
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Resources Cement Holdings Limited, you should at once hand this circular to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



華潤水泥控股有限公司
China Resources Cement Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

CONNECTED TRANSACTION

**Financial adviser to
China Resources Cement Holdings Limited**

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

**Independent financial adviser to
the independent board committee of
China Resources Cement Holdings Limited**



SOMERLEY LIMITED

A letter from the independent board committee of China Resources Cement Holdings Limited containing its recommendations in respect of the Acquisition is set out on page 8 of this circular.

A letter from Somerley Limited, the independent financial adviser to the independent board committee of China Resources Cement Holdings Limited containing its views on the Acquisition is set out on pages 9 to 16 of this circular.

15th August, 2003

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	3
Letter from the Independent Board Committee	8
Letter from Somerley	9
Appendix – General information	17

DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context indicates otherwise:

“Acquisition”	The acquisition of 4,000,000 Redland Precast Shares as provided under the Acquisition Agreement
“Acquisition Agreement”	An acquisition agreement dated 30th July, 2003 entered between Redland Concrete and Grand Max as referred to in this circular
“Board”	the board of directors of the Company
“China Resources Cement” or “Company”	China Resources Cement Holdings Limited, a company incorporated in the Cayman Islands and listed on The Stock Exchange of Hong Kong Limited
“Grand Max”	Grand Max Investment Limited, a company incorporated in Hong Kong with limited liability and owned and controlled by Mr. Howard Chan
“Group”	Company and its subsidiaries
“Independent Board Committee”	an independent committee of the board, comprising the independent non-executive directors of the Company, namely Mr. Chan Mo Po, Paul, Mr. Lin Zongshou and Mr. Lui Pui Kee, Francis
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Latest Practicable Date”	11th August, 2003, being the latest practicable date for the purpose of ascertaining certain information contained herein prior to the printing of this circular.
“Mr. Howard Chan”	Chan Siu Cheung, a former director of Redland Concrete (resigned on 11th November, 2002)
“PRC”	the People’s Republic of China
“Prospectus”	A prospectus of the Company dated 26th June, 2003

DEFINITIONS

“Redland Concrete”	Redland Concrete Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company
“Redland Group”	Redland Concrete and its subsidiaries
“Redland Precast”	Redland Precast Concrete Products Limited, a company incorporated in Hong Kong with limited liability owned as to 50% by Redland Concrete and 50% by Grand Max
“Redland Precast Group”	Redland Precast and its subsidiaries
“Redland Precast Share(s)”	ordinary shares of HK\$1 each of Redland Precast
“SFO”	Securities and Futures Ordinance
“Somerley”	Somerley Limited, a licensed corporation under the SFO and the independent financial adviser to the Independent Board Committee
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

Unless otherwise specified in this circular, amounts denominated in Renminbi have been translated, for the purpose of illustration only, into Hong Kong dollars at the rate of HK\$1.00 = RMB1.06.

No representation is made that any amounts in Renminbi could have been or could be converted at the above rate or at any other rates.

LETTER FROM THE BOARD



華潤水泥控股有限公司 China Resources Cement Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Executive directors:

Qiao Shibo
Shi Shanbo
Zhou Junqing
Zhou Longshan
Sun Mingquan
Zheng Yi

Registered Office:

P.O. Box 309GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

Non executive directors:

Ning Gaoning
Jiang Wei
Keung Chi Wang, Ralph

Head Office:

Room 4107, 41st Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Independent non executive directors:

Chan Mo Po, Paul
Lin Zongshou
Lui Pui Kee, Francis

15th August, 2003

To the shareholders of Company

Dear Sir or Madam:

CONNECTED TRANSACTION

INTRODUCTION

On 1st August, 2003, the directors of the Company announced that the Company's indirect wholly owned subsidiary, Redland Concrete, entered into an agreement with Grand Max on 30th July, 2003 for the acquisition of its 50 per cent. shareholding interests in Redland Precast, for the consideration of HK\$23,179,500, details of which are set out below.

LETTER FROM THE BOARD

THE ACQUISITION AGREEMENT DATED 30TH JULY, 2003

Vendor: Grand Max

Purchaser: Redland Concrete

Shares to be acquired: 4,000,000 Redland Precast Shares, representing 50 per cent. of the issued share capital of Redland Precast, which are all the Redland Precast Shares beneficially owned by Grand Max

Presently Redland Concrete also owns 4,000,000 Redland Precast Shares. Following the completion of the Acquisition, Redland Precast will become a wholly owned subsidiary of Redland Concrete

Consideration: HK\$23,179,500

The consideration has been arrived at after arm's length negotiations between the vendor and the purchaser

Based on the audited consolidated net profits of Redland Precast for the year ended 31st December, 2002 of approximately HK\$8.3 million, the consideration represents a historic price earnings multiple of about 5.6 times. The consolidated net asset value of Redland Precast was approximately HK\$59.3 million as at 31st December, 2002. The consideration represents a discount of approximately of 21.8% to the consolidated net assets of Redland Precasts as attributable to the 50 per cent. interest to be acquired

The directors of the Company, including the non executive directors, consider that the Acquisition Agreement is entered into in the ordinary course of business and on normal commercial terms which are fair and reasonable as far as shareholders of the Company are concerned

Payment arrangement: The consideration for the Acquisition shall be satisfied in cash (funded through internal resources) in the following manner:

- HK\$8,179,500 upon signing of the Acquisition Agreement which amount has been paid; and

LETTER FROM THE BOARD

- the balance of the consideration of HK\$15 million shall be payable on or before 6th August, 2003 which amount has been paid before the date of this circular

Completion: The completion of the Acquisition Agreement shall take place immediately after the signing of the Acquisition Agreement and compliance with the requirements of the Listing Rules

INFORMATION ABOUT REDLAND PRECAST

The Redland Precast Group is principally engaged in producing the facades and balconies, precast concrete segments and glass fibre concrete segments in the PRC and its main customers are civil engineering and building concerns, including the Hong Kong Government, quasi government organisations, property developers and construction contractors in Hong Kong.

The audited consolidated net asset value of Redland Precast was approximately HK\$59.3 million as at 31st December, 2002. The audited consolidated turnover, net profit before and after taxation, extraordinary items and minority interests of Redland Precast in respect of the two financial years ended 31st December, 2002 are as follows:

	Year ended 31st December,	
	2002	2001
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Turnover	174,277	213,569
Net profit before taxation, extraordinary items and minority interests	7,826	15,500
Net profit after taxation, extraordinary items and minority interests	8,285	12,950

REASONS FOR THE ACQUISITION

The Group intends to become a leading value added provider of cement, concrete and related products and services to the building and construction industry in the major markets in Hong Kong and the Chinese Mainland. Consistent with the acquisition strategy of the Group as set out in the section headed "Future plans and prospects" of the Prospectus and in view of the future business prospects of Redland Precast, Redland Concrete and Grand Max had a discussion in mid July and after further discussion and negotiation, both parties entered into the Acquisition Agreement. The Acquisition will further expand the business range of the Group to precast product. Accordingly, the Group will have a full range of products and services starting from limestone exploration to clinker, cement, ready mixed concrete and precast concrete productions.

LETTER FROM THE BOARD

The Acquisition will also enable the Company to centralise the management and operation of Redland Precast. As Redland Precast is already sourcing its cement supplies from the cement operations of the Group and using the quality control testing services rendered by the commercial construction materials testing laboratories owned by the Group, the Acquisition will better integrate the operations of the Group and the Redland Precast Group.

In view of the increased business opportunity for the precast concrete products in Hong Kong and the PRC provided by new possible infrastructure projects arising as a result of the Closer Economic Partnership Arrangement between Hong Kong and the Chinese Mainland, Redland Precast will have an ample opportunity to capitalize on this latest economic development as the directors of the Company consider Redland Precast as one of the market leaders in the production of precast concrete products in Hong Kong. However, as Redland Precast is a joint venture between two shareholders with different profiles, one being a listed company and the other being a private limited company owned by individuals, the successful expansion of Redland Precast greatly depends on whether the two shareholders will share the same view on the future prospects of and operational strategies for Redland Precast. After the Acquisition, Redland Precast will become a wholly owned subsidiary of the Company and therefore the Group will have absolute control over the expansion plan of Redland Precast and also absolute flexibility as to the financial arrangements for Redland Precast if it requires additional financial resources to meet with the increased business opportunities.

In addition, based on the business network of the Group in the PRC, Redland Precast will have ample opportunity to further expand into the PRC market as Redland Precast is currently primarily focusing on the Hong Kong market.

INFORMATION ABOUT THE COMPANY

The Company is a listed company on the Stock Exchange and the business of the Group includes production, distribution and sale of cement, concrete, mortars and shotcrete in Hong Kong and the Chinese Mainland.

Shareholder's loans

As at the date of the Acquisition Agreement, each of Redland Concrete and Grand Max has provided shareholders' loans of approximately HK\$19.4 million to Redland Precast. Such shareholders' loans provided by Redland Concrete and Grand Max are in proportion to their respective shareholding interest in Redland Precast on the same terms. All such loans are unsecured, bearing interest at the Hong Kong prime rate minus 2% per annum and repayable on demand. Such terms will remain unchanged after completion of the Acquisition. After completion of the Acquisition, the provision of such loans by Grand Max to Redland Precast will constitute a connected transaction of the Company. The directors of the Company, including the independent non-executive directors, are of the view that such loans to Redland Precast are on normal commercial terms. Accordingly, such financial assistance is exempted connected transaction under rule 14.24(8) of the Listing Rules.

LETTER FROM THE BOARD

GENERAL

The completion of the Acquisition shall take place immediately after the signing of the Acquisition Agreement and compliance with all the relevant requirements of the Listing Rules. As Grand Max is owned and controlled by Mr. Howard Chan, a former director of Redland Concrete, the Acquisition constitutes a connected transaction of the Company under the Listing Rules. Accordingly, the completion of the Acquisition is conditional upon the approval of the shareholders of the Company. As at the Latest Practicable Date, based on the information available to the Company, Mr. Howard Chan and his associates, as defined in the Listing Rules, are not interested in any issued share capital of the Company. Written approval of the Acquisition has been obtained from China Resources (Holdings) Company Limited, which together with its associates hold approximately 74.5% of the issued share capital of the Company, and are not interested in the Acquisition except through their interests in the Company.

As China Resources (Holdings) Company Limited and its associates are not required to abstain from voting in respect of the Acquisition under the Listing Rules, and to avoid the unnecessary expenses of convening shareholders' meeting, shareholders' approval by way of a resolution passed at an extraordinary general meeting would not be required. The Company has made an application to the Stock Exchange and has been granted a waiver from strict compliance with rule 14.26 of the Listing Rules regarding the holding of a physical shareholders' meeting for the approval of the Acquisition.

In addition, your attention is drawn to the letter from the Independent Board Committee as set out on page 8 of this circular which contains its recommendations to the shareholders, based on the advice from Somerley, in respect of the Acquisition, the letter from Somerley set out on pages 9 to 16 of this circular which contains its recommendations to the Independent Board Committee and the principal factors and reasons taken into consideration.

Your faithfully,

By order of the board

China Resources Cement Holdings Limited

Qiao Shibo

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



華潤水泥控股有限公司 China Resources Cement Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

15th August, 2003

To the shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

We refer to the circular (the “Circular”) dated 15th August, 2003 issued by China Resources Cement to its shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

The Independent Board Committee has been appointed to consider the Acquisition. In addition, Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the same.

Your attention is drawn to the letter from the Board set out on pages 3 to 7 of the Circular, which sets out information relating to, and the reasons for, the Acquisition.

As the independent non-executive directors of China Resources Cement, we have discussed with the management of China Resources Cement the reasons for the Acquisition and the basis upon which its terms have been determined. We have also considered the principal factors taken into account by Somerley in arriving at its opinion regarding the Acquisition as set out in its letter on pages 9 to 16 of the Circular. We concur with the views of Somerley that the Acquisition is in the interests of China Resources Cement and the shareholders of China Resources Cement as a whole, and the terms thereof are fair and reasonable.

Yours faithfully,

Chan Mo Po, Paul

Lin Zongshou

Lui Pui Kee, Francis

Independent Board Committee

LETTER FROM SOMERLEY



Somerley Limited
Suite 3108, One Exchange Square
8 Connaught Place
Central
Hong Kong

15th August, 2003

The Independent Board Committee
China Resources Cement Holdings Limited
Room 4107, 41st Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

CONNECTED TRANSACTION ACQUISITION OF 50% INTEREST IN REDLAND PRECAST CONCRETE PRODUCTS LIMITED

We refer to our appointment to advise the independent board committee as regards the terms of the Acquisition, details of which are set out in the letter from the Board contained in the circular to the shareholders dated 15th August, 2003 (the “Circular”), of which this letter forms part. The terms defined in the Circular have the same meanings in this letter unless the context requires otherwise.

Redland Precast is currently a 50% owned associated company of the Company, which interest is held through Redland Concrete, a wholly owned subsidiary of the Company. Pursuant to the Acquisition Agreement, the Group will acquire the remaining 50% interest in Redland Precast from Grand Max. Mr. Howard Chan, the controlling shareholder of Grand Max, was a former director of Redland Concrete up to 11th November, 2002. Accordingly, Mr. Howard Chan is considered a connected person of the Company under the Listing Rules. By virtue of this, the Acquisition constitutes a connected transaction for the Company under the Listing Rules and is subject to the approval of the shareholders. Written approval of the Acquisition has been obtained from China Resources (Holdings) Company Limited (“CRH”), which holds in excess of 50 per cent. of the issued share capital of the Company and the Company has obtained a waiver from the Stock Exchange from strict compliance with Rule 14.26 of the Listing Rules in respect of the holding of a shareholders’ meeting for the purpose of approving the Acquisition.

LETTER FROM SOMERLEY

The Independent Board Committee, comprising the independent non-executive directors, namely Mr. Chan Mo Po, Paul, Mr. Lin Zongshou and Mr. Lui Pui Kee, Francis, has been constituted to consider the Acquisition.

In formulating our opinion, we have reviewed, among other things, the audited financial statements of Redland Precast for the four years ended 31st December, 2002 and its unaudited management accounts for the four months ended 30th April, 2003 and certain existing contracts of supply of precast products of Redland Precast. We consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, or doubt the truth or accuracy of the information provided.

We have relied on the information and facts supplied, and the opinions expressed, by the directors and staff of the Company and have assumed that the information, facts and opinion made to us are true and accurate. We have also sought and received confirmation from the Directors that no material factors have been omitted from the information supplied and opinions expressed. We have not, however, conducted an independent investigation into the business, operations or financial condition of the Group or of Redland Precast or the prospects for the precast concrete product sectors in which Redland Precast operates. We have also assumed that the statements and representations made or referred to in the Circular were accurate at the time they were made and continue to be accurate on the date of the Circular.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinion with regard to the Acquisition, we have taken into account the following principal factors:—

The Acquisition

Reasons for and background of the Acquisition

The Group intends to become a leading value added provider of cement, concrete and related products and services to the building and construction industry in Hong Kong and the PRC. Prior to listing, the Company was a subsidiary of China Resources Enterprise, Limited (“CRE”) and the businesses of the Group comprised the production, distribution and sale of concrete, mortars, shotcrete and precast concrete products mainly in Hong Kong. The business of the Group in precast concrete products were conducted through the 50% interest in Redland Precast. In order to expand into the PRC market, pursuant to a reorganisation in June 2003, the Company acquired from CRH its cement operations and PRC concrete operations, which are located in the Guangxi Zhuang Self Autonomous Region and the Guangdong province respectively, in the PRC. The Company was spun-off from CRE and listed on the Stock Exchange in July 2003 by way of introduction.

LETTER FROM SOMERLEY

The Redland Precast Group was established in early 90's between CRH and certain third parties (including Grand Max) to engage in the production and distribution of precast concrete products. At present, the Company holds a 50% interest in Redland Precast. The Redland Precast Group is principally engaged in producing facades and balconies, precast concrete segments and glass fibre concrete segments in the PRC and its main customers are civil engineering and building concerns, including the Hong Kong Government, quasi government organisations, property developers and construction contractors in Hong Kong. In recent years, the Redland Precast Group has derived substantial revenue from supplying precast concrete products to major infrastructure projects including KCRC East Rail, KCRC West Rail and the Hung Hom Bypass.

As mentioned in the Prospectus, it is the strategy of the Group to achieve growth by way of acquisition. Redland Precast represents the only principal associated company within the Group upon its listing in July 2003, the Acquisition will enable the Group to fully capture the precast concrete production operations within the Group so that the Group will possess the capability to offer a full range of concrete products and a complete vertical production line. Upon completion of the Acquisition, Redland Precast became an indirect wholly owned subsidiary of the Company. The Group is currently a principal supplier of cement to the batching plants of Redland Precast for production of precast concrete products. The Acquisition will also enable the Company to centralise the management and operation of Redland Precast and better integrate the operations of the existing Redland Group and the Redland Precast Group.

In addition, based on the business network of the Group in the PRC, Redland Precast will have ample opportunity to expand into the PRC precast product markets. The directors of the Company believe that the Closer Economic Partnership Arrangement will result in increasing economic activities and infrastructure projects in Hong Kong and the Chinese Mainland where Redland Precast will have ample opportunity to capitalise on as they consider Redland Precast as one of the market leaders in the production of precast concrete products in Hong Kong. After the Acquisition, Redland Precast has become a wholly owned subsidiary of the Company, therefore the Group has absolute control over the expansion plan of Redland Precast and also absolute flexibility as to the financial arrangements for Redland Precast if it requires additional financial resources to meet with the increased business opportunities.

On the above basis, we consider that the Acquisition is consistent with the growth strategy of the Group by acquisition as set out in the Prospectus and a successful integration of Redland Precast will benefit the Group as a whole. Your attention is drawn to the letter from the Board in the Circular for further details regarding Redland Precast.

LETTER FROM SOMERLEY

Principal terms of the Acquisition

(i) Consideration

Pursuant to the Acquisition Agreement, the Company has acquired 50% interest in the issued capital of Redland Precast. The aggregate consideration for the Acquisition shall be HK\$23,179,500. The consideration has been satisfied as to HK\$8.2 million upon the entering into of the Acquisition Agreement and the remainder of HK\$15 million upon completion. The consideration for the Acquisition of approximately HK\$23.2 million has been arrived at after arms' length negotiations.

The audited consolidated net asset value of Redland Precast was approximately HK\$59.3 million as at 31st December, 2002 and the consideration represents a discount of approximately 21.8% to the attributable audited consolidated net assets of Redland Precast of approximately HK\$29.7 million. The discount to the underlying net assets of Redland Precast provides a buffer protection to the Company against the risk of a depletion in value of the assets of Redland Precast typically relating to the construction industry, namely long payment cycle of trade receivables and contingent liabilities relating to product warranties and performance bonds. We are informed that the consideration for the Acquisition has been arrived at by reference to the audited net assets of Redland Precast. We note from the audited accounts of Redland Precast that its assets comprise principally of tangible operating assets for use in its operations. Accordingly, we consider that the use of the net assets as a basis for determining the consideration to be appropriate.

Based on the audited consolidated net profits of Redland Precast for the year ended 31st December, 2002 of approximately HK\$8.3 million, the consideration represents a historical price earnings multiple of about 5.6 times. Redland Precast's reliance on major infrastructure project in recent years has attributed to some extent fluctuations in its revenues fluctuate as at times there was some time lag between completion of one project and the commencement of another. In the circumstances, the appraisal of the consideration for Redland Precast by reference to one particular financial year's earnings may not reflect the earnings potential of the business. On the basis of the average of the net profit after taxation of Redland Precast for each of the four years ended 31st December, 2002 of approximately HK\$11.1 million, the consideration represents a price earnings multiple of approximately 4.2 times.

We have identified one Hong Kong listed company engaged in the supply of precast concrete products in Hong Kong, namely Daido Group Limited ("Daido"). The shares of Daido closed at HK\$0.05 on the Latest Practicable Date, which represented a price earnings multiple of approximately 8.2 times. On this basis, the consideration for the Acquisition represents a lower price earnings multiple than the shares of Daido. For listed companies in

LETTER FROM SOMERLEY

Hong Kong engaged principally in producing concrete products, the historical price earnings multiple range between 7 times to 27 times as at the Latest Practicable Date. The price earnings multiple as represented by the consideration is below the lower end of the range.

Redland Precast's principal businesses are the supply of precast concrete products to construction projects. In view of the recent slowdown of private and public sector residential housing and construction activities, the business of the Redland Precast Group has been oriented towards major infrastructure projects in Hong Kong. As a number of major infrastructure projects in Hong Kong are proposed to be launched by the Hong Kong Government as mentioned in the paragraph headed "Earnings and prospects" below, we are therefore positive about the future prospects of Redland Precast.

(ii) Payment terms and financing

The consideration of HK\$23.2 million under the Acquisition Agreement is payable in cash. As disclosed in the Prospectus, pursuant to the reorganisation before the listing of the Company, an aggregate of HK\$100 million was injected into the Company to finance future acquisitions.

As set out in the letter from the Board, each of Redland Concrete and Grand Max has provided shareholders' loans of approximately HK\$19.4 million to Redland Precast. Such loans are unsecured, bearing interest at the Hong Kong prime rate minus 2% per annum and repayable on demand. Such terms will remain unchanged after completion of the Acquisition. It should be noted that the parties have not formed a definite view as to the repayment of the shareholders' loans, but in the event that Grand Max demands repayment of such loan in full, which it has the right to do so, it is likely that the Group will have to support the operations of Redland Concrete as a wholly owned subsidiary and finance repayment of the loan owed to Grand Max. In addition, banking facilities of HK\$20.0 million were made available by Bank of China to Redland Precast and Grand Max has undertaken to guarantee up to the maximum amount of HK\$10.0 million in view of its 50% shareholding interest in Redland Precast. As discussed with the management of the Company, upon completion of the Acquisition, it is the intention that the guarantee provided by Grand Max will be assumed by the Company. The building and construction industry is characterised as being highly capital intensive and demanding in terms of working capital requirements. To further the growth of Redland Precast, it seems inevitable that the Group will have to assume a degree of financial commitment in addition to the consideration paid to acquire the equity interest.

LETTER FROM SOMERLEY

Effect of the Acquisition

(i) Earnings and prospects

The following is a summary of the financial results of Redland Precast:

	Year ended 31st December,			
	2002	2001	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover attributable to:				
Infrastructure projects	146,857	188,350	149,846	91,047
Housing facade	27,420	25,219	36,475	99,633
	174,277	213,569	186,321	190,680
Turnover				
Net profit after taxation, extraordinary items and minority interests	8,285	12,950	16,554	6,596

In the financial periods shown above, Redland Precast has generally recorded a declining trend in the property construction sector in Hong Kong. In terms of revenue from infrastructure projects, it is noted that fluctuating patterns of revenues were attributable to the time lag between completion of one infrastructure project and commencement of another.

In this regard, according to the progress records of Redland Precast, works completed during the year up to June 2003 amounted to approximately HK\$61.2 million. Whereas Redland Precast currently has binding contracts on hand amounting to an aggregate value of HK\$80.8 million (which is expected to be progressively completed up to November 2004) and have tendered for projects aggregating HK\$657 million in value in the next three years. Although the probability of success of the tenders cannot be ascertained yet, the Directors are positive on the prospects of success of such tenders.

(ii) Net asset value

Based on the audited financial statements of Redland Precast, the audited net asset value of Redland Precast amounted to approximately HK\$59.3 million as at 31st December, 2002. On the basis of an attributable 50% interest, the interest has an attributable net asset backing of HK\$29.7 million. Such asset backing represent an excess of 21.8% over the consideration of HK\$23.2 million. Based on the consolidated net asset value of Redland Precast as at 31st December, 2002 and the pro forma combined net asset of the Group as at 31st December, 2002, the Acquisition would have enhanced the net assets of the Group as at

LETTER FROM SOMERLEY

31st December, 2002 by approximately HK\$6.5 million. The discount of the consideration to the net assets of Redland Precast of approximately HK\$6.5 million provides a buffer protection to the Company against the risk mentioned in the above paragraph headed “Consideration”. We consider that the built-in of such buffer protection to the Company in acquiring Redland Precast is in the interest of the Company.

The Group’s existing 50% interest in Redland Precast has been accounted for as an associated company in the financial statements of the Group. After acquiring the additional interest, the Group’s investment in Redland Precast will be consolidated as a wholly owned subsidiary and its financial statements will be consolidated into the financial statements of the Group.

(iii) Capital expenditure and financial commitments arising from the Acquisition

In terms of capital expenditure, on the basis of discussions with the management of Redland Precast, Redland Precast has significant production capacity to fulfill a significant increase in demand in the foreseeable future and is not expected that significant additional capital expenditure in the near future would be required to continue its growth. In addition, there are no substantial capital expenditure projects being budgeted. During the six months ended 30th June, 2003, production of precast concrete products occupied approximately 30% of the production capacity of Redland Precast and Redland Precast will have sufficient production capacity to fulfill its obligations under the contracts that it has tendered, without the need to significantly increase expenditure on production facilities.

In terms of working capital requirements, the potential need to repay the shareholders’ loan to Grand Max of HK\$19.4 million and the intention for the Company to replace Grand Max as the guarantor of the financial facilities of Redland Precast for HK\$10 million would require the support of the Company. We note that it is the intention of the Company to finance the Acquisition out of internal resources of the Group. Save as the aforesaid, we are advised by the Company it does not expect Redland Precast to require additional financial support from its shareholders in the near future on the basis of its existing operations scale. Should the Company finance the additional commitments of HK\$29.4 million (comprising the potential repayment of shareholder’s loan to Grand Max of HK\$19.4 million and replacement of the bank guarantee of HK\$10 million) by bank loans, and on the basis of the pro forma combined net assets of the Group as at 31st December, 2002 of approximately HK\$970.8 million as disclosed in the Prospectus, we consider the potential impact on financial commitment of acquiring Redland Precast to be not significant.

DISCUSSION

The Company has an existing 50% stake in Redland Precast. The Group has maintained that acquisition of businesses represents the Group’s growth strategy. The Acquisition will enable the Company to centralise the management and operation of Redland Precast within the Group. In

LETTER FROM SOMERLEY

addition, a wholly owned Redland Precast will leverage better on the business network of the Group in the PRC and represents an opportunity for Redland Precast to expand into the PRC precast products markets.

The price for the Acquisition, at HK\$23.2 million, represents a price earnings multiple of 5.6 times the profits after taxation for the year ended 31st December, 2002 and 4.2 times the average of the profits after taxation for the four years ended 31st December, 2002. Such price earnings multiple represent a discount to the pricing of the shares of comparable companies listed on the Stock Exchange. On the other hand, Redland Precast has tendered for substantial amounts of infrastructure projects in the near future. Accordingly, we are of the view that while historic results have shown a decline, future prospects in the longer term are positive.

The consideration of the Acquisition represents an approximately 21.8% discount to the audited consolidated net assets of the Redland Group as at 31st December, 2002. On this basis, we consider the price to be fair and reasonable. It is the intention for the Company to finance the Acquisition out of internal resources of the Group. Due to excess capacity of existing production facility, future growth is not expected to result in significant capital expenditure. However, shareholders should note that the business is capital intensive and a significant shareholder's loan of approximately HK\$19.4 million from the vendor remains outstanding, repayment of which will involve further capital outlay by the Group. The Acquisition will also involve the Group bearing additional guarantees to secure financial facilities utilized by Redland Precast.

If the Company should finance the additional commitments of HK\$29.4 million (comprising the potential repayment of shareholder's loan to Grand Max of HK\$19.4 million and replacement of the bank guarantee of HK\$10 million) by bank loans, and on the basis of the pro forma combined net assets of the Group as at 31st December, 2002 of approximately HK\$970.8 million, we consider the potential impact of the additional financial commitment arising from acquiring Redland Precast on the financial position of the Group are not significant.

The Acquisition will enhance the net assets of the Group. The Directors expect that the synergies with a successful integration, coupled with a successful securing of upcoming infrastructure projects, would compliment Redland Precast's continuous growth. We consider that the Acquisition is in the interest of the Group and the enlarged entity will benefit from the integration.

OPINION

Having considered the above factors and reasons, we are of the opinion that the Acquisition is in the interests of the Company and its shareholders as a whole and the terms of the Acquisition Agreement are fair and reasonable so far as the independent shareholders are concerned.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Mei H. Leung
Managing Director

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

DISCLOSURE OF INTERESTS**Directors**

As at the Latest Practicable Date, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the directors of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) contained in the Listing Rules, were as follows:

Interests in issued ordinary shares of the Company and/or its associated corporations

(a) Issued ordinary shares of the Company

Name of director	Number of shares held				Total	Approximate percentage of interest (%)
	Personal interest	Family interest	Corporate interest	Other interest		
Ning Gaoning	163,000	Nil	Nil	Nil	163,000	0.045

- (b) Issued ordinary shares of China Resources Enterprises, Limited, a subsidiary of China Resources (Holdings) Company Limited

Name of director	Number of shares held				Total	Approximate percentage of interest (%)
	Personal interest	Family interest	Corporate interest	Other interest		
Ning Gaoning	1,630,000	Nil	Nil	Nil	1,630,000	0.078
Sun Mingquan	Nil	50,000	Nil	Nil	50,000	0.002

(Note)

Note:

These shares are held by Madam Sun Mingquan's spouse, Mr. Huang Junqiang, and therefore Madam Sun Mingquan is deemed by virtue of section 344 of Part XV of the SFO to be interested in these shares.

- (c) Issued ordinary shares of China Resources Logic Limited, a subsidiary of China Resources (Holdings) Company Limited

Name of director	Number of shares held				Total	Approximate percentage of interest (%)
	Personal interest	Family interest	Corporate interest	Other interest		
Shi Shanbo	96,000	Nil	Nil	Nil	96,000	0.004
Sun Mingquan	50,000	Nil	Nil	Nil	50,000	0.002
Zhou Longshan	200,000	800,000	Nil	Nil	1,000,000	0.038

(Note 2)

Notes:

- Based on 2,618,151,071 shares of China Resources Logic Limited in issue as at the Latest Practicable Date.
- These shares are held by Mr. Zhou Longshan's spouse, Madam Lin Hua, and therefore Mr. Zhou is deemed by virtue of section 344 of Part XV of the SFO to be interested in these shares.

Interests in options/underlying shares granted by the Company and/or its associated corporations

- (a) Options outstanding under the two share option schemes of China Resources Enterprise, Limited (the old scheme being adopted on 17th September, 1992 and amended on 17th June, 1999 which was terminated on 31st January, 2002 and the new scheme adopted on 31st January, 2002 respectively) to subscribe for ordinary shares in China Resources Enterprise, Limited

Name of director	Date of grant	Date of expiry	Exercise price (HK\$)	Number of share options outstanding
Jiang Wei	8th March, 2002	7th March, 2012	7.50	600,000
Keung Chi Wang, Ralph	20th June, 2000	19th June, 2010	7.19	1,400,000
	7th February, 2002	6th February, 2012	7.17	500,000
Ning Gaoning	20th June, 2000	19th June, 2010	7.19	3,300,000
	7th February, 2002	6th February, 2012	7.17	1,200,000
Qiao Shibo	7th February, 2002	6th February, 2012	7.17	1,800,000
Shi Shanbo	5th March, 2002	4th March, 2012	7.35	100,000
Sun Mingquan	7th February, 2002	6th February, 2012	7.17	550,000
	5th March, 2002	4th March, 2012	7.35	60,000 (Note 1)
Zheng Yi	5th March, 2002	4th March, 2012	7.35	60,000
Zhou Junqing	5th March, 2002	4th March, 2012	7.35	100,000
Zhou Longshan	5th March, 2002	4th March, 2012	7.35	110,000
	14th April, 2003	13th April, 2013	6.29	500,000 (Note 2)

Notes:

- Options for 550,000 shares in China Resources Enterprise, Limited are held by Madam Sun Mingquan's spouse, Mr. Huang Junqiang, and therefore Madam Sun Mingquan is deemed by virtue of section 344 of Part XV of the SFO to be interested in these share options.

2. Out of these options for 110,000 shares in China Resources Enterprise, Limited, options for 50,000 shares are held by Mr. Zhou Longshan's spouse, Madam Lin Hua, and therefore Mr. Zhou is deemed by virtue of section 344 of Part XV of the SFO to be interested in these share options.
 3. Consideration for each of the above grants is HK\$1.00.
- (b) Options outstanding under the two share option schemes of China Resources Logic Limited (the old scheme being adopted on 15th October, 1994 and terminated on 26th November, 2001, and the new scheme being adopted on 26th November, 2001 and amended on 21st February, 2002 respectively), a subsidiary of China Resources (Holdings) Company Limited, to subscribe for ordinary shares in China Resources Logic Limited

Name of director	Date of grant	Date of expiry	Exercise price (HK\$)	Number of share options outstanding
Jiang Wei	9th April, 2002	8th April, 2012	0.820	720,000
Ning Gaoning	2nd October, 2002	1st October, 2012	0.570	2,000,000
	9th April, 2003	8th April, 2013	0.479	1,000,000
Shi Shanbo	9th April, 2002	8th April, 2012	0.82	120,000
Sun Mingquan	9th April, 2002	8th April, 2012	0.82	60,000
Zheng Yi	9th April, 2002	8th April, 2012	0.82	60,000
Zhou Junqing	9th April, 2002	8th April, 2012	0.82	120,000
Zhou Longshan	9th April, 2002	8th April, 2012	0.82	120,000 (Note 1)

Notes:

1. Out of the options for 120,000 shares in China Resources Logic Limited, options for 60,000 shares are held by Mr. Zhou Longshan's spouse, Madam Lin Hua, and therefore Mr. Zhou is deemed by virtue of section 344 of Part XV of the SFO to be interested in these share options.
2. Consideration for each of the above grants is HK\$1.00.

- (c) Options outstanding under the two share option schemes of China Resources Land Limited (the old scheme being adopted on 28th May, 1997 and terminated on 31st January, 2002, and the new scheme adopted on 31st January, 2002, respectively), a subsidiary of China Resources (Holdings) Company Limited, to subscribe for ordinary shares in China Resources Land Limited

Name of director	Date of grant	Date of expiry	Exercise price (HK\$)	Number of share options outstanding
Jiang Wei	4th March, 2002	3rd March, 2012	1.590	720,000
Keung Chi Wang, Ralph	27th June, 1997	27th May, 2007	4.592	2,000,000
	20th July, 2000	27th May, 2007	0.990	1,300,000
Ning Gaoning	27th June, 1997	27th May, 2007	4.592	2,500,000
	20th July, 2000	27th May, 2007	0.99	2,500,000
Shi Shanbo	4th March, 2002	3rd March, 2012	1.59	120,000
Sun Mingquan	4th March, 2002	3rd March, 2012	1.59	80,000
Zheng Yi	4th March, 2002	3rd March, 2012	1.59	80,000
Zhou Junqing	4th March, 2002	3rd March, 2012	1.59	120,000
Zhou Longshan	4th March, 2002	3rd March, 2012	1.59	140,000 (Note 1)

Notes:

- Out of the options for 140,000 shares in China Resources Land Limited, options for 60,000 shares are held by Mr. Zhou Longshan's spouse, Madam Lin Hua, and therefore Mr. Zhou is deemed by virtue of section 344 of Part XV of the SFO to be interested in these share options.
- Consideration for each of the above grants is HK\$1.00.

Save as disclosed above, so far is known to the directors of the Company, as at the Latest Practicable Date, no other persons has interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance) which are required to be

notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions which he is taken or deemed to have under such provisions of Securities and Futures Ordinance); or are required, pursuant to section 352 of the Securities and Futures Ordinance, to be entered in the register referred to therein; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Shareholders with notifiable interests

As at the Latest Practicable Date, so far as is known to the directors of the Company, the following persons had interests or short positions in the shares and underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of interested party	Number of shares in which the interested party is deemed to have interests or short positions	Approximate percentage of shareholding
China Resources National Corporation ("CRNC")	270,132,647	74.5
華潤股份有限公司 (China Resources Co., Limited)	270,132,647	74.5
CRC Bluesky Limited	270,132,647	74.5
China Resources (Holdings) Company Limited	270,132,647	74.5

Note: China Resources (Holdings) Company Limited is a 100% subsidiary of CRC Bluesky Limited which is in turn owned as to 100% by China Resources Co., Limited, which is in turn held as to 99.98% by CRNC, a state owned enterprise in the PRC.

As at the Latest Practicable Date, so far as is known to the directors of the Company, the following persons were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of other members of the Group:

Name of Company	Name of the substantial shareholder	Approximate percentage of interests held
China Resources Cement Company Limited	(1) Sumitomo Corporation and its associate, Sumitomo Corporation (Hong Kong) Limited	12.5
	(2) UBE Industries, Ltd.	12.5
東莞華潤水泥廠有限公司 (Dongguan China Resources Cement Manufactory Co., Ltd.)	(1) Sumitomo Corporation and its associate, Sumitomo Corporation (Hong Kong) Limited	12.5
	(2) UBE Industries, Ltd.	12.5
Guangxi China Resources Hongshuihe Cement Co., Ltd.	Guangxi Hongshuihe Cement Joint Stock Company Limited	30
Shenzhen China Resources Tiejian Concrete Co., Ltd.	Zhong Tie Jian Chang Construction Department Shenzhen Industrial Company	30
Zhanjiang China Resources Hongshuihe Cement Company Limited	Profit Pool Holdings Limited	49

Save as disclosed above, so far as is known to the directors of the Company, as at the Latest Practicable Date, no other persons had interests or short positions in the shares and underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, no director of the Company has an unexpired service contract with the Company or any of its subsidiaries excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation.

EXPERT AND CONSENT

The following is the qualification of the expert who has provided its advice which is contained in this circular:

Name	Qualifications
Somerley	A licensed corporation under the SFO

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Somerley was not interested beneficially or otherwise in any shares in the Company or any of its subsidiaries or associated corporations and did not have any right, whether legally enforceable or not, or option to subscribe for or to nominate persons to subscribe for any shares in the Company or any of its subsidiaries or associated corporations nor did it have any interest, either direct or indirect, in any assets which have been, since the date of incorporation of the Company on 13th March, 2003, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

MISCELLANEOUS

- None of the directors of the Company has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, the Company or any of its subsidiaries since 31st December, 2002, the date to which the pro forma combined financial information as set out in the Prospectus were made up.
- There is no contract or arrangement entered into by any member of the Group in which any directors of the Company are materially interested and which is significant in relation to the business of the Group.
- The directors of the Company are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2002, being the date to which the pro forma combined financial information as set out in the Prospectus.
- The English texts of this circular shall prevail over their respective Chinese texts.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the head office of the Company from the date of this circular up to 29th August, 2003:

- the Acquisition Agreement;
- letter of the Independent Board Committee dated 15th August, 2003, the text of which is set out on page 8 of this circular;
- the letter of advice from Somerley dated 15th August, 2003, the text of which is set out on pages 9 to 16 of this circular; and
- the letter of consent referred to in paragraph headed “Expert and consent” in this appendix.