

# Report of Directors



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Key infrastructure constructed by cement of Conch:

① Magler Train

② Nanpu Bridge

③ Oriental Pearl TV Tower and Jin Mao Building

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## (I) Principal Activities

As the largest cement clinker producer and seller in the PRC, the Group has all along adhered to the development of its core businesses, namely the production and sale of various types of high-grade cement, and the production of various commodity clinkers required for the production of various types of high-grade cement. The cement produced by the Company under the “Conch” brand is used extensively and received good comments from clients in the construction works of roads, bridges, houses and various types of landmark construction work, while commodity clinker is mainly sold to various cement milling stations. In 2004, the “Conch” brand was named “Chinese Well-known Trademark”, and was the only brand that earned this title in the cement industry in the PRC.

## (II) Investment During the Reporting Period

### 1. Investment projects financed by proceeds from the issue of H Shares

On 5 November 2003, the Company raised net proceeds of RMB617.62 million (after deducting issuing expenses) from the issue of 72.2 million H Shares, of which RMB586.68 million was applied for the investment and development of its principal cement business, while RMB30.94 million



*Huaining Conch*

was used for the Company’s working capital. The proceeds were fully utilized by the end of the reporting period. During the reporting period, investment projects financed by the proceeds were carried out as scheduled, particulars of which are as follows:

<i>(RMB'000)</i>				
<b>Rank</b>	<b>Project name</b>	<b>Proposed amount of injection</b>	<b>Actual amount of capital contributed</b>	<b>Progress of project</b>
1	Two clinker projects with a daily capacity of 5,000 tonnes (an annual capacity of 1.5 million tonnes) each of Huaining Conch Cement Co., Ltd.	300,000	300,000	Under construction
2	A cement clinker project with a daily capacity of 5,000 tonnes (an annual capacity of 1.5 million tonnes) of Hunan Shuangfeng	136,680	136,680	Under trial production

## (II) Investment During the Reporting Period *(Continued)*

### 1. Investment projects financed by proceeds from the issue of H Shares *(Continued)*

*(RMB'000)*

Rank	Project name	Proposed amount of injection	Actual amount of capital contributed	Progress of project
3	A cement grinding project of Wujiang Conch Cement Co., Ltd.	50,000	50,000	Under construction
4	A cement grinding project of Haimen Conch Cement Co., Ltd.	50,000	50,000	Under construction
5	A cement grinding project of Jiangmen Conch Cement Co., Ltd.	50,000	50,000	Under construction
<b>Total</b>		<b>586,680</b>	<b>586,680</b>	

### 2. Major projects not financed by the proceeds



*China Plant*

## (II) Investment During the Reporting Period *(Continued)*

### 2. Major projects not financed by the proceeds *(Continued)*

*(Unit: RMB'000)*

Rank	Project name	Amount contributed during the reporting period	Progress of project
1	Two clinker production lines with a daily capacity of 10,000 tonnes (an annual capacity of 3.2 million tonnes) each of Tongling Conch Cement Co., Ltd.	495,798	Operation commenced
2	A clinker production line with a daily capacity of 10,000 tonnes (an annual capacity of 3.2 million tonnes) of Zongyang Conch Cement Co., Ltd.	186,427	Under trial production
3	First clinker production line with a daily capacity of 5,000 tonnes (an annual capacity of 1.5 million tonnes) and its ancillary cement grinding system of China Cement Plant Co., Ltd.		Operation commenced
4	Second clinker production line with a daily capacity of 5,000 tonnes (an annual capacity of 1.5 million tonnes) of China Cement Plant Co., Ltd.	243,175	Under construction
5	A clinker production line with a daily capacity of 5,000 tonnes (an annual capacity of 1.5 million tonnes) and its ancillary cement grinding system of Baimashan Cement Plant	35,668	Construction commenced
6	A technological upgrade and expansion project of cement grinding production line of Zhangjiagang Conch Cement Co., Ltd., Phase 3	69,763	Operation commenced

## (II) Investment During the Reporting Period (Continued)

### 2. Major projects not financed by the proceeds (Continued)

(Unit: RMB'000)

Rank	Project name	Amount contributed during the reporting period	Progress of project
7	A technological upgrade and expansion project of grinding production line of Nanjing Conch Cement Co., Ltd., Phase 3	30,960	Operation commenced
8	A cement grinding production line of Huai'an Conch Cement Co., Ltd.	63,272	Operation commenced
9	A cement grinding production line of Taicang Conch Cement Co., Ltd.	127,504	Under trial production
10	A cement grinding production line of Maanshan Conch Cement Co., Ltd.	53,706	Construction commenced

### 3. Major project companies invested during the reporting period

#### (1) *Wujiang Conch Cement Co., Ltd.*

On 8 January 2004, the Company together with its subsidiary, China Cement Plant Co., Ltd., invested in Wujiang Conch Cement Co., Ltd. in Wujiang City, Hunan Province, contributing RMB45 million, representing 90% of its registered capital of RMB50 million.

#### (2) *Shuangfeng Conch Cement Co., Ltd.*

On 29 February 2004, the Company invested in Shuangfeng Conch Cement Co., Ltd. in Shuangfeng County, Hunan Province. Its registered capital amounts to RMB268 million and that Company is currently a subsidiary with its entire interest owned by the Company.

#### (3) *Jiangsu Baling Conch Cement Co., Ltd.*

On 26 March 2004, the Company invested in Jiangsu Baling Conch Cement Co., Ltd. in Yancheng City, Jiangsu Province, contributing RMB25.272 million, representing 75% of its registered capital of RMB32.96 million.

#### (4) *Maanshan Conch Cement Co., Ltd.*

On 7 April 2004, the Company together with its subsidiary, China Cement Co., Ltd. invested in Maanshan Conch Cement Co., Ltd. in Maanshan City, Anhui Province, contributing RMB45 million, representing 90% of its registered capital of RMB50 million.

## Report of Directors

### (II) Investment During the Reporting Period (Continued)

#### 3. Major project companies invested during the reporting period (Continued)

(5) **Anhui Xuancheng Conch Cement Co., Ltd.**

On 22 April 2004, the Company together with its subsidiary, Anhui Ningguo Cement Plant invested in Anhui Xuancheng Conch Cement Co., Ltd. in Xuancheng City, Anhui Province, contributing RMB90 million, representing 90% of its registered capital of RMB100 million.

(6) **Wuhu Conch Cement Co., Ltd.**

On 20 September 2004, the Company together with its subsidiaries, Anhui Tongling Conch Cement Co., Ltd. and Anhui Digang Conch Cement Co., Ltd. invested in Wuhu Conch Cement Co., Ltd. in Fanchang County, Anhui Province, contributing RMB51 million, representing 51% of its registered capital of RMB100 million.

(7) **Hunan Conch Cement Co., Ltd.**

On 18 November 2004, the Company together with its subsidiary, Anhui Huaining Conch Cement Co., Ltd. invested in Hunan Conch Cement Co., Ltd. in Xinhua County, Hunan Province, contributing RMB45 million, representing 90% of its registered capital of RMB50 million.

(8) **Yingde Conch Cement Co., Ltd.**

On 27 December 2004, the Company together with its subsidiary, Anhui Huaining Conch Cement Co., Ltd. invested in Yingde Conch Cement Co., Ltd. in Yingde Municipal, Guangdong Province, contributing RMB135 million, representing 90% of its registered capital of RMB150 million.

### (III) Major Subsidiaries and Associates

As at 31 December 2004, the Company owned 34 subsidiaries ("subsidiaries") and 3 associates ("associated companies"). Please refer to Notes 12 and 13 to the Financial Statements prepared in accordance with the IAS of this report for details. Details of major subsidiaries with its net assets accounting for 5% of the Group's net assets are as follows:

Rank	Name	Registered capital (RMB'million)	Total assets (RMB'million)	Net profit (RMB'million)
1	Anhui Ningguo Cement Plant	649.35	1,539.06	346.26
2	Anhui Conch Cement Product Co., Ltd.	256.14	374.38	62.09
3	Anhui Tongling Conch Cement Co., Ltd.	565.00	2,643.51	294.39
4	Anhui Digang Conch Cement Co., Ltd.	150.00	768.23	162.09
5	Anhui Zongyang Conch Cement Co., Ltd.	300.00	1,321.68	211.60
6	Anhui Chizhou Conch Cement Co., Ltd.	318.00	1,947.87	272.78

The above companies are principally engaged in the production and sale of cement and commodity clinker.



*Meeting of the board of directors of the Company*

### **(IV) Daily Operations of the Board of Directors**

Major matters resolved and approved by the board of the directors during the reporting period are as follows:

1. On 16 March 2004, the thirteenth meeting of the second session of the board of directors considered and passed the resolutions relating to the annual report for 2003, and resolutions relating to the re-appointment of the PRC and the international auditors of the Company, the nomination of candidates for the third session of the board of directors and supervisory committee, and the proposed remuneration packages.
2. On 26 March 2004, the board of directors approved the Company's investment in Jiangsu Baling Conch Cement Co., Ltd..
3. On 1 April 2004, the board of directors approved the Company's investment in Maanshan Conch Cement Co., Ltd..
4. On 2 April 2004, the board of directors approved the Company's investment in Anhui Xuancheng Conch Cement Co., Ltd..
5. On 29 April 2004, the fourteenth meeting of the second session of the board of directors considered and passed the resolutions relating to the ongoing connected transactions among the Company, Shanghai Conch Construction Material International Trading Company Limited and Shanghai Conch Logistics Company Limited, as well as the resolutions relating to the modification of certain terms of the articles of association of the Company.



### (IV) Daily Operations of the Board of Directors *(Continued)*

6. On 27 April 2004, the board of directors approved the “First Quarterly Report for 2004” submitted by the Company.
7. On 9 August 2004, the second meeting of the third session of the board of directors considered and approved the interim (half-yearly) report for 2004 and its related resolutions.
8. On 20 August 2004, the board of directors approved the investment in Wuhu Conch Cement Co., Ltd..
9. On 27 September 2004, the board of directors approved the investment of in Hunan Conch Cement Co., Ltd..
10. On 16 November 2004, the board of directors considered and passed the resolutions relating to the connected transaction for the acquisition of 49% equity interest of Fengyi Conch Cement Co., Ltd..
11. On 18 November 2004, the board of directors approved the investment in Guangxi Xingye Conch Cement Co., Ltd..
12. On 28 November 2004, the board of directors approved the investment in Guangxi Fusui Conch Cement Co., Ltd..
13. On 2 December 2004, the board of directors approved the capital increase of Anhui Huaining Conch Cement Co., Ltd. by cash of the Company so as to increase its registered capital from RMB50 million to RMB150 million.
14. On 25 December 2004, the board of directors approved the investment in Yingde Conch Cement Co., Ltd..
15. On 29 December 2004, the board of directors considered and passed the resolutions relating to the acquisition of 49% equity interest of Shuangfeng Conch Cement Co., Ltd..

#### **Execution of resolutions passed at the general meetings by the board of directors**

During the reporting period, the board of directors executed the resolutions passed at the general meetings in a prudent manner as follows:

1. In accordance with the dividend appropriation proposal passed at the 2003 annual general meeting, based on the total number of 1,255,680,000 shares as at the end of 2003, the Company distributed a cash dividend of RMB0.10 per share (inclusive of tax) to all of its shareholders. The total dividend payment amounted to RMB125,568,000.



### (IV) Daily Operations of the Board of Directors *(Continued)*

#### **Execution of resolutions passed at the general meetings by the board of directors** *(Continued)*

2. To determine the remuneration of PricewaterhouseCoopers Zhong Tian, the PRC auditor of the Company, and PricewaterhouseCoopers, the international auditor of the Company, pursuant to the authority granted at the 2003 annual general meeting.
3. To determine the remuneration of each of the directors and supervisors of the third session of the board of directors and supervisory committee pursuant to the authority granted at the 2003 annual general meeting.

### (V) Profit Appropriation Proposal

According to the financial data prepared in accordance with the PRC Accounting Standards and the IAS respectively, profit after tax and minority interests of the Group for 2004 were RMB1,008.827 million and RMB960.919 million respectively. The board of directors recommended to make appropriations in respect of the profit for the period ended 31 December 2004 as follow:

- (1) 10% of profit after tax and minority interests, based on the statutory accounts prepared in accordance with the PRC Accounting Standards, amounting to approximately RMB209.80 million is recommended to be transferred to the statutory surplus reserve fund pursuant to the articles of association of the Company;
- (2) 5 to 10% of profit after tax and minority interests, based on the statutory accounts prepared in accordance with the PRC Accounting Standards, amounting to approximately RMB191.74 million, is recommended to be transferred to the statutory public welfare reserve pursuant to the articles of association of the Company;
- (3) based on 1,255,680,000 shares in the total share capital as at 31 December 2004, a total of RMB163.2384 million is recommended to be appropriated for payment of final dividend of RMB0.13 per share (inclusive of tax);
- (4) the above profit appropriation proposal is subject to consideration and approval by shareholders at the 2004 annual general meeting.

### (VI) Taxation

Details of taxation are set out in Note 5 to the Financial Statements prepared in accordance with the IAS, and Note 3 "Taxation" and Note 5(35) to the Financial Statements prepared in accordance with the PRC Accounting Standards.

## **(VII) Major Customers and Suppliers**

For the financial year ended 31 December 2004, in respect of the Group's operating business, sales to the Group's five largest customers amounted to RMB233 million which accounted for 2.78% of the Group's total sales. Sales to the largest customer accounted for 0.66% of its total sales. Purchases from the Group's five largest suppliers amounted to RMB1,080 million, which accounted for 16.67% of the Group's total purchases. Purchases from the largest supplier accounted for 7.13% of its total purchases.

Save as disclosed above, none of the directors, supervisors, or their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the Company or, as far as the board of directors is aware, any shareholder holding 5% or more equity interests in the Company had any interests in the five largest customers or suppliers of the Company for the year ended 31 December 2004. All payments for the principal raw materials and energy consumed by the Group were denominated in RMB.

## **(VIII) Leasehold Land, Building, Plant and Equipment**

Details of movements in leasehold land, building, plant and equipment of the Company during the year ended 31 December 2004 are set out in Notes 9 and 10 to the Financial Statements prepared in accordance with the IAS.

## **(IX) Total Assets**

As at 31 December 2004, the total assets of the Group determined in accordance with the IAS was approximately RMB15,897.32 million, representing an increase of approximately RMB2,750.74 million over last year.

## **(X) Reserves**

Details of movements in various reserves of the Company and the Group during the year ended 31 December 2004, are set out in Note 24 to the Financial Statements prepared in accordance with the IAS.

## **(XI) Deposits, Loans and Interest Capitalised**

Details of the deposits and loans of the Company as at 31 December 2004 are set out in Note 21 to the Financial Statements prepared in accordance with the IAS. These deposits and loans are placed with creditworthy commercial banks. The Group did not have any trust deposit nor any fixed deposits that could not be withdrawn upon maturity. Interest capitalised under work-in-progress during the year amounted to RMB27.7 million. Details are set out in Note 27(c) to the Financial Statements prepared in accordance with the IAS.

## **(XII) Transactions in its Securities**

As at 31 December 2004, the Group did not issue or grant any convertible securities, options, warrants or other similar rights. Besides, as at 31 December 2004, the Group did not have any redeemable securities.

### **(XIII) Other Events**

1. During the year ended 31 December 2004, the holders of the listed securities of the Company, according to its status under the laws of the PRC, were not entitled to any relief from taxation by virtue of their holding of such securities.
2. As the operating activities in foreign currency of the Group is limited, there is no significant exposure to exchange rates and any related hedging.

### **(XIV) Exposition and Independent Opinion of Independent Directors on the External Guarantee Provided by the Companies**

The Company strictly follows the Articles and the relevant requirements of Document Zheng Jian Fa 2003 No. (56) the “Notice on Certain Issues Relating to Fund Transfer between Listed Company and their Related Parties and Guarantees Provided by Listed Companies” promulgated by the China Securities Regulatory Commission , so as to regulate and control the risks of the Company in its provision of external guarantee.

During the reporting period, the external guarantee provided by the Company was guarantee for the loans raised by its subsidiaries, and was provided upon the approval of the board of directors. The Company did not provide any guarantee for controlling shareholder or any related party, non-legal person unit, or individual person who holds less than 50% of shareholding in the Company. The controlling shareholder and other related parties did not compel the Company to provide guarantee to any other parties.

### **(XV) Special Exposition by Certified Public Accountants on the Fund Occupied by the Controlling Shareholder and Other Related Parties of the Company**

In accordance with the requirements of the “Notice on Certain Issues Relating to Fund Transfer between Listed Company and their Related Parties and Guarantees Provided by Listed Companies” promulgated by the China Securities Regulatory Committee and the State-owned Assets Supervision and Administration Committee of the State Council (Document Zheng Jian Fa [2003] No. 56), the Company’s PRC auditor PricewaterhouseCoopers Zhong Tian Certified Public Accountants Company Limited, after conducting a special audit on the fund occupied by the controlling shareholder and other related parties of the Company, issued an exposition on the special audit. In 2004, there was no occupation of the Company’s fund by its controlling shareholder or other related parties other than those amounts arising from the ordinary course of business and pending settlement.