

1. MATERIAL LITIGATION AND ARBITRATION

- (i) Regarding the legal proceedings commenced by China New Model Construction Materials (Group) Corporation (“China New Model”) in the High Court of Anhui Province against the Company in respect of “loans converted from state-allocated funds” being converted into shareholders’ equity, China New Model withdrew on 6 June 2002 the action it filed against the Company in the relevant court which granted a consent order on the same day.
- (ii) For the year ended 31 December 2002, none of the directors, supervisors and senior management of the Group were involved in any material litigation.

2. ACQUISITION OF MATERIAL ASSETS

During the reporting period, Zhongguo Cement Plant Company Limited, a subsidiary of the Company, acquired from Nanjing Huajian Properties (Group) Limited (an independent third party) assets of Zhongguo Cement Plant (a subsidiary of Nanjing Huajian Properties (Group) Limited) which are related to cement production and operations, as well as the related liabilities and interests. The total consideration for the acquisition amounted to RMB383.228 million.

The acquisition has no adverse effect on the continuity of the business nor the stability of the management of the Company.

3. SIGNIFICANT CONNECTED TRANSACTION

(i) Trademark Licensing Agreement

On 23 September 1999, the Company and Holdings entered into a “Trademark Licensing Agreement”, pursuant to which the Company is required to pay a royalty of RMB1.513 million per annum to Holdings for the use of the trademarks. The entire sum of the royalty for the year ended 31 December 2002 has been paid by the Company and duly reviewed by the auditors.

(ii) Composite Services Agreement

The Company and Holdings entered into a “Composite Service Agreement” for a term of 10 years commencing from 1 September 1997, being the date of incorporation of the Company. Under the agreement, Holdings provided or procured services, facilities and supplies to the Company for the year ended 31 December 2002 for a fee of RMB2.314 million payable by the Group. Such fee has been reviewed by the auditors.

(iii) Supply of Cement Package Bags

The Group purchased cement package bags from Anhui Ningchang Packing Material Co., Ltd. and Wuhu Hailuo Plastic Manufacturing Company Limited, both being sino-foreign joint ventures of which 75% equity interests are owned by Holdings, at the trading prices determined after arm’s length negotiation between the parties and based on fair market prices. Amounts payable in respect

of the package bags were settled in the form of cash or bank cashier orders within a certain period after their deliveries. Centralised procurements from the above companies is beneficial to the reduction of procurement costs as well as the unified administration of the “Conch” brand name.

During the reporting period, the aggregate purchase price of cement package bags from the above companies by the Group was RMB76.147 million accounting for 86.42% of the total package bag purchases of the Group.

(iv) Transfers of equity interests

Pursuant to the relevant rules of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange Limited, the following transactions of equity interest constitute notifiable connected transactions, whereas according to the relevant provisions of the Securities Listing Rules of the Shanghai Stock Exchange, the following transactions of equity interest do not constitute connected transactions as no parties to the transfers of equity interest are related to the Company.

(1) *Disposal of equity interest in Jieyang Hailuo*

On 15 April 2002, the Board of Directors passed the resolution proposed by the Company in respect of the disposal of 59.5% of its 60% equity interest in Jieyang Hailuo Cement Co., Ltd. to its initial equity partner, Shantou City Longhu District Husanshan Development Co., Ltd. at a consideration of RMB1.785 million. Upon completion of the said disposal, the Company holds 0.5% equity interest in Jieyang Hailuo.

(2) *Acquisition of equity interest in Ningbo Hailuo*

On 16 December 2002, the Company and Guotou Chuangxin Assets Management Company (“Goutou Chuangxin”) entered into a “Transfer of Equity Interest Agreement” in Wuhu, pursuant to which Goutou Chuangxin transferred 15% equity interest in Ningbo Hailuo Cement Co. Ltd. (“Ningbo Hailuo”) to the Company for a consideration of RMB25.9065 million.

Pursuant to the “Transfer of Equity Interest Agreement” entered into between the Company and Guotou Chuangxin, the consideration for the acquisition of the 15% equity interest in Ningbo Hailuo by the Company amounted to RMB25.9065 million, which was equivalent to 1.01 times of the original capital contributions made by Goutou Chuangxin into Ningbo Hailuo and was payable in cash within 25 days of execution of the “Transfer of Equity Interest Agreement”. The Company would finance the payment of the consideration by its internal resources. Upon completion of the said transfer, the equity interest held by the Company in Ningbo Hailuo increases to 75%.

(3) *Acquisition of equity interest in Shanghai Hailuo Mingzhu*

On 15 December 2002, the Company and Shandong Nanhua Co., Ltd. (“Shandong Nanhua”) entered into a “Transfer of Equity Interest Agreement” in Wuhu, pursuant to which Shandong Nanhua transferred 12.8% equity interest in Shanghai Hailuo Mingzhu Cement Co., Ltd. (“Hailuo Mingzhu”) to the Company for a consideration of RMB1.7549 million.

Pursuant to the “Transfer of Equity Interest Agreement” entered into between the Company and Shandong Nanhua, the consideration for the acquisition of the 12.8% equity interest in Hailuo Mingzhu by the Company amounted to RMB1.7549 million, which was equivalent to 12.8% of the registered capital of RMB13.71 million of Hailuo Mingzhu and was payable in cash within 20 days of execution of the “Transfer of Equity Interest Agreement”. The Company would finance the payment of the consideration by its internal resources. Upon completion of the said transfer, the equity interest held by the Company in Hailuo Mingzhu increases to 76.2%.

Confirmation of the Connected Transactions by Independent Directors

During the year, the connected transactions entered into by the Group were conducted in the ordinary course of business on normal commercial terms at arm’s length basis and in accordance with the relevant agreements (if any). The above transactions were fair and reasonable in so far as the Company is concerned and did not exceed the caps (if any) of the transactions referred to in the waivers granted by the Stock Exchange of Hong Kong Limited. These transactions were reviewed by the auditors and were approved by the independent non-executive directors of the Company.

4. MATERIAL CONTRACTS

- (i) The Company did not involve in any material custody, underwriting or leasing of any assets of other companies nor had any other companies involve in any custody, underwriting or leasing of the Company’s assets during the reporting period or during the prior period but subsisted onto the reporting period.

(ii) Guarantees

(1) During the reporting period, all external guarantees of the Company, which were approved by the Board of Directors, were guarantees given in respect of loans to subsidiaries. Details are as follows:

No.	Subject of guarantee	Amount (RMB million)	Period of Guarantee	Type of guarantee	Is obligation completed?
1.	Anhui Ningguo Cement Plant	20.00	2002.03.06– 2003.03.05	Several surety	Yes
2.	Nanjing Hailuo Cement Co., Ltd.	5.00	2002.03.21– 2003.03.21	Several surety	Yes
3.	Tongling Hailuo Cement Co., Ltd.	30.00	2002.03.08– 2003.03.07	Several surety	No
4.	Shanghai Hailuo Cement Co., Ltd.	10.00	2002.03.15– 2003.03.15	Several surety	No
		10.00	2002.04.30– 2003.04.25	Several surety	No
5.	Nantong Hailuo Cement Co., Ltd.	19.75	2002.03.18– 2003.03.18	Several surety	No
6.	Zhangjiagang Hailuo Cement Co., Ltd.	28.00	2002.03.15– 2003.03.14	Several surety	No
7.	Ningbo Hailuo Cement Co., Ltd.	82.00	2002.04.10– 2003.04.09	Several surety	No
8.	Chizhou Hailuo Cement Co., Ltd.	80.00	2002.06.17– 2017.06.17	Several surety	No
9.	Zhongguo Cement Plant Co., Ltd.	50.00	2002.12.12– 2003.12.12	Several surety	No
Total amount being guaranteed		334.75			
Remaining amount being guaranteed		309.75			

- (2) As at 31 December 2002, machinery and equipment with the book value of RMB108.809 million of Ningbo Hailuo Cement Co., Ltd., a subsidiary of the Company, were pledged to the bank as security for its short-term borrowings.
- (iii) The Company did not have any material entrustment of financial management during the reporting period.
- (iv) None of the Company or any shareholder holding 5% or more of the share capital has disclosed any commitments in designated newspapers or websites during the reporting period or during the previous reporting period but subsisted onto the reporting period.

5. APPOINTMENT OF AUDITORS

Pursuant to the authority granted by the 2001 Annual General Meeting of the Company, the Board of Directors appointed PricewaterhouseCoopers Zhong Tian Certified Public Accountants and PricewaterhouseCoopers Certified Public Accountants as its PRC and international auditors for 2002 respectively. (In 2001, the Company's PRC and international auditors were Arthur Andersen Hua Qiang Certified Public Accountants and Arthur Andersen & Co respectively, to whom the auditors' remuneration of HK\$1.85 million were paid by the Company.)

In 2002, the Company has paid HK\$1,850,000 (equivalent to approximately RMB1.966 million) to PricewaterhouseCoopers Zhong Tian Certified Public Accountants and PricewaterhouseCoopers Certified Public Accountants as the auditor's remuneration. The Company did not have to pay for the travelling and lodging expenses of the auditors. The above two accountants' firms have provided their services for the term of one year.

6. OTHER SIGNIFICANT MATTERS

1. During the reporting period, the registered capital of the Company increased from RMB983.48 million to RMB1,183.48 million. Changes in particulars of its industry and commerce registration were completed on 1 April 2002.

Pursuant to the authority granted by the 2000 second extraordinary general meeting, the Board of Directors made corresponding amendments to the relevant articles of the articles of association. The full texts of the amended articles 24 and 27 are as follows:

Article 24 The share capital structure of the Company is as follows: 1,183,480,000 ordinary shares of which Anhui Conch Holdings Company Limited, the promoter, holds 622,480,000 shares representing 52.6% of the total number of ordinary shares; holders of overseas listed foreign shares hold 361,000,000 shares, representing 30.5% of the total number of ordinary shares; and holders of domestic listed public shares hold 200,000,000 shares, representing 16.9% of the total number of ordinary shares.

Article 27 The registered capital of the Company is RMB1,183,480,000. The registered capital of the Company shall be registered accordingly with the industry and commerce administration departments and filed with the companies approving department authorised by the State Council and the securities administration department of the State Council.

The above amendments to the articles of association were filed with the Administration for Industry and Commerce Bureau of Anhui Province.

2. The following amendments to the articles of association of the Company were made pursuant to the special resolutions passed in the 2001 Annual General Meeting:

- (i) the address of the Company as set out in Article 3 of Chapter 1 was changed from “209 Renmin Road, Wuhu City, Anhui Province, PRC” to “209 Beijing East Road, Wuhu City, Anhui Province, PRC”;
- (ii) the addition of paragraph 14 on the basis of the powers of the Board of Directors set out in Article 101 of Chapter 11 pursuant to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited and the Securities Listing Rules of the Shanghai Stock Exchange, the contents of which are as follows:

“(14) To decide on acquisitions or disposals of assets and foreign investments by the Company, but the value of the proposed asset (including foreign investment) to be acquired or disposed of shall be less than 50% of the latest audited net asset value of the Company”.

The above amendments to the articles of association were filed with the Administration for Industry and Commerce Bureau of Anhui Province on 11 July 2002.