泥有限公司 | RMB10,000,000 | 100% | 100% | — | Manufacture and sale of clinker and cement products |
| Zhangjiagang Conch Cement Co., Ltd. ("Zhangjiagang Conch") 張家港海螺水泥有限公司 | RMB35,000,000 | 98.71% | 98.71% | — | Manufacture and sale of clinker and cement products |
| Shanghai Conch Cement Co., Ltd. ("Shanghai Conch") 上海海螺水泥有限責任公司 | RMB60,000,000 | 75% | 75% | — | Manufacture and sale of clinker and cement products |
| Nanjing Conch Cement Co., Ltd. ("Nanjing Conch") 南京海螺水泥有限公司 | RMB15,000,000 | 100% | 99.75% | 0.25% | Manufacture and sale of clinker and cement products |
| Nantong Conch Cement Co., Ltd. ("Nantong Conch") 南通海螺水泥有限責任公司 | RMB15,000,000 | 100% | 99% | 1% | Manufacture and sale of clinker and cement products |
| Shanghai Conch Cement Sales Co., Ltd. ("Shanghai Sales") 上海海螺水泥銷售有限公司 | RMB5,000,000 | 100% | 100% | — | Sale of clinker and cement products |
| Anhui Digang Conch Cement Co., Ltd. ("Digang Conch") 安徽荻港海螺水泥股份有限公司 | RMB280,000,000 | 100% | 99% | 1% | Manufacture and sale of clinker and cement products |
| Jianyang Conch Cement Co., Ltd. ("Jianyang Conch") 福建省建陽海螺水泥有限責任公司 | RMB14,000,000 | 76% | 76% | — | Manufacture and sale of clinker and cement products |
| Anhui Zongyang Conch Cement Co., Ltd. ("Zongyang Conch") 安徽樅陽海螺水泥股份有限公司 | RMB300,000,000 | 100% | 99% | 1% | Manufacture and sale of clinker and cement products |
| Anhui Chizhou Conch Cement Co., Ltd. ("Chizhou Conch") 安徽池州海螺水泥股份有限公司 | RMB318,000,000 | 100% | 99% | 1% | Manufacture and sale of clinker products |
| Taizhou Conch Cement Co., Ltd. ("Taizhou Conch") 泰州海螺水泥有限責任公司 | RMB11,520,000 | 93.75% | 93.75% | — | Manufacture and sale of clinker and cement products |
| Bengbu Conch Cement Co., Ltd. ("Bengbu Conch") 蚌埠海螺水泥有限責任公司 | RMB54,000,000 | 100% | 100% | — | Manufacture and sale of clinker and cement products |
| Wenzhou Conch Cement Co., Ltd. ("Wenzhou Conch") 溫州海螺水泥有限公司 | RMB50,000,000 | 100% | 95% | 5% | Inactive |
| Fenyi Conch Cement Co., Ltd. ("Fenyi Conch") 分宜海螺水泥有限責任公司 | RMB50,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Shangyu Conch Cement Co., Ltd. ("Shangyu Conch") 上虞海螺水泥有限責任公司 | RMB16,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 17 INVESTMENTS IN SUBSIDIARIES (continued)

| Name of company | Particulars of registered and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|
| Jiande Conch Cement Co., Ltd. ("Jiande Conch") 建德海螺水泥有限責任公司 | RMB50,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Jiangxi Lushan Conch Cement Co., Ltd. ("Jiangxi Conch") 江西盧山海螺水泥有限公司 | RMB31,420,000 | 100% | 98.7% | 1.3% | Manufacture and sale of clinker and cement products |
| Taizhou Yangwan Conch Cement Co., Ltd. ("Yangwan Conch") 泰州楊灣海螺水泥有限責任公司 | RMB170,000,000 | 100% | 95% | 5% | Manufacture and sale of clinker and cement products |
| Nanchang Conch Cement Co., Ltd. ("Nanchang Conch") 南昌海螺水泥有限責任公司 | RMB20,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Anhui Huaining Conch Cement Co., Ltd. ("Huaining Conch") 安徽懷寧海螺水泥有限公司 | RMB150,000,000 | 100% | 85% | 15% | Manufacture and sale of clinker and cement products |
| Zhongguo Cement Co., Ltd. ("Zhongguo Plant") 中國水泥廠有限公司 | RMB100,000,000 | 100% | 100% | — | Manufacture and sale of clinker and cement products |
| Huai'an Conch Cement Co., Ltd. ("Huai'an Conch") 淮安海螺水泥有限責任公司 | RMB20,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Taicang Conch Cement Co., Ltd. ("Taicang Conch") 太倉海螺水泥有限責任公司 | RMB20,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Taizhou Conch Cement Co., Ltd. ("Taizhou Conch") 台州海螺水泥有限公司 | RMB20,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Haimen Conch Cement Co., Ltd. ("Haimen Conch") 海門海螺水泥有限責任公司 | RMB50,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Jiangmen Conch Cement Co., Ltd. ("Jiangmen Conch") 江門海螺水泥有限公司 | RMB50,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Maanshan Conch Cement Co., Ltd. ("Maanshan Conch") 馬鞍山海螺水泥有限責任公司 | RMB50,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Jiangsu Baling Conch Cement Co., Ltd. ("Baling Conch") 江蘇八菱海螺水泥有限公司 | RMB32,960,000 | 75% | 75% | — | Manufacture and sale of clinker and cement products |
| Shuangfeng Conch Cement Co., Ltd. ("Shuangfeng Conch") 雙峰海螺水泥有限公司 | RMB268,000,000 | 100% | 70% | 30% | Manufacture and sale of clinker and cement products |
| Anhui Xuancheng Conch Cement Co., Ltd. ("Xuancheng Conch") 安徽宣城海螺水泥有限公司 | RMB332,500,000 | 100% | 100% | — | Manufacture and sale of clinker and cement products |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 17 INVESTMENTS IN SUBSIDIARIES (continued)

| Name of company | Particulars of registered and paid up capital | Proportion of ownership interest: Group's effective interest | Proportion of ownership interest: Held by the Company | Proportion of ownership interest: Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|
| Wuhu Conch Cement Co., Ltd. ("Wuhu Conch") 蕪湖海螺水泥有限公司 | RMB400,000,000 | 100% | 87.75% | 12.25% | Manufacture and sale of clinker and cement products |
| Hunan Conch Cement Co., Ltd. ("Hunan Conch") 湖南海螺水泥有限公司 | RMB50,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Prosperity Conch Cement Co., Ltd. ("Prosperity Conch") 英德海螺水泥有限責任公司 | RMB580,000,000 | 75% | 70% | 5% | Manufacture and sale of clinker and cement products |
| Xing Ye Kuiyang Conch Cement Co., Ltd. ("Kuiyang Conch") 興業葵陽海螺水泥有限責任公司 | RMB200,000,000 | 100% | 70% | 30% | Manufacture and sale of clinker and cement products |
| Fusui Xinning Conch Cement Co., Ltd. ("Xinning Conch") 扶綏新寧海螺水泥有限責任公司 | RMB200,000,000 | 100% | 70% | 30% | Manufacture and sale of clinker and cement products |
| Anhui Wuhu Conch Construction and Installation Co., Ltd. ("Conch Construction") 安徽蕪湖海螺建築安裝工程有限責任公司 | RMB10,000,000 | 95% | 95% | — | Provision of construction and installation services for industrial purposes |
| Xing'an Conch Cement Co., Ltd. ("Xing'an Conch") 興安海螺水泥有限責任公司 | RMB200,000,000 | 100% | 65% | 35% | Manufacture and sale of clinker and cement products |
| Ninghai Qiangjiao Conch Cement Co., Ltd. ("Ninghai Conch") 寧海強蛟海螺水泥有限公司 | RMB110,240,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products and provision of loading services |
| Beiliu Conch Cement Co., Ltd. ("Beiliu Conch") 北流海螺水泥有限責任公司 | RMB150,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Zhanjiang Conch Cement Co., Ltd. ("Zhanjiang Conch") 湛江海螺水泥有限責任公司 | RMB100,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Xiangshan Conch Cement Co., Ltd. ("Xiangshan Conch") 象山海螺水泥有限責任公司 | RMB60,000,000 | 100% | 90% | 10% | Manufacture and sale of clinker and cement products |
| Jiangdu Conch Cement Co., Ltd. ("Jiangdu Conch") 江都海螺水泥有限責任公司 | RMB150,000,000 | 100% | 60% | 40% | Manufacture and sale of clinker and cement products |
| Yiyang Conch Cement Co., Ltd. ("Yiyang Conch") 弋陽海螺水泥有限責任公司 | RMB220,000,000 | 100% | 95.5% | 4.5% | Manufacture and sale of clinker and cement products |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 17 INVESTMENTS IN SUBSIDIARIES (continued)

| Name of company | Particulars of registered and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|
| Shimen Conch Cement Co., Ltd. ("Shimen Conch") 石門海螺水泥有限責任公司 | RMB231,000,000 | 100% | 92.2% | 7.8% | Manufacture and sale of clinker and cement products |
| Shanghai Conch Construction Material International Trading Co. Ltd ("Conch International Trading") 上海海螺建材國際貿易有限公司 (Note a) | RMB10,000,000 | 100% | 100% | — | Export sales of clinker and cement products |
| Wuhu Conch Plastic Products Co., Ltd. ("Wuhu Plastic") 蕪湖海螺塑料制品有限公司 (Note a) | RMB10,000,000 | 75% | 75% | — | Manufacture and sale of cement packaging |
| Anhui Ningchang Plastic Products Co., Ltd. ("Ningchang Plastic") 安徽寧昌塑料包裝有限公司 (Note a) | RMB53,554,065 | 100% | 100% | — | Manufacture and sale of cement packaging |
| Shanghai Conch Logistic Co., Ltd. ("Shanghai Logistic") 上海海螺物流有限公司 (Note a) | RMB10,000,000 | 100% | 10% | 90% | Logistic services |
| Wuhu Conch Logistic Co., Ltd. ("Wuhu Logistic") 蕪湖海螺物流有限公司 (Note a) | RMB10,000,000 | 80% | — | 80% | Logistic services |
| Guangdong Yinglong Conch Logistic Co., Ltd. ("Yinglong Logistic") 廣東英龍海螺物流有限公司 (Note a) | RMB10,000,000 | 100% | — | 100% | Logistic services |
| Yingde Conch Plastic Packaging Co., Ltd. ("Yingde Plastic") 英德海螺塑料包裝有限責任公司 (Note a) | RMB10,554,000 | 97.5% | — | 97.5% | Manufacture and sale of cement packaging |

United States dollars referred to as "USD"

Notes:

(a) Newly acquired subsidiaries

The companies were newly acquired by the Company from Anhui Conch Holdings Co., Ltd. ("Conch Holdings") in 2007 by means of a share issue. The above transaction represents a business combination under common control and the Group accounted for such transaction according to the accounting policy set out in note 3 to these financial statements.

(b) Subsidiary liquidated

Ningbo Conch Free Trade Zone Trading Co., Ltd was liquidated in 2007.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 18 INTEREST IN ASSOCIATES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Unlisted shares, at cost | **—** | — | **157,429** | 157,429 |
| Share of net assets | **162,925** | 163,219 | **—** | — |
| | **162,925** | 163,219 | **157,429** | 157,429 |

The particulars of the associates, all of which are unlisted and operating in the PRC, at 31 December 2007 are as follows:

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

* These two associates of the Group were in the process of liquidation as at 31 December 2006 and 2007.

### Summary financial information on associates

| | Assets | Liabilities | Equity | Revenue | Profit after taxation |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **2007** | | | | | |
| King Bridge Cement | **147,811** | **10,447** | **137,364** | **99,173** | **9,265** |
| Fusui Conch | **217,508** | **12,901** | **204,607** | **—** | **—** |
| Xingye Conch | **207,090** | **3,065** | **204,025** | **—** | **—** |
| **2006** | | | | | |
| King Bridge Cement | 151,190 | 13,091 | 138,099 | 96,636 | 7,942 |
| Fusui Conch | 217,508 | 12,901 | 204,607 | — | — |
| Xingye Conch | 207,090 | 3,065 | 204,025 | — | — |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 19 LOANS AND RECEIVABLES

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Loans and receivables | **339,602** | 154,500 |
| Less: Current portion of loans and receivables (note 24) | **(140,296)** | (26,000) |
| | **199,306** | 128,500 |

As at 31 December 2007, loans and receivables represented advances made to local finance bureaus of which RMB317,602,000 (2006: RMB104,000,000) are unsecured, interest bearing at 5.91% to 6.57% (2006: 5.58% to 5.76%) per annum and repayable in 2008 to 2010. The remaining balance of RMB22,000,000 (2006: RMB50,500,000) is unsecured, interest free and repayable in 2008 to 2010.

## 20 OTHER INVESTMENTS IN EQUITY SECURITIES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 (Restated) | **RMB'000** | RMB'000 |
| Unlisted equity securities in the PRC | **10** | 168 | **10** | 1,010 |

## 21 AVAILABLE-FOR-SALE EQUITY SECURITIES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Available-for-sale equity securities | | | | |
| — Unlisted in the PRC | **326,901** | — | **326,901** | — |

In 2006, the Company and Anhui Chaodong Cement Group Company Limited ("Chaodong Group"), a related party, entered into a Share Transfer Agreement pursuant to which the Company agreed to acquire 39,385,700 A 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 China Securities Regulatory Commission ("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. These A shares are not transferable for a three-year period from the date the transfer became effective.

The total investment cost in Chaodong Company, including transaction costs, of RMB98,019,000 is recognised as available-for-sale equity securities.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 21 AVAILABLE-FOR-SALE EQUITY SECURITIES (continued)

At 31 December 2007, in the absence of a quoted market price for these restricted A shares, the fair value of these restricted A shares was determined based on certain valuation techniques. The valuation was carried by a registered valuer, Jones Lang LaSalle Sallmanns. The fair value of these restricted A shares is considered to be lower than the quoted market price of such A shares without the lock-up period restrictions and the impact of the lock-up period is estimated based on an Asian option model. The volatility of the share price is used as an input into the Asian option model. The significant assumptions of the model included expected volatility (expressed as weighted average volatility used in the modelling under Asian option model) of 87.46% and risk-free interest rate (based on Bloomberg) of 4.05%. The expected volatility is based on the historic volatility based on publicly available information. Changes in the subjective input assumptions could materially affect the fair value estimate.

## 22 INVENTORIES

(a) Inventories in the balance sheets comprise:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | (Restated) | | |
| Raw materials | **538,810** | 428,646 | **28,105** | 16,993 |
| Work in progress | **85,331** | 40,444 | **1,190** | 1,182 |
| Finished goods | **707,231** | 593,812 | **22,199** | 19,330 |
| Spare parts | **231,180** | 209,977 | **13,099** | 18,269 |
| | **1,562,552** | 1,272,879 | **64,593** | 55,774 |

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

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| | | (Restated) |
| Carrying amount of inventories sold | **12,604,862** | 10,610,836 |
| Write-down of inventories | **—** | 1,889 |
| | **12,604,862** | 10,612,725 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 23 TRADE RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | (Restated) | | |
| Trade receivables | **229,497** | 392,564 | **22,531** | 15,814 |
| Bank acceptance notes receivable | **3,232,369** | 542,621 | **900,304** | 118,719 |
| Commercial acceptance notes receivable | **9,063** | 4,504 | **—** | — |
| | **3,470,929** | 939,689 | **922,835** | 134,533 |

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

### (a) Ageing analysis

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | (Restated) | | |
| Current or overdue within 60 days | **3,469,397** | 937,264 | **921,986** | 133,921 |
| Overdue between 60 days and 1 year | **1,093** | 2,359 | **747** | 612 |
| Overdue between 1 year and 2 years | **439** | 66 | **102** | — |
| | **3,470,929** | 939,689 | **922,835** | 134,533 |

The Group's credit policy is set out in note 36(a).

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 23 TRADE RECEIVABLES (continued)

### (b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and notes receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and notes receivable directly (see note 2(m)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **22,375** | 23,305 | **7,403** | 7,403 |
| Impairment loss recognised | **(3,673)** | (930) | **—** | — |
| At 31 December | **18,702** | 22,375 | **7,403** | 7,403 |

### (c) Trade debtors and notes receivable that are not impaired

The ageing analysis of trade debtors and notes receivable that are neither individually nor collectively considered to be impaired are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | (Restated) | | |
| Neither past due nor impaired | **3,426,778** | 868,918 | **902,079** | 117,611 |
| Overdue within 60 days | **42,619** | 68,346 | **19,907** | 16,310 |
| Overdue between 60 days and 1 year | **1,093** | 2,359 | **747** | 612 |
| Overdue between 1 year and 2 years | **439** | 66 | **102** | — |
| | **3,470,929** | 939,689 | **922,835** | 134,533 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 24 PREPAYMENTS AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | (Restated) | | |
| Purchase deposits | **347,072** | 334,776 | **49,674** | 127,424 |
| Investment deposits | **—** | 147,625 | **—** | — |
| Subsidies receivable | **10,540** | 15,957 | **—** | — |
| Current portion of loans and receivables (note 19) | **140,296** | 26,000 | **—** | — |
| Other receivables | **32,556** | 108,367 | **6,142** | 2,095 |
| | **530,464** | 632,725 | **55,816** | 129,519 |

All of the prepayments and other receivables are expected to be recovered within one year.

## 25 AMOUNTS DUE FROM/TO SUBSIDIARIES

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

## 26 AMOUNTS DUE FROM/TO RELATED PARTIES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | (Restated) | | (Restated) |
| Amounts due from: | | | | |
| Anhui Conch Kawasaki Engineering Company Limited ("Conch Kawasaki") 安徽海螺川崎工程有限公司 | **423,130** | — | **—** | — |
| Other related companies | **10** | 75 | **—** | — |
| | **423,140** | 75 | **—** | — |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 26 AMOUNTS DUE FROM/TO RELATED PARTIES (continued)

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | (Restated) | | (Restated) |
| Amounts due to: | | | | |
| Xingye Conch | **56,800** | 56,800 | **56,800** | 56,800 |
| Fusui Conch | **41,373** | 41,373 | **41,373** | 41,373 |
| Conch Kawasaki | **7,740** | — | **7,740** | — |
| Other related companies | **2,100** | 3,333 | **2,100** | — |
| | **108,013** | 101,506 | **108,013** | 98,173 |

The amounts due from/to related parties mainly arose from the related party transactions as disclosed in note 39. The amounts due from/to related parties are unsecured, interest free and repayable on demand.

## 27 TRADE PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | (Restated) | | |
| Trade payables | **1,930,814** | 1,016,507 | **369,232** | 68,492 |
| Bank acceptance notes payable | **—** | 3,000 | **280,000** | 150,000 |
| | **1,930,814** | 1,019,507 | **649,232** | 218,492 |

Ageing analysis of trade payables, based on due date, is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | (Restated) | | |
| Overdue within 1 year or on demand | **1,927,139** | 989,796 | **646,135** | 215,395 |
| Overdue between 1 and 2 years | **2,308** | 25,306 | **—** | — |
| Overdue between 2 and 3 years | **1,112** | 255 | **—** | — |
| Over 3 years | **255** | 4,150 | **3,097** | 3,097 |
| | **1,930,814** | 1,019,507 | **649,232** | 218,492 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 28 OTHER PAYABLES AND ACCRUALS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | (Restated) | | |
| Construction cost payables | **841,200** | 650,319 | **32,497** | 49,595 |
| Receipts in advance from customers | **414,063** | 305,153 | **45,801** | 53,414 |
| Retention moneys | **311,883** | 247,634 | **13,335** | 10,502 |
| Expenses accruals | **54,844** | 53,417 | **16,175** | 39,612 |
| Value-added tax payables | **141,768** | 81,178 | **10,509** | 9,467 |
| Other taxes payables | **75,904** | 69,197 | **5,457** | 7,592 |
| Acquisition cost of mining rights payable | **16,369** | 20,369 | **—** | — |
| Withholding tax payables | **746** | 714 | **75** | 65 |
| Other payables | **383,939** | 339,453 | **32,014** | 14,665 |
| | **2,240,716** | 1,767,434 | **155,863** | 184,912 |

## 29 NON-CURRENT INTEREST-BEARING BORROWINGS

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Bank loans (note 31) | | | | |
| — secured | **—** | 60,000 | **—** | — |
| — unsecured | **9,099,300** | 6,378,739 | **2,000,000** | 1,570,000 |
| | **9,099,300** | 6,438,739 | **2,000,000** | 1,570,000 |
| Other borrowings | | | | |
| — secured (note (b)(i)) | **650,000** | 650,000 | **650,000** | 650,000 |
| — unsecured (note (b)(ii)) | **72,727** | 80,000 | **—** | — |
| | **9,822,027** | 7,168,739 | **2,650,000** | 2,220,000 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 29 NON-CURRENT INTEREST-BEARING BORROWINGS (continued)

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

(i) Secured other borrowings of the Group and the Company are provided by the International Finance Corporation ("IFC"). The loan bears interest at a rate of 5.32% (2006: 5.32%) per annum and is repayable in September 2015. At 31 December 2007, the loan was secured by property, plant and equipment of the Group with carrying amount of approximately RMB637,064,000 (2006: RMB756,510,000) and leasehold land held for own use under operating leases of the Group with carrying amount of approximately RMB54,413,000 (2006: nil). The loan is subject to various financial covenants that are reported to IFC on a quarterly basis.

(ii) Unsecured other borrowings are national debt loan (國債轉貸) provided by the Anhui Finance Bureau. The loan bears interest at a rate of 2.82% (2006: 2.55%) per annum and is repayable in June 2017.

## 30 CURRENT INTEREST-BEARING BORROWINGS

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Bank loans (note 31) | **3,928,500** | 3,450,380 | **250,000** | 630,000 |
| Other borrowings | **1,009,133** | 7,000 | **213,214** | — |
| | **4,937,633** | 3,457,380 | **463,214** | 630,000 |

At 31 December 2007, other borrowings of the Group amounting to RMB1,009,133,000 were outstanding discounted bills with recourse as at 31 December 2007.

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 31 BANK LOANS

At 31 December 2007, the bank loans were repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 1 year or on demand (note 30) | **3,928,500** | 3,450,380 | **250,000** | 630,000 |
| After 1 year but within 2 years | **4,265,300** | 2,408,939 | **1,370,000** | 250,000 |
| After 2 years but within 5 years | **4,324,000** | 3,779,800 | **630,000** | 1,320,000 |
| After 5 years | **510,000** | 250,000 | **—** | — |
| Total non-current bank loans (note 29(a)) | **9,099,300** | 6,438,739 | **2,000,000** | 1,570,000 |
| | **13,027,800** | 9,889,119 | **2,250,000** | 2,200,000 |

At 31 December 2007, the bank loans were secured as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Bank loans | | | | |
| — secured | **60,000** | 60,000 | **—** | — |
| — unsecured | **12,967,800** | 9,829,119 | **2,250,000** | 2,200,000 |
| | **13,027,800** | 9,889,119 | **2,250,000** | 2,200,000 |

At 31 December 2007, the bank loans of the Group totalling RMB60,000,000 (2006: RMB60,000,000) were secured by property, plant and equipment of the Group with carrying amount of approximately RMB58,885,000 (2006: RMB65,587,000) and leasehold land held for own use under operating leases of the Group with carrying amount of approximately RMB4,883,000 (2006: RMB5,119,000).

At 31 December 2007, unsecured bank loans of the Group and the Company totalling RMB10,459,800,000 (2006: RMB7,086,119,000) and RMB1,420,000,000 (2006: RMB740,000,000) respectively were guaranteed by Conch Holdings.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 32 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheets represents:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | (Restated) | | |
| Provision for PRC Enterprise Income Tax for the year | **826,579** | 726,658 | **57,922** | 37,002 |
| PRC Enterprise Income Tax paid | **(450,380)** | (343,014) | **(31,364)** | (8,490) |
| | **376,199** | 383,644 | **26,558** | 28,512 |
| Representing: | | | | |
| Tax recoverable | **(30,799)** | — | **—** | — |
| Tax payable | **406,998** | 383,644 | **26,558** | 28,512 |
| | **376,199** | 383,644 | **26,558** | 28,512 |

(b) Deferred tax assets and liabilities recognised:

### *The Group*

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

| | Allowances and impairment RMB'000 | Unrealised profits (note) RMB'000 | Arising from business combination RMB'000 | Tax losses RMB'000 | Derivative financial instruments RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Deferred tax arising from:** | | | | | | |
| At 1 January 2006 | (8,440) | (9,971) | 27,955 | — | — | 9,544 |
| Credited to income statement (restated) | (1,355) | (15,264) | (559) | (10,000) | (12,435) | (39,613) |
| At 31 December 2006 (as restated) | (9,795) | (25,235) | 27,396 | (10,000) | (12,435) | (30,069) |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 32 INCOME TAX IN THE BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

### The Group

| | Allowances and impairment RMB'000 | Unrealised profits (note) RMB'000 | Arising from business combination RMB'000 | Tax losses RMB'000 | Derivative financial instruments RMB'000 | Provision RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Deferred tax arising from:** | | | | | | | |
| At 1 January 2007 | | | | | | | |
| — as previously reported | (9,795) | (25,235) | 27,396 | (10,000) | — | — | (17,634) |
| — restatement of opening balances and comparative figures for business combination under common control in 2007 | — | — | — | — | (12,435) | — | (12,435) |
| — as restated | (9,795) | (25,235) | 27,396 | (10,000) | (12,435) | — | (30,069) |
| Credited to income statement | (17,901) | (3,207) | (7,065) | (8,605) | 12,435 | (4,899) | (29,242) |
| At 31 December 2007 | (27,696) | (28,442) | 20,331 | (18,605) | — | (4,899) | (59,311) |

Note: The unrealised profits arose from intra-group sale of inventories and fixed assets.

### The Company

The components of deferred tax asset recognised in the balance sheet and the movements during the year are as follows:

| | Allowances and impairment RMB'000 |
|---|---|
| **Deferred tax arising from:** | |
| At 1 January 2006, 31 December 2006 and 1 January 2007 | — |
| Credited to income statement | (15,086) |
| At 31 December 2007 | (15,086) |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 32 INCOME TAX IN THE BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | (Restated) | | |
| Net deferred tax assets recognised on the balance sheet | **(79,642)** | (57,465) | **(15,086)** | — |
| Net deferred tax liabilities recognised on the balance sheet | **20,331** | 27,396 | **—** | — |
| | **(59,311)** | (30,069) | **(15,086)** | — |

(c) Deferred tax assets not recognised

All cumulative tax losses as at 31 December 2007 have been recognised as deferred tax assets.

As at 31 December 2006, the Group did not recognise deferred tax assets in respect of cumulative tax losses of RMB117 million as it was not probable that future taxable profits against which the losses could be utilised would be available in accordance with the accounting policy set out in note 2(t) according to management's best estimation of the circumstances at that time. The tax losses under current tax legislation will expire within 5 years of occurrence.

## 33 LONG-TERM PAYABLES

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Payables to minority shareholders of Mingzhu Conch (note (a)) | **1,583** | 1,583 |
| Compensation payable (note (b)) | **55,734** | 45,367 |
| Others | **1,892** | 1,553 |
| | **59,209** | 48,503 |
| Less: Current portion of compensation payable (note (b)) | **(9,156)** | (10,757) |
| | **50,053** | 37,746 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 33 LONG-TERM PAYABLES (continued)

Notes:

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

(b) In 1998 and 2002, pursuant to the purchase agreements entered into between the Group and two third parties separately in relation to the acquisition of certain operating assets and liabilities of two cement plants in Nanjing, the Group assumed the obligations of making compensation to the retired and redundant employees of these cement plants.

In 2007, pursuant to the purchase agreements entered into between the Group and a third party in relation to the acquisition of certain operating assets and liabilities of a cement plant in Lushan, the Group assumed obligations of making compensation to the redundant employees of the cement plant amounting to RMB23,655,000.

At 31 December 2007, the total remaining obligation amounted to approximately RMB55,734,000 (2006: RMB45,367,000). Compensation payable of RMB9,156,000 (2006: RMB10,757,000) is expected to be settled within the next year.

## 34 DEFERRED INCOME

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **128,818** | 150,718 | **13,846** | 25,831 |
| Government grant received | **32,220** | 1,357 | **—** | — |
| Recognised in the income statement | **(12,597)** | (23,257) | **(1,154)** | (11,985) |
| At 31 December | **148,441** | 128,818 | **12,692** | 13,846 |

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

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 35 CAPITAL AND RESERVES

### (a) The Group

| | Note | Share capital RMB'000 (Note (c)) | Share premium RMB'000 (Note (d)(i)) | Statutory surplus reserve RMB'000 (Note (d)(ii)) | Statutory public welfare reserve RMB'000 (Note (d)(iii)) | Capital reserve RMB'000 (Note (d)(iv)) | Retained profits RMB'000 (Note (d)(vi)) | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2006 | | | | | | | | | | |
| — as previously reported | | 1,255,680 | 1,745,430 | 623,410 | 582,702 | 54,978 | 1,261,311 | 5,523,511 | 1,081,543 | 6,605,054 |
| — effect of change in accounting policy for business combination under common control | | — | — | 1,748 | — | (82) | (10,200) | (8,534) | 12,750 | 4,216 |
| — restatement of the opening balances and comparative figures for business combination under common control in 2007 | | — | — | 36,564 | — | 65,098 | 187,685 | 289,347 | 8,519 | 297,866 |
| — as restated | | 1,255,680 | 1,745,430 | 661,722 | 582,702 | 119,994 | 1,438,796 | 5,804,324 | 1,102,812 | 6,907,136 |
| Dividend approved in respect of the previous year | 11(b) | — | — | — | — | — | (87,898) | (87,898) | — | (87,898) |
| Dividend declared by a subsidiary acquired under common control to a former shareholder | 3 | — | — | — | — | — | (130,000) | (130,000) | — | (130,000) |
| Profit for the year (restated) | | — | — | — | — | — | 1,543,767 | 1,543,767 | 383,690 | 1,927,457 |
| Dividends declared by non-wholly owned subsidiaries to minority shareholders | | — | — | — | — | — | — | — | (176,718) | (176,718) |
| Capital contribution received by non-wholly owned subsidiaries from minority shareholders | | — | — | — | — | — | — | — | 145,000 | 145,000 |
| Transfer between reserves | | — | — | 582,702 | (582,702) | — | — | — | — | — |
| Appropriations to reserves (restated) | | — | — | 297,747 | — | — | (297,747) | — | — | — |
| At 31 December 2006 (as restated) | | 1,255,680 | 1,745,430 | 1,542,171 | — | 119,994 | 2,466,918 | 7,130,193 | 1,454,784 | 8,584,977 |

| | Note | Share capital RMB'000 (Note (c)) | Share premium RMB'000 (Note (d)(i)) | Statutory surplus reserve RMB'000 (Note (d)(ii)) | Fair value reserve RMB'000 (Note (d)(iii)) | Capital reserve RMB'000 (Note (d)(iv)) | Retained profits RMB'000 (Note (d)(vi)) | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2007 | | | | | | | | | | |
| — as previously reported | | 1,255,680 | 1,745,430 | 1,503,102 | — | 54,978 | 2,359,218 | 6,918,408 | 1,431,796 | 8,350,204 |
| — effect of change in accounting policy for business combination under common control | 3 | — | — | 1,748 | — | (82) | (13,762) | (12,096) | 11,086 | (1,010) |
| — restatement of the opening balances and comparative figures for business combination under common control in 2007 | 3 | — | — | 37,321 | — | 65,098 | 121,462 | 223,881 | 11,902 | 235,783 |
| — as restated | | 1,255,680 | 1,745,430 | 1,542,171 | — | 119,994 | 2,466,918 | 7,130,193 | 1,454,784 | 8,584,977 |
| Profit for the year | | — | — | — | — | — | 2,480,146 | 2,480,146 | 208,080 | 2,688,226 |
| Shares issued for acquisition of minority interests | 39(e)(ii) | 287,999 | 906,829 | — | — | — | — | 1,194,828 | (1,194,828) | — |
| Shares issued for acquisition of subsidiaries under common control | 39(e)(i) | 22,755 | 42,343 | — | — | (65,098) | — | — | — | — |
| Dividends approved in respect of the previous year | 11(b) | — | — | — | — | — | (251,136) | (251,136) | — | (251,136) |
| Dividends declared by non-wholly owned subsidiaries to minority shareholders | | — | — | — | — | — | — | — | (3,847) | (3,847) |
| Changes in fair value of available-for-sale equity securities | 21 | — | — | — | 228,882 | — | — | 228,882 | — | 228,882 |
| Transfer between reserves | | — | — | (1,235,230) | — | (6,551) | 1,241,781 | — | — | — |
| Appropriations to reserves | | — | — | 38,797 | — | — | (38,797) | — | — | — |
| At 31 December 2007 | | 1,566,434 | 2,694,602 | 345,738 | 228,882 | 48,345 | 5,898,912 | 10,782,913 | 464,189 | 11,247,102 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 35 CAPITAL AND RESERVES (continued)

### (b) The Company

| | Note | Share capital RMB'000 (Note (c)) | Share premium RMB'000 (Note (d)(i)) | Statutory surplus reserve RMB'000 (Note (d)(ii)) | Statutory public welfare reserve RMB'000 (Note (d)(iii)) | Capital reserve RMB'000 (Note (d)(iv)) | Retained profits RMB'000 (Note (d)(vi)) | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2006 | | 1,255,680 | 1,745,430 | 293,133 | 293,133 | 31,669 | 419,283 | 4,038,328 |
| Dividends approved in respect of the previous year | 11(b) | — | — | — | — | — | (87,898) | (87,898) |
| Profit for the year | | — | — | — | — | — | 177,234 | 177,234 |
| Transfer between reserves | | — | — | 293,133 | (293,133) | — | — | — |
| Appropriations to reserves | | — | — | 142,793 | — | — | (142,793) | — |
| At 31 December 2006 | | 1,255,680 | 1,745,430 | 729,059 | — | 31,669 | 365,826 | 4,127,664 |

| | Note | Share capital RMB'000 (Note (c)) | Share premium RMB'000 (Note (d)(i)) | Statutory surplus reserve RMB'000 (Note (d)(ii)) | Fair value reserve RMB'000 (Note (d)(v)) | Capital reserve RMB'000 (Note (d)(iv)) | Retained profits RMB'000 (Note (d)(vi)) | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2007 | | 1,255,680 | 1,745,430 | 729,059 | — | 31,669 | 365,826 | 4,127,664 |
| Dividends approved in respect of the previous year | 11(b) | — | — | — | — | — | (251,136) | (251,136) |
| Profit for the year | | — | — | — | — | — | 290,673 | 290,673 |
| Shares issued for acquisition of minority interests | | 287,999 | 7,041,576 | — | — | — | — | 7,329,575 |
| Shares issued for acquisitions of subsidiaries under common control | | 22,755 | 243,161 | — | — | — | — | 265,916 |
| Changes in fair value of available-for-sale equity securities | 21 | — | — | — | 228,882 | — | — | 228,882 |
| Transfer between reserves | | — | — | (422,118) | — | (6,380) | 428,498 | — |
| Appropriations to reserves | | — | — | 38,797 | — | — | (38,797) | — |
| At 31 December 2007 | | 1,566,434 | 9,030,167 | 345,738 | 228,882 | 25,289 | 795,064 | 11,991,574 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 35 CAPITAL AND RESERVES (continued)

### (c) Share capital

*Registered and issued share capital*

| | 2007 No. of shares ('000) | 2007 Amount RMB'000 | 2006 No. of shares ('000) | 2006 Amount RMB'000 |
|---|---|---|---|---|
| Registered: | | | | |
| H shares of RMB1 each | 433,200 | 433,200 | 433,200 | 433,200 |
| A shares of RMB1 each | 262,784 | 262,784 | 200,000 | 200,000 |
| A shares with trading restrictions of RMB1 each | 870,450 | 870,450 | 622,480 | 622,480 |
| | 1,566,434 | 1,566,434 | 1,255,680 | 1,255,680 |
| Issued and fully paid: | | | | |
| H shares of RMB1 each | 433,200 | 433,200 | 433,200 | 433,200 |
| A shares of RMB1 each | 262,784 | 262,784 | 200,000 | 200,000 |
| A shares with trading restrictions of RMB1 each | 870,450 | 870,450 | 622,480 | 622,480 |
| | 1,566,434 | 1,566,434 | 1,255,680 | 1,255,680 |

The Company issued 361,000,000 H shares with a par value of RMB1.00 each in October 1997 at an issue price of RMB2.44 (equivalent to HK$2.28) per share. The H shares were listed on the Stock Exchange of Hong Kong Limited on 21 October 1997. The Company issued 200,000,000 A shares with a par value of RMB1.00 each in January 2002 at an issue price of RMB4.10 per share. The A shares were listed on the Shanghai Stock Exchange ("SSE") on 7 February 2002. The Company issued 72,200,000 H shares with a par value of RMB1.00 each at an issue price of RMB8.74 (equivalent to HK$8.20) per share in November 2003.

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 35 CAPITAL AND RESERVES (continued)

### (c) Share capital (continued)

#### *Registered and issued share capital (continued)*

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

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

On 24 April 2007, the Company obtained the approval of CSRC and (i) issued an aggregate of 22,755,147 A shares to Conch Holdings as consideration for the acquisition of 100% equity interest of Ningchang Plastic, 75% equity interest of Wuhu Plastic and 100% equity interest of Conch International Trading (see note 39(e)(i)); and (ii) issued an aggregate of 287,999,046 A shares to Anhui Conch Venture Investment Company Limited ("Conch Venture") as consideration for the acquisition of 49% equity interest in Digang Conch, 49% equity interest in Zongyang Conch, 49% equity interest in Chizhou Conch and 31.86% equity interest in Tongling Conch (see note 39(e)(ii)). Pursuant to these transactions, the registered capital of the Company was increased to RMB1,566,434,193 by the issuance of an additional 310,754,193 restricted A shares of RMB1 each, ranking pari passu with the existing shares of the Company in all respects, except for the trading restrictions as noted above.

### (d) Nature and purpose of reserves

#### *(i) Share premium*

Share premium represents net assets acquired from Conch Holdings in excess of the par value of shares issued, and proceeds from the issuance of H shares and A shares (or fair value of A shares) issued in excess of their par value, net of underwriting commissions, professional fees and other reorganisation costs for listing purpose.

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 35 CAPITAL AND RESERVES *(continued)*

### (d) Nature and purpose of reserves (continued)

#### *(ii) Statutory surplus reserve*

In accordance with the Company Law of the PRC and the Company's articles of association, the Company and its subsidiaries shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve account. When the balance of such reserve fund reaches 50% of the registered capital of the Company or any of its subsidiaries, further appropriation to that company will become optional.

The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital after proper approval. However, except for offsetting prior years' losses, the statutory surplus reserve of the Company and each subsidiary should be maintained at a minimum of 25% of the registered capital after utilisation.

The Group adopted China Accounting Standards for Business Enterprise (2006) ("new PRC Accounting Standards") and other regulations promulgated by the PRC Ministry of Finance on 15 February 2006 with effective from 1 January 2007. Appropriations to statutory surplus reserves in prior years were adjusted due to the change in net profit arising from the prior year adjustments made as a result of the implementation of the new PRC Accounting Standards.

For the year ended 31 December 2007, the directors have recommended that 10% (2006: 10%) of the statutory net profit of the Company and each of its subsidiaries, where applicable, be appropriated to the statutory surplus reserve.

#### *(iii) Statutory public welfare reserve*

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

According to the Company Law of the PRC revised on 27 October 2005, the Company and its subsidiaries are no longer required to appropriate profits to the statutory public welfare reserve from 1 January 2006 onwards.

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## *35 CAPITAL AND RESERVES (continued)*

### (d) Nature and purpose of reserves (continued)

#### *(iv) Capital reserve*

The capital reserve comprises the following:

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

— cash contributed by Conch Holdings.

#### *(v) Fair value reserve*

The fair value reserve comprises the cumulative net change in fair value of available-for-sale equity securities held at the balance sheet date and is dealt with in accordance with the accounting policy set out in note 2(f).

#### *(vi) Retained earnings*

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

### (e) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB795,064,000 (2006: RMB365,826,000).

### (f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of gearing ratio which is total liabilities divided by total assets.

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 35 CAPITAL AND RESERVES (continued)

### (f) Capital management (continued)

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2007 was 64% (2006: 62%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Apart from the Company's secured other borrowings of RMB650,000,000 provided by the International Finance Corporation (see note 29(b)(i)), neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 36 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

These risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and over-the-counter derivative financial instruments entered into for economic hedging purposes. Management has a credit policy in place to ensure that sales of products are made to customers with an appropriate credit history and the exposures to these credit risks are monitored on an ongoing basis. In addition, the Group normally receives deposits from customers before delivery of products.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30-60 days from the date of billing. Debtors with balances that are more than 2 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long-term strategic purposes. Transactions involving derivative financial instruments are with counterparties of sound credit standing and with whom the Group has a signed netting agreement. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 36 FINANCIAL INSTRUMENTS (continued)

### (a) Credit risk (continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has no significant concentration of credit risk with any single counterparty or group of counterparties.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in notes 23 and 24.

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, but the borrowings are subject to approval by the parent company's management. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 36 FINANCIAL INSTRUMENTS (continued)

### (b) Liquidity risk (continued)

*The Group*

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
| Trade payables | 1,930,814 | 1,930,814 | 1,930,814 | — | — | — |
| Other payables and accruals | 2,240,716 | 2,240,716 | 2,240,716 | — | — | — |
| Amounts due to related parties | 108,013 | 108,013 | 108,013 | — | — | — |
| Current taxation | 406,998 | 406,998 | 406,998 | — | — | — |
| Bank loans and other borrowings | 14,759,660 | 16,606,148 | 5,661,697 | 4,717,751 | 4,855,580 | 1,371,120 |
| Long term payables | 59,209 | 59,209 | 9,156 | 17,243 | 19,431 | 13,379 |
| | 19,505,410 | 21,351,898 | 10,357,394 | 4,734,994 | 4,875,011 | 1,384,499 |

| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
| Trade payables | 1,019,507 | 1,019,507 | 1,019,507 | — | — | — |
| Other payables and accruals | 1,767,434 | 1,767,434 | 1,767,434 | — | — | — |
| Amounts due to related parties | 101,506 | 101,506 | 101,506 | — | — | — |
| Derivative financial instruments | 49,740 | 49,740 | 49,740 | — | — | — |
| Current taxation | 383,644 | 383,644 | 383,644 | — | — | — |
| Bank loans and other borrowings | 10,626,119 | 11,104,360 | 3,619,514 | 2,616,011 | 3,837,742 | 1,031,093 |
| Long term payables | 48,503 | 48,503 | 10,757 | 9,156 | 13,628 | 14,962 |
| | 13,996,453 | 14,474,694 | 6,952,102 | 2,625,167 | 3,851,370 | 1,046,055 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 36 FINANCIAL INSTRUMENTS (continued)

### (b) Liquidity risk (continued)

*The Company*

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
| Trade payables | 649,232 | 649,232 | 649,232 | — | — | — |
| Other payables and accruals | 155,863 | 155,863 | 155,863 | — | — | — |
| Amounts due to subsidiaries | 3,572,441 | 3,572,441 | 3,572,441 | — | — | — |
| Amounts due to related parties | 108,013 | 108,013 | 108,013 | — | — | — |
| Current taxation | 26,558 | 26,558 | 26,558 | — | — | — |
| Bank loans and other borrowings | 3,113,214 | 3,517,427 | 559,477 | 1,473,986 | 739,054 | 744,910 |
| | 7,625,321 | 8,029,534 | 5,071,584 | 1,473,986 | 739,054 | 744,910 |

| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
| Trade payables | 218,492 | 218,492 | 218,492 | — | — | — |
| Other payables and accruals | 184,912 | 184,912 | 184,912 | — | — | — |
| Amounts due to subsidiaries | 2,563,450 | 2,563,450 | 2,563,450 | — | — | — |
| Amounts due to related parties | 98,173 | 98,173 | 98,173 | — | — | — |
| Current taxation | 28,512 | 28,512 | 28,512 | — | — | — |
| Bank loans and other borrowings | 2,850,000 | 3,015,837 | 674,394 | 263,721 | 1,393,175 | 684,547 |
| | 5,943,539 | 6,109,376 | 3,767,933 | 263,721 | 1,393,175 | 684,547 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 36 FINANCIAL INSTRUMENTS (continued)

### (c) Interest rate risk

The interest rates and terms of repayment of the Group's and the Company's borrowings are disclosed in notes 29 and 30. The Group's interest rate profile as monitored by management is set out in (i) below.

#### (i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's net borrowings at the balance sheet date.

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2007 | | 2006 | |
| | Effective interest rate % | RMB'000 | Effective interest rate % | RMB'000 | Effective interest rate % | RMB'000 | Effective interest rate % | RMB'000 |
| **Net fixed rate borrowings:** | | | | | | | | |
| Bank loans | 5.08%-7.10% | 1,470,000 | 5.18%-5.99% | 1,330,000 | — | — | 5.47%-5.76% | 250,000 |
| Other borrowings | 4.64%- 7.44% | 1,659,133 | 5.32%-5.40% | 657,000 | 4.64%-7.44% | 863,214 | 5.32% | 650,000 |
| Less: Loans and receivables | 5.91%-6.57% | (317,602) | 5.18%-5.59% | (104,000) | — | — | — | — |
| | | 2,811,531 | | 1,883,000 | | 863,214 | | 900,000 |
| **Variable rate borrowings:** | | | | | | | | |
| Bank loans | 5.08%-7.65% | 11,557,800 | 5.02%-6.30% | 8,559,119 | 5.40%-6.30% | 2,250,000 | 5.02%-6.30% | 1,950,000 |
| Other borrowings | 2.82% | 72,727 | 2.55% | 80,000 | — | — | — | — |
| | | 11,630,527 | | 8,639,119 | | 2,250,000 | | 1,950,000 |
| Total net borrowings | | 14,442,058 | | 10,522,119 | | 3,113,214 | | 2,850,000 |
| Net fixed rate borrowings as a percentage of total net borrowings | | 19% | | 18% | | 28% | | 32% |

The interest rate of the variable rate borrowings of the Group and the Company is based on the base rate announced by the People's Bank of China or a discount on such base rate.

#### (ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would decrease the Group's profit after tax and retained profits by approximately RMB93,284,000 (2006: RMB71,200,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis is performed on the same basis for 2006.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 36 FINANCIAL INSTRUMENTS (continued)

### (d) Currency risk

#### (i) Forecast transactions

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Euros, United States dollars and Japanese Yen.

The Group hedges its estimated foreign currency exposure in respect of significant committed future purchases. The Group uses forward exchange contracts to economically hedge its currency risk and recognises the change in fair value of forward contract in profit or loss.

At 31 December 2007, the Group and the Company had no outstanding forward exchange contracts.

At 31 December 2006, the Group had forward exchange contracts with a net fair value of RMB49,740,000 recognised as derivative financial instruments. The Company had no outstanding forward exchange contracts as at that date.

#### (ii) Recognised assets and liabilities

In respect of other trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

#### (iii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

*The Group*

| | **2007** | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **USD '000** | **EUR '000** | **JPY '000** | USD '000 | EUR '000 | JPY '000 |
| Trade and other receivables | **14,182** | **—** | **—** | 28,049 | — | — |
| Cash and cash equivalents | **4,018** | **—** | **—** | 3,470 | 2,083 | 667,165 |
| Net exposure arising from recognised assets and liabilities | **18,200** | **—** | **—** | 31,519 | 2,083 | 667,165 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 36 FINANCIAL INSTRUMENTS (continued)

### (d) Currency risk (continued)

#### (iii) Exposure to currency risk (continued)

*The Company*

The Company is not exposed to currency risk.

#### (iv) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) in response to a general increase in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

*The Group*

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Change in foreign exchange rates** | **Effect on profit after tax and retained profits RMB'000** | Change in foreign exchange rates | Effect on profit after tax and retained profits RMB'000 |
| USD | **(1%)** | **(997)** | (1%) | (1,649) |
| JPY | **(1%)** | **—** | (1%) | (535) |
| EUR | **(1%)** | **—** | (1%) | (143) |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 36 FINANCIAL INSTRUMENTS (continued)

### (e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 21).

The investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

Assuming that the quoted market price of Chaodong Company's listed A shares increased by 1% and all other risk variables remain constant at the year end date, the fair value of the available-for-sale securities and the fair value reserve would be increased by RMB4,610,096.

The Group and the Company are not exposed to equity price risk as at 31 December 2006.

### (f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 except as follows:

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Carrying amount RMB'000** | **Fair value RMB'000** | Carrying amount RMB'000 | Fair value RMB'000 |
| The Group and the Company | | | | |
| Other borrowings | **650,000** | **578,707** | 650,000 | 597,445 |

### (g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

#### *(i) Available-for-sale equity securities*

Fair value is based on valuation techniques, as set out in note 21, as quoted market price is unable to indicate the fair value of available-for-sale equity securities due to the three-year lock up period.

#### *(ii) Derivatives*

The fair value of forward exchange contracts is estimated by discounting the contractual forward price and deducting the current spot rate. The estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

#### *(iii) Interest-bearing loans and borrowings*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 36 FINANCIAL INSTRUMENTS (continued)

### (g) Estimation of fair values (continued)

#### (iii) Interest-bearing loans and borrowings (continued)

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

#### (iv) Financial guarantees

Financial guarantees were issued by the Company to its subsidiaries for bank loan borrowings. The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. As the interest rate differential on the interest rate of the guaranteed and non-guaranteed bank loans is insignificant, the fair value of the financial guarantees issued was negligible.

#### (v) Interest rates used for determining fair value

The Group and the Company uses the market rate of long-term loan as of 31 December 2007 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

| | **2007** | 2006 |
|---|---|---|
| Bank loans and other borrowings | **5.02%–7.65%** | 5.02%–6.30% |
| Loans and receivables | **5.91%–6.57%** | 5.58%–5.70% |

## 37 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

| | **The Group** | | The Company | |
|---|---|---|---|---|
| | **2007** | **2006** | 2007 | 2006 |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| Contracted for | **2,877,795** | **2,210,776** | 10,655 | 97,676 |
| Authorised but not contracted for | **6,148,976** | **2,262,920** | 72,124 | — |
| | **9,026,771** | **4,473,696** | 82,779 | 97,676 |

(b) As disclosed in note 39(b)(ix), the Company is committed to pay trademark licence fee to Conch Holdings at RMB1,513,000 (2006: RMB1,513,000) per annum. The licence agreement did not indicate an expiry date.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 38 CONTINGENT LIABILITIES

At 31 December 2007, the Company has issued guarantees to banks in respect of bank loans of its subsidiaries amounting to RMB1,578,000,000 (2006: RMB1,713,000,000). The directors do not consider it probable that a claim will be made against the Company under any of these guarantees.

## 39 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Related parties information

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

| Name of related party | Nature of relationship |
|---|---|
| Conch Holdings 安徽海螺集團有限責任公司 | Substantial shareholder of the Company |
| Conch Venture 安徽海螺創業投資有限責任公司 | Shareholder of Conch Holdings and the Company, some directors of the Company are also directors and equity holders of Conch Venture |
| Wuhu International Grand Hotel ("Grand Hotel") 芜湖海螺國際大酒店 | Subsidiary of Conch Holdings |
| Wuhu Conch Profiles and Science Co., Ltd. ("Conch Profiles and Science") 蕪湖海螺型材科技股份有限公司 | Subsidiary of Conch Holdings |
| Yingde Conch Profiles and Science Co., Ltd. ("Yingde Profiles and Science") 英德海螺型材有限責任公司 | Subsidiary of Conch Holdings |
| Anhui Conch Construction Materials Design Centre ("Conch Design") 安徽海螺建材設計研究院 | Subsidiary of Conch Holdings |
| Conch Kawasaki 安徽海螺川崎工程有限公司 | Joint Venture of Conch Venture |
| Chaodong Group 安徽巢東水泥集團有限責任公司 | A supervisor of the Company is also Chairman of Chaodong Group |
| Shenzhen Anhui Construction and Material Co., Ltd. ("Shenzhen Construction") 深圳安徽建材有限公司 (note) | A director of the Company was also the Chairman of Shenzhen Construction in 2006 |
| Shanghai Conch International Investment and Development Co., Ltd.("Conch Investment") 上海海螺國際投資發展有限公司 | Subsidiary of Conch Venture |
| Xuzhou Conch Cement Co., Ltd. ("Xuzhou Conch") 徐州海螺水泥有限公司 (note) | Former subsidiary of Conch Venture |

Note: These companies were not related parties of the Group in 2007. They were either being disposed of by the related parties or the director had resigned during 2006.

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

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

#### (i) Purchase of materials

| | 2007<br>RMB'000 | 2006<br>RMB'000<br>(Restated) |
|---|---|---|
| Conch Profiles and Science | 3,076 | 4,005 |
| Yingde Profiles and Science | 1,917 | 1,280 |
| | 4,993 | 5,285 |

#### (ii) Purchase of fixed assets

| | 2007<br>RMB'000 | 2006<br>RMB'000<br>(Restated) |
|---|---|---|
| Conch Kawasaki | 41,520 | — |

#### (iii) Sales of goods

| | 2007<br>RMB'000 | 2006<br>RMB'000<br>(Restated) |
|---|---|---|
| Shenzhen Construction | — | 56,326 |
| Conch Investment | — | 198,134 |
| | — | 254,460 |

#### (iv) Purchase of services

| | 2007<br>RMB'000 | 2006<br>RMB'000<br>(Restated) |
|---|---|---|
| Conch Design | 16,150 | 10,115 |
| Grand Hotel | 2,100 | 2,100 |
| | 18,250 | 12,215 |

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

#### (v) Short-term loans provided to

| | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Conch Investment* | — | 50,000 |

#### (vi) Interest income

| | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Xuzhou Conch* | — | 9,689 |

#### (vii) Import machinery through Conch International Trading

| | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Conch Profiles and Science* | 2,824 | — |
| Yingde Profiles and Science* | 239 | — |
| | 3,063 | — |

#### (viii) Disposal of other investment in equity securities

| | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Grand Hotel | 690 | — |

#### (ix) Transactions with Conch Holdings

| | 2007 RMB'000 | 2006 RMB'000 (Restarted) |
|---|---|---|
| Trademark licence fees payable (note (a)) | 1,513 | 1,513 |
| Composite service fees payable (note (b)) | 3,261 | 2,689 |
| Loan guarantees obtained (note (c)) | 10,459,800 | 7,086,119 |
| Disposal of an associate | — | 27,800 |

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

#### (ix) Transactions with Conch Holdings (continued)

Notes:

(a) The Company has entered into a trademark licence agreement with Conch Holdings, pursuant to which Conch Holdings granted the Company exclusive rights to use and apply the Conch trademarks within and outside the PRC in respect of all cement and clinker products of the Group. In return, the Company agreed to pay RMB1,513,000 to Conch Holdings each year. Such licence fees have been charged to the Group since 1 January 1998.

(b) In accordance with the composite service agreement entered into between the Company and Conch Holdings, Conch Holdings charged the Company a total amount of RMB3,261,000 (2006: RMB2,689,178) for various services rendered and facilities provided during the year ended 31 December 2007.

(c) Conch Holdings provided guarantees for certain borrowings of the Company and its subsidiaries. These guarantees are free of any charges to the Company and its subsidiaries (note 31).

* These relate to transactions with related parties by Conch International Trading prior to acquisition by the Company.

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

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

Apart from transactions mentioned in note 39(b), the Group has transactions with other state-controlled entities include but not limited to the following:

— purchases of coal; and

— depositing and borrowing money.

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

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

| | 2007<br>RMB'000 | 2006<br>RMB'000<br>(Restated) |
|---|---|---|
| Purchase of coal | 1,017,036 | 1,463,080 |
| Interest expenses | 732,379 | 484,151 |
| Cash at bank | 1,416,090 | 1,140,722 |
| Prepayments and other receivables | 75,000 | 124,100 |
| Bank loans | 13,315,530 | 8,149,119 |

### (d) Key management personnel remuneration

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

| | 2007<br>RMB'000 | 2006<br>RMB'000 |
|---|---|---|
| Short-term employee benefits | 4,664 | 5,136 |
| Post-employment benefits | 53 | 75 |
| | 4,717 | 5,211 |

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

### (e) Conch Holdings Transaction and Conch Venture Transaction

(i) On 21 August 2006, the Company as purchaser and Conch Holdings as vendor entered into a sale and purchase agreement ("Conch Holdings Sale and Purchase Agreement") pursuant to which the parties conditionally agreed to transfer the 100% equity interest in Ningchang Plastic, 75% equity interest in Wuhu Plastic and 100% equity interest in Conch International Trading. In accordance with the Conch Holdings Sale and Purchase Agreement, the Company will issue an aggregate of 22,755,147 A shares to Conch Holdings as payment for the consideration for such acquisition.

# Notes to the Financial Statements
(Expressed in Renminbi Yuan unless otherwise indicated)

## 39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### (e) Conch Holdings Transaction and Conch Venture Transaction (continued)

On 24 April 2007, the acquisition was approved by the CSRC and 22,755,147 A shares were issued to Conch Holdings on 25 May 2007. As the Company and the acquired companies were under the common control of Conch Holdings, the acquisition has been reflected in the financial statements as a combination of entities under common control in a manner similar to a pooling-of-interests. The details of the accounting treatment are set out in note 3.

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

| | Recognised value of acquirees at the acquisition date 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 |
| Prepayments 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) |
| Net identifiable assets and liabilities | 279,482 |

(ii) On 21 August 2006, the Company as purchaser and Conch Venture as vendor entered into a sale and purchase agreement ("Conch Venture Sale and Purchase Agreement") pursuant to which the parties conditionally agreed to transfer the 49% equity interest in Digang Conch, 49% equity interest in Zongyang Conch, 49% equity interest in Chizhou Conch and 31.86% equity interest in Tongling Conch. In accordance with the Conch Venture Sales and Purchase Agreement, the Company will issue an aggregate of 287,999,046 A shares to Conch Venture as payment for the consideration for such acquisition.

The transaction was approved by the CSRC on 24 April 2007 and 287,999,046 A shares were issued to Conch Venture on 25 May 2007. The carrying value of the minority interests acquired amounted to RMB1,194,828,000 at the acquisition date.

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 40 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) During the year, the resolution of an additional issue of not more than 200 million A shares to raise not more than RMB12,038,000,000 in the PRC was passed at the board meeting on 25 June 2007 and the A Shareholders Class Meeting, the H Shareholders Class Meeting and the extraordinary general meeting of the Company on 15 August 2007. Pursuant to the notification of the Public Offering Review Committee of the CSRC issued on 30 January 2008, the issuance of the aforesaid shares was conditionally approved. In addition, the additional issue of those A shares is also subject to the written approval from the CSRC.

(b) On 25 February 2008, the board of directors of the Company applied to the SSE for the listing of the 62,784,000 A shares with trading restrictions (representing approximately 4% of the total issued A shares of the Company as at 31 December 2007) in the Company held by Conch Holdings on the SSE. The SSE approved the listing of such 62,784,000 A shares with trading restrictions on 3 March 2008.

(c) The directors proposed no final dividend on 27 March 2008.

## 41 IMMEDIATE AND ULTIMATE CONTROLLING COMPANY

At 31 December 2007, the directors consider the immediate parent and ultimate controlling company of the Group to be Conch Holdings and Anhui Provincial Investment Group Limited respectively, which are both state-owned enterprises established in the PRC.

## 42 COMPARATIVE FIGURES

Certain comparative figures have been retrospectively adjusted, as a result of the change in accounting policy for business combination under common control as disclosed in note 3.

As a result of adopting IFRS 7, Financial instruments: Disclosures, and the amendments to IAS1, Presentation of financial statements: Capital disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 3.

## 43 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 43 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (a) Impairment for non-current assets

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

### (b) Depreciation

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

### (c) Inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. In addition, these estimates could change significantly as a result of change in customer preference and competitor actions in response to serve industry cycles. Management measures these estimates at each balance sheet date.

### (d) Impairment for bad and doubtful debts

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

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## 43 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (e) Going concern

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

### (f) Fair value

In determining the fair value of the financial instruments, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

## 44 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| IFRS 8 | Operating segments | 1 January 2009 |
| Revised IAS 23 | Borrowing costs | 1 January 2009 |
| Revised IAS 1 | Presentation of financial statements | 1 January 2009 |
| Amendments to IAS 32 | Financial instruments: Presentation | 1 January 2009 |
| Revised IFRS 3 | Business combination | 1 July 2009 |
| Amendments to IAS 27 | Consolidated and separate financial statements | 1 July 2009 |

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

# Documents for Inspection

(1) Original of the audited report with the seal of the accounting firm affixed and the signature and seal of the registered accountant affixed.

(2) Originals of all the documents and the announcements of the Company which were disclosed in newspaper designated by the CSRC during the Reporting Period.

(3) Annual report published on the Stock Exchange.

**Anhui Conch Cement Company Limited**

Dated this: 27 March 2008

# Written Confirmation of Directors and members of the Senior Management on the Annual Report of 2007

Pursuant to the requirements and provisions of Securities Law, No. 2: ''Description and Format of Annual Reports'' of ''Standards of Description and Format for Information Disclosure of Companies Which Are Securities Issuers'' (as amended in 2007), as the Directors and members of the senior management of Anhui Conch Cement Company Limited, having had a full understanding and review of the annual report of 2007 and summary of the annual report, we are of the view that:

1. the Company has strictly complied with the financial regulations in its operation as a joint stock company, and the annual report for 2007 and its summary have fairly reflected the financial position and operating results of the Company for the year;

2. the audited financial reports of Anhui Conch Cement Company Limited for 2007 as audited by the registered accountant of KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants are pragmatic and objective.

We warrant that the information disclosed in the annual report for 2007 and its summary is true, accurate and complete, and we undertake that it does not contain misrepresentation, misleading statement or material omissions, and we are severally and jointly responsible for the truefulness, accuracy and completeness of its contents.

| Name | Position | Name | Position |
|---|---|---|---|
| Guo Wensan | Chairman | Kang Woon | Independent non-executive Director |
| Chan Yuk Tong | Independent non-executive Director | Ding Meicai | Independent non-executive Director |
| Yu Biao | Executive Director | Guo Jingbin | Executive Director |
| Li Shunan | Executive Director | Ren Yong | Executive Director, general manager |
| Qi Shengli | Deputy general manager | Wang Pengfei | Deputy general manager |
| He Chengfa | Deputy general manager | Wang Jianchao | Deputy general manager |
| Zhang Mingjing | Deputy general manager, secretary to the Board | | |

Dated this 27 March 2008