

1. MATERIAL LITIGATION AND ARBITRATION

For the year ended 31 December 2003, there is no litigation or arbitration to the Group which would cause adverse effect to the production and operation and 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, there is no material asset acquisition, sales or asset reorganisation of the Company.

3. SIGNIFICANT CONNECTED TRANSACTION

1. Trademark Licensing Agreement

On 23 September 1997, 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 2003, had been paid by the Company and duly reviewed by the auditors.

2. Composite Services

The Company and the Holdings entered into a composite services contract for a term of 10 years from 1 September 1997, being the date of incorporation of the Company. Under the agreement, Holdings provided or procured relevant services, facilities and supplies to the Company during the reporting period. In return, the Company paid a service fee of RMB2.2261 million which has been audited by the auditor.

3. 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 of cement package bags 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, all cement package bags were purchased from the above companies by the Group and the aggregate purchase price was RMB111.74 million.

3. SIGNIFICANT CONNECTED TRANSACTION *(Continued)*

4. 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) *Acquisition of equity interest in Changfeng Hailuo*

On 25 December 2003, the Company and its wholly-owned subsidiary, Ningguo Cement Plant ("Ningguo Cement") entered into a "Transfer of Equity Interest Agreement" ("Changfeng Agreement") with Anhui Changfeng Cement Co., Ltd. ("Changfeng Cement") in Wuhu, pursuant to which Changfeng Cement transferred 10% of its 20% equity interest in Anhui Changfeng Conch Cement Co., Ltd. ("Changfeng Conch") to the Company for a consideration of RMB1 million. The remaining 10% equity interest was transferred to Ningguo Cement with a consideration of RMB1 million. The total consideration for the above transfer of equity interest was RMB2 million, which was equivalent to the original capital contributions made by Changfeng Cement into Changfeng Conch. The consideration was paid by the Company and Ningguo Cement using their internal resources and payable in cash within 30 days of execution of the Changfeng Agreement. After the completion of the above transfer of the equity interest, the shareholdings of the Group in Changfeng Conch will increase to 100%.

(2) *Transfer of the Equity in Mingzhu Hailuo to Zhongguo Cement Plant*

On 26 December 2003, Zhongguo Cement Plant Co., Ltd. ("Zhongguo Plant"), a subsidiary of the Company and Shandong Nanhua Co., Ltd. ("Shandong Nanhua") entered into an "Equity Transfer Agreement" in Wuhu City, pursuant to which Shandong Nanhua agreed to transfer its entire 18% equity interest in Shanghai Conch Mingzhu Cement Co., Ltd. to Zhongguo Plant for a consideration of RMB2,467,800. The Company hereby waives its first right of refusal in respect of the 18% equity interest.

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. For the year ended 31 December 2003, the aggregate guaranteed amount was RMB539.85 million, and the guaranteed amount with outstanding obligation was RMB755.25 million.
 - (2) As at 31 December 2003, machinery and equipment with the book value of RMB99.54 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 of the Company 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 2002 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 2003 respectively.

The Company has paid HK\$2 million (equivalent to approximately RMB2.12 million) to the above two account firms as the remuneration for the year of 2003, compared to HK1.85 million (equivalent to approximately RMB1.966 million) for the year of 2002. 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 two years.

The abovementioned two accounting firms do not provide any services to the Company for charge other than financial auditing service.

6. OTHER SIGNIFICANT MATTERS

1. During the reporting period, the registered capital of the Company increased from RMB1,183.48 million to RMB1,255.68 million. Changes in particulars of its industry and commerce registration were completed on 31 December 2003.

Pursuant to the authority granted by the 2002 annual 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: 1,255,680,000 ordinary shares of which Anhui Conch Holdings Company Limited, the promoter, holds 622,480,000 shares, representing 49.57% of the total number of ordinary shares; holders of overseas listed foreign shares hold 433,200,000 shares, representing 34.5% of the total number of ordinary shares; and holders of domestic listed public shares hold 200,000,000 shares, representing 15.93% of the total number of ordinary shares.

Article 27 The registered capital of the Company is RMB1,255,680,000. 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. During the reporting period, to meet the production and operation requirements of the Company, the registration of Baima Cement Plant in Anhui Province ("Baima Cement Plant") was cancelled and the Company took over the Baima Cement Plant and its assets and liabilities relating to the production of cement and operation of cement business. The Anhui Conch Cement Company Limited Baima Branch was established to take over the cement business, sales and other operating activities of the original Baima Cement Plant.

During the reporting period, the registration of Nanchang Construction Materials Trading Co. Ltd. (the business of the Company are taken up by Nanchang Hailuo Cement Company Limited) and of Wuxi Hailuo Cement Sale Company were also cancelled.