

(I) Corporate governance

During the Reporting Period, the Company has made strenuous efforts to enhance its structure of corporate governance and standardise 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 meetings of the Company, meetings of 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 2005 was passed at the 2005 annual general meeting of the Company held on 16 June 2006. Based on the total number of shares of 1,255,680,000 as at the end of 2005, a final dividend of RMB0.07 per share (tax included) was paid, making up a total of RMB87.8976 million. On 11 July 2006, the said dividend was paid to all shareholders whose name appeared on the register of members on the registration date of entitlement.

No profit allocation proposal was implemented by the Company and no surplus reserve was transferred to share capital during the first half of 2006.

(III) Material litigation and arbitration

For the six months ended 30 June 2006, 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. Xingye Project and Fusui Project

Details of the acquisition of the cement and clinker production-related assets of Guangxi Xingye Conch Cement Company Limited by Xingye Kuiyang Conch Cement Company Limited, a subsidiary of the Company and the acquisition of the cement and clinker production-related assets of Guangxi Fusui Conch Cement Company Limited by Fusui Xinning Conch Cement Company Limited, a subsidiary of the Company, were disclosed in the 2005 Annual Report of the Company.

The acquisition of the assets by Xingye Project and Fusui Project were completed on 25 May 2005. As at the date of this Interim Report, the transfers of the land ownership certificates for both projects were completed, but the transfer procedures in respect of the mining right certificates are still under progress.

2. Guilin Project

Details of the acquisition of the cement and clinker production-related assets of Guangxi Guilin Conch Cement Company Limited by Xingan Conch Cement Company Limited, a subsidiary of the Company, were disclosed in the 2005 Annual Report of the Company.

The acquisition of the assets by Guilin Project was completed on 25 October 2005. As at the date of this Interim Report, the transfers of the land ownership certificates for Guilin projects were completed, but the transfer procedures in respect of the mining right certificates are still under progress.

3. Acquisition of some shares of Chaodong Joint Stock Company

Details of the acquisition of the shares of Anhui Chaodong Cement Joint Stock Company Limited (the “Chaodong Joint Stock Company”) by the Company were disclosed on 5 June 2006.

Significant Events

On 2 June 2006, the Company and Anhui Chaodong Cement Group Company Limited (the “Chaodong Group”) entered into a Share Transfer Agreement at Chaohu, Anhui Province, pursuant to which the Company agreed to acquire 39.3857 million shares (approximately 19.69% of the total number of shares of Chaodong Company) of Anhui Chaodong Cement Company Limited (“Chaodong Company”) held by Chaodong Group at a price of RMB2.38 per share for a total consideration of RMB93.738 million.

The said share transfer is subject to the approval of the relevant State-owned assets administration departments.

Subsequent to completion of the share transfer, the Company will hold 19.69% equity interests in Chaodong Company, which will facilitate the Company’s consolidation of its market share in the cement industry in Anhui Province, as well as the structural reform of the cement industry in that region. The said share transfer does not have any significant impact on the Company’s profit or loss position.

(V) Continuing 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 Contract, pursuant to which, the Company was required to pay the holding company an annual royalty for the use of trademark of RMB1.513 million. As at 30 June 2006, the royalty was RMB756,500, which had not been paid by the Company to the holding company during the Reporting Period.

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 which the Group had to pay the holding company a fee of RMB1.77 million. The fee has been paid by the Company to the holding company during the Reporting Period.

Significant Events

3. Supply of cement packaging bags

On 12 October 2005, the Company and Anhui Ningchang Plastic Package Co., Ltd. (“Ningchang Company”) entered into the Procurement Agreement, pursuant to which, the underlying transaction and its relevant annual cap were approved at the Company’s First Extraordinary General Meeting of 2005. During the Reporting Period, all cement packaging bags of the Group were procured from Ningchang Group (Ningchang Company, Wuhu Conch Plastic Products Co., Ltd. and Yingde Conch Plastic Packaging Co., Ltd.) and the aggregate transaction amount was RMB180.66 million (tax excluded).

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 (“Conch International Trading”) (which was already approved by the Company’s First Extraordinary General Meeting of 2004), Conch International Trading will export cement or clinker products, import clinker and purchase equipment for cement production from foreign suppliers for the Group.

During the Reporting Period, all exports of cement and clinker and imports of equipment and components of the Group, amounting to RMB1,538.07 million and RMB309.86 million, respectively, were conducted through Conch International Trading as the agent, which was paid total commissions of RMB25.56 million and RMB4.16 million, respectively, by the Group.

5. Commodity sales

Pursuant to the aforesaid Import and Export Agency and Sales Agreement, the Group sold cement and clinker to Conch International Trading at arm’s length prices and terms. During the Reporting Period, the Group’s sales of cement and clinker to Conch International Trading amounted to 49,556 tonnes or RMB7.38 million (tax excluded) in aggregate, accounting for 0.11% of the Group’s product sales.

6. Shipping services

Pursuant to the Transportation Agreement entered into between the Company and Shanghai Conch Logistics Company Limited (“Shanghai Logistics”) pursuant to which, the underlying transaction and its relevant annual cap were approved at the Company’s First Extraordinary General Meeting of 2004. During the Reporting Period, the shipping fees paid to Shanghai Logistics by the Group amounted to RMB365.25 million (tax excluded), representing 23.53% of similar fees of the Group.

(VI) Material contracts (in respect of custodian, subcontracting, leasing, guarantee and entrustment on fund management)

1. The Company was not involved in any material custody, subcontracting or leasing of assets of other companies, nor were any other companies involved in any material custody, subcontracting or leasing of assets of the Company during the Reporting Period or during the previous periods but subsisting in the Reporting Period.

2. Guarantees

- (1) During the Reporting Period, external guarantees given by the Company, which were properly approved by either the general meetings or the Board, were guarantees provided in respect of loans to subsidiaries. During the Reporting Period, the Company did not provide any guarantee which exceeded 50% of its latest audited net assets (the largest amount of any single occasion of guarantee did not exceed 10% of its latest audited net assets) nor for companies with a gearing ratio in excess of 70%.

During the Reporting Period, the Company provided guarantees in the amount of RMB100.00 million for its subsidiaries, all being guarantee of a joint and several nature. As at 30 June 2006, the balance of guarantees provided by the Group for its subsidiaries amounted to RMB1,743.00 million. The Company did not provide any guarantee for its controlling shareholder, de facto controlling owners, other related parties and any other entities which are not legal person bodies or individuals.

Significant Events

- (2) As at 30 June 2006, buildings and land use rights with carrying values of RMB67.91 million of Ningbo Conch Cement Company Limited, a subsidiary of the Company, were pledged to the bank as security for a long term loan of RMB60.00 million.
- (3) As at 30 June 2006, assets with carrying values of RMB431 million of Anhui Ningguo Cement Plant and the Baimashan Cement Plant of Anhui Conch Cement Company Limited were pledged to IFC as security for a long term loan of RMB650 million.

3. During the Reporting Period, there was no entrustment on fund management by the Company.

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

During the Reporting Period, the amount of the Company's funds used by the controlling shareholder and its subsidiaries amounted to RMB3.20 million which was fully settled on 29 April 2006.

An announcement in respect of the aforesaid matter was made on 16 May 2006.

(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 advice and recommendations to the Board. The audit committee has reviewed the interim report of 2006.

Significant Events

(IX) 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.	Report on changes in shareholding of shareholders	2006.1.6	Shanghai Securities Journal China Securities Journal	C14 C02
2.	Preliminary announcement on the Share Segregation Reform Proposal	2006.1.16	Shanghai Securities Journal China Securities Journal Hong Kong Wen Wei Po China Daily	C15 B22 B9 9
3.	Notice of General Meeting of A Shares Summary of Share Segregation Reform Proposal Report on seeking proxy by the Board	2006.1.17	Shanghai Securities Journal China Securities Journal Hong Kong Wen Wei Po China Daily	C11 B07 A28 16
4.	Status regarding communication and negotiation of the Share Segregation Reform Proposal and Announcement in respect of Amended Share Segregation Reform Proposal	2006.1.25	Shanghai Securities Journal China Securities Journal Hong Kong Wen Wei Po China Daily	C15 B23 A21 10
5.	First Indicative Announcement in respect of the General Meeting of A Shares	2006.2.8	Shanghai Securities Journal China Securities Journal	C13 C04
6.	Second Indicative Announcement in respect of the General Meeting of A Shares	2006.2.16	Shanghai Securities Journal	C4
7.	Announcement in respect of the approval of the Share Segregation Reform Proposal by the State-owned Assets Supervision and Administration Commission	2006.2.16	Shanghai Securities Journal Hong Kong Wen Wei Po China Daily	C4 A28 10
8.	Announcement in respect of the voting results of the General Meeting of A Shares on Share Segregation Reform	2006.2.21	Shanghai Securities Journal China Securities Journal Hong Kong Wen Wei Po China Daily	C24 B09 A23 5

Significant Events

No.	Matter	Date of Publication	Media	Page
9.	Announcement in respect of the implementation of the Share Segregation Reform Proposal	2006.2.21	Shanghai Securities Journal	C41
10.	Announcement in respect of the pledge of shares	2006.3.2	Shanghai Securities Journal China Securities Journal Hong Kong Wen Wei Po China Daily	C24 C12 A11 11
11.	Announcement in respect of the adjustments to the number and pricing of shares to be transferred to MS and IFC	2006.4.4	Shanghai Securities Journal Hong Kong Wen Wei Po China Daily	C36 A21 15
12.	Summary of 2005 Annual Report and First Quarterly Report of 2006	2006.4.26	Shanghai Securities Journal Hong Kong Commercial Daily China Daily	B25 B7-9 10
13.	Notice of 2005 Annual General Meeting	2006.4.28	Shanghai Securities Journal Hong Kong Wen Wei Po China Daily	B56 B5 11
14.	Announcement in respect of the approval of the transfers of shares to MS and IFC by the State-owned Assets Supervision and Administration Commission	2006.5.9	Shanghai Securities Journal Hong Kong Commercial Daily China Daily	B18 A5 8
15.	Announcement in respect of the appointment of auditors	2006.5.12	Shanghai Securities Journal Hong Kong Commercial Daily China Daily	B30 B2 9
16.	Supplementary announcement in respect of the First Quarterly Report of 2006	2006.5.16	Shanghai Securities Journal Hong Kong Commercial Daily China Daily	B14 B3 16
17.	Announcement in respect of the connected transaction arising from the purchase of Anhui Chaodong Cement Joint Stock Company Limited	2006.6.5	Shanghai Securities Journal Hong Kong Commercial Daily China Daily	B24 B4 10

Significant Events

No.	Matter	Date of Publication	Media	Page
18.	Announcement in respect of the resolutions of the 2005 Annual General Meeting	2006.6.19	Shanghai Securities Journal Hong Kong Commercial Daily China Daily	B22 A8 7
19.	Announcement in respect of the distribution of dividend for 2005	2006.6.29	Shanghai Securities Journal Hong Kong Commercial Daily China Daily	B11 B2 10

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>.

(X) Significant events after the Reporting Period

On 21 August 2006, the Company as purchaser and Conch Holdings as vendor entered into a sale and purchase agreement ("Conch Holdings Sale and Purchase Agreement") pursuant to which the parties conditionally agreed to transfer the 100% equity interest in Anhui Ningchang Plastic Package Co. Limited ("Ningchang Company"), 75% equity interest in Wuhu Conch Plastic Products Co. Limited ("Wuhu Plastic") and 100% equity interest in Shanghai Conch Construction Material International Trading Company Limited ("Conch International Trading"). In accordance with the Conch Holdings Sale and Purchase Agreement, the Company will issue an aggregate of 22,755,147 A Shares to Conch Holdings as payment for the consideration for such acquisitions which amounts to a total of RMB302,643,500. Both Ningchang Company and Wuhu Plastic are principally engaged in the production and sales of cement packaging bags. Conch International Trading is principally engaged in the import and export of clinkers and cement products and provision of logistic services.

Significant Events

On 21 August 2006, the Company as purchaser and Anhui Conch Venture Investment Company Limited (“Conch Venture”) as vendor entered into a sale and purchase agreement (“Conch Venture Sale and Purchase Agreement”) pursuant to which the parties conditionally agreed to transfer the 49% equity interest in Anhui Digang Conch Cement Co. Ltd. (“Digang Conch”), 49% equity interest in Anhui Zongyang Conch Cement Co. Limited (“Zongyang Conch”), 49% equity interest in Anhui Chizhou Conch Cement Co., Ltd. (“Chizhou Conch”) and 31.86% equity interest in Anhui Tongling Conch Cement Co. Ltd. (“Tongling Conch”). In accordance with the Conch Venture Sales and Purchase Agreement, the Company will issue an aggregate of 287,999,046 A Shares to Conch Venture as payment for the consideration for such acquisitions which amounts to a total of RMB3,830,387,300. Digang Conch, Zongyang Conch, Chizhou Conch and Tongling Conch are all principally engaged in the production of cement and/or clinker products.