



天安中國投資有限公司

TIAN AN CHINA INVESTMENTS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

CONNECTED TRANSACTION  
AND  
APPLICATION FOR ONGOING CONNECTED TRANSACTION WAIVER

The Directors announce that Shanghai SAC has become an indirect non-wholly owned subsidiary of the Company, through Shanghai Allied, after the Amendment has taken effect in March 2002. Before March 2002, Shanghai SAC was regarded as a jointly-controlled entity of Shanghai Allied according to the Hong Kong accounting standard as Shanghai Allied was unable to control the board of Shanghai SAC by simple majority voting rule. Pursuant to the Amendment, resolutions of the Shanghai SAC will be approved by majority affirmative voting of the directors of Shanghai SAC without the pre-requisite requirement of presence of a director nominated by each of its shareholders. AII-Shanghai Inc, a joint venture partner of Shanghai SAC and a subsidiary of Shanghai Allied, has nominated 5 out of 9 directors of Shanghai SAC both before and after the signing of the Amendment. The Amendment became effective after approval had been obtained from the government regulatory authority in the PRC in March 2002. Since then, Shanghai Allied, through AII-Shanghai Inc, controls the board of Shanghai SAC by simple majority voting rule although the shareholding structure in Shanghai SAC before and after the Amendment remains the same.

Accordingly, Shanghai SAC has become a subsidiary of Shanghai Allied after Amendment had taken effect. As Shanghai Allied is a non-wholly owned subsidiary of the Company, Shanghai SAC has become an indirect non-wholly owned subsidiary of the Company. The Lease Agreement, which was entered into before the Amendment, has become a connected transaction of the Company and Shanghai Allied under the Listing Rules. As the annual aggregate value of the Transaction was and is expected to be less than the higher of HK\$10,000,000 or 3% of the respective net tangible assets of the Group and the Shanghai Allied Group, the Lease Agreement falls under Rule 14.25 (1) of the Listing Rules and both the Company and Shanghai Allied are subject to the press announcement and annual report disclosure requirements.

The Directors advise that while Shanghai Allied had already complied with the disclosure requirement under Rule 14.25(1) of the Listing Rules and obtained conditional waiver from the Stock Exchange from strict compliance with the disclosure requirement under the Listing Rules, it was revealed during the Company’s annual audit that the Company, as a holding company and listed issuer, is also subject to the disclosure requirement of Rule 14.25(1) of the Listing Rules. An announcement in accordance with Rule 14.25(1) of the Listing Rules should have been put out as soon as practicable after a connected transaction is entered into. The delay in issuing this announcement may constitute a possible breach of the Listing Rules, and the Stock Exchange reserves its right to take appropriate action.

As the Transaction is of ongoing nature, the Company has applied to the Stock Exchange for a conditional waiver from strict compliance with the disclosure requirements under the Listing Rules to issue separate announcements on each and every occasion that such requirements arise subject to a cap amount and conditions as set out below. Details of the Transaction will be included in the next published annual report and accounts of the Company during the continuance of the Transaction.

BACKGROUND

The Directors announce that the joint venture partners of Shanghai SAC, an indirect non-wholly owned subsidiary of the Company, through Shanghai Allied, had entered into an agreement to amend the joint venture contract and the joint venture articles of Shanghai SAC on 28th December 2001 for the purpose of enhancing efficient management in Shanghai SAC (the “**Amendment**”). Pursuant to the Amendment, resolutions of the Shanghai SAC will be approved by majority affirmative voting of the directors of Shanghai SAC without the pre-requisite requirement of presence of a director nominated by each of the Shareholders. AII-Shanghai Inc., a joint venture partner of Shanghai SAC and a subsidiary of Shanghai Allied, has nominated 5 out of 9 directors of Shanghai SAC both before and after the signing of the Amendment. The Amendment became effective after approval had been obtained from the government regulatory authority in the PRC in March 2002.

Before the Amendment becoming effective, according to the Hong Kong accounting standards, Shanghai SAC is regarded as a jointly-controlled entity of Shanghai Allied as Shanghai Allied is unable to control the board of Shanghai SAC by simple majority voting rule. Immediately after approval on the Amendment has been obtained, Shanghai Allied, through AII-Shanghai Inc, controls the board of Shanghai SAC by simple majority voting rule although the shareholding structure in Shanghai SAC before and after the Amendment remains the same. Accordingly, Shanghai SAC has become a subsidiary of Shanghai Allied following the Amendment having become effective. As Shanghai Allied is a non-wholly owned subsidiary of the Company, Shanghai SAC has then become an indirect non-wholly owned subsidiary of the Company. As a result, the Lease Agreement has become a connected transaction of the Company and Shanghai Allied, which is therefore subject to the disclosure requirements under Chapter 14 of the Listing Rules.

THE LEASE AGREEMENT

Date

16th December 1995

Parties

Shanghai SAC, as lessee and an indirect non-wholly subsidiary of the Company

SCF, as lessor and a substantial shareholder of Shanghai SAC

Major terms

Annual leasing fee

According to the Lease Agreement, Shanghai SAC shall pay to SCF an annual leasing fee based on:

- i. the volume of raw materials (including limestone, stones and other materials for the production of cement) off-load each year;
- ii. the volume of storage place to be occupied by finished products;
- iii. the volume of finished products to be transported to the pier for loading; and
- iv. the actual electricity consumed by Shanghai SAC.

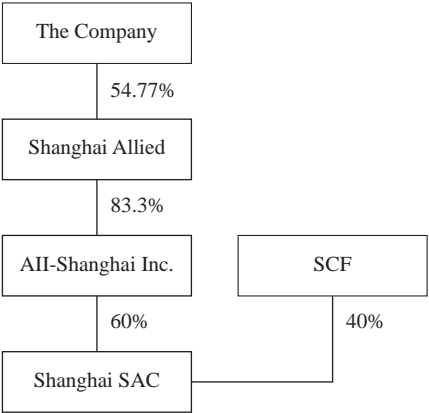
The leasing fee has two main components: (1) fixed asset leasing fee which is calculated mainly based on the depreciation cost of the fixed assets leased under the Lease Agreement and marked up with about 10%; and (2) usage fee mainly based on the volume of raw materials off-load and the applicable unit rate for the relevant raw materials agreed by the parties when the Lease Agreement was signed pursuant to an arm’s length negotiation.

The amount of leasing fee has been negotiated by the parties at an arm’s length basis and on normal commercial terms. The annual aggregate amount of the leasing fees for the three years ended 31st December 2002 was around RMB3.8 million (approximately HK\$3.58 million), RMB4.5 million (approximately HK\$4.25 million) and RMB5.1 million (approximately HK\$4.8 million), which represents 0.08, 0.10 and 0.11% respectively of the net asset value of the Group for the year ended 31st December 2002.

Fixed Assets Leased under the Lease Agreement

Piers, warehouses, electricity transformer station and transportation vehicles are the major equipments and facilities leased under the Lease Agreement to facilitate the unloading and storage of raw materials.

Connection between the Parties



SCF is a substantial shareholder of Shanghai SAC under the Listing Rules. Immediately after approval on the Amendment had been obtained, since Shanghai SAC has then become an indirectly non-wholly owned subsidiary of the Company, SCF has become a connected person of the Company by virtue of its 40% interest in Shanghai SAC. The Transaction hence has then become a connected transaction of the Company and Shanghai Allied under the Listing Rules. As the annual aggregate value of the leasing fee was and is expect to be below the higher of HK\$10,000,000 and 3% of the respective net tangible assets of the Group and Shanghai Allied Group, the Transaction is therefore subject to the press announcement and annual report disclosure requirements under Rule 14.25 (1) of the Listing Rules.

Reasons for the Transaction

At the time of construction of the production line of Shanghai SAC during the years from 1993 to 1995, the then management of Shanghai SAC noted that the necessary facilities and equipment including warehouses, pier and electricity transformer station owned by SCF had excess capacity which could satisfy Shanghai SAC’s demand and that they were also conveniently located adjacent to the site of the Shanghai SAC production line. The then management of Shanghai SAC considered that construction of facilities of such a substantial scale including pier and warehouses and the installation of an electricity transformer station would take a considerable period of time and require huge capital investment to complete and therefore they considered that the Lease Agreement provides the most cost-efficient operational environment for Shanghai SAC to conduct its business. As such, the Company, being an indirect holding company of Shanghai SAC, will also gain indirect benefit from the Lease Agreement.

The Directors (including the independent non-executive Directors) consider that the terms of the Lease Agreement are in the best interest of the Company and the shareholders of the Company as a whole and are entered into in the ordinary course of business of the Group and on normal commercial terms which are fair and reasonable.

The Directors advise that while Shanghai Allied had already complied with the disclosure requirement under Rule 14.25(1) of the Listing Rules and obtained conditional waiver in April 2002 from the Stock Exchange from strict compliance with the disclosure requirement of the Listing Rules, it was revealed during the Company’s annual audit for last financial year that the Company, as a holding company and listed issuer, is also subject to the disclosure requirement of Rule 14.25(1) of the Listing Rules. An announcement in accordance with Rule 14.25(1) of the Listing Rules should have been put out as soon as practicable after a connected transaction is entered into. The delay in issuing this announcement may constitute a possible breach of the Listing Rules, and the Stock Exchange reserves its right to take appropriate action.

## Application for an Ongoing Connected Transaction Waiver by the Company

Given the on-going nature of the Transaction, the Directors are of the view that it would be impracticable and unduly burdensome for the Company to make separate announcements on each and every occasion that such requirements arise. The Directors expect that the annual leasing fee to be made by Shanghai SAC to SCF will be less than HK\$10,000,000 or 3% of the net tangible assets of the Group. An application has been made to the Stock Exchange for a conditional waiver from strict compliance with the disclosure requirement under Rule 14.25(1) of the Listing Rules to issue separate announcements on each and every occasion that such requirements arise subject to a cap amount subject to the following conditions:

- (1) the Transaction must be:
  - (a) entered into in the ordinary and usual course of the Group's business;
  - (b) conducted either on normal commercial terms or (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
  - (c) entered into in accordance with the terms of the Lease Agreement governing such Transaction;
- (2) the aggregate annual amount of the Transaction for each financial year of the Company must not exceed the higher of HK\$10,000,000 or 3% of the net tangible asset value of the Group as disclosed in the latest published financial statements;
- (3) the independent non-executive Directors review annually the Transaction and confirm in the Company's next and each successive annual reports and accounts that the Transaction has been conducted in the manner as stated in paragraphs (1) and (2);
- (4) the Company's auditors must review the Transaction annually and confirm in a letter (the "**Auditors' Letter**") to the board of directors of the Company (a copy of the Auditors' Letter will also be provided to the Stock Exchange).

The Auditors' Letter must state that whether:

- the Transaction has received the approval of the board of directors of the Company;
- the Transaction has been entered into in accordance with the terms of the agreement governing the Transaction or, if there is no such agreement, on terms no less favourable than those available to or from independent third parties; and
- the Transaction has not exceeded the higher of HK\$10,000,000 or 3% of the net tangible asset value of the Group as disclosed in the latest published financial statements.

Where, for whatever reason, the auditors decline to accept the engagement or is unable to provide the Auditors' Letter, the Directors must contact the Stock Exchange immediately; and

- (5) details of the Transaction in each financial year must be disclosed pursuant to Rule 14.25 (1)(A) to (D) of the Listing Rules in the published annual report and accounts of the Company for that financial year with a statement of opinion of the independent non-executive directors of the Company as referred to in paragraph (3) above; and
- (6) the Company must provide to the Stock Exchange an undertaking that, for so long as the Company's shares are listed on the Stock Exchange, it will provide the Company's auditors with full access to the relevant records for the purpose of the auditors' review of the Transaction referred to paragraph (4) above.

If any terms of the Lease Agreement as mentioned above are altered or if Shanghai SAC enters into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, the Company must comply with the provisions of Chapter 14 of the Listing Rules unless it applies for and obtain a separate waiver from the Stock Exchange.

Details of the Transaction will be included in the Company's next published annual report and accounts during the continuance of the Transaction.

## GENERAL

The principal business activities of the Group are property development and investment, the provision of hotel and property management and agency services, investment holding, as well as trading of building materials.

## DEFINITIONS

"All Shanghai Inc."	a 83.3%-owned subsidiary of Shanghai Allied, with the remaining interest held by ASO Cement Co., Ltd. which, to the best knowledge of the Company, is an independent third party not connected with the directors, chief executive and substantial shareholders of the Company
"Company"	Tian An China Investments Company Limited, a company incorporated in Hong Kong, the securities of which are listed on the Stock Exchange
"Directors"	the board of directors of the Company
"Group"	the Company and its subsidiaries
"Lease Agreement"	the lease agreement dated 16 December 1995 entered into between Shanghai SAC and SCF
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China excluding Hong Kong
"SCF"	Shanghai Cement Factory, a wholly owned subsidiary of Shanghai General Building Materials Group Corporation, holding 40% interest in Shanghai SAC
"Shanghai Allied"	Shanghai Allied Cement Limited, a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange and Singapore Exchange Securities Trading Limited
"Shanghai Allied Group"	Shanghai Allied and its subsidiaries
"Shanghai SAC"	Shanghai Allied Cement Co., Ltd., a company established in the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Transaction"	transaction arising from the Lease Agreement

By Order of the board of directors of  
**Tian An China Investments Company Limited**  
**David Hui Yip Wing**  
Managing Director

Hong Kong, 19th June 2003

*For the purpose of this announcement, all amounts in RMB were translated into Hong Kong dollars at an exchange rate of HK\$1.00: RMB1.06.*