

(I) Corporate governance

During the Reporting Period, the Company has made strenuous efforts to enhance its structure of corporate governance and standardize its operations in order to strictly comply with the spirit of the relevant documents in relation to the corporate governance and operations standardisation promulgated by the China Securities Regulatory Commission, as well as the Listing Rules of the Stock Exchange and the Listing Rules of the Shanghai Stock Exchange. The assets of the Company are intact and its business is independent. Its staff, organisation and finance are independent from the controlling shareholder. Each of the general meeting of the shareholders of the Company, the Board and the supervisory committee of the Company has discharged its own duties in a way to ensure there was an independent, effective and transparent decision-making process. The independent directors and external supervisors of the Company have worked diligently and performed their own duties effectively with fruitful results gained during the development of the Company. The management team appointed by the Board worked exclusively for the Company without concurrently holding positions with the controlling shareholder.

(II) Implementation of the profit allocation proposal

The resolution regarding the profit allocation proposal for 2004 was passed at the 2004 annual general meeting of the Company held on 18 May 2005. Based on the total number of shares of 1,255,680,000 as at the end of 2004, a final dividend of RMB0.13 per share (tax included) was paid, making up a total of RMB163.2384 million. On 15 June 2005, the said dividend was paid to all shareholders whose name appeared on the register of members on the registration date of entitlement.

In accordance with the relevant requirements of Supplementary Notice in respect of Individual Income Taxes Policy relating to Bonus Dividends (關於股息紅利有關個人所得稅政策的補充通知) (Cai Shui [2005] No. 107 財稅 [2005] 107 號) jointly promulgated by the Ministry of Finance and the State Administration of Taxation on 24 June 2005, individual investors are entitled to enjoy a preferential tax treatment of a 50% reduction on taxable income in respect of the 2004 cash dividends paid by the Company on 15 June 2005. On 13 July 2005, the Company refunded the income tax withheld, totalling RMB1.9223 million to all individual investors of A shares whose names appeared on the register of members on the registration date of entitlement.

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No profit allocation proposal was implemented by the Company and no surplus reserve was transferred to share capital during the first half of 2005.

(III) Material litigation and arbitration

For the six months ended 30 June 2005, the Group was not involved in any litigation or arbitration, which might have a significant impact on the Group's business operation, nor were any of the directors, supervisors or senior management of the Group involved in any material litigation or arbitration.

(IV) Material acquisitions, disposals and reorganisations of assets

1. Equity acquisition and capital increase of Conch Jianan

On 28 April 2005, the Company and Conch Holdings entered into the Equity Transfer and Capital Increase Agreement pursuant to which the parties agreed to the transfer of the 95% equity interests in Anhui Wuhu Conch Construction and Installation Project Company Limited ("Conch Jianan") from Conch Holdings to the Company and the capital increase of Conch Jianan in proportions to their respective shareholdings subsequent to the aforesaid equity transfer.

Following the completion of aforesaid equity transfer and capital increase, the registered capital of Conch Jianan increased from RMB6.00 million to RMB10.00 million, of which Conch Holdings and the Company held 5% and 95% equity interests in Conch Jianan respectively, and Conch Jianan became a subsidiary of the Company.

The consideration for the transfer of 95% equity interests in Conch Jianan to the Company was RMB5.70 million and the capital contribution injected into Conch Jianan by the Company amounted to RMB3.80 million. The above equity transfer and capital increase were determined after arm's length negotiation between the parties and on normal commercial terms in accordance with the registered capital and net assets of Conch Jianan.

Conch Holdings is the controlling shareholder of the Company, and Conch Jianan, prior to the aforesaid capital increase, was a wholly-owned subsidiary of Conch Holdings. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of the Shanghai Stock Exchange, Conch Holdings and Conch Jianan are connected persons of the Company and the aforesaid equity transfer and capital increase constituted a connected

transaction. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of the Shanghai Stock Exchange, the said connected transaction is not subject to the independent shareholders' approval requirement. An announcement in respect of the said connected transaction was published in the PRC and Hong Kong respectively on 28 April 2005.

2. Xingye Project and Fusui Project

Xingye Project: On 24 May 2005, Xingye Kuiyang Conch Cement Company Limited ("Kuiyang Conch"), a subsidiary of the Company, and Guangxi Xingye Conch Cement Company Limited ("Xingye Company") entered into the Xingye Asset Disposal and Acquisition Agreement, pursuant to which Kuiyang Conch agreed to acquire from Xingye Company its cement and clinker production related assets, including machinery and equipment, construction materials, construction-in-progress, non-production ancillary facilities, land use rights, buildings and intangible assets such as limestone mining right, and assume Xingye Company's liabilities, including bank loans and certain payables. The final total consideration for Xingye Project paid by the Company amounted to RMB225,649,309.

Fusui Project: On 24 May 2005, Fusui Xinning Conch Cement Company Limited ("Xinning Conch"), a subsidiary of the Company, and Guangxi Fusui Conch Cement Company Limited ("Fusui Company") entered into the Fusui Asset Disposal and Acquisition Agreement, pursuant to which Xinning Conch agreed to acquire from Fusui Company its cement and clinker production related assets, including machinery and equipment, construction materials, construction-in-progress, non-production ancillary facilities, land use rights, buildings and intangible assets such as limestone mining right, and assume Fusui Company's liabilities, including bank loans and certain payables. The final total consideration for Fusui Project paid by the Company amounted to RMB239,989,678.

The final total consideration for Xingye Project and Fusui Project paid by the Company amounted to RMB462,638,987. The acquisitions of the above assets were already completed on 25 May 2005 and the applications for the relevant ownership certificates were also processing.

Subsequent to the acquisitions of the above projects, it is expected that the clinker production capacity and the cement grinding capacity of the Group would increase by 3.00 million and 3.20 million tonnes per annum

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respectively. The Company will capitalise on the close proximity of the convenient transportation system of the above acquired projects to expand the cement markets of the Group in south-eastern Guangxi and south-western Guangdong as well as the ASEAN (Association of Southeast Asian Nations) markets, which extend to Vietnam with Nanning of Guangxi as the centre. It is expected that the Group will increase its sales in those areas and drive the structural realignments within the cement industry in those regions. Both the production lines acquired under the Xingye Project and the Fusui Project have now commenced trial production.

Pursuant to the relevant requirements of the Listing Rules of the Stock Exchange, the Xingye Project and the Fusui Project constituted discloseable transactions. An announcement in respect of the said discloseable transactions was published in the PRC and Hong Kong respectively on 25 May 2005.

(V) Connected transactions relating to ordinary activities

1. Use of trademark

On 23 September 1997, the Company and its holding company, Conch Holdings entered into the Trademark Licensing Agreement, pursuant to which the Company was required to pay the holding company a royalty of RMB1.513 million. As at 30 June 2005, the royalty was RMB756,500, which had not been paid by the Company to the holding company during the Reporting Period. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of the Shanghai Stock Exchange, the connected transaction is not subject to the announcement and the independent shareholders' approval requirements.

2. Composite services

The Company and its holding company, Conch Holdings entered into the Composite Services Contract for a term of 10 years commencing on 1 September 1997 (date of establishment of the Company). Pursuant to the Contract, the Group had to pay the holding company a fee of RMB1.0846 million which had not been paid by the Company to the holding company during the Reporting Period, in return for the services, facilities and necessities provided to the Company or arranged by the holding company during the Reporting Period. Pursuant to the Listing Rules of the Stock

Exchange and the Listing Rules of the Shanghai Stock Exchange, the connected transaction is not subject to the announcement and the independent shareholders' approval requirements.

3. Supply of cement packaging bags

On 15 April 2005, the Company and Anhui Ningchang Packing Material Co., Ltd. ("Ningchang Packing") entered into the Procurement Agreement, pursuant to which the Company purchased cement packaging bags from Ningchang Packing and its subsidiaries, Yingde Conch Packing Material Co., Ltd., and Wuhu Hailuo Plastic Manufacturing Company Limited, at the trading prices to be determined by the parties through arm's length negotiations on the basis of fair market prices. Amounts payable to the relevant suppliers in respect of the package bags would be settled in the form of cash or bank cashier orders within a certain period after deliveries were received by the Group. Centralised procurement of cement packaging bags from the aforesaid companies helped to lower procurement costs and facilitated centralised management of the "Conch" brand name. During the Reporting Period, all cement packaging bags of the Group were purchased from the aforesaid companies and the aggregate amount paid for the purchases was RMB136.50 million. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of the Shanghai Stock Exchange, the connected transaction is not subject to the independent shareholders' approval requirements. An announcement in respect of the said connected transaction was published in the PRC and Hong Kong respectively on 15 April 2005.

4. Import and export agency

Pursuant to the Import and Export Agency and Sales Agreement entered into between the Company and Shanghai Conch Construction Material International Trading Company Limited ("Shanghai Conch") (which was already approved by the Company's first extraordinary general meeting of 2004), Shanghai Conch will export cement or clinker products, import clinker and purchase equipment for cement production from foreign suppliers for the Group. The said Import and Export Agency and Sales Agreement is valid for a period of three years from 1 January 2004 to 31 December 2006. The Group will pay Shanghai Conch a commission

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equivalent to 1.5% of each of the import or export deal. The Group should make the commission payment to Shanghai Conch upon completion of each import or export deal.

During the Reporting Period, all exports of cement and clinker and imports of equipment and components of the Group, amounting to RMB706.01 million, were conducted through Shanghai Conch as the agent, which was paid a total commission of RMB8.04 million by the Group.

5. Commodity sales

Pursuant to the aforesaid Import and Export Agency and Sales Agreement, the Group sold cement and clinker to Shanghai Conch at arm's length prices and terms. During the Reporting Period, the Group's sales of cement and clinker to Shanghai Conch amounted to 6,400 tonnes or RMB1.12 million in aggregate, accounting for 0.02% of the Group's sales of products.

6. Shipping services

Pursuant to the Transportation Agreement entered into between the Company and Shanghai Conch Logistics Company Limited ("Conch Logistics") (which was already approved by the Company's first extraordinary general meeting of 2004), Conch Logistics will provide non-exclusive shipping services for the delivery of cement and clinker products, coal ash and production accessory materials, as well as imported equipment to the Group. Having regard to the actual circumstances of the marine transportation market, the parties will determine a reasonable shipping fee by reference to the shipping tariff schedule published by the relevant department of transport from time to time. The said Transportation Agreement is valid for a period of three years from 1 January 2004 to 31 December 2006. Such shipping fees are payable by the Group to Conch Logistics within the period stipulated in the Agreement upon completion of the delivery of goods concerned.

During the Reporting Period, the shipping fees paid to Conch Logistics by the Group amounted to RMB106.0635 million, accounting for 28.47% of similar fees payable by the Group.

(VI) 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 material 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, external guarantees of the Company, which have been properly approved by the Board, were guarantees provided in respect of loans to subsidiaries. As at 30 June 2005, guarantees provided by the Company in respect of loans to subsidiaries aggregated RMB656.00 million and the amount of outstanding guarantees was RMB923.91 million, accounting for 17% of the net assets of the Company, all of which were joint guarantees currently in force.

3. During the Reporting Period, the Company did not make any significant appointment for the management of its cash or assets.

(VII) Appropriation of company funds by controlling shareholder and its subsidiaries

There was no appropriation of company funds by the controlling shareholder and other related parties during the Reporting Period, other than unsettled amounts arising in the normal course of business.

(VIII) Audit Committee

The Company has established an audit committee. The terms of reference adopted by the audit committee complied with the requirements of the Code Provisions. The audit committee is responsible for the review and supervision of the financial reporting process and the internal control system of the Group and the provision of advices and recommendation to the Board. The audit committee has reviewed the interim report of 2005.

(IX) Taxation

Details of taxation are set out in Note 13 “Income Tax Expense” to the financial statements.

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(X) Index of other important information

During the Reporting Period, other important information of the Company was published as follows:

No.	Matter	Date of Publication	Media	Page
1.	Announcement in respect of the equity transfer of Shuangfeng Conch	2005.1.5	Shanghai Securities Journal China Securities Journal Hong Kong Wen Wei Po The Standard	C8 24 A6 B26
2.	Announcement in respect of the summary of annual report 2004 Announcement in respect of resolutions of the fourth meeting of the third session of the Board Announcement in respect of resolutions of the third meeting of the third session of the Supervisory Committee	2005.3.23	Shanghai Securities Journal China Securities Journal Hong Kong Wen Wei Po China Daily	C8 C15 A17 8
3.	Connected transaction announcement Notice of annual general meeting 2004	2005.4.1	China Securities Journal Shanghai Securities Journal Hong Kong Wen Wei Po China Daily	B09 C24 A11 16
4.	Announcement in respect of delay in appointment of the qualified accountant	2005.4.11	China Securities Journal Shanghai Securities Journal Hong Kong Wen Wei Po China Daily	C03 16 A35 12
5.	Continuing connected transaction announcement (purchase of cement packaging bags)	2005.4.18	China Securities Journal Shanghai Securities Journal Hong Kong Wen Wei Po The Standard	C04 16 A18 7
6.	2005 First quarterly results Announcement in respect of the forecast of the 2005 interim results	2005.4.28	China Securities Journal Shanghai Securities Journal Hong Kong Wen Wei Po China Daily	C29 C17 D7 23
7.	Connected transactions announcement	2005.4.29	China Securities Journal Shanghai Securities Journal Hong Kong Wen Wei Po China Daily	C47 C44 A54 20
8.	Announcement in respect of resolutions of the annual general meeting 2004	2005.5.19	China Securities Journal Shanghai Securities Journal Hong Kong Wen Wei Po China Daily	C03 C4 B3 3

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No.	Matter	Date of Publication	Media	Page
9.	Announcement (election of chairman of the Supervisory Committee)	2005.5.20	China Securities Journal	C02
			Shanghai Securities Journal	C9
			Hong Kong Wen Wei Po	B7
			China Daily	7
10.	Announcement (resignation of independent director)	2005.5.24	China Securities Journal	C06
			Shanghai Securities Journal	C9
			Hong Kong Wen Wei Po	B5
			China Daily	9
11.	Announcement in respect of asset acquisitions	2005.5.26	China Securities Journal	B07
			Shanghai Securities Journal	C4
			Hong Kong Wen Wei Po	A14
			China Daily	6
12.	Announcement in respect of the distribution of dividends for 2004	2005.6.1	China Securities Journal	C02
			Shanghai Securities Journal	B4
		2005.5.30	Hong Kong Wen Wei Po	A27
			China Daily	7
13.	Announcement in respect of the acquisitions of assets and relevant details	2005.6.24	China Securities Journal	B07
			Shanghai Securities Journal	C4
			Hong Kong Wen Wei Po	A20
			China Daily	9

The above announcements can be accessed by inputting the Company's stock code under "Listed Company Information Search" on the website of Shanghai Stock Exchange <http://www.sse.com.cn>.