

FUTURE PLANS AND PROSPECTS

The enlarged group's objective is to expand the geographic coverage of its operations and to become the leading value added provider of cement and concrete and related products and services in the Hong Kong and the PRC markets. The cement industry is capital intensive. The significant costs involved, and the need to comply with stringent regulatory requirements when building new cement plants also mean future acquisitions are expected to be a major element of the enlarged group's growth strategy. In addition to acquiring businesses in its existing and new markets as a measure of the enlarged group to reduce its substantial reliance on the construction industry in Hong Kong, the enlarged group plans to implement a strategy aimed at increasing revenue and market share through horizontal expansion, achieving cost efficiencies and enhancing profitability through vertical integration. In order to accomplish these plans, the enlarged group intends to:

Focus on growth through future acquisitions

The significant costs and regulatory requirements involved in building new plants make future acquisitions an important element of the growth strategy. The enlarged group intends to implement an acquisition plan targeting opportunities for expansion in Hong Kong and the PRC markets. The directors consider that there are numerous potential acquisition targets existing in the fragmented cement and concrete industry in the PRC. Consequently, there exists a significant consolidation opportunity for the enlarged group. In addition, such acquisitions will strengthen the supply chain of the enlarged group and re-inforce the position of the enlarged group as a major provider of cement and concrete in Hong Kong and the PRC.

Expand and enhance the enlarged group's production volume

Guangxi CR Cement plans to invest a further RMB239.4 million, equivalent to approximately HK\$225.7 million, to construct a dry process vertical kiln production line, a pier at 欽州港 (Qinzhou Gang) which can accommodate vessels of up to 50,000 tonnes and to carry out improvement works in 鳳凰山礦場 (Feng Huang Shan limestone quarry). Up to 31st May, 2003, a total of approximately HK\$92.9 million has been invested by Guangxi CR Cement and depending on the progress of the expansion, it is estimated that a further HK\$132.8 million will be spent for the rest of 2003 and 2004. The trial run of the new production line commenced in June 2003. Full commercial production is expected to commence in the third quarter of 2003 and is expected to increase the annual capacity of clinker production by approximately 750,000 tonnes by then. With the existing annual clinker production capacity of approximately 1,000,000 tonnes, Guangxi CR Cement's aggregate installed annual clinker production capacity is expected to increase to approximately 1,750,000 tonnes by the third quarter of 2003.

Subject to the increase in the annual clinker production capacity of Guangxi CR Cement, Dongguan Cement is considering to invest RMB53 million, equivalent to approximately HK\$50 million, in 2004 to expand its current cement production capacity to cater for the anticipated growth in cement sales as the production of Dongguan Cement has already reached its full capacity. The decision whether to proceed with the expansion depends on whether Dongguan Cement can secure a stable supply of clinkers from Guangxi CR Cement or other clinker suppliers to meet with such expansion.

In the event that Dongguan Cement proceeds with the expansion, construction of a new production line will commence in mid 2004 and is expected to be completed by mid 2005. This will increase the annual cement production capacity from approximately 1,000,000 tonnes to approximately 1,500,000 tonnes per year. In addition, Dongguan Cement Holding has entered

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into an acquisition agreement on 3rd June, 2003 with a minority shareholder of Dongguan Cement, Dongguan Metals and Minerals, to acquire all its 5% interest in Dongguan Cement and CR Cement Company for a total cash consideration of HK\$4.8 million, payment for which is due shortly before the introduction in July 2003.

Other than enhancing sales of Guangxi CR Cement and Dongguan Cement, the increase in production capacity will also ensure stable cement supply for Redland Concrete and Redland Precast for the production of their ready mixed concrete and precast products respectively.

An additional investment of RMB15.1 million, equivalent to approximately HK\$14.2 million, will be used by Dongguan Concrete for additional fixed assets. The expansion of the enlarged group's batching plants is to cater for the increasing demand in the concrete markets in their respective markets.

The planned capital expenditure, described above, amounts to approximately HK\$294.7 million. If these plans are implemented, they will be funded either by internal resources, including the HK\$100 million injected by China Resources Enterprise on 26th March, 2003, or external borrowings. Based on the unaudited pro forma statement of assets and liabilities of the enlarged group after completion of the acquisition, the enlarged group had cash on hand of approximately HK\$258.2 million and a current ratio and a gearing ratio, being total bank loans as a percentage of net assets, of approximately 1.24 times and 37.7%, respectively, as at 31st December, 2002. In addition, the net debt to equity ratio of the enlarged group as at 31st December, 2002 was approximately 11.0%. Based on the financial position of the enlarged group and in view of the current banking sentiment and market liquidity in Hong Kong and the PRC, the directors believe that the enlarged group would be able to refinance its existing bank loans and secure additional external borrowings for its capital expenditure programme.

Improve its marketing and sales network

The enlarged group intends to increase market share through a more aggressive sales and marketing effort. The enlarged group aims to maintain its relationships with existing customers and establish relationships with new customers by improving its service quality and by more aggressive promotion of its products, principally through advertising.

The enlarged group plans to exploit the advantages of its operations in the Guangxi ZAR, with the abundant supply of limestone and sandstone from its quarries and its excellent transportation links to the high growth area in the Pearl River delta region. Therefore, the enlarged group is planning to strengthen its distribution network by acquiring or establishing silo terminals along the Xijiang River (西江) in the Guangxi ZAR and Guangdong province and to increase its manufacturing capacity.

Improve production efficiency by employing advanced technology to achieve greater cost efficiencies

The enlarged group will continue to place emphasis on research and development to improve its production efficiency and technology.

In contrast to Redland Concrete which has been in operation for many years, both Dongguan Concrete and Shenzhen Concrete were established recently. Following completion of the acquisition, the management of Dongguan Concrete, Shenzhen Concrete and the Redland group will be consolidated so that the management expertise of the Redland group will be made

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available to Dongguan Concrete and Shenzhen Concrete. In addition, a concrete distribution network for the enlarged group covering Hong Kong, Shenzhen and Dongguan, will enable the enlarged group to better serve customers nationwide with the operations being situated in different locations.

The acquisition will also result in a much greater degree of vertical integration of the business operations of the enlarged group with Guangxi CR Cement supplying clinker for the operations of Dongguan Cement, which together with Guangxi CR Cement will supply a substantial portion of the cement used in the ready mixed concrete operations of the enlarged group. Such vertical integration of the enlarged group's operation is expected to reduce costs and improve competitiveness.

By consolidating the management and administrative functions of the various cement and concrete businesses under the management of the enlarged group, it is expected that the duplication in administrative and business functions will be eliminated and cost effectiveness and operational efficiency will be achieved.