

Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"))

1. BASIS OF PREPARATION

This interim financial report of Anhui Conch Cement Company Limited (the "Company") and its subsidiaries (the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") adopted by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 22 August 2006.

At 30 June 2006, the Group's current liabilities exceeded its current assets by RMB2,521,572 thousand, which include current instalments of bank and other loans of RMB3,526,360 thousand. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due, and on its ability to obtain adequate external finance to meet its committed future capital expenditures. In preparing the interim financial report, the directors have considered the Group's sources of liquidity and believe that adequate funding is available to fulfil the Group's short term obligations and capital expenditure requirements. Accordingly, the interim financial report has been prepared on the basis that the Group will be able to continue as a going concern.

The interim financial report has been prepared in accordance with substantially the same accounting policies adopted in the 2005 annual financial statements. Please refer to Note 2 for the discussion of new and revised International Financial Reporting Standards ("IFRSs") adopted by the Group in 2006.

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

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2005 annual financial statements.

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1. BASIS OF PREPARATION (CONTINUED)

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs. IFRSs include IAS and related interpretations.

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

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRSs for that financial year but is derived from those financial statements. The Group's annual financial statements for the year ended 31 December 2005 are available at the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their audit report dated 25 April 2006.

2 NEW AND REVISED IFRSs

The IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements prepared under IFRSs for the year ending 31 December 2006, on the basis of IFRSs currently in issue.

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements prepared under IFRSs for the year ending 31 December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

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

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3. SALES AND SEGMENT INFORMATION

The Group operates principally as a single business segment for the sales of cement and clinker products and is stated net of sales tax. The geographic information about the Group's turnover is analysed as follows:

	For the six months ended	
	30 June 2006 RMB'000	30 June 2005 RMB'000
Revenue		
— Local sales	5,104,000	3,918,777
— Export sales	1,596,574	594,639
	6,700,574	4,513,416
Operating profit		
— Local sales	915,457	378,868
— Export sales	286,363	57,490
	1,201,820	436,358

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

4. SEASONALITY OF OPERATIONS

Due to the winter period, the Group on average experiences higher cement demands in the second half of the year. As a result, the first half year typically reports lower revenues and results than the second half.

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5. PROFIT BEFORE TAXATION

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

	For the six months ended	
	30 June 2006 RMB'000	30 June 2005 RMB'000
Finance expense		
— Interest on bank and other loans	266,640	216,395
— Less: Borrowing costs capitalised	(6,709)	(8,432)
	259,931	207,963
Dividend income from unlisted securities	(6,500)	—
Depreciation	443,582	355,742
Amortisation of leasehold land	11,071	6,590
Other amortisation	3,195	2,791
Staff costs	176,775	138,349
Share of associates' taxation	80	158

6. INCOME TAX EXPENSE

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

Conch Plant is a sino-foreign equity joint venture. In 2003, Conch Plant was recognised by local tax authority as a company located in middle-west China with foreign investment, and thus is entitled to a 50% reduction of Enterprise Income Tax for another three years from 2003. Therefore, the applicable Enterprise Income Tax rates in 2005 and 2006 are 15% and 30% respectively.

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

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7. DIVIDENDS

During the six months ended 30 June 2006, the shareholders' meeting on 16 June 2006 approved the dividend appropriation for 2005 of approximately RMB87,898 thousand (RMB0.07 per share) (corresponding period of 2005: RMB163,238 thousand (RMB0.13 per share)).

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: RMB Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB508,767 thousand (six months ended 30 June 2005: RMB91,414 thousand) and the weighted average number of shares in issue during the year of 1,255,680 thousand (six months ended 30 June 2005: 1,255,680 thousand).

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2005 and 2006.

9. LEASEHOLD LAND AND LAND USE RIGHTS

During the six months ended 30 June 2006 the Group acquired leasehold land with cost of RMB13,411 thousand (six months ended 30 June 2005: RMB121,978 thousand, including assets acquired through business combinations of RMB113,366 thousand).

10. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2006 the Group acquired assets with cost of RMB1,254,689 thousand (six months ended 30 June 2005: RMB2,381,630 thousand, including assets acquired through business combinations of RMB113,366 thousand).

Assets with a carrying amount of RMB10 thousand were disposed of during the six months ended 30 June 2006 (six months ended 30 June 2005: RMB2,532 thousand), resulting in a loss on disposal of RMB1 thousand (six months ended 30 June 2005: gain of RMB1,811 thousand), which is included in "other expenses".

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10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Capital commitments

During the six months ended 30 June 2006 the Group have capital commitments for purchase of property, plant and equipment as follows:

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Contracted for	1,688,420	1,449,180
Authorised but not contracted for	1,933,881	1,129,017
	3,622,301	2,578,197

11. TRADE AND OTHER RECEIVABLES

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

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Within 1 year	1,052,379	982,375
More than 1 year but less than 2 years	74,649	17,116
More than 2 years but less than 3 years	17,116	39
More 3 years	239	206
	1,144,383	999,736

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12. BORROWINGS

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

	Note	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Non-current borrowings			
Bank borrowings			
— Guaranteed	(i)	6,038,540	3,685,540
— Collateralised	(ii)	60,000	60,000
— Unsecured		1,235,000	1,533,000
		7,333,540	5,278,540
Other borrowings			
— Collateralised	(ii)	650,000	650,000
— Unsecured		80,000	80,000
		8,063,540	6,008,540
Less: Current portion of non-current borrowings			
Bank borrowings			
— Guaranteed	(i)	(1,173,360)	(983,360)
— Unsecured		(270,000)	(150,000)
	12 (b)	(1,443,360)	(1,133,360)
		6,620,180	4,875,180

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12. BORROWINGS (CONTINUED)

- (i) As at 30 June 2006, non-current borrowings together with current portion of non-current borrowings amounting to approximately RMB5,328,540,000, RMB1,268,000,000 and RMB7,000,000 are guaranteed by Conch Group, an immediate parent company and a third party respectively (31 December 2005: approximately RMB3,678,540,000 and RMB7,000,000 are guaranteed by Conch Group and a third party respectively).
- (ii) As at 30 June 2006, collateralized borrowings amounting to approximately RMB710,000,000 are pledged by property, plant and equipment with aggregate carrying amount of approximately RMB445,220,000 and leasehold land and land use rights with carrying amount of approximately RMB54,060,000. (31 December 2005: approximately RMB710,000,000 are pledged by property, plant and equipment with aggregate carrying amount of approximately RMB465,966,000 and leasehold land and land use rights with carrying amount of approximately RMB55,150,000).
- (b) Details of current borrowings are as follows:

	Note	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Current borrowings			
Bank borrowings			
— Guaranteed	(i)	1,533,000	1,984,500
— Unsecured		550,000	1,588,500
		2,083,000	3,573,000
Add: Current portion of non-current borrowings	12 (a)	1,443,360	1,133,360
		3,526,360	4,706,360

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12. BORROWINGS (CONTINUED)

- (i) As at 30 June 2006, current borrowings except for the current portion of non-current borrowings amounting to approximately RMB1,378,000,000 are guaranteed by Conch Group (31 December 2005: approximately RMB1,977,000,000 and RMB7,500,000 are guaranteed by Conch Group and a third party respectively). In addition, current borrowing except for the current portion borrowings amounting to approximately RMB155,000,000 are guaranteed by the Company for its subsidiaries (31 December 2005: RMBNil).
- (c) The maturity of borrowings as at 30 June 2006 and 31 December 2005 are as follows:

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Amount repayable within a period		
— not exceeding one year	3,716,360	4,706,360
— more than one year but not exceeding two years	1,992,380	2,185,380
— more than two years but not exceeding five years	3,457,800	1,959,800
— more than five years	980,000	730,000
	10,146,540	9,581,540

13. TRADE AND OTHER PAYABLES

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Due within 1 year	2,038,481	2,129,618
Due after 1 year but less than 2 years	312,049	62,622
Due after 2 years but less than 3 years	7,740	15,124
Due after 3 years	6,955	2,523
	2,365,225	2,209,887

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14. RELATED PARTIES

Key management personnel remuneration

Remuneration for key management personnel is as follows:

	For the six months ended	
	30 June 2006 RMB'000	30 June 2005 RMB'000
Short-term employees benefits	388	349
Post-employment benefits	31	27
	419	376
Directors and supervisors	244	226
Senior management	175	150
	419	376

Other related party transactions

The following is a summary of significant other related party transactions entered into between the Group and its related parties during the period from 1 January 2006 to 30 June 2006 and balances arising from related party transactions:

(a) *Transactions with state-controlled entities*

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

Other than those disclosed in the notes below, transactions with other state-controlled entities include but are not limited to financial services arrangement.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

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14. RELATED PARTIES (CONTINUED)

Other related party transactions (Continued)

(a) Transactions with state-controlled entities (Continued)

Having considered the potential for transactions to be impacted by related party relationships, the entity's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that, save as disclosed in the notes below, there are no transactions with other state-controlled entities that require disclosure as related party transactions.

(i) Loans from Anhui Finance Bureau

At 30 June 2006, the Group had guaranteed loans from Anhui Finance Bureau of RMB80 million (31 December 2005: RMB80 million). The loans are guaranteed by Anhui Conch Company Limited and bear interest at 2.28% and are mature in June 2017.

Interest expenses paid during the six months ended 30 June 2006 amounted to approximately RMB1,020 thousand (six months ended 30 June 2005: RMB912 thousand).

(b) Transactions with the substantial shareholding during the period were as follows:

	For the six months ended	
	30 June 2006 RMB'000	30 June 2005 RMB'000
Trademark licence fees paid	757	757
Guarantee provided by	6,706,540	6,128,720
Composite services fees paid	1,770	1,084

(c) Transactions between with other related parties during the period were as follows:

	For the six months ended	
	30 June 2006 RMB'000	30 June 2005 RMB'000
Purchase of goods	183,095	136,500
Import and export commission paid	29,716	8,044
Sales of cement products	63,702	1,120
Purchase of transportation services	365,255	106,063

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14. RELATED PARTIES (CONTINUED)

Other related party transactions (Continued)

(d) Amount due from/to related party balances:

<u>Name of related party</u>	<u>Nature of relationship</u>
Conch Group	Substantial shareholder of the Company
Anhui Conch Exploiting and Investing Co., Ltd. ("Hai Chuang")	Shareholder of Conch Group and some directors of the Company are also directors and equity holders of Hai Chuang
Shenzhen Anhui Construction and Material Co., Ltd. ("Shenzhen Construction")	A director of the Company is also chairmen of Shenzhen Construction
Wuhu Conch Profiles and Science Co., Ltd. ("Conch Profiles and Science")	Subsidiary of Conch Group
Anhui Ningchang Plastic Package Co., Ltd. ("Ningchang Company")	Subsidiary of Conch Group
Shanghai Conch Construction Material International Trading Co., Ltd. ("Conch International Trading")	Subsidiary of Conch Group
Shanghai Conch Logistics Co., Ltd. ("Shanghai Logistic")	Subsidiary of Conch Group
YingLong Conch Logistics Co., Ltd. ("Guangdong Logistic")	Subsidiary of Conch Group
Wuhu Conch Logistics Co., Ltd. ("Wuhu Logistic")	Subsidiary of Conch Group
Wuhu Conch Plastic Products Co., Ltd. ("Wuhu Plastic")	Subsidiary of Conch Group
Yingde Conch Plastic Packaging Co., Ltd. ("Yingde Plastic")	Subsidiary of Conch Group
Guangxi Guilin Conch Cement Co., Ltd. ("Guilin Conch")	Some directors of the Company are also directors of Guilin Conch

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14. RELATED PARTIES (CONTINUED)

Other related party transactions (Continued)

Due from related parties

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Conch International Trading	282,325	153,995
Shanghai Logistics	9,660	3,186
Conch Group	—	2,574
Hai Chuang	—	1,113
Ningchang Company	3,796	—
Other related companies	133	119,474
	295,914	280,342

Due to related parties

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Shanghai Logistics	40	90,013
Xingye Conch	—	56,800
Fusui Conch	—	49,800
Conch International Trading	126,666	21,958
Yingde Plastic	2,227	15,611
Wuhu Plastic	276	14,382
Ningchang Company	2,954	13,985
Conch Group	2,269	1,513
Guilin Conch	—	1,317
Conch Profiles and Science	378	—
Other related companies	356	1,664
	135,166	267,043

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15. CONTINGENT LIABILITIES

There are no material contingent liabilities of the Group subsequent to 30 June 2006.

16. SUBSEQUENT EVENTS

On 21 August 2006, a sales and purchase agreement were signed between the Company as purchaser and Anhui Conch Cement Company Limited ("Conch Holdings") as vendor pursuant to which the Company agreed to purchase and Conch Holdings agreed to sell its 100% equity interest in Anhui Ningchang Plastic Package Co., Ltd. ("Ningchang Company"), its 75% equity interest in Wuhu Conch Plastic Products Co., Ltd. ("Wuhu Plastic") and its 100% equity interest in Shanghai Conch Construction Material International Trading Company Limited ("Conch International Trading"). Under the terms of this sales and purchase agreement, the Company will issue an aggregate of 22,755,147 A shares to Conch Holdings to pay for the Conch Holdings consideration amounting to RMB302,643,500. Both Ningchang Company and Wuhu Plastic are principally engaged in the production and sale of cement packaging bags. Conch International Trading is principally engaged in the import and export and provision of logistic services.

On the even date, another sales and purchase agreement were signed between the Company as purchaser and Anhui Conch Venture Investment Company Limited ("Conch Venture") as vendor pursuant to which the Company agreed to purchase and Conch Venture agreed to sell its 49% equity interest in Anhui Digang Conch Cement Co., Ltd., its 49% equity interest in Anhui Zongyang Conch Cement Co., Ltd., its 49% equity interest in Anhui Chizhou Conch Cement Co., Ltd., and its 31.86% equity interest in Anhui Tongling Conch Cement Co., Ltd.. Under the terms of this agreement, the Company will issue an aggregate of 287,999,046 A shares to Conch Venture to pay for the Conch Venture consideration amounting to RMB3,830,387,300. These four target companies are all principally engaged in the production of cement and /or clinker products.