

## 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 various high grade cement and clinker required for the production of high grade cement. The “Conch” brand cement produced by the Company has been widely applied in 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. Not only has the “Conch” brand been honored as “Famous Trademark in China”, but it has also been rated as the first 300 “National Brand Names Under Special Protection” in the PRC.

### (2) Principal investments during the Reporting Period

#### 1. Principal investment projects during the Reporting Period

*(Unit: RMB'000)*

Item	Project name	Progress	Capital Committed during the Reporting Period
1.	The four clinker production lines of Prosperity Conch with a daily production capacity of 5,000 tonnes and their ancillary cement mills system	Completed and in production	556,623
2.	The four clinker production lines of Wuhu Conch with a daily production capacity of 5,000 tonnes and their ancillary cement mills system	3 completed and in production; 1 under construction	897,587
3.	The two clinker production lines of Xuancheng Conch with a daily production capacity of 5,000 tonnes and their ancillary cement mills system	Under construction	329,927
4.	The clinker production line of Beiliu Conch Cement Company Limited with a daily production capacity of 5,000 tonnes and its ancillary cement mill system	Under construction	217,572
5.	The cement mill project of Taizhou Conch Cement Company Limited with an annual production capacity of 1.65 million tonnes	Under construction	71,350
6.	The cement mill project of Baling Conch Cement Company Limited with an annual production capacity of 3.2 million tonnes	Under construction	150,029
7.	The cement mill project of Changfeng Conch with an annual production capacity of 1.10 million tonnes	Under construction	50,538
8.	The cement mill project of Qiangjiao Conch Cement Company Limited with an annual production capacity of 1.60 million tonnes	Under construction	48,988
9.	The cement mill project of Bangfou Conch Cement Company Limited with an annual production capacity of 1.60 million tonnes	Under construction	89,089
10.	The cement mill project of Zhanjiang Conch Cement Company Limited with an annual production capacity of 3.20 million tonnes	Under construction	44,760
11.	Residual heat power generation projects of Ningguo Cement plant, Jiande Conch, Chizhou Conch, Tongling Conch, Zongyang Conch, Digang Conch and Huaining Conch	The residual heat power generation project of Ningguo Cement Plant, Jiande Conch and Chizhou Conch have been completed and in operation, the other projects are under construction	353,348

## Report of the Board of Directors

### 2. Principal investments in project companies during the Reporting Period

#### (i) **Xiangshan Conch Cement Company Limited**

On 11 October 2006, the Company and its subsidiary Jiande Conch jointly invested in Xiangshan Conch Cement Company Limited. The company is located at Xiangshan County of Ningbo, Zhejiang. Its registered capital is RMB60 million, of which RMB54 million was contributed directly by the Company, representing 90% of the registered capital.

#### (ii) **Jiangdu Conch Cement Company Limited**

On 11 October 2006, the Company and its subsidiary Taizhou Yangwan Conch Company Limited jointly invested in Jiangdu Conch Cement Company Limited. The Company is located in Jiangdu, Jiangsu. Its registered capital is RMB150 million, of which RMB90 million was contributed directly by the Company, representing 60% of the registered capital.

#### (iii) **Shimen Conch Cement Company Limited**

On 18 October 2006, the Company and its subsidiary Shuangfeng Conch jointly invested in Shimen Conch Cement Company Limited. The Company is located in Shimen County, Hunan. Its registered capital is RMB180 million, of which RMB162 million was contributed directly by the Company, representing 90% of the registered capital.

#### (iv) **Yiyang Conch Cement Company Limited**

On 27 December 2006, the Company and its subsidiary Fenyi Conch Cement Company Limited jointly invested in Yiyang Conch Cement Company Limited. The Company is located in Yiyang County, Shangrao, Jiangxi. Its registered capital is RMB100 million, of which RMB90 million was contributed directly by the Company, representing 90% of the registered capital.

### (3) Principal controlling subsidiaries and associates

As at 31 December 2006, the Company had 51 subsidiaries (“subsidiaries”) and 3 interested companies (“associates”), details of which are set out in note 17 and 18 of the financial statements prepared in accordance with IFRS in this report.

## Report of the Board of Directors

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

(Unit: RMB million)

Item	Name	Sales from Principal Activities	Profit from Principal Activities	Net profit
1.	Anhui Ningguo Cement Plant	778.27	250.72	150.64
2.	Tongling Conch	2,429.56	729.00	279.07
3.	Zongyang Conch	1,640.00	529.24	214.60
4.	Chizhou Conch	1,194.13	408.55	206.47
5.	Huaining Conch	842.04	288.95	143.04

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

### (4) Daily work of the Board

Major matters resolved and approved by the Board during the Reporting Period are as follows:

1. On 4 January 2006, the seventh meeting of the third session of the Board was held at the conference room of the Company, which considered and approved resolutions such as the operation plan of the Company for 2006, the project investment plan for 2006, and increase in capital contribution in Prosperity Conch and the establishment of a joint venture with foreign investment.
2. On 15 February 2006, the Board considered and approved the resolution to increase the capital contribution in Prosperity Conch.
3. On 25 April 2006, the Board held the eighth meeting of the third session of the Board in the conference room of the Company. Details of the meeting and resolutions considered and passed were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 26 April 2006.
4. On 25 April 2006, the Board approved the motion put forward by the Remuneration and Nomination Committee on the monthly salaries and the level of annual salaries for the senior management of the Company.
5. On 2 June 2006, the Board considered and approved the resolution concerning the transfer to the Company certain shares in Anhui Chaodong Cement Company Limited ("Chaodong") held by Chaodong Group. Details of the meeting and the resolution considered and passed were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 5 June 2006.

## Report of the Board of Directors

6. On 14 July 2006, the Board held the ninth meeting of the third session of the Board in the conference room of the Company. Details of the meeting of the Board and the resolutions considered and passed were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 17 July 2006.
7. On 22 August 2006, the Board considered and approved the resolution for the increase in capital contribution in Taizhou Yangwan Conch Cement Company Limited.
8. On 22 August 2006, the Board held the tenth meeting of the third session of the Board in the conference room of the Company and considered and approved the unaudited financial statements for the six months ended 30 June 2006 prepared in accordance with the PRC Accounting Standards and the IFRS respectively, the 2006 interim report and its summary, the interim results announcement.
9. On 28 August 2006, the Board considered and approved the resolution for the increase in capital contribution in Bangfou Conch Cement Company Limited.
10. On 10 September 2006, the Board considered and approved the resolution for the increase in capital contribution in Wuhu Conch.
11. On 25 October 2006, the Board considered and approved the resolution to put forward to the independent shareholders to approve the waiver of Conch Holdings from the obligation to make the general offer, approving the waiver of Conch Holdings and parties acting in concert with it from the obligation to make a mandatory general offer, considered and approved the resolution in connection with the circular to shareholders and its verification notes, the format, contents and the dispatch thereof, and the resolution regarding the notice to convene the first extraordinary general meeting for 2006, the first class meeting of H shareholders for 2006 and the first class meeting of domestic shareholders for 2006.
12. On 25 October 2006, the Board considered and approved the resolutions concerning the continued connected transactions regarding Digang Conch, Zongyang Conch, Chizhou Conch and Tongling Conch.
13. On 30 October 2006, the Board considered and approved the third quarterly report for 2006. Details of the announcement on the third quarterly report were published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily on 31 October 2006.

## Report of the Board of Directors

14. On 17 November 2006, the Board considered and approved the increase of the acquisition price per share for the acquisition of Chaodong shares by the Company.

### **Implementation by the Board of the resolutions approved by the general meeting**

During the Reporting Period, the Board implemented the resolutions approved by the general meetings as follows:

1. Profit distribution proposal for 2005:

On 16 June 2006, the annual general meeting of the Company for 2005 considered and approved the resolution for profit distribution proposal for 2004; on the basis of the total share capital of 1,255,680,000 shares by the end of 2004, a final dividend of RMB0.07 per share (including tax), was distributed, totaling RMB87.8976 million. The dividends were distributed to all the shareholders on 11 July 2006 whose name appeared on the register on the record date.

2. Determination of the remuneration of PRC and International auditors

Pursuant to the authorization by the annual general meeting for 2005, the remuneration for the PRC auditors KPMG Huazhen and International auditors KPMG was determined.

### **(5) Profit distribution proposal**

Based on the financial data prepared in accordance with the PRC Accounting Standards and the IFRS, the Group's profit after tax and minority interests for 2006 amounted to RMB1,427.93 million and RMB1,482.79 million respectively. The Board of the Company recommends the profit distribution for the year ended 31 December 2006 as follows:

- (1) Pursuant to the Articles of Association, it recommends that based on the financial statements prepared in accordance with the PRC Accounting Standards, 10% of the profit after tax and minority interests shall be reserved for the statutory surplus reserve for the Company and its subsidiaries respectively, the total amount is approximately RMB296.99 million;
- (2) The payment of a final dividend of RMB0.20 (including tax) per share. Pursuant to the Assets Purchase Agreements signed by the Company with Conch Holdings and Conch Venture respectively which have been approved by the first general meeting in 2006, the Company intends to issue 22,755,147 A shares and 287,999,046 A shares to Conch Holdings and Conch Venture respectively, and the rolled over profit of the Company shall be shares by existing and new shareholders. Upon the completion of the issue of the aforesaid shares, the total share capital of the Company will increase from 1,255,680,000 shares to 1,566,434,193 shares. If the aforesaid issue of

## Report of the Board of Directors

shares is approved by CSRC and the issue of shares is completed before the record date for the final dividend, the Company will pay the final dividend based on 1,566,434,193 shares for a total dividend of RMB313.2868 million; otherwise, the Company will pay final dividend based on the total share capital of 1,255,680,000 shares for a total of RMB251.136 million.

- (3) The aforesaid profit distribution proposal shall be presented to the annual general meeting for 2006 for approval.

### **(6) Taxation**

Details of the taxation is set out in note 7 to the financial statements prepared in accordance with IFRS, and in accordance with note 4 "Taxation".

### **(7) Major customers and suppliers**

For the financial year ended 31 December 2006, the aggregate sales of the Group's five largest sales customers amounted to RMB406 million, representing 2.66% of the total sales of the Group; and the largest customer accounted for 1.41% of the total sales of the Group; the aggregate purchase from the five largest suppliers amounted to RMB2,153 million, representing 16.68% of the total purchase of the Group; and the largest supplier accounted for 6.88% of the total purchase of the Group.

Other than 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 interest in any of the five largest customers or five largest suppliers of the Company for the year ended 31 December 2006. The major raw materials and energy used by the Company are denominated in RMB.

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

Changes in the lease of land, real property, plants and equipment of the Company for the year ended 31 December 2006 are set out in note 14 to the financial statements prepared in accordance with IFRS.

### **(9) Total assets**

As at 31 December 2006, the Group's total assets as determined in accordance with IFRS amounted to approximately RMB22,272.43 million, an increase of approximately RMB3,100.91 million over last year.

## Report of the Board of Directors

### **(10) Reserves**

Changes in the reserves of the Company and the Group for the year ended 31 December 2006 are set out in note 34 of the financial statements prepared in accordance with IFRS.

### **(11) Deposits, loans and capitalized interest**

Details of the Company's deposit and loans as at 31 December 2006 are set out in notes 28, 29 and 30 to the financial statements prepared in accordance with IFRS. 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 RMB23.68 million, the details of which are set out in note 6 to the financial statements prepared in accordance with IFRS.

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

As the Group's activities in foreign currencies 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 newspapers for the Company to disclose information in the PRC has not changed, which is Shanghai Securities Journal.