(1) Material litigation and arbitration

During the Reporting Period, 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.

(2) Material acquisitions

1. Acquisition of Xingye Project and Fusui Project

During the Reporting Period, Xingye Kuiyang Conch Cement Company Limited ("Kuiyang Conch"), a subsidiary of the Company, and Guangxi Xingye Conch Cement Company Limited ("Xingye Company") entered into the Xingye Asset Disposal and Acquisition Agreement, pursuant to which Kuiyang Conch agreed to acquire from Xingye Company its cement and clinker production related assets, including machinery and equipment, construction materials, construction-in-progress, non-production ancillary facilities, land use rights, buildings and intangible assets such as limestone mining right, and assume Xingye Company's liabilities, including bank loans and certain payables. The total consideration for Xingye Project paid by the Company amounted to RMB246,158,508.

Fusui Xinning Conch Cement Company Limited ("Xinning Conch"), a subsidiary of the Company, and Guangxi Fusui Conch Cement Company Limited ("Fusui Company") entered into the Fusui Asset Disposal and Acquisition Agreement, pursuant to which Xinning Conch agreed to acquire from Fusui Company its cement and clinker production related assets, including machinery and equipment, construction materials, construction-in-progress, non-production ancillary facilities, land use rights, buildings and intangible assets such as limestone mining right, and assume Fusui Company's liabilities, including bank loans and certain payables. The total consideration for Fusui Project paid by the Company amounted to RMB248,458,553.

Applications for the transfer of the relevant rights and ownership other than for land and mining rights, settlements for the other assets being acquired have been completed on 25 May 2005.

Since application for the mining right certificate and State-owned land use right certificate of Xingye Project and Fusui Project would take longer to process, Kuiyang Conch, Xinning Conch, Xingye Conch and Fusui Conch came to an agreement regarding the transfer of these ownership certificates on 6 September 2005 such that Xingye Conch and Fusui Conch shall complete such process by 30 November 2005 at the latest for them to be transferred to Kuiyang Conch and Xinning Conch, failing which Xingye Conch and Fusui Conch shall return RMB104 million and RMB133 million of the consideration to Kuiyang Conch and Xinning Conch by 31 December 2005 respectively, and the certificates shall be applied for by Kuiyang Conch and Xinning Conch at their own expenses. Since as at 30 November 2005, the certificates were not yet ready, Xingye Conch and Fusui Conch had returned RMB104 million and RMB133 million of the consideration to Kuiyang Conch and Xinning Conch respectively.

As such, consideration for the acquisitions of Xingye Project and Fusui Project were reduced to RMB142,158,508 and RMB115,448,063 respectively.

As at the end of the Reporting Period, the aforesaid two projects are in production. During the Reporting Period, Xingye Project had achieved a sales of RMB124.16 million with RMB4.48 million in net profit, representing 1.2% of the Group's total net profit; Fusui Project had achieved a sales of RMB107.44 million with RMB3.22 million in net profit, representing 0.8% of the Group's total net profit.

Subsequent to the acquisitions of the above projects, it is expected that the production capacity for clinker and cement of the Group would increase by 3.00 million and 3.20 million tonnes per annum respectively. The Company will capitalize on the close proximity of the convenient transportation system of the above acquired projects to expand the cement markets of the Group in south-eastern Guangxi and south-western Guangdong as well as the ASEAN (Association of Southeast Asian Nations) markets, which extend to Vietnam with Nanning of Guangxi as the center. It is expected that the Group will increase its sales in those areas and drive the structural realignments within the cement industry in those regions. This will boost over sales in the region and our sales income in the southern China market.

For details of the above projects, please refer to the announcements on 25 May 2005 and 24 June 2005 in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and China Daily.

2. Acquisition of Guilin Project

During the Reporting Period, Xingan Conch Cement Company Limited, a subsidiary of the Company, acquired from Guangxi Guilin Conch Cement Company Limited ("Guilin Conch") the fixed assets relating to the production of cement, clinker, including machine and equipment, buildings, production ancillary facilities, intangible assets such as land use rights, mining rights, and current assets such as inventory, and the liabilities of Guilin Conch such as bank loans and certain accounts payable shall be assumed by Xingan Conch ("Guilin Project"). Consideration for the acquisition was RMB178,735,093.

The above acquisition was completed on 25 October 2005, and the application of the relevant ownership certificates are in process. Pursuant to the agreement by both parties, Xingan Conch shall be responsible for the land use right and mining right to be processed at its own expenses.

During the Reporting Period, Guilin Project had achieved a sales of RMB84.86 million with RMB13 million in net profit, representing 3.4% of the Group's total net profit.

Subsequent to the acquisition of Guilin Project, it is expected that the production capacity for clinker and cement of the Group would increase by 1.50 million and 1.60 million tonnes per annum respectively. The Company will capitalize on the close proximity of the convenient transportation system of the above acquired projects to expand the cement markets of the Group in south-eastern Guangxi and south-western Guangdong. This will boost over sales in the region and our sales income in the southern China market.

3. Acquisition of Guilin Project

During the Reporting Period, Hunan Conch Cement Company Limited ("Hunan Conch") acquired 95.92% of the shareholding in Hunan Xuefeng Cement Holding Company Limited ("Xuefeng Cement", formerly Hunan Xuefeng Cement Company Limited, consideration for the acquisition was RMB23.75 million, and the relevant process are being gone through pursuant to the law.

Xuefeng Cement is located at Xinhua county of central Hunan. Its production plant was built in 1971 with 4 wet production lines. Its annual production capacity is 1.25 million tonnes of cement; it has an exclusive railway of 6.5 km connecting Xiangqian Railway. Upon completion of the acquisition, the Company intends to revamp certain wet production lines; according to the present condition and progress, it is expected that when conditions are mature, a new dry production line will be built with an annual production capacity of 1.5 million tonnes.

(3) Material connected transactions

1. Use of trademark

On 23 September 1997, the Company and its largest substantial shareholder, Conch Holdings entered into the "Trademark Licensing Agreement". The Company may use the licensed trademarks (including trademarks such as "Conch") during the licensed term as provided by the trademark licensing agreement, in regions in which these trademarks are licensed. The valid period of the licensing agreement is the same as the valid period of the trademark agreement. The trademark licensing in renewable, and the trademark agreement is automatically renewable with the renewal of the licensing. Pursuant to which the Company was required to pay the holding company a royalty of RMB1.513 million per annum. The royalty for the Reporting Period had not been paid by the Company to the holding company. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of the Shanghai Stock Exchange, the connected transaction is not subject to the announcement and the independent shareholders' approval requirements.

2. **Composite services**

The Company and its largest substantial shareholder, 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 the Contract, the Group had to pay the largest substantial shareholder a fee of RMB2.75 million which had not been paid by the Company to the largest substantial shareholder during the Reporting Period, in return for the comprehensive services such as landscaping, education, medical, labour insurance and security by the holding company during the Reporting Period. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of the Shanghai Stock Exchange, the connected transaction is not subject to the announcement and the independent shareholders' approval requirements.

3. **Supply of cement packing bags**

The Company and Anhui Ningchang Plastic Packing Company Limited ("Ningchang Company") entered into a purchasing agreement on 12 October 2005 (the transaction and the related annual trading cap under the purchasing agreement was approved by the First Extraordinary General Meeting in 2005). Pursuant to the aforesaid purchasing agreement, the Group purchases cement packing bags, dust collecting bags and labour work garment ("packing materials") from Ningchang Company and Wuhu Conch Plastic Products Company Limited ("Wuhu Company") and Yingde Conch Plastic Materials Packing Company Limited, which are subsidiaries of Ningchang Company, and subsidiaries established by Ningchang from time to time ("Ningchang Group"). The valid period of the aforesaid purchasing agreement is 3 years from 1 January 2005 to 31 December 2007. Both parties negotiated and agreed on the transaction price which is fair and reasonable and is determined at arm's length and on normal commercial terms, and by appropriate reference to changes in the prices of raw materials. Three months upon receiving the packing materials, the Group will pay Ningchang Group in cash or acceptance remittance of the bank. During the Reporting Period, all of the Group's cement packing bags were purchased from Ningchang Group, the total amount of transaction was RMB282.38 million (excluding tax). The Group has not purchased cement packing bags from any third party, but reserves the right to purchase cement bags from third parties.

The Group is mainly engaged in the production and sales of cement and commodity clinker, of which cement for production purpose require packing bags for selling to customers. The Group's purchasing cement packing bags not only helps the Group in the centralized control of "Conch" brand name, it can also leverage on the production on a mass scale to reduce our cost of purchase from Ningchang Group, thus ensuring the quality of these packing bags. The Group has been purchasing cement packing bags from Ningchang Company and Wuhu Company since 1997. In October 1997, when the Company issued its H Shares, the Group has obtained a waiver without time limit from the Stock Exchange which exempts the Group from the requirements of notification to shareholders and approval by the general meeting, with a cap that the amount of transaction in purchasing from Ningchang Company and Wuhu Company every year shall not exceed 8% of the audited consolidated revenue of the Company. Moreover, when the Company issued A Shares in January 2002, it has disclosed in detail in the prospectus on this. The Company also discloses in its annual report on the aforesaid connected transactions every year.

For details of these transactions, please refer the announcements dated 14 October 2005 and 19 December 2005 in Shanghai Securities Journal, China Securities Journal, and Hong Kong Wen Wei Po and China Daily.

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") (which was already approved by the Company's First Extraordinary General Meeting of 2004), Conch International will export cement or clinker products, import clinker and purchase equipment or cement production from foreign suppliers for the Group. The aforesaid "Import and Export Agency and Sales Agreement" is valid for a period of three years from 1 January 2004 to 31 December 2006. The Group will pay Conch International a commission not more than to 1.5% of the amount of each of the import or export deal. The Group should make the commission payment to Conch International upon completion of each import or export deal.

With the assistance of Conch International, the Group works proactively towards exploring overseas markets. Apart from better results that come about, in particular when the austerity measures of the State comes into play and domestic demand slackened, such moves have effectively alleviated the market pressure and had promoted the growth of sales and improved the overall operation. Therefore, it is estimated that the export volume of cement and clinker for 2005 and 2006 will be higher than the original estimate, and the amount of commission the Group pays Conch International will also be higher than the annual cap. Upon the approval by the sixth meeting of the third session of Board of Directors, it was agreed that the cap for 2005 and 2006 should be lifted to RMB19.56 million and RMB33.28 million. For details of cap adjustments, please refer to the announcement published in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and China Daily on 14 October 2005.

During the Reporting Period, the Group exports its cement and clinker through Conch International our agent, and the amounts the agent imports equipment and accessories shall be RMB1,846.04 million and RMB334.24 million respectively, and commission already paid was RMB19.40 million and RMB3.96 million respectively.

The Group is principally engaged in the production and sale of cement and commodity clinker. The Company has its own right of export, without being qualified yet as an agent for its subsidiaries for the export of cement and commodity clinker to overseas customers or to import from overseas equipment. At the same time, the cement and commodity clinker are mainly produced and operated by its subsidiaries. Therefore, the Group is required for the export and sale and the import of equipment from overseas manufacturers through a third party which is qualified. As such, Conch International of Conch Holdings is a special foreign trading company established by the former MOFTEC, which has the right of import and export both for itself and as an agent for others. It has a wide network of customers. For this reason, in order to expand our domestic and overseas operations, the Group appointed Conch International as its agent to sell its cement and commodity clinker to overseas customers. We are able to speed up our exploration of international trading and markets.

5. **Commodity sales**

Pursuant to the aforesaid "Import and Export Agency and Sales Agreement", the Group sold cement and clinker to Conch International at arm's length prices and terms. During the Reporting Period, the Group's sales of cement and clinker to Conch International amounted to 39,077 tonnes or RMB7.99 million (VAT excluded) in aggregate, accounting for 0.07% of the Group's sales of products.

6. **Shipping Services**

Pursuant to the Transportation Agreement entered into between the Company and Shanghai Conch Logistics Company Limited ("Conch Logistics") (the transaction and the related annual trading cap under the Transportation Agreement was already approved by the Company's First Extraordinary General meeting of 2004), Conch Logistics will provide non-exclusive shipping services for the delivery of cement and clinker products, coal ash and production accessory materials, as well as imported equipment to the Group. Having regard to the actual circumstances of the marine transportation market, the parties will determine a reasonable shipping fee by reference to the shipping tariff schedule published by the relevant department of transport from time to time. The aforesaid Transportation Agreement is valid for a period of three years from 1 January 2004 to 31 December 2006. Such shipping fees are payable by the Group to Conch Logistics within the period stipulated in the Agreement upon completion of the delivery of goods concerned.

During the Reporting Period, the shipping fees paid to Conch Logistics by the Group amounted to RMB111.32 million (VAT excluded), accounting for 18.14% of similar fees payable by the Group.

Conch Logistics, controlled by Conch International, was approved by the State Administration of Commerce in 2004 to register in Shanghai, and Shanghai was specially engaged in providing shipping service. It has all the shipping licenses in order and had a fleet of cargo ships and large barges. It serves mainly the enterprises alongside the Yangtze River. The Company has appointed Conch Logistics as its non-exclusive provider of shipping service because it will be able to focus on its cement and clinker production, and it can also enjoy discounts the one-stop ship delivery and transport can offer, where the logistics are controlled. It helps to expand our market and minimize the consolidated costs of the Company.

7. Acquisition of shareholding and capital increment of Conch Jianan

On 28 April 2005, the Company and Conch Holdings entered into the "Equity Transfer and Capital Increase Agreement" pursuant to which the parties agreed to the transfer of the 95% equity interests in Anhui Wuhu Conch Construction and Installation Project Company Limited ("Conch Jianan") from Conch Holdings to the Company and the capital increase of Conch Jianan in proportions to their respective shareholdings subsequent to the aforesaid equity transfer.

Following the completion of aforesaid equity transfer and capital increase, the registered capital of Conch Jianan increased from RMB6.00 million to RMB10.00 million, on which Conch Holdings and the Company held 5% and 95% equity interests in Conch Jianan respectively, and Conch Jianan became a subsidiary of the Company.

The equity interests transfer and capital increase were entered into the arm's length and on normal commercial terms, which were determined in accordance with the registered capital and net assets of Conch Jianan upon.

Conch Holdings is the largest substantial shareholder of the Company, and Conch Jianan, prior to the aforesaid capital increase, was a wholly-owned subsidiary of Conch Holdings. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of the Shanghai Stock Exchange, Conch Holdings and Conch Jianan are connected persons of the Company and the aforesaid equity transfer and capital increase constituted a connected transaction. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of the Shanghai Stock Exchange, the said connected transaction is not subject to the independent shareholders' approval requirement.

For details of the transaction, please refer to the announcements on 28 April 2005 in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and China Daily.

Confirmation by independent directors on the connected transactions

During the Reporting Period, the connected transactions are required by our normal operations, and are entered into on normal terms and at arm's length pursuant to the agreement (if any), and as far as the Company is concerned, the terms are fair and reasonable. They have not exceeded the cap (if any) approved by the Stock Exchange or the cap (if any) approved by shareholders in general meeting, and have been audited by auditors and confirmed by independent non-executive directors.

(4) Material contracts

1. The Company was not involved in any material custody, underwriting or leasing of assets of other companies, nor were any other companies involved in any material custody, underwriting 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 of the Company, which have been properly approved by the Board, were guarantees provided in respect of loans to subsidiaries. Any guarantee provided did not exceed 50% of its latest audited net assets, which was RMB40 million, and the largest guarantee amounted to RMB800 million, representing 14.63% of our latest audited net assets; the Company provided up to RMB1,660 million of guarantee for companies with a gearing ratio of over 70% (all being subsidiaries of the Company).

   During the Reporting Period, the Company had provided guarantee in the amount of RMB2,406.50 million for its subsidiaries, all being guarantee for collateral liabilities; as at 31 December 2005, the balance of guarantee provided by the Group for its subsidiaries amounted to RMB1,696.50 million. The Company had not provided any guarantee for its controlling shareholder, beneficial controlling shareholders, other related parties and any other entities which were not legal persons or individuals.

   (2) As at 31 December 2005, Ningbo Conch Cement Company Limited, a subsidiary of the Company, pledged to the bank machines and equipment at a book value of RMB69.36 million as the security for a long term loan in the sum of RMB60 million.

   (3) As at 31 December 2005, Anhui Ningguo Cement Plant and the Branch Company of Baimashan Cement Plant of Anhui Conch Cement Company Limited pledged their assets of a book value of RMB452 million to IFC as the security for its long term loan in the sum of RMB650 million.

3. During the Reporting Period, the Company did not make any significant appointment for the management of its cash or assets.