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# ANHUI CONCH CEMENT COMPANY LIMITED

( a joint stock limited company incorporated in the People's Republic of China with limited liability )

(Stock Code:0914)

## ONGOING CONNECTED TRANSACTIONS

### SUMMARY

The Company would announce the Ongoing Connected Transactions made with Shanghai Conch Trading and Shanghai Conch Logistics, both of which are subsidiaries of Anhui Holdings, the controlling shareholder of the Company. The Ongoing Connected Transactions with respect to Shanghai Conch Trading arise from three types of transactions: (i) exports of the cement and clinker products of the subsidiaries of the Company by Shanghai Conch Trading and sales to overseas customers as an agent of the Company; (ii) imports of clinker and cement production equipment (including spare parts and accessories for production) from overseas suppliers as an agent of the Company; and (iii) purchases (as principal) of cement and clinker products from the Group and sales (as principal) to third parties in mainland China.

The Ongoing Connected Transactions with respect to Shanghai Conch Logistics arise from it acting as a shipping services provider for the Group in the delivery of clinker between subsidiaries of the Company, the delivery of coal ash and accessory materials for production from suppliers to the members of the Group.

The executive Directors consider it to be in the interests of the Company to engage in the Ongoing Connected Transactions as these transactions will facilitate the expansion of the Group's business and lower the operation costs.

The Ongoing Connected Transactions are subject to the approval by the Independent Shareholders at the EGM. Anhui Holdings together with its associates (as defined in the Listing Rules) with interest in such Ongoing Connected Transactions will abstain from voting in this regard. Watterson Asia has been appointed as the independent financial adviser to the independent board committee formed for the purpose of considering the Ongoing Connected Transactions.

A circular containing, among other things, information relating to the Ongoing Connected Transactions, a letter from Watterson Asia, the recommendation of the independent board committee, and a notice convening the EGM will be despatched to the shareholders of the Company as soon as practicable.

### PARTICULARS OF THE ONGOING CONNECTED TRANSACTIONS

#### (A) Ongoing Connected Transactions with Shanghai Conch Trading

##### Background and nature of the transaction

On 23 September 1997, the Company entered into an agreement with Anhui Holdings, the controlling shareholder of the Company, being appointed as a non-exclusive agent of the Company for the export of cement and clinker products and the import of cement production equipment. Under the above agreement, the Company has agreed to pay Anhui Holdings a 1.5% commission based on the amount of sales made by Anhui Holdings as the Company's agent. The above sales are connected transactions defined under the Listing Rules. At the time of the Company's listing of its H Shares on the Stock Exchange in 1997, the Stock Exchange granted a waiver to the Company with respect to such connected transactions, subject to certain conditions.

With a view to expanding the Group's business overseas, the Company started selling clinker to Shanghai Conch Trading (as the principal) in October 2002 and started employing Shanghai Conch Trading as its non-exclusive import and export agent in February 2003. The Company has entered into the Shanghai Conch Trading Agreement dated 28 April 2004 with Shanghai Conch Trading, a subsidiary of Anhui Holdings, appointing Shanghai Conch Trading as a non-exclusive agent to sell the cement and clinker products of the subsidiaries of the Company to the overseas customers and to import clinker and cement production equipment (including spare parts and accessories for production) from overseas suppliers. Shanghai Conch Trading holds the Certificate of I/E Approval. It was established in April 1999, and 60% of its registered capital is held by Anhui Holdings while 40% of its registered capital is held by the shareholding union of employees (員工持股會) of Shanghai Conch Trading.

Under the Shanghai Conch Trading Agreement, the Company will pay Shanghai Conch Trading a 1.5% commission based on its amount of sales or (as the case may be) purchases as an agent of the Company.

Pursuant to the terms and the conditions of the Shanghai Conch Trading Agreement, Shanghai Conch Trading, as principal, may also purchase the Group's cement and clinker products and sells to other third parties in the domestic markets in PRC from time to time.

The Shanghai Conch Trading Agreement will be valid for a period of three years starting from 1 January 2004 and will expire on 31 December 2006.

##### Pricing Basis

Pursuant to the Shanghai Conch Trading Agreement, the Group has covenanted that it will sell cement and clinker products to Shanghai Conch Trading at a price and on terms not more favorable than that offered by the Group to other independent customers from time to time. The Group is not under any obligation to supply or sell cement and clinker products exclusively to Shanghai Conch Trading and it is free to sell to other trading houses which have the relevant export and import licenses to do so.

##### Transaction Value

The Group sold 2,069 tonnes of clinker with an aggregate consideration of approximately RMB0.41 million (equivalent to approximately HK\$0.39 million) to Shanghai Conch Trading in 2002. The above sales consideration, which represented 0.014% of the Group's total turnover in 2002, was determined by the Group having regard to the market conditions. The aforesaid connected transaction was entered into on normal commercial terms and the total consideration for the transaction was less than HK\$1,000,000. Accordingly, it was not subject to any disclosure or shareholders' approval requirement under the Listing Rules in force immediately prior to 31 March 2004.

In 2003, the sales volume of cement products overseas through Shanghai Conch Trading acted as the Group's export agent was 233,440 tonnes and the agency commission paid by the Group to Shanghai Conch Trading was approximately RMB0.64 million (equivalent to approximately HK\$0.6 million) while the transaction amount of cement production equipment imported from the overseas suppliers through Shanghai Conch Trading acted as the Group's import agent was amounted to RMB7,862,354 (equivalent to approximately HK\$7,417,315) and the agency commission paid by the Group to Shanghai Conch Trading was approximately RMB72,089 (equivalent to approximately HK\$68,008). Each of the aforesaid connected transactions was entered into on normal commercial terms and the total consideration (agency fees) for the transaction was less than HK\$1,000,000. Accordingly, they were not subject to any disclosure or shareholders' approval requirement under the Listing Rules in force immediately prior to 31 March 2004.

From 1 January 2004 to 31 March 2004, no sale was made to Shanghai Conch Trading (as the principal). However, there were some imports and exports of cement and clinker products and cement production equipment through Shanghai Conch Trading. The agency fees paid to Shanghai Conch Trading acting as the Company's export agent was RMB203,298 (equivalent to approximately HK\$191,791) and the agency fees paid to Shanghai Conch Trading acting as the Company's import agent was RMB517,695 (equivalent to approximately HK\$488,392) from 1 January 2004 to 31 March 2004. Each of the aforesaid connected transactions was entered into on normal commercial terms and the total consideration (agency fees) for the transaction was less than HK\$1,000,000. Accordingly, they were not subject to any disclosure or shareholders' approval requirement under the Listing Rules in force immediately prior to 31 March 2004.

The following table summarises the Group's cement and clinker sales volume with Shanghai Conch Trading (as a principal) for the two years ended 31 December 2003 and the expected cement and clinker sales volume and amount with Shanghai Conch Trading (as a principal) for the three years up to 31 December 2006:

	Year ended 31st December				
	2002	2003	2004	2005	2006
Transaction volume (tonnes)	2,069	Nil	1.05 million	1.50 million	2.00 million
Transaction amount (RMB)	0.41 million	Nil	315 million	450 million	600 million
	(equivalent to approximately HK\$0.39 million)	Nil	(equivalent to approximately HK\$297 million)	(equivalent to approximately HK\$425 million)	(equivalent to approximately HK\$566 million)
Transaction amount as a percentage of the Group's past or expected turnover (%)	0.014	Nil	3.1	3.0	3.3

The following table summarises the Group's cement and clinker sales volume and amount with Shanghai Conch Trading (as an agent) and the commission payments to Shanghai Conch Trading in cement and clinker sales overseas for the year ended 31 December 2003 and the expected cement and clinker sales volume and amount with Shanghai Conch Trading (as an agent) and expected commission payments to Shanghai Conch Trading in cement and clinker sales overseas for the three years up to 31 December 2006:

	Year ended 31st December			
	2003	2004	2005	2006
Transaction volume (tonnes)	233,440	1.20 million	2.00 million	3.00 million
Transaction amount (RMB)	43 million	265 million	442 million	662 million

	(equivalent to approximately HK\$41 million)	(equivalent to approximately HK\$250 million)	(equivalent to approximately HK\$417 million)	(equivalent to approximately HK\$625 million)
Agency commission (RMB)	0.64 million	3.975 million	6.60 million	9.93 million
	(equivalent to approximately HK\$0.6 million)	(equivalent to approximately HK\$3.75 million)	(equivalent to approximately HK\$6.23 million)	(equivalent to approximately HK\$9.37 million)
Agency commission as a percentage of the transaction amount (%)	1.5	1.5	1.5	1.5

The unit price of cement and clinker products charged on Shanghai Conch Trading (as principal) for local sales will be determined by the price committee of the Group.

Apart from the above, the Group will also appoint Shanghai Conch Trading as its non-exclusive agent for the importation of cement production equipment from overseas. As an import agent, Shanghai Conch Trading will assist the Group in negotiating with the overseas suppliers, drafting the relevant contracts, liaising with all the relevant parties, arranging customs and tax clearances, shipping and insurance with respect to the equipment to be imported on behalf of the Group.

The following table summarises the Group's amount of commission payable to Shanghai Conch Trading as an agent in the sourcing of cement production equipment overseas for the year ended 31 December 2003 and the expected amount of commission payable to Shanghai Conch Trading as an agent in the sourcing of cement production equipment overseas for the three years up to 31 December 2006:

	Year ended 31st December			
	2003	2004	2005	2006
Transaction amount (RMB)	7,862,354	253 million	267 million	280 million
	(equivalent to approximately HK\$7,417,315)	(equivalent to approximately HK\$239 million)	(equivalent to approximately HK\$252 million)	(equivalent to approximately HK\$264 million)
Agency commission (RMB)	72,089	3.8 million	4.0 million	4.2 million
	(equivalent to approximately HK\$68,008)	(equivalent to approximately HK\$3.58 million)	(equivalent to approximately HK\$3.77 million)	(equivalent to approximately HK\$3.96 million)
Agency commission as a percentage of the transaction amount (%)	0.9	1.5	1.5	1.5

##### Reasons for the Ongoing Connected Transactions with Shanghai Conch Trading

The Company is primarily a holding company with subsidiaries engaged in the production and sales of cement and clinker products in the PRC. Under the current PRC laws, the Company, though holding import and export licence for products which it manufactures, does not have relevant licence to act as an agent for the sale to overseas customers of cement and clinker products produced by its subsidiaries. Consequently, the Group has to rely on third parties that possess such licence for sales overseas and in the sourcing of equipment from overseas manufacturers.

The import and export services were provided by Anhui Holdings in the past. However, Anhui Holdings is based in Wuhu City, a city located in the inner part of the PRC with limited overseas contacts. To expand its businesses to the overseas markets, Anhui Holdings decided to set up Shanghai Conch Trading which is based in Shanghai, a city near the coast with more overseas contacts, and to transfer its businesses of import and export services to Shanghai Conch Trading.

Shanghai Conch Trading is a specialised trading company that possesses the Certificate of I/E Approval. It is mainly engaged in the trading of construction materials and chemical products with overseas parties. It was established in April 1999 and has increased substantially its trading activities in recent years and has established a network of customers in both overseas and domestic markets. Shanghai Conch Trading's sales in 2003 reached approximately RMB2 billion.

The Ongoing Connected Transactions with Shanghai Conch Trading will be conducted on arm's length basis, on normal commercial terms and in the ordinary and usual course of business of the Group in the view of the executive Directors. With a view to expand the Group's business in both the overseas and domestic markets, the executive Directors are of the view that the appointment of Shanghai Conch Trading as one of its selling agents to overseas customers and sales of cement and clinker products to Shanghai Conch Trading is beneficial to the Group as such sales enable the Group to tap into the customer base of Shanghai Conch Cement to expand the Group's sales to overseas customers and domestic customers in regions where the Group does not have customer networks.

#### (B) Shipping transportation services provided by Shanghai Conch Logistics

##### Background and nature of the transaction

On 28 April 2004, the Company entered into the Shanghai Conch Logistics Agreement with Shanghai Conch Logistics, a subsidiary indirectly owned by Anhui Holdings, appointing Shanghai Conch Logistics as its non-exclusive shipping services provider in the delivery of cement and clinker between subsidiaries of the Company and in the delivery of coal ash and accessory materials for production from suppliers to members of the Group. Shanghai Conch Logistics was established on 15 January 2004 and 90% of its registered capital is held by Shanghai Conch Trading, while the remaining 10% is held by Ningbo Hailuo, a wholly owned subsidiary of the Company. The Company started employing Shanghai Conch Logistics as its non-exclusive shipping services provider in January 2004.

The Shanghai Conch Logistics Agreement will be valid for a period of three years starting from 1 January 2004 and will expire on 31 December 2006.

##### Pricing Basis

Under the Shanghai Conch Logistics Agreement, the Company and Shanghai Conch Logistics will determine the shipping fees and agency commission for delivery of cement and clinker, coal ash, accessory materials for production and imported cement production equipment by reference to the shipping tariff schedule published by the Ministry of Transportation of PRC from time to time. Having regard to the actual circumstances, Shanghai Conch Logistics would propose the reasonable shipping fees and agency commission and may give a discount of 10% to 20% to the amount set out in the aforesaid shipping tariff schedule.

##### Transaction Value

From 1 January 2004 to 31 March 2004, the shipping delivery fees and the agency commission with Shanghai Conch Logistics were RMB789,200 (equivalent to approximately HK\$744,528). The aforesaid connected transaction was entered into on normal commercial terms and the total consideration (delivery fees and agency fees) for the transaction was less than HK\$1,000,000. Accordingly, it was not subject to any disclosure or shareholders' approval requirement under the Listing Rules in force immediately prior to 31 March 2004.

The following table summarises the Group's expected transaction volume and shipping delivery fees and agency commission with Shanghai Conch Logistics for the three years up to 31 December 2006:

	Year ended 31st December		
	2004	2005	2006
Shipping volume (tonnes)	17.0 million	26.0 million	32.0 million
Shipping delivery fees and agency commission (RMB)	425 million	650 million	800 million
	(equivalent to approximately HK\$401 million)	(equivalent to approximately HK\$613 million)	(equivalent to approximately HK\$755 million)

##### Reasons for the Ongoing Connected Transactions with Shanghai Conch Logistics

As the manufacture bases of the subsidiaries of the Company and the sales points are scattered around and located along the Yangtze River, river transport is an economic means of transport of the Group's cement and clinker products from the manufacture bases along rivers to the sales points. The Group used river transport for delivery its cement and clinker products, and such delivery services were provided by Ningbo Hailuo, one of the subsidiaries of the Company, which hired ships for delivery. However, under a new regulation imposed by the Ministry of Transportation in the PRC on 1 April 2001, shipping transport services providers must provide their transport services through vessels which they owned. Ningbo Hailuo does not own any ship and therefore cannot renew its shipping transport licence. Consequently, the Group has to identify and retain a logistics company which owns ships and holds the relevant shipping transport licence which permits it to be engaged in the shipping transport services.

Shanghai Conch Logistics is a registered shipping transport provider in the PRC with the relevant shipping transport licence granted by the Harbour Administrative Bureau of Shanghai and mainly provides cargo shipping transportation services to clients in the construction and energy sectors. It currently has a fleet of some 1,000 ships and barges for midstream transportation purpose and serves primarily enterprises located along the Yangtze River in the PRC. The executive Directors believe that it is to the benefit of the Group to have Shanghai Conch Logistics as one of its non-exclusive shipping transport services providers as the delivery fees incurred by the Group will be generally lower by enjoying bulk-delivery

discounts offered by Shanghai Conch Logistics and the market share of the Group may be expanded by extending its sales along the Yangtze River.

### DISCLOSURE REQUIREMENTS AND APPROVAL BY THE INDEPENDENT SHAREHOLDERS

For the purpose of the Listing Rules, as both the Shanghai Conch Trading and Shanghai Conch Logistics are the subsidiaries of Anhui Holdings, the controlling shareholder of the Company, their transactions with the Company constitute continuing connected transactions of the Company. In general, they are not exempted under the Listing Rules and are subject to both the reporting and announcement requirements and the Independent Shareholders' approval requirement. The Shanghai Conch Trading Agreement and the Shanghai Conch Logistics Agreement were entered on 28 April 2004, both were for a fixed term of three years and the Directors consider that both the Shanghai Conch Trading Agreement and the Shanghai Conch Logistics Agreement contain normal commercial terms.

In accordance with the requirements of the Listing Rules, the Ongoing Connected Transactions are conditional on approval of the Independent Shareholders at the EGM, and Anhui Holdings and its associates which have interest in the Ongoing Connected Transactions will abstain from voting at the EGM. An independent board committee will be appointed to advise the Independent Shareholders as to whether the Ongoing Connected Transactions are in the interests of the Company and are fair and reasonable so far as the Independent Shareholders are concerned. Watterson Asia Limited has been appointed as the independent financial adviser to advise the independent board committee on the terms of the Ongoing Connected Transactions.

The cap for each of the Ongoing Connected Transactions is as follows:

(a) In respect of Ongoing Connected Transactions with Shanghai Conch Trading:

Type of transactions	Annual cap
For cement and clinker sales	RMB315 million (equivalent to approximately HK\$297 million) in 2004; RMB450 million (equivalent to approximately HK\$425 million) in 2005; and RMB600 million (equivalent to approximately HK\$566 million) in 2006
For commission paid for overseas sales	RMB4.0 million (equivalent to approximately HK\$3.8 million) in 2004; RMB6.6 million (equivalent to approximately HK\$6.2 million) in 2005; and RMB10.0 million (equivalent to approximately HK\$9.4 million) in 2006
For commission paid for equipment imported from overseas	RMB3.8 million (equivalent to approximately HK\$3.6 million) in 2004; RMB4.0 million (equivalent to approximately HK\$3.8 million) in 2005; and RMB4.2 million (equivalent to approximately HK\$4.0 million) in 2006

(b) In respect of Ongoing Connected Transactions with Shanghai Conch Logistics:

Type of transactions	Annual cap
For cargo shipping transportation services	RMB425 million (equivalent to HK\$401 million) in 2004; RMB650 million (equivalent to HK\$613 million) in 2005; and RMB800 million (equivalent to HK\$755 million) in 2006

A circular containing, amongst other things, information relating to the Ongoing Connected Transactions, a letter from the independent financial adviser containing its advice to the independent board committee, the recommendation of the independent board committee, and a notice convening the EGM regarding the aforesaid will be despatched to the shareholders of the Company as soon as practicable.

Details of the above Ongoing Connected Transactions will be disclosed in the Company's annual report as prescribed by Rule 14A.46 of the Listing Rules.

### GENERAL

As at the date of this announcement, the board of Directors comprises (i) Messrs Guo Wensan, Li Shunan, Yu Biao, Zhu Dejin and Guo Jingbin as executive directors, and (ii) Mr Wang Yanmou, Mr Kang Woon and Ms Xue Tongzu as independent non-executive Directors.

### DEFINITIONS

As used in this announcement, the following words and phrases shall have the following meanings:

"Anhui Holdings"	Anhui Conch Holdings Company Limited (安徽海螺集團有限責任公司), a joint stock company incorporated in the PRC and the parent of the Company currently holding 622,480,000 State owned legal person shares of RMB1 each in the Company
"Company"	Anhui Conch Cement Company Limited, a company established in the PRC and whose H Shares are listed on the Stock Exchange
"Certificate of I/E Approval"	the certificate of approval granted by the Ministry of Commerce of the PRC (formerly known as the Ministry of Foreign Trade and Economic Cooperation of the PRC) to approve Shanghai Conch Trading to be engaged in the business of imports and exports of commodities and technologies as an agent and as a principal dated 23 November 2001
"Directors"	directors of the Company
"EGM"	extraordinary general meeting of the Company to be convened for the purpose of considering by the Independent Shareholders the Ongoing Connected Transactions, the notice of which will be set out in a circular to be despatched to shareholders of the Company
"Group"	the Company together with its subsidiaries
"H Shares"	overseas listed foreign shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each
HK\$	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
"Independent Shareholders"	shareholders of the Company, other than Anhui Holdings and its associates (as defined under the Listing Rules)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Ningbo Hailuo"	Ningbo Hailuo Free-trade Zone Trading Co., Ltd., a limited liability company incorporated in the PRC
"Ongoing Connected Transactions"	the continuing connected transactions between the Group and that of Shanghai Conch Trading and Shanghai Conch Logistics pursuant to their respective agreements
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"Shanghai Conch Logistics"	Shanghai Conch Logistics Company Limited (上海海龍物流有限公司), a limited liability company incorporated in the PRC
"Shanghai Conch Logistics Agreement"	the agreement dated 28 April 2004 and entered into between the Company and Shanghai Conch Logistics in respect of the Ongoing Connected Transactions between the Group and Shanghai Conch Logistics
"Shanghai Conch Trading"	Shanghai Conch Construction Material International Trading Company Limited (上海海龍建材國際貿易有限公司), a limited liability company incorporated in the PRC
"Shanghai Conch Trading Agreement"	the agreement dated 28 April 2004 and entered into between the Company and Shanghai Conch Trading in respect of the Ongoing Connected Transactions between the Group and Shanghai Conch Trading
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Watterson Asia"	the independent financial adviser to the Independent board committee to consider the Ongoing Connected Transactions
"%"	per cent.

By order of the board of Directors  
**Anhui Conch Cement Company Limited**  
 Zhang Mingjing  
 Company Secretary

Wuhu City, Anhui Province, the PRC  
 30 April 2004

*Note: For information purpose only, the translation of RMB to HK\$ is based on the exchange rate of RMB1.06 = HK\$1.*