

Report of the Board of Directors

(1) Principal operations

As the largest cement and clinker producer and seller in the PRC, the Group has been adhering to and developing its principal operations, namely the production and sales of different grades of cement and commodity clinker required for the production of high grade cement. The “Conch” brand produced by the Company has found wide applications for roads, bridges, houses and various landmark projects. It has also won the word of mouth of customers. Commodity clinker is mainly sold to cement grinding stations. In 2004, the “Conch” brand was honored as “Famous Trademark in China”.

(2) Principal investments during the Reporting Period

1. Material investment projects during the Reporting Period

(Unit: RMB' 000)

Item	Project name	Progress	Capital committed during the Reporting generated
1.	China Cement Plant Company Limited: The second clinker production line of daily production capacity of 5,000 tonnes of clinker	In production	152,980
2.	Baimashan Cement Plant: Clinker production line of daily production capacity of 5,000 tonnes with ancillary cement powder grinding system	In production	366,825
3.	Wuhu Conch Cement Company Limited Phase 1: 2 cement powder grinding production lines of daily production capacity of 5,000 tonnes of clinker and their ancillary cement powder grinding system	Under construction	150,140

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Item	Project name	Progress	Capital committed during the Reporting generated
4.	Yingde Conch Company Limited: 4 production lines of clinker of daily production capacity of 5,000 tonnes and their ancillary cement powder grinding system	1 line is in trial production and 3 others under construction	1,194,411
5.	Taicang Conch Company Limited: 1 production line of cement of annual production capacity of 1.65 million tonnes with powder grinding	In production	12,000
6.	Haimen Conch Cement Company Limited: 1 production line of cement of annual production capacity of 3.20 million tonnes with powder grinding	In production	111,233
7.	Maanshan Conch Cement Company Limited: 1 production line of cement of annual production capacity of 3.20 million tonnes with powder grinding	In production	167,406
8.	Jiangmen Conch Cement Company Limited: 1 production line of cement of annual production capacity of 3.20 million tonnes with powder grinding	In production	252,323
9.	Taizhou Conch Company Limited: 1 production line of cement of annual production capacity of 1.65 million tonnes with powder grinding	Under construction	62,278

2. Principal project companies invested during the Reporting Period

(i) **Xingye Kuiyang Conch Cement Company Limited**

On 18 April 2005, the Company jointly invested and established the Xingye Kuiyang Conch Cement Company Limited with its subsidiary Anhui Huaining Conch Cement Company Limited. The company is located in Xingye county of Guangxi autonomous region. Its registered capital is RMB200 million, of which RMB190 million was contributed by the Company, representing 95% of the registered capital.

(ii) **Fusui Xinning Conch Cement Company Limited**

On 18 April 2005, the Company jointly invested and established the Fusui Xinning Conch Cement Company Limited with its subsidiary Anhui Huaining Conch Cement Company Limited. The company is located in Fusui county of Guangxi autonomous region. Its registered capital is RMB200 million, of which RMB190 million was contributed by the Company, representing 95% of the registered capital.

(iii) **Xing'an Conch Cement Company Limited**

On 25 August 2005, the Company jointly invested and established the Xing'an Conch Cement Company Limited with its subsidiary Anhui Ningguo Cement Plant. The company is located in Xing'an county of Guangxi autonomous region. Its registered capital is RMB200 million, of which RMB180 million was contributed by the Company, representing 90% of the registered capital.

(iv) **Beiliu Conch Cement Company Limited**

On 6 September 2005, the Company jointly invested and established the Beiliu Conch Cement Company Limited with its subsidiary Anhui Tongling Conch Cement Company Limited. The company is located in Beiliu of Guangxi autonomous region. Its registered capital is RMB150 million, of which RMB135 million was contributed by the Company, representing 90% of the registered capital.

(v) **Zhanjiang Conch Cement Company Limited**

On 9 December 2005, the Company jointly invested and established the Zhanjiang Conch Cement Company Limited with its subsidiary Anhui Tongling Conch Cement Company Limited. The company is located in Zhanjiang of Guangdong Province. Its registered capital is RMB60 million, of which RMB54 million was contributed by the Company, representing 90% of the registered capital.

(vi) Yingde Conch Cement Company Limited

On 13 September 2005, the Company and Anhui Huaining Conch Cement Company Limited (a wholly-owned subsidiary of the Company, hereinafter “Huaining Conch”) increased capital contribution to Yingde Conch Cement Company Limited (“Yingde Conch”) respectively, and the increased capital amounted to RMB211.82 million, of which the Company contributed RMB197.8744 million, and Huaining Conch contributed RMB13.9456 million. The registered capital of Yingde Conch was increased from RMB150 million to RMB361.82 million, of which the Company’s percentage of contribution was increased from 90% to 92%, and the percentage of Huaining Conch was reduced from 10% to 8%.

On 18 December 2005, the Company, Huaining Conch and Prosperity Minerals (International) Limited (hereinafter “Prosperity Minerals”) signed the Capital Increase Agreement with a view to increasing the capital of Yingde Conch. The capital to be increased amounted to RMB218.18 million, of the which the Company is to contribute RMB73.18 million, and Prosperity Minerals is to contribute RMB145.00 million. Upon completion of the capital increase, the registered capital of Yingde Conch will be increased from RMB361.82 million to RMB580.00 million, of which the Company’s percentage of contribution will be approximately 70%, Huaining Conch, approximately 5%, and of Prosperity Minerals, 25%. As such, Yingde Conch will become a Sino-foreign joint venture. The capital increase has been approved on 15 March 2006 by the Foreign Trade and Economic Cooperation Office of Guangdong under YJMZZ[2006] No.132.

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(3) Principal controlling subsidiaries and associates

As at 31 December 2005, the Company has 48 controlling subsidiaries (“subsidiaries”) and 3 associates, details of which are set out in note 9 and 10 of the financial statements prepared according to the IAS in this report, and principal subsidiaries of which accounted for 5% of the net assets of the Group are set out below:

(Unit: RMB million)

Item	Name	Registered capital	Total assets	Net profit
1.	Anhui Ningguo Cement Plant	422.26	1,618.37	86.44
2.	Anhui Conch Cement Company	256.14	383.58	12.53
3.	Anhui Tongling Conch Cement Company Limited	565.00	2,978.12	192.88
4.	Anhui Digang Conch Cement Company Limited	150.00	666.88	35.75
5.	Anhui Zongyang Conch Cement Company Limited	300.00	1,113.74	111.72
6.	Anhui Chizhou Conch Cement Company Limited	318.00	1,942.98	80.38
7.	Yingde Conch Cement Company Limited	361.82	532.40	–

During the Reporting Period, principal subsidiaries of which accounted for 10% of the net profit of the Group are set out below:

(Unit: RMB million)

Item	Name	Income from principal operations	Profit from principal operations	Net profit
1.	Anhui Ningguo Cement Plant	753.55	207.50	86.44
2.	Anhui Tongling Conch Cement Company Limited	2,123.28	514.01	192.88
3.	Anhui Zongyang Conch Cement Company Limited	1,427.78	337.98	111.72
4.	Anhui Chizhou Conch Cement Company Limited	1,032.54	216.89	80.38

The principal operations of the above mentioned companies are the production and sales of cement, commodity clinkers.

(4) Daily work of the Board of Directors

Important matters resolved and approved by the Board of Directors during the Reporting Period are as follows:

1. On 22 March 2005, the fourth meeting of the third session of the Board was held at the conference room of the Company. Resolutions approved at the meeting were published in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and China Daily on 23 March 2005.
2. On 17 April 2005, the Board approved the connected transactions that the Company purchased cement packing bags from Anhui Ningchang Packing Material Co., Ltd. And Wuhu Hailu Plastic Manufacturing Company Limited. Details of the connected transactions were published in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and China Daily on 18 April 2005.
3. On 28 April 2005, the Board approved the connected transactions that the Company be transferred the shareholding of Anhui Wuhu Conch Construction and Installation Works Company Limited (“Conch Construction and Installation”) and increase the capital of Conch Construction and Installation. Details of the connected transactions were published in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and China Daily on 29 April 2005.
4. On 18 April 2005, the Board approved the investments in Xingye Kuiyang Conch Cement Company Limited and Fusui Xinning Conch Cement Company Limited.
5. On 27 April 2005, the Board considered and approved the First Quarterly Report in 2005 of the Company. Details of the First Quarterly Report were published in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and China Daily on 25 August 2005.
6. On 24 May 2005, the Board approved for the acquisitions by Xingye Kuiyang Conch Cement Company Limited and Fusui Xinning Conch Cement Company Limited of Guangxi Xingye Conch Cement Company Limited and Guangxi Fusui Conch Cement Company Limited and the related assets relating to the production of cement and clinker. Details of the relevant assets were published in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and China Daily on 26 May 2005.

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7. On 10 August 2005, the Board approved for the increase in capital contribution into Yingde Conch Cement Company Limited by the Company and its subsidiary Anhui Huaining Conch Cement Company Limited in the amount of RMB211.82 million; approved the Company and Anhui Ningguo Cement Plant to make a loan jointly from International Finance Corporation in the amount of RMB650 million for a term of 10 years.
8. On 24 August 2005, the Board considered and approved the 2005 interim report of the Company. Details of the interim report were published in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and China Daily on 25 August 2005.
9. On 25 August 2005, the Board approved the Company's investment in Xingan Conch Cement Company Limited.
10. On 6 September 2005, the Board approved the Company's investment in Beiliu Conch Cement Company Limited.
11. On 10 September 2005, the Board approved the Company's application for a total of consolidated bank credit facility of RMB150 million.
12. On 12 October 2005, the sixth meeting of the third session of the Board was held in the conference room of the Company. Resolution passed in the meeting were published in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and China Daily on 14 October 2005.
13. On 24 October 2005, the Board considered and approved the Third Quarterly Report for 2005. Details of the announcement on the Third Quarterly Report in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and China Daily on 25 October 2005.
14. On 25 October 2005, the Board approved the acquisition of Guangxi Guilin Conch Cement Company Limited and assets relating to the production of cement and clinker by Xing'an Conch Cement Company Limited.
15. On 15 November 2005, the Board approved the signing of a guarantee either by the Company and BNP (China) Bank with the Company as the guarantor in the amount of RMB800,000,000 for China Cement Plant a subsidiary of the Company.
16. On 19 December 2005, the Board approved the Company's investment in Zhanjiang Conch Cement Company Limited.

Implementation of the resolutions approved by the general meeting

During the Reporting Period, the Board resolved the resolutions approved by the shareholders. The implementation:

1. Profit distribution proposal for 2004:

On 18 May 2005, the 2004 Annual General Meeting of the Company considered and approved the resolution for profit distribution for 2004: the total share capital amounted to 1,255,680,000 shares, and a final dividend of RMB0.13 per share was distributed (including tax), totaling RMB163,238,400. These dividends have been distributed to all the shareholders whose name appeared on the register on the record date on 15 June 2005.

2. Determination of the remuneration of PRC and International auditors

Pursuant to the authorization by the shareholders at the 2004 Annual General Meeting, the remuneration for the PRC auditors PricewaterhouseCoopers Zhongtian and International auditors PricewaterhouseCoopers was determined.

(5) Profit distribution proposal

Based on the PRC Accounting Standards and IAS, the Group's profit after tax and minority interests for 2005 were RMB406.89 million and RMB385.83 respectively. The Board of the Group recommends the profit distribution for the year ended 31 December 2005 are as follows:

- (1) Pursuant to the Articles of Association, it recommends that based on the accounts prepared in accordance with the PRC Accounting Standards, the profit after tax and minority interests, after 10% for the statutory surplus reserve, the total is RMB98.273 million;
- (2) Pursuant to the Articles of Association, it recommends that based on the accounts prepared in accordance with the PRC Accounting Standards, the profit after tax and minority interests, after 5-10% for the statutory welfare fund, the total is RMB86.30 million;
- (3) Based on the total share capital of 1,255,680,000 shares as at 31 December 2005, a final dividend of RMB0.07 per share shall be distributed, totaling RMB87,897,600.
- (4) The aforesaid profit distribution proposal shall be considered and approved by the Annual General Meeting for 2005.

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(6) Taxation

Details of the taxation is set out in note 30 of the financial statements prepared in accordance with the IAS, Note 3 "Taxation" of the financial statements and in accordance with note 5(34) of the financial statements prepared in accordance with PRC Accounting Standards.

(7) Major customers and suppliers

For the financial year ended 31 December 2005, of the operations of the Group, sales of the five largest sales customers in aggregate was RMB281 million, representing 2.6% of the total sales of the Group; and the largest customer accounted for 0.64% of the total sales of the Group; the five largest suppliers in aggregate was RMB1,196 million, representing 13.75% of the total purchase of the Group; and the largest supplier accounted for 5.28% of the total purchase of the Group.

Other than 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) or to the knowledge of the Directors, persons interested in 5% or more of the issued shares of the Company has any interest in any of the five largest customers or five largest suppliers of the Group for the year ended 31 December 2005. The principal raw materials and energy used by the Group are denominated in RMB.

(8) Lease of land, real property, plants and equipment

For the year ended 31 December 2005, changes in the lease of land, real property, plants and equipment are set out in note 6 and 7 in the financial statements prepared in accordance with the IAS.

(9) Total assets

As at 31 December 2005, the Group's total assets as determined in accordance with the IAS amounted to approximately RMB19,171.53 million, an increase of approximately RMB3,274.21 million over last year.

(10) Reserve

Changes in the reserve of the Company and the Group for the year ended 31 December 2005 are set out in note 17 of the financial statements prepared in accordance with the IAS.

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(11) Deposits, loans and capitalized interest

Details of the Company's deposit and loans as at 31 December 2005 are set out in note 15 and 22 to the financial statements prepared in accordance with IAS. The banks for these deposits and loans are reputable commercial banks. The Group has no entrusted deposits or fixed deposits which cannot be withdrawn when they are due. During the year, interest capitalized for construction in progress amounted to RMB11.00 million, the details of which are set out in note 29 to the financial statements prepared in accordance with IAS.

(12) Risk of rate of foreign exchange and related hedging with financial instruments

As the Group's activities in foreign currencies operation are limited in scope, there is no significant risk in foreign exchange or any hedging.

(13) Change in newspapers for disclosure of information in the PRC

The specified newspapers for the Company to disclose information in the PRC changed from Shanghai Securities Journal and China Securities Journal to just Shanghai Securities Journal.

(14) External guarantees provided by the Company

Advice and independent opinion given by the independent directors
The Company strictly regulates the provision of external guarantees pursuant to the Articles of Association, and the requirements of the "Notice Concerning Matters for the Flows of Funds Between Listed Companies and Related Parties and Provision of External Guarantees" (ZJF2003(56) of CSRC) and the "Notice Concerning the Regulation of Listed Companies in their Provision of External Guarantees" (ZJF[2005]120) and control the risk of providing external guarantees. The Company's provision of external guarantee had been conducted according to the rules of decision and the relevant laws and regulations and the Articles of Association, and the information disclosed had been complete and adequate with risks sufficiently disclosed.