

## Material Events

### (1) Material litigation and arbitration

During the Reporting Period, the Group was not involved in any litigation or arbitration which might have a material impact on the Group's business operation, nor was any of the Directors, Supervisors or senior management of the Group involved in any material litigation or arbitration.

### (2) Material acquisitions

#### 1. Acquisition of certain shares of Chaodong

On 2 June 2006, the Company entered into the Share Transfer Agreement with Chaodong Group, pursuant to the Share Transfer Agreement, the Company was transferred 39,385,700 shares of Chaodong (representing approximately 19.69% of the total number of shares of Chaodong) held by Chaodong Group at total consideration of RMB93.738 million, equivalent to RMB2.38 per share.

On 20 November 2006, the SASAC of the People's Government of Anhui granted its consent by way of the document WGZCQH[2006] No.453 on the "Approval for the Transfer of Shares of Chaodong Cement Company Limited to Anhui Conch Cement Company Limited", in respect of the acquisition by the Company the 39,385,700 shares of Chaodong held by Chaodong Group, and the transfer price was adjusted from RMB2.38 per share to RMB2.48 per share; the total consideration was adjusted from RMB93.738 million to RMB97.6765 million (hereinafter the "Chaodong Shares Acquisition").

As at the date of this report, Chaodong Shares Acquisition has been approved by the SASAC and the Ministry of Commerce, pending the approval by the CSRC.

The Chaodong Shares Acquisition constitutes a connected transaction under the Listing Rules of SSE, but does not constitute a connected transaction under the Listing Rules of the Stock Exchange. Chaodong Shares Acquisition has been approved by the Board of the Company and does not require the approval by the general meeting. As at the end of the Reporting Period, the Company has not yet paid the consideration to Chaodong Group for the Chaodong Shares Acquisition.

For details of the Chaodong Shares Acquisition, please refer to the announcements of the Company on 5 June 2006 published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily and related announcements on the Chaodong Shares Acquisition.

### 2. Acquisition of Assets by the issue of shares

#### (i) **Acquisition of the equity interests in three companies from Conch Holdings**

On 21 August 2006, the Company entered into the Assets Purchase Agreement with Conch Holdings, whereby the Company intends to issue A shares to Conch Holdings as the consideration for the acquisition of the 100% equity interests in Ningchang Company, 75% equity interests in Wuhu Plastic and 100% equity interests in Conch International Trading (together the “Three Companies”).

The consideration for the acquisition of the Three Companies from Conch Holdings was determined by the net assets valuation method. According to the assets valuation report with record late as at 31 May 2006 issued by Beijing Guoyou Dazheng Assets Valuation Company Limited (“Guoyou Dazheng”), the total consideration for the acquisition of the Three Companies from Conch Holdings by the Company was determined as RMB302.6435 million. The Company intends to issue 22,755,147 A shares to Conch Holdings at an issue price of RMB13.30 per share as the consideration for the purchase of the equity interests in the three subsidiaries of Conch Holdings. The shares issued to Conch Holdings in this transaction are not transferable within 3 years from the date of issue.

#### (ii) **Acquisition of the equity interests in the four companies from Conch Venture**

On 21 August 2006, the Company entered into the Assets Purchase Agreement with Conch Venture, whereby the Company intends to issue A shares to Conch Venture as the consideration for the acquisition of 49% of the equity interests in Digang Conch, 49% of the equity interests in Zongyang Conch, 49% of the equity interests in Chizhou Conch and 31.86% of the equity interests in Tongling Conch (together the “Four Companies”), all of which are subsidiaries in which the Company has controlling interests.

The price at which the equity interests of the Four Companies were purchased from Conch Venture was determined by reasonable price-earning method and assets valuation method, which was determined at RMB3,830.3873 million. The Company intends to issue 287,999,046 A shares as the consideration for the purchase of assets, and the issue price is RMB13.30 per share. The shares issued to Conch Venture in this transaction are not transferable within 3 years from the date of issue.

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The aforesaid two transactions constitute connected transactions, which had been approved by the first extraordinary general meeting of the Company for 2006, the first class meeting of H shareholders for 2006 and the first class meeting of domestic shareholders for 2006. Conch Holdings, the connected shareholder, abstained from voting in respect of the Conch Holdings transaction and the Conch Venture transaction. A whitewash waiver from the obligation to make a general offer in relation to the aforesaid transactions has been granted by the Securities and Futures Commission of Hong Kong. The Stock Exchange, after vetting, had no objection to the transactions mentioned above; however the transactions are still subject to the approval of CSRC.

For details of the Conch Holdings transaction and the Conch Venture transaction, please refer to the announcements of the Company dated 17 July 2006, 31 July 2006, 22 August 2006, 26 October 2006 and 13 December 2006 published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily.

### (3) Material connected transactions

#### 1. Use of trademark

On 23 September 1997, the Company and its holding company, Conch Holdings entered into the Trademark Licensing Agreement, pursuant to which the Company may use the trademarks (including trademarks such as “海螺” “Conch”) on permitted products in permitted regions pursuant to the period as set out in the terms of the Trademark Licensing Agreement. The valid period of the Trademark Licensing Agreement shall be the same as the valid period of the permitted trademarks, and should the permitted trademarks be extended, the Trademark Licensing Agreement in respect of the trademark shall be extended automatically. Pursuant to Trademark Licensing Agreement, the Company is required to pay RMB1.513 million for the use of the trademark of the controlling company. The Company has paid the fee to the controlling company for the use of the trademark during the Reporting Period. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of the SSE, the connected transaction is not subject to the announcement and the independent shareholders' approval requirements.

### 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). The composite services provided by the holding company to the Company include landscaping, education, medical, labour insurance and security, etc. Pursuant to the Composite Services Contract, the Group is required to pay the holding company a fee of RMB2.69 million which had been paid by the Company to the holding company during the Reporting Period. Pursuant to the Listing Rules of the Stock Exchange and the Listing Rules of the SSE, the Company is not required to publish an announcement regarding the connected transaction, which is also not subject to the independent shareholders' approval requirements.

### 3. Supply of cement packing bags

The Company and Ningchang Company entered into a purchasing agreement on 12 October 2005 (the transaction and the related annual trading cap under the purchasing agreement were 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 labor work garment ("packing materials") from Ningchang Company, Wuhu Plastic and Prosperity Conch, which are subsidiaries of Ningchang Company, and subsidiaries established by Ningchang Company 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 for production of cement package bags by Ningchang Group. 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 RMB379.29 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.

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The Group is mainly engaged in the production and sales of cement and commodity clinker, of which part of the cement produced requires package in bags for selling to customers. The Group's purchasing of cement packing bags from Ningchang Group not only helps the Group in the centralized management and control of "Conch" brand name, it can also take advantage of the mass scale of production of Ningchang Group to reduce the cost of the Group, and ensure the quality of these packing bags. The Group has been purchasing cement packing bags from Ningchang Company and Wuhu Plastic since 1997. In October 1997 when the Company issued its H shares, the Group obtained a waiver without time limit from the Stock Exchange in respect of the aforesaid connected transaction which exempts the Group from the requirements of notification to shareholders and approval by the general meeting, with the aggregate consideration paid in respect of transaction in purchasing cement packing bags from Ningchang Company and Wuhu Plastic in each financial year shall not exceed 8% of the audited combined revenue of the Company. Moreover, when the Company issued A shares in January 2002, it has disclosed in detail of such transaction in the prospectus. The Company has also made detailed disclosure in its annual report regarding the aforesaid connected transactions. Upon completion of the issue of shares for the purchase of assets as described in this section, the aforesaid connected transactions will no longer constitute connected transactions.

#### **4. Import and export agency**

Pursuant to the Import and Export Agency and Sales Agreement entered into between the Company and Conch International Trading (which was approved by the Company's first extraordinary general meeting in 2004), Conch International Trading will export cement or clinker products, import clinker and purchase equipment for cement production from foreign suppliers for the Group. The said 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 Trading a commission of not more than 1.5% of the amount of each of the import or export deal. The Group shall make the commission payment to Conch International Trading upon completion of each import or export deal.

During the Reporting Period, all the import and export of the Group were carried out through Conch International Trading as our agent for export of cement and clinker and import of equipment and accessories, which in aggregate amounted to RMB3,312.45 million and RMB345.37 million respectively, and commission paid amounted to RMB33.09 million and RMB4.16 million respectively.

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The Group is principally engaged in the production and sale of cement and commodity clinker. The Company has its own right of import and 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 equipment from overseas. At the same time, the cement and commodity clinker of the Company are mainly produced and operated by its subsidiaries. Therefore, the Group needs to engage a third party for the export and sale and the import of equipment from overseas manufacturers. As such, Conch International Trading of Conch Holdings is professional foreign trading company established by the former Ministry of Foreign Trade and Economic Cooperation, which has the right of import and export both for itself and as an agent for others which principally engages in the import and export and agency services of construction materials and chemical products. It has a wide network of domestic and overseas customers. For this reason, in order to expand our domestic and overseas operations, the Group appointed Conch International Trading as its agent to export its cement and commodity clinker to overseas customers, which will enable the Group to speed up our exploration of international trading and markets. Upon completion of the issue of shares for assets purchase as described in this section, the aforesaid transactions shall no longer constitute connected transactions.

### 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 1.16 million tonnes which amounted to RMB214.43 million in aggregate (excluding tax), accounting for 1.41% of the Group's sales of products. Upon completion of the issue of shares for assets purchase as described in this section, the aforesaid transaction shall no longer constitute a connected transaction.

### 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 were approved by the Company's first extraordinary general meeting in 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

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tariff schedule published by the relevant department of transport from time to time. The said 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 RMB212.33 million (excluding tax), accounting for 39.95% of similar fees payable by the Group.

Conch Logistics, which is controlled by Conch International Trading, was approved by the State Administration of Commerce in 2004 for registration in Shanghai, and was a company providing professional shipping service. It has all the shipping licenses 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 one of its non-exclusive providers of shipping services, enabling the Group to concentrate on its principal operation in the production of clinker and cement products, and the Group shall also take advantage of the one-stop shipment services and the discounted shipment fees to expand its services and market share, control the logistics of commodities, reduce the overall transportation costs and to enhance its economic benefit. Upon completion of the issue of shares for assets purchase as described in this section, the aforesaid transactions shall no longer constitute connected transactions.

### **7. Purchase of clinker and cement**

The Group purchases clinker or cement from Digang Conch, Zongyang Conch, Chizhou Conch and Tongling Conch, and the Four Companies also purchase clinker or cement from one another. The purchase prices of the aforesaid purchases of clinker or cement are negotiated by both parties at arm's length with reference to the market price. In any circumstances, the terms of transaction shall not be more favourable than those the Group offers to independent third parties. The aforesaid purchases of clinker or cement as well as the annual caps for these transactions for the two years ending 31 December 2007 have been approved by the second extraordinary general meeting of the Company in 2006.

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The Group's transactions with these Four Companies and the transactions among these Four Companies constitute connected transactions under the Listing Rules of the Stock Exchange. These transactions do not constitute connected transactions under the Listing Rules of SSE. The connected relationship arises because Conch Venture acquired from a trust company (the trust company held the aforesaid shares on behalf of members of the labour union of Conch Holdings and the labour union of subsidiaries of Conch Holdings) 49% of the equity interests in Digang Conch, 49% of equity interest in Zongyang Conch, 49% of equity interests in Chizhou Conch and 31.86% of equity interests in Tongling Conch for the completion of the Conch Venture transaction. Conch Venture has been holding the minority interests in these Four Companies from 12 July 2006 until the completion of the Conch Venture transaction. The transactions constitute connected transactions under the Listing Rules of the Stock Exchange. Upon completion of the issue of shares for the assets purchase, the aforesaid transactions shall no longer constitute connected transactions.

From 12 July 2006 until the end of the Reporting Period, the Group (excluding the Four Companies) purchased 16.68 million tonnes of clinker and cement from the Four Companies which amounted to RMB3,161.83 million; the purchases of clinker and cement made among the Four Companies amounted to 2.22 million tonnes and amounted to RMB360.03 million. The aggregate amount of RMB3,521.86 million had not exceeded the caps for 2006 approved by the general meeting.

For details of the transactions of clinker and cement, please refer to the announcements dated 10 October 2006, 27 October 2006 and 18 December 2006 which have been published in Shanghai Securities Journal, Hong Kong Commercial Daily and China Daily.

- 8.** For details of the connected transaction in relation to Chaodong Shares Acquisition, please refer to “(2) Material acquisition – 1. Acquisition of certain shares of Chaodong” in this section.
- 9.** For details of the connected transactions in relation to the issue of shares for the acquisition of the Three Companies from Conch Holdings and issue of shares for the acquisition of the Four Companies from Conch Venture, please refer to “(2) Material acquisition – 2. Acquisition of assets by the issue of shares” in this section.



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### 10. Connected creditor's right/liabilities

The non-operational use of capital by the substantial shareholder and its subsidiaries amounted to RMB3.20 million at the beginning of the Reporting Period, which was set off by the payment of cash and receivables. As at 29 April 2006, the use of capital was fully settled.

### Confirmation by independent Directors on the connected transactions

During the Reporting Period, the connected transactions were required in our normal operations, and were entered into on normal commercial 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, which have not exceeded the caps (if any) approved by the Stock Exchange or the caps (if any) approved in general meetings, and were 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

During the Reporting Period, the external guarantees provided by the Company were related to its own loans and loans of its subsidiaries, and all the guarantees have been approved either by the Board or the general meeting.

During the Reporting Period, the guarantees provided by the Company for its subsidiaries amounted to RMB430 million, all being guarantee for collateral liabilities; as at 31 December 2006, the balance of external guarantees provided by the Group amounted to RMB2,423 million, representing 34.36% of the net assets of the Company.

During the Reporting Period, 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. The aggregate amount of guarantee provided by the Company did not exceed 50% of the Company's latest audited net assets; the aggregate amount of the guarantee provided by the Company to companies with a gearing ratio of over 70% amounted to RMB935 million.

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As at 31 December 2006, Ningbo Conch Cement Company Limited, a subsidiary of the Company, pledged to the bank, structures, machines and equipment at a book value of RMB70.71 million as the security for a long term loan in the sum of RMB60 million.

As at 31 December 2006, Anhui Ningguo Cement Plant and the branch company, Baimashan Cement Plant of Anhui Conch Cement Company Limited pledged their assets of a book value of RMB959 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 material trustee investment arrangement.