

Significant Events

(I) Material Litigation and Arbitration

During the reporting period, there was no litigation or arbitration to the Group which would cause material effect to the production and operation and none of the directors, supervisors and senior management of the Group were involved in any material litigation.

(II) Acquisition of Material Assets

On 30 December 2004, Hunan Conch Cement Co., Ltd., a wholly-owned subsidiary of the Company, and Hunan Chelfore Cement Group Co., Ltd. (“Chelfore Group”) entered into an Equity Transfer Intention Agreement, with the intention to acquire all the equity interest (95.92%) held by Chelfore Group in the original Hunan Xuefeng Cement Co., Ltd. (“Xuefeng Company”). The consideration for the acquisition of equity interest amounted to RMB23.75 million.

Xuefeng Company is located in Xinhua County in the central part of Hunan Province. Its production plant commenced construction in 1971, and there are currently 4 wet process production lines with an annual capacity of 1.25 million tonnes. It also has a 6.5km railway line connecting the Hunan-Guizhou Railway for its exclusive use. After the completion of the above acquisition, the Company plans to carry out technological reforms on some of the wet process production lines, and establish a new-type dry process clinker production line with an annual capacity of 1.5 million tonnes in accordance with the progress and approval status of the prephase conditions when conditions mature.

(III) Significant Connected Transaction

1. Trademark licensing

In order to share brand resources, Conch Group, the controlling shareholder of the Company, permitted the use of licensed trademark on licensed products within licensed period and licensed area by the Company. In this respect, the Company and the controlling shareholder of the Company entered into a Trademark Licensing Agreement on 23 September 1997, pursuant to which the Company was required to pay a royalty of RMB1.513 million per annum to Conch Group, the controlling shareholder of the Company, for the use of the trademarks. The entire sum of the royalty for the year ended 31 December 2004 had been paid by the Company and duly audited by the auditors.

(III) Significant Connected Transaction *(Continued)*

2. Composite services

In order to fully utilise the common facilities of the Company and Conch Group, the controlling shareholder of the Company, to achieve resource sharing, the Company and Conch Group, the controlling shareholder of the Company, agreed to provide certain services and other facilities to each other, and centralise some shared third-party public services and facilities. In this respect, the Company and Conch Group, the controlling shareholder of the Company 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 contract, Conch Group, the controlling shareholder of the Company, provided or procured relevant services, facilities and supplies to the Company during the reporting period. In return, the Company paid a service fee of RMB2.495 million which had been audited by the auditors.

3. Supply of cement package bags

The Group purchased cement package bags from Anhui Ningchang Packing Material Co., Ltd. and Wuhu Conch Plastic Manufacturing Company Limited, both being Sino-foreign joint ventures of which 75% equity interests are held by Conch Group, the controlling shareholder of the Company, 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 facilitates the reduction of procurement costs as well as the unified administration of the "Conch" brand.

During the reporting period, all cement package bags were purchased from the above companies by the Group and the aggregate purchase price amounted to RMB223.088 million.

(III) Significant Connected Transaction *(Continued)*

4. Sales of commodity

In order to expand the overseas and domestic business of the Group, the Company appointed Conch International Trading as one of the agents for imports and exports of the Group to trade with overseas clients. Pursuant to the Import/ Export Agency and Sales Agreement entered into by the Company and Shanghai Conch Construction Material International Trading Company Limited (“Conch International Trading”) on 28 April 2004 (approved at the first 2004 extraordinary general meeting of the Company), Conch International Trading exports cement and clinker products, imports clinker, and purchases cement production equipment from overseas suppliers for the Group, and purchases cement and clinker products from the Group. Conch International Trading is a subsidiary of Conch Group, the controlling shareholder of the Company. The aforesaid Import/ Export Agency and Sales Agreement is valid for a period of 3 years from 1 January 2004 to 31 December 2006. The Group pays a 1.5% commission to Conch International Trading based on its amount of each export completed as an agent, and sells cement and clinker to Conch International Trading on prices and terms that are fair and reasonable. After the completion of each import or export business as an agent by Conch International Trading, the Group shall pay the commission to Conch International Trading. The sales payment in respect of cement and clinker products purchase by Conch International Trading shall be fully paid to the Group within the agreed terms.

During the reporting period, Conch International Trading acted as the agent for all the imports and exports of the Group, and the Group paid a total of RMB5.622 million as its commission. The total sales of cement and clinker to Conch International Trading amounted to RMB38.676 million, representing 0.46% of the Group’s product sales.

5. Shipping services

In order to fully utilise the favourable shipping conditions of Changjiang’s convenience and low-cost to lower transportation costs, and to facilitate the Group’s freight management, to effectively control the flow of goods and to enhance shipping efficiency, the Group appointed Conch Logistics as one of its non-exclusive shipping services providers. Pursuant to the Transport Agreement entered into by the Company and Shanghai Conch Logistics Company Limited (“Conch Logistics”) on 28 April 2004 (approved at the first 2004 extraordinary general meeting of the Company), Conch Logistics provides relevant materials such as cement, clinker products, coal ash and accessory materials to the Group, and non-exclusive shipping services such as imports of equipment from overseas. Reasonable prices were determined by the two parties according to the shipping tariff schedule published by the relevant Ministry of Transportation of the PRC from time to time and in accordance with the actual circumstances of the shipping markets. Conch Logistics is a subsidiary of Conch Group, the controlling shareholder of the Company. The aforesaid Transport Agreement is valid for a period of 3 years from 1 January 2004 to 31 December 2006. The Group will pay the relevant fees to Conch Logistics within the agreed period after the completion of the relevant cargo transport.

Significant Events

(III) Significant Connected Transaction *(Continued)*

5. Shipping services *(Continued)*

During the reporting period, the shipping fee paid by the Group to Conch Logistics amounted to RMB191.25 million in total, representing 32.5% of the Group's expenses in the same category.

6. Transfers of equity interest

Pursuant to the relevant requirements of the Listing Rules The Stock Exchange of Hong Kong Limited, the following transfers of equity interest constitute discloseable connected transactions, whereas according to the relevant provisions of the Stock Listing Rules of the Shanghai Stock Exchange, the following transfers 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 Fenyi Conch

On 16 November 2004, the Company, Anhui Ningguo Cement Plant ("Ningguo Cement"), the wholly-owned subsidiary of the Company, and Shanghai Changxing International Trading Co., Ltd. ("Changxing Company") entered into an Equity Transfer Agreement in Shanghai, pursuant to which the Company and Ningguo Cement acquired a 39% and 10% equity interest in Fenyi Conch Cement Co., Ltd. ("Fenyi Conch") respectively at an aggregate consideration of RMB58.4223 million. After the completion of the equity transfer, the equity interest in Fenyi Conch held by the Company increased from 51% to 90%; Ningguo Cement held 10% equity interest in Fenyi Conch, while Changxing Company ceased to hold any equity interest in Fenyi Conch. The acquisition of equity interest in Fenyi Conch can increase the Group's shareholding in Fenyi Conch and is beneficial to the Group's further expansion in and integration of the cement markets in Jiangxi and the neighbouring areas, thereby enabling the Group to increase the sales of products and enlarge the Group's market share in the region.

Pursuant to the Equity Transfer Agreement entered into between the Company and Changxing Company, the aggregate consideration for the acquisition of 49% equity interest in Fenyi Conch by the Company and Ningguo Cement was RMB58.4223 million, and was settled within 30 days from the date of signing of the Agreement with their own capital. The consideration was determined in accordance with the evaluated net assets of Fenyi Conch and after arm's length negotiations between the parties.

(III) Significant Connected Transaction *(Continued)*

6. Transfers of equity interest *(Continued)*

(2) *Acquisition of equity interest in Shuangfeng Conch*

On 29 December 2004, the Company, Anhui Huaining Conch Cement Co., Ltd. (“Huaining Conch”), the wholly-owned subsidiary of the Company, and Anhui Province Development & Investment Co., Ltd. (“Development & Investment Company”) entered into Equity Transfer Agreement in Hefei, pursuant to which the Company and Huaining Conch acquired a 39% and 10% equity interest in Shuangfeng Conch Cement Co., Ltd. (“Shuangfeng Conch”) respectively at an aggregate consideration of RMB131.32 million. After the completion of the equity transfer, the equity interest in Shuangfeng Conch held by the Company increased from 51% to 90%; Huaining Conch held 10% equity interest in Shuangfeng Conch, while Development & Investment Company ceased to hold any equity interest in Shuangfeng Conch. The acquisition of equity interest in Shuangfeng Conch can increase the Group’s shareholding in Shuangfeng Conch and is beneficial to the Group’s further expansion in and integration of the cement markets in Hunan and the neighbouring areas, thereby enabling the Group to increase the sales of products and enlarge the Group’s market share in the region.

Pursuant to the Equity Transfer Agreement entered into by the Company and Development & Investment Company, the aggregate consideration for the acquisition of 49% equity interest in Shuangfeng Conch by the Company and Huaining Conch was RMB131.32 million, and was settled by the Company and Huaining Conch within 30 days from the date of signing of the Agreement with their own capital in cash. The consideration was determined with reference to the registered capital and net assets of Shuangfeng Conch and after arm’s length negotiations between the parties.

Confirmation of the Connected Transactions by Independent Directors

During the reporting period, 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 transactions were audited by the auditors and were confirmed by the independent non-executive directors of the Company to be fair and reasonable in so far as the Company was 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, or the maximum transaction caps (if any) approved at the general meetings of the Company.

(IV) Material Contracts

1. **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 periods but subsisted to the reporting period.**

Significant Events

(IV) Material Contracts *(Continued)*

2. Guarantees

- (1) During the reporting period, all external guarantees of the Company, which were approved by the board of directors, were guarantees provided in respect of loans to subsidiaries. As at 31 December 2004, the guaranteed amount provided by the Company to subsidiaries was RMB923 million. During the reporting period, the guaranteed amount provided by the Company to subsidiaries was RMB543 million, all being guarantees with obligations currently under performance.
- (2) As at 31 December 2004, machinery and equipment with the book value of approximately RMB91.09 million of Ningbo Conch Cement Co., Ltd., a subsidiary of the Company, were pledged to the bank as security for its short-term borrowings.

3. **The Company did not have any material entrustment of financial management during the reporting period.**

(V) Appointment of Auditors

Pursuant to the authority granted at the 2003 annual general meeting of the Company, the board of directors appointed PricewaterhouseCoopers Zhong Tian Certified Public Accountants and PricewaterhouseCoopers Certified Public Accountants as the Company's PRC and international auditors for the year 2004 respectively. The above two accounting firms have provided their services for a consecutive term of three years.

The Company has paid HK\$2.2 million (equivalent to approximately RMB2.332 million) to the above two accounting firms as the remuneration for the year 2004, compared to HK2 million (equivalent to approximately RMB2.12 million) for the year 2003. The Company did not have to pay for the travelling and lodging expenses of the auditors.

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