

REASONS FOR THE ACQUISITION

The China Resources Holdings group has identified the cement industry as one with considerable potential for profitable expansion in the PRC. The cement industry in the PRC is fragmented with many small producers and few large companies with significant market share. The China Resources Holdings group believes that the industry is likely to consolidate around a small number of major producers, operating modern large scale production facilities. It believes that the cement operations have the potential to become one such producer. In addition to the benefits that are expected to flow from the rationalisation and consolidation of the cement industry, the China Resources Holdings group expects that the continuing high rate of economic growth and capital investments in the PRC will result in continuing growth in the demand for cement, concrete and related building materials.

Given the close association between the Redland group and the cement industry and the Redland group's position as a purchaser of cement, it has been decided that it would be sensible for the Redland group, the cement operations and the PRC concrete operations to be held under a single listed holding company. This will eliminate any perceived conflicts of interest and consolidate all the operations of the China Resources Holdings group in cement, concrete and related products under the same listed holding company.

Acquisition agreement

On 26th March, 2003, the company entered into a conditional agreement with China Resources Holdings for the acquisition of 100% of China Resources Holdings' interest in Guangxi CR Cement Holding, Dongguan Cement Holding, Dongguan Concrete Holding, and Shenzhen Concrete Holding and related shareholders' loans for an aggregate consideration equivalent to the aggregate audited combined net asset values of the acquired companies as at 31st December, 2002 of approximately HK\$205.4 million, and the principal amounts of such shareholders' loans of approximately HK\$208.7 million as at 25th March, 2003. Such consideration shall be satisfied by the company by the issue of shares. Guangxi CR Cement Holding, Dongguan Cement Holding, Dongguan Concrete Holding and Shenzhen Concrete Holding are investment holding companies and their principal assets are 70.0%, 70.0%, 100.0% and 70.0% interests in Guangxi CR Cement, CR Cement Company and Dongguan Cement, Dongguan Concrete, and Shenzhen Concrete, respectively. According to the respective accountants' reports of each of Guangxi CR Cement Holding, Dongguan Cement Holding, Dongguan Concrete Holding and Shenzhen Concrete Holding as set out in appendices II to V to this prospectus, respectively, the aggregate combined net asset value of these companies as at 31st December, 2002 was approximately HK\$205.4 million, accordingly, the aggregate consideration payable for the acquisition shall be approximately HK\$414.1 million. Such consideration shall be satisfied by the issue and allotment to China Resources Holdings of such number of shares as are equivalent in value, being approximately HK\$2.6761 per share, calculated by reference to the pro forma combined net asset value of the group of approximately HK\$456.7 million as attributable to each share in issue, on the assumption that approximately 208,040,521 shares will be in issue after the distribution, assuming the total number of China Resources Enterprise shares in issue on the record date were the same as at the latest practicable date, being 2,080,405,215.

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Based on the consolidated net asset value of the Redland group as at 31st December, 2002 of approximately HK\$456.7 million and the net asset value of the company of HK\$100.0 million as at 26th March, 2003, approximately 208,040,521 of the shares will be transferred to the China Resources Enterprise shareholders pursuant to the distribution, calculated on the basis of the 2,080,405,215 China Resources Enterprise shares in issue as at the latest practicable date, the number of shares to be issued to China Resources Holdings for the settlement of the consideration payable in respect of the acquisition and the shareholding of the company before and after completion of the acquisition will be as follows:

	Share consideration	Loan consideration	Total consideration/ value	China Resources Holdings and its associates (million shares)	%	Other shareholders (million shares)	%	Number of shares issued (million shares)
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>					
Group reorganisation	—	—	556.7 ⁽¹⁾	115.4	55.5	92.6 ⁽²⁾	45.5	208.0
The acquisition								
Guangxi CR Cement Holding	139.0	—	139.0	51.9		—		51.9
Dongguan Cement Holding	40.3	208.7	249.0	93.1		—		93.1
Dongguan Concrete Holding	4.9	—	4.9	1.9		—		1.9
Shenzhen Concrete Holding	21.2	—	21.2	7.9		—		7.9
Subtotal	205.4	208.7	414.1	154.8		—		154.8
Total	205.4	208.7	970.8	270.2	74.5	92.6 ⁽²⁾	25.5	362.8

Note:

- This represents the pro forma combined net assets of the enlarged group as at 31st December, 2002 after taking into account (i) the capital injection of HK\$100.0 million into the company by China Resources Enterprise on 26th March, 2003, and (ii) the transfer of the interest of China Resources Enterprise in the Redland group to the company pursuant to the group reorganisation.
- Certain directors of the company are expected to be interested or taken to be interested in 168,000 shares, and approximately 92.5 million shares are expected to be held by the public shareholders, with reference to their respective interests in the China Resources Enterprise shares in issue as at the latest practicable date, without taking into account of any outstanding share options of China Resources Enterprise in which the directors are interested or taken to be interested.

Conditions precedent

Completion of the acquisition is subject to the following conditions:

- the approval by the China Resources Enterprise independent shareholders at an extraordinary general meeting to be held for the acquisition; and
- the registration with the Registrar of Companies of Hong Kong of this prospectus.

THE CEMENT OPERATIONS

Guangxi CR Cement Holding

Introduction

Guangxi CR Cement Holding is an investment holding company and its principal asset is a 70.0% interest in Guangxi CR Cement, the principal activity of which is the production and sale of cement and related products under the trademark “紅水河” (Hongshuihe). Guangxi CR Cement is a sino foreign equity joint venture established on 24th December, 2001 in the PRC with an operation period of 50 years commencing from its date of establishment.

History and development

Guangxi CR Cement’s history dates back to 1978 when 廣西黎塘水泥廠 (Guangxi Li Tang Cement Factory) was formed for the purpose of building and operating a cement manufacturing plant. Li Tang Town (黎塘鎮) was selected as the site for the construction of cement manufacturing plant due to the abundance of limestone and sandstone. The cement manufacturing plant took about six years to build before commencing its operations in 1984.

On 16th December, 2001, a joint venture agreement was entered into between Minmetals Holdings and Guangxi Hongshuihe Cement. Under the agreement, Minmetals Holdings and Guangxi Hongshuihe Cement agreed to invest RMB140.0 million and RMB60.0 million, equivalent to approximately HK\$132.0 million and approximately HK\$56.6 million, for a 70.0% and a 30.0% interest in Guangxi CR Cement, respectively. The capital contribution of Minmetals Holdings was satisfied by cash whereas the capital contribution of Guangxi Hongshuihe Cement was made by way of assets injection, which comprised principally of cement manufacturing facilities, mining rights, railway rights, sea use rights and land use rights then held by Guangxi Hongshuihe Cement, valued at RMB90.0 million, equivalent to approximately HK\$84.9 million, of which, RMB60.0 million, equivalent to approximately HK\$56.6 million, was treated as a capital contribution of Guangxi Hongshuihe Cement to the joint venture and the remaining balance of RMB30.0 million, equivalent to approximately HK\$28.3 million, was treated as a payable to Guangxi Hongshuihe Cement in the books of the joint venture regarding the redundancy payment for the workers transferred from Guangxi Hongshuihe Cement to Guangxi CR Cement. As at the latest practicable date, the amount of RMB10.0 million, equivalent to approximately HK\$9.4 million, was paid to Guangxi Hongshuihe Cement and RMB20.0 million, equivalent to approximately HK\$18.9 million, remained outstanding. The registered capital of Guangxi CR Cement in the amount of RMB200.0 million, equivalent to approximately HK\$188.5 million, was fully paid up as at the latest practicable date.

Guangxi CR Cement and Profit Pool Holdings Limited, an independent third party, entered into a joint venture agreement dated 12th February, 2003, as amended on 9th April, 2003, under which Guangxi CR Cement and Profit Pool Holdings Limited agreed to invest HK\$2,896,800 and HK\$2,783,200 for a 51% and 49% interest in Zhanjiang China Resources Hongshuihe Cement Company Limited (“Zhanjiang CR Cement”), respectively. Zhanjiang CR Cement was formed with the purpose of operating a cement manufacturing plant with an annual production capacity of 200,000 tonnes in Zhanjiang, the PRC. Zhanjiang CR Cement commenced operation in April 2003. The piece of land at which the leased production plant of Zhanjiang CR Cement is located (please refer to property numbered 27 in appendix VII to this prospectus) is being leased to Zhanjiang CR Cement together with, among other things, the production facilities. The leased property comprises an area of approximately 6,318.8 sq.m., equivalent to approximately 68,015 sq.ft.. Part of the land use right of the property of an area of approximately 903.0 sq.m., equivalent to approximately 9,720 sq.ft. is

administratively allocated to the landlord. The landlord is not allowed to dispose of or lease such area unless and until an approval from the relevant PRC government authority is obtained or such area is being converted to granted land. No such approval has been obtained nor has conversion been completed by the landlord. Zhanjiang CR Cement may be ordered by the relevant government authority to surrender possession of the relevant area. However, even in such circumstances no other penalty would be imposed on Zhanjiang CR Cement as tenant of the property. As the area concerned is now being used for production and that it is not feasible to move the production facilities to other areas within the property, Zhanjiang CR Cement may have to cease operation on the property if it is not allowed to occupy the area concerned. In such event, Guangxi CR Cement's capital investment in Zhanjiang CR Cement may have to be written off. Up to 31st May, 2003, a capital expenditure in the total amount of approximately RMB2.1 million, equivalent to approximately HK\$2.0 million, has been incurred by Zhanjiang CR Cement, of which 51%, being approximately RMB1,051,000, equivalent to approximately HK\$991,000, is attributable to the enlarged group. It is expected that Zhanjiang CR Cement should be able to find an alternative location for its operations in such circumstances and the total cost of relocation is estimated to be no more than RMB1.0 million, equivalent to approximately HK\$943,000, of which 51%, being approximately RMB510,000, equivalent to approximately HK\$481,000, will be attributable to the enlarged group.

Products

Guangxi CR Cement's principal products are grades #425 and #325 ordinary Portland cement, Portland cement, Portland blast furnace slag cement and composite Portland cement, most of which are used in high rise buildings and infrastructure projects such as hydroelectric power stations, dams, bridges, ports, airports and roads. The directors believe that Guangxi CR Cement's product quality has enabled it to remain as one of the leading producers of #425 ordinary Portland cement in the Guangxi ZAR, the PRC.

Production process

Guangxi CR Cement currently employs wet process rotary kilns for its clinker production. The raw materials are ground in water to form a pumpable slurry. The slurry is then thickened into a dense slurry in water basins through precipitation before being homogenised in slurry tanks. Thereafter, the dense slurry is sintered into clinker in a rotary kiln. The clinker is then cooled to 65 degrees celsius by coolers. Once cooled, the clinker is added with gypsum, ash, blast furnace slag and, or other additives and ground to form cement.

Production facility

Guangxi CR Cement's cement plant is located at 廣西壯族自治區賓陽縣黎塘鎮 (Li Tang Town, Bin Yang County, Guangxi ZAR, the PRC) and comprises an area of approximately 2,263,619.5 sq.m., equivalent to approximately 24,365,600 sq.ft.. The cement plant was first established in 1984 and currently consists of one crushing mill to process raw material, five wet process rotary kilns for the production of clinker and a grinding mill to process clinker into cement. It has an annual production capacity of approximately 1,200,000 tonnes of cement based on three shifts per day and 300 working days per annum. For the year ended 31st December, 2002, the amount of cement produced at the cement plant amounted to approximately 980,000 tonnes.

Due to the high level of construction activity in the region, Guangxi CR Cement has experienced a consistently high demand for its cement and utilised approximately 82% of its annual capacity in 2002.

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Production plans for the cement plant are driven by demand, with an aim to maintaining the Guangxi CR Cement's inventory at a minimum level. Production plans of the cement plant are coordinated by the production department with regular meetings among department heads to review monthly production plan and raw material requirements. Presently, in order to meet its production requirements, the cement plant is being operated on a twenty four hour, three shift basis.

Sales and marketing

The directors believe that Guangxi CR Cement is one of the largest cement producers and one of the leading producers of #425 cement in the Guangxi ZAR, the PRC. The cement produced by Guangxi CR Cement has been used in construction works for a number of major infrastructural projects including power stations such as hydroelectric power dams, highways, bridges and airports, including the Shenzhen Airport and the Hainan Airport in the PRC. The market share is anticipated to increase with the additional capacity which will come on stream later this year. All of the cement products are sold under the “紅水河” (Hongshuihe) trademark. Guangxi CR Cement is not subject to any domestic and export sales ratio.

The following table sets out the sales of the major products produced by the Guangxi CR Cement Holding group by volume and value for the period from 24th December, 2001 to 31st December, 2002:

	For the period from 24th December, 2001 to 31st December, 2002			
	<i>Tonnes</i>	<i>RMB'000</i>	<i>HK\$'000</i>	<i>%</i>
Sales by major products and areas				
Local sale in PRC:				
Portland cement:				
#425R	86,666	19,318	18,209	10.0
Ordinary Portland cement:				
#425R	467,499	103,098	97,180	53.2
#325R	89,602	18,534	17,470	9.6
Composite Portland cement:				
#425R	18,637	3,875	3,653	2.0
#325R	39,432	6,755	6,367	3.5
#325	166,648	31,050	29,268	16.0
Portland blast furnace slag cement:				
#425	5,406	1,289	1,215	0.7
#325	22,067	4,890	4,609	2.5
Clinker	5,683	926	873	0.5
<i>Sub-total</i>	901,640	189,735	178,844	98.0
Export sales to Hong Kong:				
Portland cement:				
#425				
<i>Sub-total</i>	15,295	4,049	3,816	2.0
Total	916,935	193,784	182,660	100.0

“R” denotes rapid hardening type

Marketing

The Guangxi CR Cement's sales team is responsible for gathering market information, coordinating marketing activities and delivering cement products. Guangxi CR Cement promotes itself and its products principally through billboard advertising.

Sales team

Guangxi CR Cement puts great emphasis on maintaining a close relationship with customers and keeping abreast of market developments by sending sales personnel to visit customers on a frequent basis. Guangxi CR Cement also sends sales personnel to its silo terminals to coordinate with local marketing efforts and sends technicians to provide on site instructions to customers on the application of cement products.

Guangxi CR Cement uses independent distributors to distribute its products. Most of these distributors have entered into non exclusive distribution agreements with Guangxi CR Cement. For the year ended 31st December, 2002, sales to distributors accounted for approximately 57.1% of Guangxi CR Cement's sales.

Pricing policy

Pricing of the cement products is mainly determined with reference to prevailing market conditions. According to customers' requirements, Guangxi CR Cement either sells its product ex factory or arranges for delivery to the sites specified by the customers. Therefore, two different prices are specified in the sales contracts entered with the customers. Where transportation costs are included in the sales price, the sales department of Guangxi CR Cement will assist customers to arrange for the transportation.

Payment terms

Export sales are normally prepaid or supported by documentary letters of credit.

Bulk purchase customers engaged in major construction projects usually enter into a main contract with Guangxi CR Cement. Key terms are fixed under the master contract. The cement products are then delivered according to the customers' actual demand. A monthly statement of account is delivered to these customers. For the period from 24th December, 2001 to 31st December, 2002, Guangxi CR Cement did not incur any bad debt expenses or make any bad debt provision.

Domestic sales in the PRC are transacted in Renminbi while export sales to Hong Kong are transacted in Hong Kong dollars.

Raw materials and energy

The principal raw materials and energy consumed in the production of cement are limestone, sandstone, iron ore, gypsum, blast furnace slag, coal and electricity. The plant is located close to the sources of such major raw materials. Guangxi CR Cement has been granted mining rights to excavate limestone and sandstone from local quarries, and thus does not require any external purchases. Other raw materials are sourced from independent suppliers within the PRC. There is adequate supply of iron ore, gypsum and blast furnace slag in the market and the directors do not foresee any difficulty in

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obtaining iron ore, gypsum and blast furnace slag for Guangxi CR Cement's production requirements in the future. Purchases of iron ore, gypsum and blast furnace slag by Guangxi CR Cement are generally made on a 30 days credit term.

All the raw materials for production are purchased by the supply department of Guangxi CR Cement. Yearly supply contracts are usually signed with major suppliers of raw materials. These yearly supply contracts fix the key terms such as the price of raw materials, the means of transportation and the specification of raw materials. The supply department will order the respective raw materials according to the monthly production plan. The qualities of the raw materials are then checked by the quality control department to ensure that they comply with the cement plant's requirements. In addition, the supply department will monitor the quality of raw materials, the timing of delivery and the pricing of raw materials.

Coal and other raw materials are transported to the cement plant by rail. No significant supply problems have been experienced in the past and there is sufficient quantity of raw materials within the surrounding areas to meet the foreseeable needs of the cement plant. All principal raw materials and energy consumed by Guangxi CR Cement are paid in Renminbi.

Coal

Coal is primarily used for firing raw materials in the rotatory kilns during the production of cement. Guangxi CR Cement obtains its supply of coal from several independent suppliers. Purchases of coal by Guangxi CR Cement are generally made on a 180 days credit term.

Electricity

The cement plant obtains its electricity supply from 南寧供電局 (Nanning Electricity Bureau) under an agreement entered into between Guangxi CR Cement and 南寧供電局 (Nanning Electricity Bureau) on 18th April, 2002. Guangxi CR Cement has not experienced any difficulty in obtaining adequate electricity in the past and the directors do not foresee any problem in obtaining electricity for Guangxi CR Cement in the foreseeable future. Payments for electricity consumed by Guangxi CR Cement are made monthly in advance.

Mining rights

龍嶺石灰石礦 (*Long Ling limestone quarry*) and 鳳凰山石灰石礦 (*Feng Huang Shan limestone quarry*)

Limestone is a major raw material for the production of cement. All the limestone used by Guangxi CR Cement is currently obtained from 龍嶺石灰石礦 (Long Ling limestone quarry). The location of 龍嶺石灰石礦 (Long Ling limestone quarry) is adjacent to the cement plant. The limestone mined from the quarry is transported to the plant's crushing mill for further processing and then transported to the respective storage facilities by conveyor belt. As confirmed by 國土資源部 (State Land and Resources Bureau), 龍嶺石灰石礦 (Long Ling limestone quarry) was estimated on 30th September, 2001 to have limestone reserves of approximately 17.6 million tonnes. For the period from 24th December, 2001 to 31st December, 2002, the cement plant consumed approximately 990,000 tonnes of limestone for its own production needs. Guangxi CR Cement obtained the land use rights in respect of Long Ling limestone quarry on 24th January, 2002.

Approval was issued by 廣西壯族自治區國土資源廳 (Guangxi ZAR Land and Resources Bureau) on 17th February, 2002 for the transfer of the mining rights of 龍嶺石灰石礦 (Long Ling limestone quarry) and 鳳凰山石灰石礦 (Feng Huang Shan limestone quarry) from Guangxi Hongshuihe Cement to Guangxi CR Cement. Guangxi CR Cement has obtained the land use rights of 鳳凰山石灰石礦 (Feng Huang Shan limestone quarry) in May 2003. The excavation commenced in June 2003. As confirmed by 國土資源部 (State Land and Resources Bureau), 鳳凰山石灰石礦 (Feng Huang Shan limestone quarry) was estimated on 30th September, 2001 to have limestone reserves of approximately 40.9 million tonnes.

林村泥質粉沙岩礦 (Lin Cun sandstone quarry)

Sandstone is another major raw material used in the production of cement. All of the sandstone used by Guangxi CR Cement is obtained from 林村泥質粉沙岩礦 (Lin Cun sandstone quarry). The location of 林村泥質粉沙岩礦 (Lin Cun sandstone quarry) is adjacent to the cement plant. The sandstone mined from the quarry is transported to the crushing mill for further processing and then transported to the cement plant by conveyor belt. As confirmed by 國土資源部 (State Land and Resources Bureau), 林村泥質粉沙岩礦 (Lin Cun sandstone quarry) was estimated on 30th September, 2001 to have sandstone reserves of approximately 7.4 million tonnes. For the period from 24th December, 2001 to 31st December, 2002, the cement plant consumed about 100,000 tonnes of sandstone for its own production needs. Guangxi CR Cement obtained the land use rights in respect of the 林村泥質粉沙岩礦 (Lin Cun sandstone quarry) on 24th January, 2002.

Approval was issued by 廣西壯族自治區國土資源廳 (Guangxi ZAR Land and Resources Bureau) on 17th February, 2002 for the transfer of the mining right of 林村泥質粉沙岩礦 (Lin Cun sandstone quarry) from Guangxi Hongshuihe Cement to Guangxi CR Cement.

Quality control

Guangxi CR Cement recognises the importance of quality control for its products. Guangxi CR Cement has established and implemented a quality management assurance system in strict compliance with ISO 9001 guidelines. Guangxi CR Cement imposes stringent quality control standards for each of the production stages from the sourcing and purchase of raw materials, production and, up to the time when the products are finished and delivered. Guangxi CR Cement was accredited with ISO 9001-2000 Quality System Certificate by China Jincal Certification Centre for Quality System in 1997.

Guangxi CR Cement has established 25 quality control and inspection stations for its operation to ensure that production quality is properly monitored and quality control procedures are properly carried out. The cement plant's main quality control procedures are as follows:

Raw materials

Raw materials such as limestone, sandstone, iron ore, blast furnace slag, gypsum and coal undergo routine quality analysis on a sample basis before being used in the production process to ensure that such raw materials comply with Guangxi CR Cement's required quality standards.

Production in progress

Quality control stations carry out intermediate quality control inspections on a sample basis at each stage of the production processes and any deviations are promptly investigated and corrected.

Finished products

Finished products are subject to thorough testing on a sample basis by the quality control department to ensure that they comply with the quality standards set by 中國建築材料工業協會 (China Building Materials Industry Association) (“CBMIA”) and approved and promulgated by 國家標準化管理委員會 (the Standardisation Administration of China) of the PRC for cement products.

Storage and packaging

Guangxi CR Cement at present has on site storage facilities for approximately 21,000 tonnes of limestone, 8,000 tonnes of sandstone, 7,000 tonnes of gypsum, 5,000 tonnes of iron ore, 43,000 tonnes of coal, 17,000 tonnes of blast furnace slag, 32,000 tonnes of clinker and 72,000 tonnes of cement. The storage facilities normally store, on average, around five days of supply of limestone and sandstone and 15 days of supply of coal, blast furnace slag, gypsum and iron ore.

While significant amount of the plant’s products, including clinker and cement, is transported to customers in bulk volume by train, barge or specialised tanker, cement is also packaged into bags for retail sale. For the period from 24th December, 2001 to 31st December, 2002, the sales of bulk cement accounted for approximately 60.7% of Guangxi CR Cement’s total sales for that period.

Guangxi CR Cement uses the property at Qinzhou Front Station (please refer to property numbered 28 in appendix VII to this prospectus) as a cement interchange station. The property is leased by Guangxi CR Cement for which a lease agreement was signed with the landlord, 廣西沿海鐵路經貿有限公司 (Guangxi Coastal Railway Economic and Trade Co., Ltd.). Guangxi CR Cement is not provided with the respective proof of title of the landlord. Based on the legal advice of the company’s PRC legal advisers, if the landlord does not have proper title to the property and the legal owner of the property seeks to assert its rights to the property, Guangxi CR Cement may have to surrender possession of the land. It is not possible for Guangxi CR Cement to seek specific performance of the lease. However, it may claim damages from the landlord for losses suffered. Under the PRC law, Guangxi CR Cement is not subject to any penalty for having entered into the lease or for occupying the property. As the property is being used for loading, unloading and storage, Guangxi CR Cement believes that it can find replacement facilities in the event it is prohibited from using the property. Therefore it is not expected that the loss of the right to use the property will have any material adverse impact on Guangxi CR Cement.

Guangxi CR Cement leases the property at Xiashan District, Zhanjiang (please refer to property numbered 29 in appendix VII to this prospectus) for cement transport or storage station. This is a property leased by Guangxi Hongshuihe Cement for which a lease agreement was signed by Guangxi Hongshuihe Cement with the landlord, 廣東省湛江市霞山區海頭鎮新村村委會 (Guangdong Province Zhanjiang Xiashan District Haitou Township New Village Committee) and 廣東省湛江市霞山海新儲運站 (Guangdong Province Zhanjiang Xiashan Haixin Storage Station). Following the establishment of Guangxi CR Cement, it has been using the property according to the terms of the lease agreement with the implied consent of the landlord. The property is currently being used for loading, unloading and storage. Guangxi CR Cement is not provided with the respective proof of title of the landlord. Based on the legal advice of the company’s PRC legal advisers, if the landlord does not have proper title to the property and the legal owner of the property seeks to assert its rights to the property, Guangxi CR Cement may have to surrender possession of the land. It is not possible for Guangxi CR Cement or Guangxi Hongshuihe Cement to seek specific performance of the lease. However, Guangxi CR Cement (not being a party to the lease agreement) may claim damages from the landlord for losses suffered. Under the PRC law, Guangxi CR Cement is not subject to any

penalty for having entered into the lease or for occupying the property. As the property is being used for loading, unloading and storage, Guangxi CR Cement believes that it can find replacement facilities in the event it is prohibited from using the property. Therefore the loss of the right to use the property is not expected to have any material adverse impact on Guangxi CR Cement.

Transportation

The Guangxi CR Cement's cement plant is located approximately 92 km from Nanning City, the provincial capital of Guangxi ZAR and is well served by rail, road and water transport. Guangxi CR Cement transports its raw materials, coal and cement mainly by rail and barges and, to a lesser extent, by road. Guangxi CR Cement has not experienced any major difficulties in arranging transportation for its raw materials and finished products in the past.

Road transport

Guangxi CR Cement is conveniently located near the 國道322 and 國道324 (national highway numbered 322 and 324), connecting the cement plant by road to major cities in the Guangxi ZAR.

Guangxi CR Cement operates its trucks for transporting its raw materials within the cement plant. Transportation of cement products to customers is outsourced to outside contractors. For the period from 24th December, 2001 to 31st December, 2002, Guangxi CR Cement transported approximately 17.9% of its finished goods to its customers by road transport.

Rail transport

The plant has the right to the use of a 4.9 km railway line (專用綫) which links Guangxi CR Cement's plant to the State railway network through 黎塘鎮火車站 (Li Tang Railway Station). In or around 1984, Guangxi Hongshihe Cement was granted the right to the railway within the boundaries of its plant site, but it shared the use of the railway line outside the plant site with another enterprise. Such right has been transferred to Guangxi CR Cement as capital contribution from Guangxi Hongshihe Cement. Guangxi CR Cement and 柳州鐵路局玉林工務段 (Liuzhou Railway Bureau Yulin working section) has entered into an agreement on an annual basis for the repair and maintenance of such railway.

Through its own railway line which links the cement plant to the State railway network, Guangxi CR Cement is linked to the departure river port of 欽州港 (Qinzhou Gang). Apart from using rail transport to 欽州港 (Qinzhou Gang), cement can also be transported to Shenzhen and Zhanjiang in the Guangdong province by rail. Most of the raw materials used for the production of cement, apart from limestone and sandstone, are transported to the cement plant using the railway. For the period from 24th December, 2001 to 31st December, 2002, Guangxi CR Cement transported approximately 16.3% of its finished goods to its customers by rail transport.

River and sea transport

Guangxi CR Cement usually transports its cement products from the cement plant in 黎塘鎮 (Li Tang Town) to the river port of 貴港 (Gui Gang) or sea port of 欽州港 (Qinzhou Gang) by specialised tanker and train, respectively. Through 貴港 (Gui Gang), Guangxi CR Cement's products can be transported along the 西江 (Xijiang River) to the Guangdong province and from there to the major cities along the Pearl River delta region and beyond, including Guangzhou, Shenzhen, Dongguan and Zhuhai. Through 欽州港 (Qinzhou Gang), Guangxi CR Cement's cement products is shipped through

the South China Sea to the Hainan province. For the period from 24th December, 2001 to 31st December, 2002, Guangxi CR Cement transported approximately 65.8% of its finished goods to its customers by barge.

Repair and maintenance

Regular repair and maintenance of the cement plant's equipment are scheduled by the production department in order to avoid unexpected stoppages and maximise production efficiency. The repair team also oversees day-to-day repair and maintenance of the facilities and machinery. Production lines are required to be shut down periodically for overhauling or repairing.

Normally, only one kiln at the cement plant is shut down for repair and maintenance at any one time in order not to disrupt the production schedule. For the period from 24th December, 2001 to 31st December, 2002, Guangxi CR Cement incurred approximately RMB12.9 million, equivalent to approximately HK\$12.2 million, in repair and maintenance expenses. There had not been any major stoppages caused by equipment defect for the period from 24th December, 2001 to 31st December, 2002.

Safety procedures

Three full time staff are designated for regulating and coordinating safety matters with the assistance from team supervisors from different production units. The team supervisors from each production unit are responsible for ensuring compliance with safety regulation and procedures imposed. New employees are also trained to comply with the relevant safety procedures prior to assuming their respective job duties.

Environmental and pollution controls

Guangxi CR Cement is subject to the state, provincial and municipal environmental laws, regulations and administrative rules. These include provisions for the prevention and treatment of water and air pollution and the prevention of industrial pollution generally. The cement plant has installed appropriate facilities at the relevant workshops to collect cement residues for reuse during the cement production process. The cement plant has also installed sewage water treatment system to recycle the water for cooling. Three full time employees are designated for regulating environmental and pollution matters.

Guangxi CR Cement has exceeded the respective prescribed limits for the emission or discharge of wastage for the period from 24th December, 2001 to 31st December, 2002 resulting in payment of wastage discharge fees in an aggregate amount of approximately RMB600,000, equivalent to approximately HK\$566,000. Other than that, it has not been held liable for any material breach of environmental rules and regulations nor has it received any complaints from residents living in the vicinity of its production facilities.

Trademarks

Guangxi CR Cement produces a range of grades #425 and #325 cement under the “紅水河” (Hongshuihe) trademark. In order to protect this trademark, Guangxi Hongshuihe Cement has registered the trademark of “紅水河” (Hongshuihe) for ten years with the Trademarks Bureau (商標局) under the PRC State Administration for Industry and Commerce on 30th March, 1984. This registration was subsequently renewed on 30th March, 1994 for another ten years. This trademark was assigned to Guangxi CR Cement with the approval of the Trademarks Bureau on 7th September, 2002. To prevent

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potential pirated products bearing similar names as “紅水河” (Hongshuihe), Guangxi CR Cement has also registered similar marks of “紅水” (Hongshui), “水紅河” (Shuihonghe), “河水紅” (Heshuihong) and “紅河水” (Hongheshui) with the Trademarks Bureau (商標局). These trademarks have also been assigned to Guangxi CR Cement. The directors believe that there will be no difficulty in renewing the registration of these trademarks when they expire in March 2004.

Employees

As at 31st December, 2002, Guangxi CR Cement had a total of 1,083 full time employees. A breakdown of the employees by function is shown below:

Management	10
Finance and administration	40
Research and development	—
Production	616
Quality control	82
Repair and maintenance	214
Sales and marketing	19
Others	<u>102</u>
Total	<u><u>1,083</u></u>

All full time employees of Guangxi CR Cement are employed on the terms set out in their employment contracts with Guangxi CR Cement. Guangxi CR Cement has not experienced any labour disputes affecting its operation.

Remuneration of Guangxi CR Cement's employees includes basic wages, production unit allowance, bonuses, and other benefits. Guangxi CR Cement paid its employees approximately RMB18.7 million, equivalent to approximately HK\$17.5 million in basic wages, production unit allowance, bonuses, and other benefits for the period from 24th December, 2001 to 31st December, 2002. Guangxi CR Cement does not provide housing for its employees.

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Financial information

The following is an extract of the combined profit and loss account for the period from 24th December, 2001 to 31st December, 2002 of Guangxi CR Cement Holding from appendix II to this prospectus.

Combined profit and loss account

	For the period from 24th December, 2001 to 31st December, 2002	
	RMB'000	HK\$'000
Turnover	193,784	182,660
Cost of sales	<u>(153,638)</u>	<u>(144,819)</u>
Gross profit	40,146	37,841
Other operating income	4,993	4,706
Selling and distribution expenses	(7,381)	(6,958)
General and administrative expenses	<u>(20,857)</u>	<u>(19,660)</u>
Profit from operations	16,901	15,929
Interest on bank borrowings wholly repayable with five years	<u>(6,284)</u>	<u>(5,923)</u>
Profit before minority interests	10,617	10,006
Minority interests	<u>(3,185)</u>	<u>(3,002)</u>
Net profit for the period	<u><u>7,432</u></u>	<u><u>7,004</u></u>

Please refer to appendix II for further financial information of Guangxi CR Cement Holding.

For the period from 24th December, 2001 to 31st December, 2002

Turnover

Guangxi CR Cement Holding's turnover and profits were principally derived from the sale of high grade cement, being #425 ordinary Portland cement, in Guangxi ZAR and Guangdong province. For the period, the turnover of Guangxi CR Cement Holding amounted to approximately RMB193.8 million, equivalent to approximately HK\$182.7 million, of which 98.0% were attributable to the domestic sales in the PRC and 2.0% were attributable to export sales to Hong Kong. During the period, the Guangxi CR Cement Holding sold approximately 917,000 tonnes of cement, of which #425 cement accounted for approximately 67.9% and other grades of cement accounted for the balance of its turnover for the year.

Cost of sales

Cost of sales comprised raw materials, energy, labour and other production overheads. Raw materials and energy cost represented a substantial proportion of the cost of sales, which accounted for approximately 79.7% of cost of sales for the period.

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Gross profit

Gross profit for the period amounted to approximately RMB40.1 million, equivalent to approximately HK\$37.8 million, representing a gross profit margin of approximately 20.7%.

Other operating income

Guangxi CR Cement recorded other operating income of approximately RMB5.0 million, equivalent to approximately HK\$4.7 million for the period. It is mainly represented by the refund of value added tax of approximately RMB3.1 million, equivalent to approximately HK\$2.9 million.

Selling and distribution expenses

The selling and distribution expenses for the period amounted to approximately RMB7.4 million, equivalent to approximately HK\$7.0 million. The selling and distribution expenses mainly comprised salaries of the sales department, depreciation, transportation and marketing expenses.

General and administrative expenses

General and administrative expenses amounted to approximately RMB20.9 million, equivalent to approximately HK\$19.7 million. The general and administrative expenses mainly comprised staff salaries and bonuses of RMB5.9 million, equivalent to approximately HK\$5.6 million, contribution to this retirement benefit scheme of approximately RMB2.6 million, equivalent to approximately HK\$2.3 million, and other expenses including depreciation, repair and maintenance and office expenses. Guangxi CR Cement is required to make contributions to the retirement scheme at the rate of 20% of the basic salaries of its employees.

Interest expenses

Guangxi CR Cement Holding group had bank loans of approximately RMB131.8 million, equivalent to approximately HK\$124.2 million as at 31st December, 2002. The interest expenses incurred for the period amounted to approximately RMB6.3 million, equivalent to approximately HK\$5.9 million.

Taxation

No provision for taxation has been made in the financial statements as Guangxi CR Cement is exempted from the enterprise income tax for the period from 24th December, 2001 to 31st December, 2002. Pursuant to the relevant laws and regulations in the PRC, Guangxi CR Cement is entitled to full exemption from the enterprise income tax for the first two years and 50% reduction for the following three years commencing from its first profitable year of operation. Guangxi CR Cement is subject to a value added tax of 17.0% on its sales. The value added tax of RMB13.8 million, equivalent to approximately HK\$13.0 million, was paid for the period.

Net profit

Net profit for the period amounted to approximately RMB7.4 million, equivalent to approximately HK\$7.0 million, representing a net profit margin of approximately 3.8%.

Dongguan Cement Holding

Introduction

Dongguan Cement Holding is an investment holding company and its principal assets are 70% interests in CR Cement Company and Dongguan Cement. CR Cement Company is a company incorporated in Hong Kong with limited liability on 25th January, 1994, the principal business of which is the trading of cement in Hong Kong. Dongguan Cement is a sino foreign equity joint venture established on 23rd May, 1994 in the PRC with an operation period of 30 years commencing from its date of establishment, the principal business of which is the production and sale of cement.

History and development

At the time of establishment, Dongguan Cement was a sino foreign equity joint venture owned as to 13% by Dongguan Metals and Minerals, 51% by CR Metals and Minerals and 36% by Man Fai Tai Holdings Limited. Both Dongguan Metals and Minerals and Man Fai Tai Holdings Limited are independent third parties, while CR Metals & Minerals is a wholly owned subsidiary of Minmetals Holdings. The original total investment and registered capital of Dongguan Cement were US\$29.0 million and US\$12.9 million, respectively, equivalent to approximately HK\$226.2 million and HK\$100.6 million, respectively.

The construction of Dongguan Cement's cement plant began in 1994 and was completed in early 1998. The cement plant commenced operation in May 1998.

The total investment and registered capital of Dongguan Cement were subsequently increased in early 1995 to HK\$450.0 million and HK\$149.0 million, respectively. At the same time as the increase of registered capital, Sumitomo Corporation and its associate agreed to subscribe for a portion of the increased registered capital, resulting in the joint venture then being owned as to 8% by Dongguan Metals and Minerals, as to 51% by CR Metals & Minerals, as to 16% by Man Fai Tai Holdings Limited, and as to 25% by Sumitomo Corporation and its associate.

On 9th October, 1995, Sumitomo Corporation and its associate transferred a 12.5% interest in Dongguan Cement to UBE Industries, Ltd., a company incorporated in Japan.

On 30th September, 2000, Man Fai Tai Holding Limited transferred all its 16% interests in Dongguan Cement to CR Metals & Minerals and on 4th February, 2002, CR Metals & Minerals acquired a further 3% in Dongguan Cement from Dongguan Metals and Minerals resulting in Dongguan Cement being owned as to 70% by CR Metals & Minerals, as to 5% by Dongguan Metals and Minerals, as to 12.5% by Sumitomo Corporation and its associate, and as to 12.5% by UBE Industries, Ltd. On 19th April, 2003, CR Metals & Minerals transferred its 70% interests in Dongguan Cement to Dongguan Cement Holding. The registered capital of Dongguan Cement in the sum of HK\$149.0 million has been fully paid up.

On 3rd June, 2003, Dongguan Cement Holding entered into an agreement with Dongguan Metals and Minerals for the acquisition of its 5% interest in each of Dongguan Cement and CR Cement Company for an aggregate consideration of HK\$4.8 million, payment for which is expected to be made shortly before the introduction in July 2003. The consideration for such acquisition represents a historical price to earning ratio of approximately 6.9 with reference to the audited profit before minority interests of Dongguan Cement for the year ended 31st December, 2002 attributed to the 5% interest to be acquired. The directors believe that this acquisition, which is expected to be completed

on or before the introduction in July 2003, will provide the enlarged group with an opportunity to consolidate its interest in its subsidiary for eventual integration with the other businesses of the enlarged group.

Products

Dongguan Cement's principal products are #325 composite Portland cement, #425 ordinary Portland cement and #525 Portland Cement. The high standard of Dongguan Cement's products are recognised by the China Certification Committee for Quality Mark Certification Centre (中國方圓標誌認證委員會質量認證中心) which issued to Dongguan Cement a certificate of conformity of product quality on its #325R composite Portland cement, #425 ordinary Portland cement and #525R Portland cement in 2001. Further, the State General Administration of the PRC State for Quality Supervision and Inspection and Quarantine (國家質量監督檢驗檢疫總局) issued to Dongguan Cement a certificate for product exemption from quality surveillance inspection on its #425R ordinary Portland cement and #325R composite Portland cement in 2002. The directors believe that the quality of Dongguan Cement's products enables Dongguan Cement to meet customer needs and to gain larger market share.

Production process

Dongguan Cement's production process of cement mainly involves the last stage of the normal cement production process, which is grinding and blending of clinker. The clinker, limestone and gypsum are transported from silos to the cement plant. The clinker, limestone and gypsum in the desired proportions are crushed into paste in a crusher. This paste form powder is then classified according to the size of the ingredients forming the paste. Together with other additives such as ash, this powder will pass to the pregrinding roller to be further refined into cement. Various types of cement are produced by adding different proportions of limestone, gypsum, ash or other additives to clinker.

Production facility

Dongguan Cement's plant is located in Shatian Town, Dongguan City, Guangdong province, the PRC and comprises an area of approximately 173,466.0 sq.m., equivalent to approximately 1,867,188 sq.ft.. The cement plant commenced production in May 1998. The production facility has an annual production capacity of approximately 1,000,000 tonnes of cement based on the three shifts per day and 300 working days per annum. For the three years ended 31st December, 2002, the amount of cement produced at the cement plant amounted to approximately 763,900 tonnes, 1,242,000 tonnes and 1,251,200 tonnes respectively.

Dongguan Cement uses a highly automated and technically advanced production process with equipment, including high-pressure grinding rollers, crushers, separators, loading facilities, imported from Germany. The production is powered by five electricity generators imported from Japan with a capacity of approximately 14,000 kilowatts. The cement plant is also equipped with its own pier at which vessels of over 30,000 tonnes can be berthed. Dongguan Cement has installed a modern bulk loading system at its berth capable of loading up to approximately 500 tonnes of cement per hour and unloading up to approximately 1,200 tonnes of clinker per hour.

Sales and marketing

The directors believe that Dongguan Cement is one of the largest producers of #425 and #525 cement in the Guangdong province. The customers of Dongguan Cement are mainly building and construction contractors and the cement produced by Dongguan Cement has been mainly used in

construction of high rise buildings, roads and highways. All of the cement products are sold under the trademarks “東潤水泥” (Dongrun Shuini) for local sales in the PRC, “華潤水泥” (CRC Cement), which is mainly for export sales to Hong Kong and also recently “潤豐水泥” (Runfeng Shuini) for export sales to Hong Kong.

In the supplemental joint venture agreement of 1995, the shareholders of Dongguan Cement adopted an export sales percentage of 80% with which Dongguan Cement has not fully complied. Such prescribed export sales percentage was adopted prior to the change in the sino foreign equity joint venture law of the PRC in 2001 pursuant to which a sino foreign equity joint venture enterprise is no longer required by law to provide in its joint venture agreement or articles of association a domestic and export sales ratio and its board of directors has the discretion to determine the export sales ratio. Following such a change in the laws, a sino foreign equity joint venture enterprise established prior to the change may apply to the relevant PRC government authority for amending its joint venture agreement and articles of association to delete the prescribed domestic and export sales ratio. Dongguan Cement has yet to apply for the removal of the requirement from its constitutional documents and Dongguan Cement is still deemed to be in breach of the requirement. However, as advised by the company’s PRC legal advisers, such technical breach would not give rise to any material consequences to Dongguan Cement on the grounds that (a) the change in the relevant PRC laws shows that it is no longer a government policy that sino foreign equity joint venture enterprises must adopt and comply with a domestic and export sales ratio. Therefore, it is unlikely that Dongguan Cement will be penalized for the technical breach; (b) Dongguan Cement has passed all the annual inspection (年檢) since its establishment in 1994. During the approval process for annual inspection, the relevant authorities would have noticed the said breach. The fact that its business licence has been renewed each and every year may infer that the relevant authorities did not intend to investigate into the matter or prosecute Dongguan Cement for such a breach. As the relevant legal requirement has now been removed, the risk of Dongguan Cement being penalized is even more remote. Dongguan Cement intends to apply for the amendment of its constitutional documents for removal of the domestic and export sales ratio as soon as practicable.

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The following table sets out the sales of the major products sold by Dongguan Cement by volume and value for the three years ended 31st December, 2002:

	For the year ended 31st December,								
	2000			2001			2002		
	Tonnes '000	HK\$'000	%	Tonnes '000	HK\$'000	%	Tonnes '000	HK\$'000	%
Sales by major products									
Local sales in PRC:									
Portland cement:									
#525R	155	44,333	21.2	183	47,673	14.5	305	77,048	23.7
Ordinary Portland cement:									
#425R	285	68,390	32.6	630	160,714	48.7	647	165,565	51.1
Composite Portland cement:									
#325R	<u>2</u>	<u>376</u>	<u>0.2</u>	<u>110</u>	<u>23,914</u>	<u>7.2</u>	<u>102</u>	<u>22,251</u>	<u>6.9</u>
Sub-total	<u>442</u>	<u>113,099</u>	<u>54.0</u>	<u>923</u>	<u>232,301</u>	<u>70.4</u>	<u>1,054</u>	<u>264,864</u>	<u>81.7</u>
Export sales in Hong Kong:									
Portland cement									
#525R	254	90,265	43.0	270	93,205	28.3	188	58,770	18.1
Others	<u>73</u>	<u>6,225</u>	<u>3.0</u>	<u>51</u>	<u>4,403</u>	<u>1.3</u>	<u>6</u>	<u>508</u>	<u>0.2</u>
Sub-total	<u>327</u>	<u>96,490</u>	<u>46.0</u>	<u>321</u>	<u>97,608</u>	<u>29.6</u>	<u>194</u>	<u>59,278</u>	<u>18.3</u>
Total	<u><u>769</u></u>	<u><u>209,589</u></u>	<u><u>100.0</u></u>	<u><u>1,244</u></u>	<u><u>329,909</u></u>	<u><u>100.0</u></u>	<u><u>1,248</u></u>	<u><u>324,142</u></u>	<u><u>100.0</u></u>

“R” denotes rapid hardening type

For the three years ended 31st December, 2002, aggregate sales of approximately HK\$97.3 million, HK\$104.2 million and HK\$73.1 million were generated from businesses conducted with related parties of Dongguan Cement, of which, the respective amounts of approximately HK\$66.8 million, HK\$81.1 million and HK\$48.5 million represented the sales of cement to Minmetals Holdings which in turn sold the cement to the Redland group amounting to approximately HK\$65.2 million, HK\$80.4 million and HK\$48.5 million, respectively. Dongguan Cement is one of the major suppliers of cement to the Redland group. Upon completion of the acquisition, Dongguan Cement will directly sell cement to the Redland group rather than indirectly through Minmetals Holdings.

The Dongguan Cement's sales department is responsible for gathering market information and coordinating marketing activities. Dongguan Cement also places emphasis on its after sales service and sends technicians to provide on site instruction to customers on the application of its cement products. Dongguan Cement promotes itself principally through promotional leaflets and its products mainly through advertisements in newspapers and trade magazines.

For the three years ended 31st December, 2002, the company incurred a total advertising expenses of approximately HK\$0.7 million, HK\$1.4 million and HK\$3.9 million respectively.

Pricing policy

Pricing of cement products is mainly determined by reference to prevailing market conditions. According to the customers' requirements, Dongguan Cement either sells its products ex factory or arranges for delivery to the sites specified by the customers. Therefore, two different prices are specified in the sales contracts with the customers. Where transportation costs are included in the sale price, the sales department of Dongguan Cement will assist its customers to arrange for transportation.

Payment terms

Export sales are effected through CR Cement Company. Payments for export sales are due 60 days from the date of arrival of the goods in Hong Kong. Bulk purchase customers engaged in major construction projects usually enter into a master contract with Dongguan Cement. Key terms are fixed under the master contract. Cement is then delivered in accordance with the delivery requirements of the customer. Payments for deliveries are made monthly. Dongguan Cement incurred a provision for bad debts of approximately HK\$2.5 million and HK\$4.4 million for the two years ended 31st December, 2002, respectively.

Domestic sales in the PRC are transacted in Renminbi while export sales are transacted in Hong Kong dollars.

Raw materials and energy

Raw materials

The principal raw materials consumed in cement production are clinker, gypsum, limestone and ash. Except for the clinker which is imported from Sumitomo Corporation in Japan, all of the raw materials used are sourced from independent suppliers within the PRC. Purchases of gypsum, limestone and ash are generally made on a 30 day to 60 day credit term whereas there is a credit limit of US\$2.4 million, equivalent to approximately HK\$18.7 million, in respect of the purchase of clinker from Sumitomo Corporation. Raw materials are principally transported to the plant by barge. No significant supply problems have been experienced in the past and there is sufficient quantity of raw materials within the surrounding area to meet the foreseeable needs of the plant.

Raw material requirements of the cement plant and purchases of raw materials are coordinated and carried out by the production department, where heads of various production units meet regularly on a daily basis to review production plan and the raw material requirements of the production lines. Actual purchase of raw materials is carried out by the raw material supply department. On delivery, the raw materials are checked by the quality control department to ensure that they meet with Dongguan Cement's specifications.

Energy

Dongguan Cement generates its own electricity for its production. As the cement plant consumes significant amount of electricity in its operation, especially in crushing and grinding, Dongguan Cement has five in house electricity generators to support the electricity needs for its production. The electricity generation unit under the production department is responsible for the operation of the electricity generators. The electricity generators are run on heavy fuel oil for normal operation.

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Raw materials and energy accounted for approximately 80.0%, 89.5% and 85.5% of the cost of sales of the Dongguan Cement Holding group for the three years ended 31st December, 2002, respectively. The raw materials consumed by the Dongguan Cement Holding group are paid in United States dollars and Renminbi. United States dollar denominated purchases constituted approximately 70% of the total purchases of the Dongguan Cement Holding group during the period.

Quality control

Dongguan Cement recognises the importance of quality control of its products. Dongguan Cement imposes stringent quality control standards for each of the production stages from the purchase of raw materials to the delivery of finished products and was accredited with ISO 9001-2000 Quality Certificate by China Certification Committee for Quality Mark — Quality Certification Centre in 2001.

Dongguan Cement has established nine quality control and inspection stations for its operations to ensure that production quality is properly monitored and quality control procedures are duly followed. Dongguan Cement has adopted quality standards set by the China Building Material Industry Association, and approved and promulgated by 國家標準化管理委員會 (the Standardisation Administration of China) for its products which are comparable with the American and British standards.

Storage and packaging

At present Dongguan Cement has a number of storage facilities capable of storing approximately 3,000 tonnes of limestone, 150,000 tonnes of clinker, 39,000 tonnes of cement, 2,300 tonnes of gypsum and 1,000 tonnes of ash. The design of its storage capacity has taken into consideration the amount of usage for the production and transportation time of raw materials. As clinker and gypsum are shipped from Japan and the Shandong province, which normally require five and 20 days, respectively for transportation, the plant usually stores around 15 to 30 days of supply of clinker and gypsum. The limestone and ash are sourced within the Guangdong province and they normally require only one day to deliver. Therefore the plant only stores around five days of supply of limestone and ash.

A substantial proportion of the cement product is transported to customers in bulk by barge or cement tankers. For the three years ended 31st December, 2002, the sales in bulk volume represented approximately 85.3%, 89.5%, 88.1% of the total sales of Dongguan Cement, respectively.

Transportation

Dongguan Cement is located in Shatian Town, Dongguan City, Guangdong province, on the eastern Pearl River delta region. It is close to the 國道107 (107 national highway), the Guangshen Expressway and the eastern branch of the Pearl River, making it easily assessable by road and by sea. Dongguan Cement has not experienced any major difficulties in arranging transportation for its raw materials and finished products in the past. In addition, the risk of changes in the cost of transportation is borne by the customers.

Ship transport

Dongguan Cement transports all of its raw materials and a portion of finished products by barge. For the three years ended 31st December, 2002, Dongguan Cement transported approximately 42.0%, 26.3% and 21.7%, respectively, in terms of throughput, of its finished goods to its customers by barge. In August 2002, CR Cement Company acquired a barge to transport cement from Dongguan to Hong Kong.

Road transport

Dongguan Cement is conveniently located near the 國道107 (107 national highway) and the Guangshen Expressway which connect the cement plant to its major markets in Guangzhou and Shenzhen, allowing transportation time for its products to both cities to be within two hours. For the three years ended 31st December, 2002, Dongguan Cement transported approximately 58.0%, 73.7% and 78.3% of its finished goods to its customers by road transport. Dongguan Cement outsources the transportation of cement to two independent contractors.

Repair and maintenance

A yearly repair and maintenance programme for the cement plant's equipment is scheduled by the production department and carried out by a machinery and electrical repair team to maximise production efficiency and avoid unexpected stoppages. The machinery and electrical repair team carries out day-to-day maintenance and repair of the facilities and machinery. Production lines are required to be shut down for overhauls or repairs as and when prevailing situation requires. Normally, only one production line at the cement plant will be shut down at a time to ensure a continuous production of cement.

For each of the three years ended 31st December, 2002, Dongguan Cement incurred approximately HK\$4.2 million, HK\$3.9 million and HK\$6.2 million in repair and maintenance expenses. There had not been any major stoppages caused by equipment failure during the last three years.

Safety procedures

A full time safety and environment officer is designated to regulate and coordinate safety procedures at the cement plant with the assistance from the team supervisors of different production units. The team supervisor at each production unit is responsible for ensuring compliance with all safety regulations and procedures. New employees are also trained to comply with the relevant safety procedures prior to being assigned to their respective job duties.

Environmental and pollution controls

Dongguan Cement is subject to the state and municipal environmental protection laws, regulations and administrative rules including provisions for the prevention of water, noise and air pollution and the prevention of industrial pollution generally. The cement plant has installed appropriate facilities at the relevant workshops to collect cement residues for reuse during the cement production process. In addition, water used by the cooling system of the cement plant can be recycled. For the three years ended 31st December, 2002, Dongguan Cement has not incurred any material fines.

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At the cement plant, the safety and environment officer is also responsible for regulating environmental and pollution matters.

For the three years ended 31st December, 2002, Dongguan Cement had not been held liable for any material breach of environmental rules and regulations nor had it received any complaints from residents living in the vicinity of its production facilities.

Trademarks

Dongguan Cement's products are principally sold under the trademark “東潤水泥” (Dongrun Shuini) and “華潤水泥” (CRC Cement), and more recently, “潤豐水泥” (Runfeng Shuini). The trademarks of “東潤水泥” (Dongrun Shuini) and “潤豐水泥” (Runfeng Shuini) are registered in the name of Minmetals Holdings with the Trademarks Bureau (商標局) under the PRC State Administration of Industry and Commerce on 28th July, 2001 for a term of ten years. The registration is now in the process of being transferred to the enlarged group. Pending approval for the transfer, Minmetals Holdings has licensed Dongguan Cement the use of such trademarks. The enlarged group has also submitted an application for registration of the trademarks “潤豐水泥” and “Runfeng” in Hong Kong. The trademark of “華潤水泥” (CRC Cement) is registered by China Resources Holdings in Hong Kong. Whilst it is the policy of the China Resources Holdings group that all trademarks bearing the words “China Resources” and “華潤” are to be centralised under the ownership of China Resources Holdings in Hong Kong and China Resources National Corporation in the PRC, China Resources Holdings has granted an exclusive licence authorising the use of the trademark by the enlarged group in the sale and production of its cement products. Such exclusive licence from China Resources Holdings to the enlarged group enables the enlarged group to sell its products under this trademark.

Employees

As at 31st December, 2002, the company had a total of 239 full time employees. A breakdown of the employees by function is shown below:

Management	5
Finance and administration	44
Repairs and maintenance	51
Production/technical	80
Quality control	28
Sales and marketing	30
Safety control and environment protection	<u>1</u>
Total	<u><u>239</u></u>

Dongguan Cement has not experienced any labour disputes which affected the operation of its cement plant. Remuneration of the Dongguan Cement Holding group's employees includes basic wages, production unit allowance, bonuses and other staff benefits. The Dongguan Cement Holding group paid its employees approximately HK\$5.2 million, HK\$7.4 million and HK\$8.3 million for the three years ended 31st December, 2002, respectively. Dongguan Cement does not provide housing for its employees.

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Financial information

The following is an extract of the combined profit and loss accounts for the three years ended 31st December, 2002 of the Dongguan Cement Holding group from appendix III to this prospectus.

Combined profit and loss accounts

	Year ended 31st December,		
	2000	2001	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	209,589	329,909	324,142
Cost of sales	<u>(175,584)</u>	<u>(259,245)</u>	<u>(253,760)</u>
Gross profit	34,005	70,664	70,382
Other operating income	4,383	9,057	4,290
Selling and distribution expenses	(7,966)	(7,500)	(14,701)
General and administrative expenses	(14,482)	(19,045)	(21,133)
Impairment loss in respect of goodwill arising on acquisition of additional interest in subsidiaries	(3,236)	—	(557)
Negative goodwill arising on acquisition of additional interest in a subsidiary realised	<u>—</u>	<u>—</u>	<u>919</u>
Profit from operations	12,704	53,176	39,200
Finance costs	<u>(39,997)</u>	<u>(38,082)</u>	<u>(25,224)</u>
Profit (loss) before minority interests	(27,293)	15,094	13,976
Minority interests	<u>11,175</u>	<u>(4,981)</u>	<u>(3,993)</u>
Net profit (loss) for the year	<u><u>(16,118)</u></u>	<u><u>10,113</u></u>	<u><u>9,983</u></u>

Please refer to appendix III for further financial information of the Dongguan Cement Holding group.

Turnover

Total sales for the three years ended 31st December, 2002 amounted to approximately HK\$209.6 million, HK\$329.9 million and HK\$324.1 million, respectively. The Dongguan Cement Holding group's principal source of revenue is the sales of #425R ordinary Portland cement and #525R Portland cement.

Due to the keen competition and contraction in the building and construction industry in Hong Kong in recent years, there was a significant decline in export sales to Hong Kong. In response to the situation, Dongguan Cement has increased its sales efforts to promote its products to the local market during 2001, and as a consequence, the major market of the Dongguan Cement Holding group has changed from Hong Kong to the PRC. Turnover increased significantly from approximately HK\$209.6 million in 2000 to approximately HK\$329.9 million in 2001 as a result of greater sales to the PRC market. For the three years ended 31st December, 2002, approximately 54.0%, 70.4% and 81.7%, respectively, of the total sales was attributed to local sales in the PRC, while the remaining was attributed to export sales to Hong Kong. With a further decrease in export sales to Hong Kong, the

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turnover in 2002 dropped to approximately HK\$324.1 million from HK\$329.9 in 2001 although there was a slight increase of production volume from 1,242,000 tonnes in 2001 to 1,251,200 tonnes in 2002.

Cost of sales and gross profit margin

The cost of sales for the three years ended 31st December, 2002 amounted to approximately HK\$175.6 million, HK\$259.2 million and HK\$253.8 million, respectively and have changed in line with the turnover. The cost of sales comprised raw materials, electricity, direct labour and other production overheads. The cost of clinker represented a substantial portion of the cost of sales and accounted for approximately 70.8%, 74.9% and 71.1% of the cost of sales for the three years ended 31st December, 2002, respectively. With the increased use of additives such as ash, the cost of clinker as a percentage of the cost of sales dropped slightly in 2002.

The gross profit margin increased from approximately 16.2% in 2000 to approximately 21.4% in 2001 and further increased to approximately 21.7% in 2002. The increase in gross profit margin from 2000 to 2001 was mainly attributable to the increased production scale of the cement plant. The designed production capacity of the cement plant is approximately 1,000,000 tonnes of cement and the cement plant produced about 763,900 and 1,242,000 tonnes of cement in 2000 and 2001, respectively. As the cost of sales was further reduced by using more additives such as ash in the production, the gross profit margin further increased in 2002.

Selling and distribution expenses

The selling and distribution expenses amounted to approximately HK\$8.0 million, HK\$7.5 million and HK\$14.7 million for the three years ended 31st December, 2002. Selling and distribution expenses comprised principally advertising expenses, transportation expenses, entertainment expenses, staff costs and custom declaration expenses. The largest component of selling and distribution expenses related to advertising expenses and transportation expenses. Advertising expenses amounted to approximately HK\$0.7 million, HK\$1.4 million and HK\$3.9 million for the three years ended 31st December, 2002, respectively. The significant increase in advertising expenses in 2002 was caused by the increased sales and marketing to promote Dongguan Cement's brand names and its corporate image. Dongguan Cement either sells its product ex factory or delivers to the site specified by the customers with the transportation costs being borne by the customer. The transportation expenses amounted to approximately HK\$2.2 million, HK\$1.3 million and HK\$2.3 million for the three years ended 31st December, 2002, respectively. There was a compensation charges of approximately HK\$1.1 million and HK\$1.7 million in 2000 and 2002, respectively regarding the under usage of ship transportation due to the decrease of export sales. This also contributed to the increase in selling and distribution expenses in 2000 and 2002.

General and administrative expenses

The general and administrative expenses amounted to approximately HK\$14.5 million, HK\$19.0 million and HK\$21.1 million for the three years ended 31st December, 2002, respectively. General and administrative expenses mainly comprised staff costs, depreciation expenses, provision for doubtful accounts and expenses for dredging the riverbed near Dongguan Cement's berth. The largest component of general and administrative expenses was depreciation of fixed assets which amounted to approximately HK\$6.5 million for each of the three years ended 31st December, 2002. The second largest component of general and administrative expenses was the provision for doubtful accounts

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which amounted to approximately HK\$2.5 million and HK\$4.4 million for the year ended 31st December, 2001 and 2002 respectively. This also contributed to the increase in general and administrative expenses in 2001 and 2002.

Dongguan Cement made a general provision for doubtful accounts for any account receivables outstanding for more than a year. With the increase in local sales, Dongguan Cement has implemented a more stringent credit policy. The credit worthiness of the customers will be assessed by both the accounting department and sales department before any sales with such customers are concluded.

Finance costs

Dongguan Cement Holding group's operations were financed by internal resources, loans by shareholders and bank borrowings. For the three years ended 31st December, 2002, the bank borrowings amounted to approximately HK\$378.3 million, HK\$483.9 million and HK\$241.6 million, respectively and net amounts due to shareholders amounted to approximately HK\$149.8 million, HK\$78.0 million and HK\$269.2 million, respectively.

The Dongguan Cement Holding group managed to reduce the total amount of loans by approximately 9.1% to approximately HK\$510.8 million in 2002 from approximately HK\$561.9 million in 2001. The amounts due to shareholders were unsecured, interest bearing and repayable on demand. Banks loans are guaranteed by China Resources Holdings and Sumitomo Corporation. Upon listing, the company shall replace China Resources Holdings in providing such bank loans and will not charge any fees or require security in relation to the provision of such guarantees. The interest expenses incurred for the three years ended 31st December, 2002 amounted to approximately HK\$40.0 million, HK\$38.1 million and HK\$25.2 million, respectively. The interest expenses decreased in line with the decrease in outstanding bank borrowings and falling interest rate.

Taxation

No provision for the enterprise income tax had been made for the two years ended 31st December, 2002 as Dongguan Cement has taxation losses brought forward from previous years. Pursuant to the relevant laws and regulations in the PRC, Dongguan Cement is entitled to full exemption from enterprise income tax for the first two years and 50% reduction for the following three years commencing from first profitable year of operation.

Dongguan Cement is also subject to value added tax which is the principal indirect tax on the sales of goods and services.

No provision for Hong Kong profits tax was made for the three years ended 31st December, 2002 as CR Cement Company had no taxable income.

Results of operations

Year ended 31st December, 2000

Turnover increased by approximately 70.2% over the previous financial year to approximately HK\$209.6 million while cost of sales increased by approximately 53.0% to approximately HK\$175.6 million. As a result, gross profit margin rose to approximately 16.2% from approximately 6.7% in 1999. Selling and distribution expenses, and general and administrative expenses rose by approximately

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30.0% and approximately 14.6%, respectively. The increase in selling and distribution expenses was principally caused by the increase in advertising and promotion expenses. Loss incurred for the year was reduced by approximately 60.7% from the previous financial year.

Year ended 31st December, 2001

Turnover for the year ended 31st December, 2001 increased by approximately 57.4% to approximately HK\$329.9 million due to a significant increase in the local sales of #425 ordinary Portland cement. Overall gross margin increased from approximately 16.2% to approximately 21.4% mainly because of the realisation of full production capacity of 1,000,000 tonnes in 2001. Gross profit rose by approximately 107.8% to approximately HK\$70.7 million from approximately HK\$34.0 million in the previous financial year.

Selling and distribution expenses decreased by approximately 5.8% to approximately HK\$7.5 million and general and administrative expenses increased by approximately 31.5% to approximately HK\$19.0 million. There was a compensation charge of approximately HK\$1.0 million as a result of the under usage of ship capacity for export sales in 2000. The selling and distribution expenses in 2001 had dropped although there was increased marketing effort for local sales in the PRC. The increase in general and administrative expenses was mainly due to the increase in the provision for bad debt of approximately HK\$2.5 million whereas no such provision was made in the previous year. Overall, the profit for the year amounted to approximately HK\$10.1 million.

Year ended 31st December, 2002

The turnover of the Dongguan Cement Holding group was slightly reduced by a substantial decline in export sales to Hong Kong but compensated by the increase in local sales in the PRC. Approximately 194,000 tonnes of cement were exported to Hong Kong in 2002, being only approximately 18.3% of total sales compared with approximately 29.6% in the previous financial year. Local sales in the PRC, amounting to approximately 1,054,000 tonnes of cement, represented the largest component of the sales. The gross margin increased slightly to approximately 21.7% for the year ended 31st December, 2002 compared with approximately 21.4% for 2001.

With the decrease in export sales to Hong Kong, Dongguan Cement expanded its marketing efforts on local sales in the PRC. As a consequence, there was a considerable increase in most expenses categories. The selling and distribution expenses increased in 2002 by approximately 96.0% over those in 2001, being an increase from approximately HK\$7.5 million to approximately HK\$14.7 million. The largest component of selling and distribution expenses was advertising expenses which amounted to approximately HK\$1.4 million and HK\$3.9 million for the two years ended 31st December, 2002, respectively. General and administrative expenses increased to approximately HK\$21.1 million, compared with approximately HK\$19.0 million for 2001, as an additional provision of doubtful accounts of approximately HK\$4.4 million was made in 2002.

Competition

The two cement producers to be acquired produce principally medium to high grade cement, which faces relatively less competition in the PRC as compared to low grade cement. Since 1996, cement prices were deregulated by the State Planning Commission. This permitted major cement producers to compete on a local level with many township enterprises by offering more competitive pricing. In addition, deflation and increased competition throughout the PRC has caused a general decline in cement prices, although, cement prices vary regionally. The directors consider that only those cement manufacturers who produce medium to high grade cement can maintain a reasonable

level of growth in the long term as there will be stricter building and construction regulations in light of the increasing concern for building safety in the PRC and greater financial resources are required to meet such requirements. The directors believe that the high grade cement market has better growth prospects. Since only high grade cement is allowed in the construction of high rise buildings in the PRC and the establishment of large cement plants requires numerous government approvals and significant capital expenditure. Consequently, the directors consider that Guangxi CR Cement and Dongguan Cement have competitive advantages over small to medium sized cement producers in the PRC.

THE PRC CONCRETE OPERATIONS

Dongguan Concrete Holding

Introduction

The principal activity of Dongguan Concrete Holding is investment holding and its principal asset is a 100% interest in Dongguan Concrete. The principal business of Dongguan Concrete is the production and sale of ready mixed concrete.

History and development

Dongguan Concrete is a wholly foreign owned enterprise established on 24th June, 2002 in the PRC with an operation period of twenty years commencing from its date of establishment. Each of the total investment and the registered capital of Dongguan Concrete amounts to HK\$20.0 million. As at the latest practicable date, a total amount of HK\$12.0 million, representing approximately 60.0% of the registered capital, was paid up. The balance of HK\$8.0 million will be paid before June, 2004.

Construction of Dongguan Concrete's batching plant commenced in June 2002 and was completed in January 2003. The batching plant has begun commercial production of ready mixed concrete in March 2003.

Production facility

Dongguan Concrete's batching plant is located at 東莞市道滘鎮小河村小河工業園 (Xiaohe Industrial Park, Xiaohe Village, Daojiao Town, Dongguan City, the PRC), which is approximately 40 kilometres from Guangzhou, the provincial capital of the Guangdong province, the PRC and comprises a site area of approximately 12,889.0 sq.m., equivalent to approximately 138,737 sq.ft.. The production site is leased from 東莞市道滘鎮小河村村委會 (Xiaohe Village Villagers' Committee, Daojiao Town, Dongguan City) for a monthly rental of approximately RMB19,000 equivalent to approximately HK\$18,000 and subject to upward adjustment at the rate of 10% for every three years. The current lease agreement will expire on 30th May, 2010. Dongguan Concrete has been granted the right to renew the lease upon the expiration of its current nine year term by serving a notice of renewal 30 days before the expiry date.

The ownership rights of the site on which Dongguan Concrete operates is collectively owned and is required to be converted to granted land (出讓地) by the Dongguan Municipal government before it can be leased to Dongguan Concrete. Under the lease agreement, the landlord has undertaken to indemnify Dongguan Concrete for all of its losses and damages should Dongguan Concrete be required to vacate the land as a result of the failure of the landlord to obtain all necessary approvals for the lease. In addition, under the agreement between China Resources Holdings and the company in relation to the acquisition, China Resources Holdings has undertaken to indemnify the company if

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Dongguan Concrete be evicted from or deprived of the right to use the land. The company considers that the relocation costs in the event Dongguan Concrete is ordered to vacate the property will be insignificant given the high level of mobility of the concrete production facilities.

Dongguan Concrete's concrete plant was completed in January 2003 and comprises one fully automated production line, an office building and storage facilities for approximately 400 tonnes of cement, approximately 400 tonnes of ash and approximately 50,000 litres of water. The directors of Dongguan Concrete estimate that the concrete plant has an annual production capacity of approximately 300,000 cubic metres and the expected future production volume will be adjusted depending on the market demand in the future.

Raw materials

The principal raw materials consumed in the production of concrete are cement, ash, aggregates, river sand and admixtures. Raw material requirements of Dongguan Concrete are coordinated by Dongguan Concrete's production department while actual purchases of raw materials are carried out by its purchasing department. Qualities of the raw materials are checked by the quality control department to ensure they comply with its requirements.

Cement is primarily sourced from Dongguan Cement to ensure a stable and adequate supply. Other raw materials such as aggregate, ash and river sand are sourced from local suppliers within the Guangdong province and are mainly transported to the concrete plant by trucks and ships. The average time for the supply of raw materials from its suppliers is approximately three days. Dongguan Concrete has not experienced any major difficulties in obtaining raw materials supplies since its establishment. All of Dongguan Concrete's purchases are settled in Renminbi on a cash on delivery basis or on credit terms ranging from approximately two to three months.

Sales and marketing

Marketing of Dongguan Concrete's products is coordinated by its sales department. The sales department maintains close relationships with its customers by making regular phone calls and sending sales personnel to visit and contact customers on a regular basis. Sales personnel also pay frequent visits to construction sites close to its concrete plant to identify any potential customers. It is intended that Dongguan Concrete will continue to broaden its customer base in the future.

Pricing of Dongguan Concrete's products is determined by its sales department together with the senior management, taking into account of the prevailing market conditions. The selling prices of ready mixed concrete produced by Dongguan Concrete are determined by reference to various factors including the specifications stipulated by its customers, location of the customers' construction sites and payment terms. The directors of Dongguan Concrete estimate that the selling prices of ready mixed concrete, depending on the type of ready mixed concrete, will range from approximately RMB220 per cubic metre, equivalent to approximately HK\$207.4 per cubic metre, to RMB330 per cubic metre, equivalent to approximately HK\$311.1 per cubic metre. Sales of Dongguan Concrete are transacted in Renminbi with a credit term of up to 90 days with payments being made by instalments.

Transportation

Dongguan Concrete is conveniently located near the Guangshen expressway, connecting the concrete plant by road to major cities in the Guangdong province including Hong Kong. It is also close to a river for easy transportation of raw materials.

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Quality control

The directors of Dongguan Concrete recognise the importance of quality control of its concrete products. Dongguan Concrete has established and implemented a quality control system to ensure that the quality of its products is maintained. Dongguan Concrete's quality control team monitors the operation of the quality control system and ensures the adoption of proper control procedures throughout the production process in order for its products to meet with its customers' requirements.

Incoming raw materials are subject to quality inspection through a random sampling process before they are used in the production process to ensure that such materials satisfy Dongguan Concrete's quality standards. Any raw materials found to be below Dongguan Concrete's quality standards will be returned to the suppliers.

Employees

As at 31st December, 2002, Dongguan Concrete employed a total of three full time employees. A breakdown of Dongguan Concrete's employees by function is shown below:

Management	3
Finance and administration	—
Production/technical	—
Quality control	—
Sales and marketing	—
Total	<u>3</u>

Remuneration of Dongguan Concrete's employees included basic wages, bonuses and other benefits. During the period from 24th June, 2002 to 31st December, 2002, Dongguan Concrete paid its employees approximately RMB227,000, equivalent to approximately HK\$214,000, in basic wages and other benefits. All employees are insured against work related deaths and injuries in accordance with the requirements of the Dongguan government. Dongguan Concrete has not experienced any labour disputes affecting its operation.

Environmental protection

Dongguan Concrete is subject to the state, provincial, and municipal environmental laws, regulations and administrative rules. Dongguan Concrete has implemented appropriate measures to comply with the relevant environmental requirements. Dongguan Concrete has not been subject to any penalties imposed by environmental regulatory authorities in the PRC.

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Financial information

The following is an extract of the combined profit and loss account for the period from 24th June, 2002 to 31st December, 2002 of the Dongguan Concrete Holding group from appendix IV to this prospectus.

Combined profit and loss account

	For the period from 24th June, 2002 to 31st December, 2002	
	RMB'000	HK'000
Turnover	—	—
General and administrative expenses	<u>(1,141)</u>	<u>(1,076)</u>
Net loss for the period	<u><u>(1,141)</u></u>	<u><u>(1,076)</u></u>

Please refer to appendix IV for further financial information of the Dongguan Concrete Holding group.

For the period from 24th June, 2002 to 31st December, 2002

For the period from 24th June, 2002 to 31st December, 2002, Dongguan Concrete did not record any turnover as production only commenced in 2003. Dongguan Concrete recorded general and administrative expenses which amounted to approximately RMB1.1 million, equivalent to approximately HK\$1.0 million, during the period.

Taxation

Dongguan Concrete is exempted from enterprise income tax for the first two profitable years of operation and thereafter becomes eligible for a 50% relief from enterprise income tax for the following three years. Dongguan Concrete has not provided for enterprise income tax in 2002 because a loss was incurred for the period from 24th June, 2002 to 31st December, 2002. Dongguan Concrete is subject to value added tax which is the principal indirect tax on the sales of goods and services.

Please refer to appendix IV for further financial information of the Dongguan Concrete Holding group.

Shenzhen Concrete Holding

Introduction

The principal activity of Shenzhen Concrete Holding is investment holding and its principal asset is a 70% beneficial interest in Shenzhen Concrete. The principal business of Shenzhen Concrete is the production and sale of ready mixed concrete.

History and development

Shenzhen Concrete's history dates back to January 1982 when 中鐵建廠工程局深圳實業公司 (Zhong Tie Jian Chang Construction Department Shenzhen Industrial Company), a state owned enterprise with a registered capital of RMB25.0 million, equivalent to approximately HK\$23.6 million, was formed. Shenzhen Concrete's batching plant was built on a piece of land of 8,162.0 sq.m., equivalent to approximately 87,855 sq.ft., which is leased from 深圳市口岸管理服務中心 (Shenzhen Border Administration Service Centre). The construction of the batching plant was approved by 深圳市建設局 (Shenzhen City Construction Bureau) on 30th September, 1997 and was completed in April 1999.

On 4th March, 2002, a 出資協議 (capital contribution agreement) was entered into between 中鐵建廠工程局深圳實業公司 (Zhong Tie Jian Chang Construction Department Shenzhen Industrial Company) and 深圳對外貿易中心 (Shenzhen Foreign Trade Centre), renamed as China Resources (Shenzhen) Co., Ltd. (華潤(深圳)有限公司) when it became a wholly owned subsidiary of China Resources Holdings in May 2002, to establish Shenzhen Concrete. Pursuant to the agreement, 深圳對外貿易中心 (Shenzhen Foreign Trade Centre), as trustee of Minmetals Holdings, agreed to invest RMB17.5 million, equivalent to approximately HK\$16.5 million, in cash for a 70% equity interest in Shenzhen Concrete and 中鐵建廠工程局深圳實業公司 (Zhong Tie Jian Chang Construction Department Shenzhen Industrial Company) agreed to transfer its assets of RMB7.5 million, equivalent to approximately HK\$7.1 million, to Shenzhen Concrete in consideration for a 30% equity interest.

Shenzhen Concrete was established as a limited liability company on 26th March, 2002 in the PRC with an operation period of twenty years commencing from its date of establishment. It has a registered capital of RMB25.0 million, equivalent to approximately HK\$23.6 million.

On 24th March, 2003 Shenzhen Concrete Holding acquired from Minmetals Holdings its beneficial interest in the 70% equity interest in Shenzhen Concrete.

Products

Shenzhen Concrete is currently engaged in the production and sale of ready mixed concrete.

Production facility

Shenzhen Concrete currently operates a batching plant located at 深圳市福田區梅林檢查站西南側 (the south west corner adjacent to the Meilin Inspection Station, Futian District, Shenzhen City, the PRC). The batching plant which commenced commercial production of ready mixed concrete in April 1999 prior to the establishment of Shenzhen Concrete, was built on a site with an area of approximately 8,162.0 sq.m., equivalent to approximately 87,856 sq.ft.. This land is leased from 深圳市口岸管理服務中心 (Shenzhen Border Administration Service Centre) for a monthly rental of approximately RMB57,000, equivalent to approximately HK\$54,000, for a period of five years

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commencing from 11th April, 2003, which is subject to a 10% increment at the beginning of the third year from the commencement date of the lease. Under the lease agreement, Shenzhen Concrete has the option to renew the lease upon expiration of the term on 10th April, 2008.

The land use right of the site on which the batching plant of Shenzhen Concrete is located was administratively allocated to the landlord for commercial use and is subject to resumption by the local government. As the land use right has not been converted to a granted land (出讓地) by the Shenzhen Municipal Government, the landlord is not allowed to lease the land to Shenzhen Concrete and therefore Shenzhen Concrete may be ordered by the relevant government authorities to move out of the land. Under the agreement between China Resources Holdings and the company in relation to the acquisition, China Resources Holdings has undertaken to indemnify the company if Shenzhen Concrete is evicted from or deprived of the right to use the said land. The company considers that the relocation costs in the event Shenzhen Concrete is ordered to move out of the property will be insignificant given the high level of mobility of the concrete production facilities.

The concrete plant is equipped with two production lines, six concrete mixer trucks imported from Japan and 15 concrete mixer trucks manufactured in the PRC. The two production lines are fully automated and have a total annual production capacity of approximately 500,000 cubic metres of concrete, representing approximately 17.9% of the enlarged group's annual production capacity. The total production volume during the year ended 31st December, 2002 amounted to approximately 253,000 cubic metres. As the concrete plant only commenced production in May 2002, the annualised utilisation rate is approximately 75.9%. In addition, the weather in Shenzhen is also similar to that of Hong Kong. Therefore, it is also normal in Shenzhen that the average annual utilisation rate is approximately 75%. The concrete plant also houses an on site storage facility for approximately 1,000 tonnes of cement and ash.

Given the comparatively short period of time that concrete remains usable after being mixed at the concrete plant, it is crucial to have concrete plants strategically located with convenient access to transportation. The concrete plant of Shenzhen Concrete is conveniently located near the Meiguan Expressway and is linked to 市區主干道彩田路 (Caitian Road, major city expressway), which connects the plant by road to the area that Shenzhen Concrete can serve.

Raw materials

The principal raw materials consumed in the production of concrete are cement, ash, aggregates, river sand and admixtures.

The raw material requirements of Shenzhen Concrete are coordinated by Shenzhen Concrete's production department while actual purchases of raw materials are carried out by its purchasing department. Qualities of the raw materials are checked by the quality control department to ensure that they comply with its requirements.

Cement accounted for approximately 51.4% of Shenzhen Concrete's total purchases during the period from 26th March, 2002 to 31st December, 2002. Cement used in Shenzhen Concrete's production is mainly sourced from Dongguan Cement. During the period from 26th March, 2002 to 31st December, 2002, cement purchased from Dongguan Cement accounted for approximately 35.6% of Shenzhen Concrete's total purchases. All of Shenzhen Concrete's purchases are settled in Renminbi on a cash on delivery basis or on a credit term of up to approximately three months.

Sales and marketing

During the period from 26th March, 2002 to 31st December, 2002, sales of ready mixed concrete produced by Shenzhen Concrete amounted to approximately RMB66.4 million, equivalent to approximately HK\$62.6 million, and accounted for all of its sales during the period. Ready mixed concrete produced by Shenzhen Concrete has been used in the construction of a number of major property development projects in Shenzhen and its neighbouring area. While there is no particular seasonal fluctuation in sales in the concrete industry, poor weather conditions may cause interruptions of construction work and in turn affect sales of concrete.

Marketing of Shenzhen Concrete's products is coordinated by its sales department. The sales department maintains a close relationship with its customers through regular contacts. Sales personnel also pay frequent visits to construction sites located within approximately 20 kilometres from the plant to identify potential customers. It is intended that Shenzhen Concrete will continue to broaden its customer base through direct marketing.

Pricing of Shenzhen Concrete's products is determined by its sales department together with its senior management, taking into account prevailing market conditions. The selling prices of ready mixed concrete produced by Shenzhen Concrete are determined by reference to various factors including customers' requirements, location of the construction site and payment terms. During the period from 26th March, 2002 to 31st December, 2002, selling prices of ready mixed concrete sold by Shenzhen Concrete ranged from approximately RMB220 per cubic metre, equivalent to approximately HK\$207.4 per cubic metre, to approximately RMB330 per cubic metre, equivalent to approximately HK\$311.1 per cubic metre. Sales of Shenzhen Concrete are transacted in Renminbi with a credit term of up to approximately two months with instalment payment during the term.

Quality control

Under a notice issued by 深圳市建設局 (Shenzhen Construction Bureau) on 27th February, 2002, in an effort to raise the standards of the construction industry in Shenzhen, an appraisal was performed on all of the 96 construction materials laboratories in Shenzhen. It was further announced that the scope of business carried out at these laboratories will be redefined by establishing a higher set of standards. Shenzhen Concrete's ready mixed concrete testing laboratory was first established in April 1999 and was awarded a 企業試驗室等級證書 (Corporate Testing Laboratory Certification) by 廣東省建設委員會 (Guangdong Province Construction Committee) on 8th June, 1999. Various testing activities are being performed at the laboratory to ensure that all of the products produced by Shenzhen Concrete are manufactured in accordance with the relevant standards set by the Central Government and 深圳市建設局 (Shenzhen Construction Bureau) and that the products are durable and in conformity to customer specifications. The standards specified by 深圳市建設局 (Shenzhen Construction Bureau) cover tests of the mechanical and physical properties of the raw materials used in the production of concrete such as cement, river sand and other additives.

Shenzhen Concrete was awarded the Certificate of Quality issued by 深圳市建設局 (Shenzhen City Construction Bureau) on 29th August, 2002.

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Employees

As at 31st December, 2002, Shenzhen Concrete employed a total of 110 full time employees. A breakdown of Shenzhen Concrete's employees by function is shown below:

Function

Management	3
Finance and administration	9
Research and development	2
Production/technical	66
Quality control	4
Sales and marketing	7
Others	<u>19</u>
Total	<u><u>110</u></u>

Remuneration of Shenzhen Concrete's employees includes basic wages, productivity allowance, safety bonuses and other benefits. During the period from 26th March, 2002 to 31st December, 2002, Shenzhen Concrete paid its employees approximately RMB3.5 million, equivalent to approximately HK\$3.3 million, of basic wages, productivity allowance, safety bonuses and other benefits. All employees are insured against work related deaths and injuries in accordance with the requirements of the Shenzhen government. Shenzhen Concrete has not experienced any labour disputes affecting its operations.

Environmental protection

Shenzhen Concrete is subject to the state and municipal environmental laws, regulations and administrative rules. Dust and noise are produced in the production process of concrete and Shenzhen Concrete has implemented appropriate measures to comply with the relevant environmental requirements. Shenzhen Concrete has not been prosecuted for or charged with any material violation under any of the environmental laws, regulations and administrative rules since its establishment.

Research and development

Shenzhen Concrete places importance on the development of new technology in the production of concrete products. Shenzhen Concrete, in cooperation with the civil engineering department at Tsinghua University in Beijing, the PRC, is participating in a research project on the development and application of high performance and high durability concrete products. The research project was recognised by the 廣東省科學技術委員會 (Science and Technology Commission in Guangdong province).

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Financial information

The following is an extract of the combined profit and loss account for the period from 26th March, 2002 to 31st December, 2002 of Shenzhen Concrete from appendix V to this prospectus.

Combined profit and loss account

	For the period from 26th March, 2002 to 31st December, 2002	
	RMB'000	HK\$'000
Turnover	66,371	62,561
Cost of sales	<u>(50,063)</u>	<u>(47,189)</u>
Gross profit	16,308	15,372
Other operating income	3,448	3,250
Selling and distribution expenses	(8,609)	(8,115)
General and administrative expenses	<u>(3,631)</u>	<u>(3,423)</u>
Profit before taxation	7,516	7,084
Taxation	<u>(1,128)</u>	<u>(1,063)</u>
Profit before minority interest	6,388	6,021
Minority interest	<u>(1,916)</u>	<u>(1,806)</u>
Net profit for the period	<u><u>4,472</u></u>	<u><u>4,215</u></u>

Please refer to appendix V for further financial information of the Shenzhen Concrete Holding group.

For the period from 26th March, 2002 to 31st December, 2002

For the period from 26th March, 2002 to 31st December, 2002, turnover amounted to approximately RMB66.4 million, equivalent to approximately HK\$62.6 million, being entirely sales of ready mixed concrete. Average selling prices of ready mixed concrete sold by Shenzhen Concrete during the period amounted to approximately RMB262.3 per cubic metre, equivalent to approximately HK\$247.2 per cubic metre. The cost of sales of Shenzhen Concrete's products consists primarily of raw materials, labour costs and manufacturing overheads. Gross profit during the year amounted to approximately RMB16.3 million, equivalent to approximately HK\$15.4 million, representing a gross margin of approximately 24.6%.

Selling and distribution expenses amounted to approximately RMB8.6 million, equivalent to approximately HK\$8.1 million, during the period. General and administrative expense amounted to approximately RMB3.6 million, equivalent to approximately HK\$3.4 million.

Net profit for the period amounted to approximately RMB4.5 million, equivalent to approximately HK\$4.2 million, representing a net profit margin of approximately 6.7%. The directors of Shenzhen Concrete believe the income and profitability of Shenzhen Concrete will continue to improve as it further broadens its customer base and increases sales.

Taxation

According to a tax notice issued by the Ministry of Finance on 28th May, 1986, the Notice on the collection of income tax of domestic enterprises in Shenzhen, Zhuhai, Shantou and Xiamen Special Economic Zones, (86) Cai Shui Zi No. 122 (關於對深圳、珠海、汕頭、廈門經濟特區內聯營企業征收所得稅問題的通知(86)財稅字第122號), Shenzhen Concrete is subject to PRC Enterprise Income Tax at the rate of 15%. In addition, it is also subject to the value added tax at 6% of the turnover.

Please refer to appendix V for further financial information of Shenzhen Concrete.

Competition

The directors believe that the concrete markets in Dongguan and Shenzhen are both competitive and fragmented. These markets are characterised by a large number of producers that are highly localised and in the case of Dongguan, of relatively small scale. Concrete products of Dongguan Concrete and Shenzhen Concrete are sold primarily in Dongguan and Shenzhen, respectively within a short distance from their respective batching plants. Dongguan Concrete primarily competes with the small scale local producers in Dongguan whereas Shenzhen Concrete mainly competes with the local producers in Shenzhen.