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## IMPORTANT

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

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

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.

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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 712)**

## DISCLOSEABLE AND CONNECTED TRANSACTION

### ACQUISITION OF APPROXIMATELY 67.86% EQUITY INTEREST AND UNDERTAKING TO ACQUIRE FURTHER APPROXIMATELY 5.97% EQUITY INTEREST IN GUANGXI HONGSHUIHE CEMENT

**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**

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A letter from the independent board committee of China Resources Cement Holdings Limited is set out on pages 10 to 11 of this circular.

A letter from Somerley Limited, the independent financial adviser, containing its advice to the independent board committee and the shareholders of China Resources Cement Holdings Limited is set out on pages 12 to 21 of this circular.

27 October 2004

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## DEFINITIONS

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*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

“Acquisition”	acquisition of approximately 67.86% equity interest in Guangxi Hongshuihe Cement as provided under the Acquisition Agreement
“Acquisition Agreement”	an acquisition agreement dated 27 September 2004 entered into between CR Cement and Vendor as referred to in this circular
“Associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	board of Directors
“China Resources Holdings”	China Resources (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability
“Company”	China Resources Cement Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“CR Cement”	China Resources Cement Limited, a wholly owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability
“Director(s)”	director(s) of the Company
“Flavour Glory”	Flavour Glory Limited, a wholly owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability
“Group”	Company and its subsidiaries
“Guangxi CR Cement”	Guangxi China Resources Hongshuihe Cement Co., Ltd., a sino foreign equity joint venture established on 24 December 2001 in accordance with the laws of the PRC, which is held as to 70% by Flavour Glory, a wholly owned subsidiary of the Company, and 30% by Guangxi Hongshuihe Cement
“Guangxi Hongshuihe Cement”	Guangxi Hongshuihe Cement Joint Stock Company Limited, a joint stock company established in the PRC

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## DEFINITIONS

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“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising Mr. Chan Mo Po, Paul, Mr. Lin Zongshou and Mr. Lui Pui Kee, Francis, all being independent non-executive Directors, which has been established to advise the Shareholders as regards the Acquisition Agreement
“Independent Third Parties”	parties and their respective ultimate beneficial owners, who are independent from and not connected with the Company or its connected person (as defined in the Listing Rules) and not connected persons of the Company (as defined in the Listing Rules)
“Latest Practicable Date”	21 October 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Sommerley”	Sommerley Limited, a licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities, the independent financial adviser to the Independent Board Committee
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Undertaking”	The Company has undertaken to the Vendor that the Company will purchase all the shares in Guangxi Hongshuihe Cement held by individual shareholders representing approximately 5.97% equity interest in Guangxi Hongshuihe Cement, within two months after the completion of the Acquisition at the consideration of approximately RMB19.4 million (equivalent to approximately HK\$18.3 million)
“Vendor”	南寧市人民政府國有資產監督管理委員會 (State-Owned Asset Supervision and Administration Commission of the People’s Government of Nanning)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of PRC
“%”	Per cent

*Unless otherwise specified in this circular, amounts denominated in Renminbi have been converted, for the purpose of illustration only, into Hong Kong dollars at the rate of HK\$1.00 = RMB1.06. This exchange is for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be converted at the above rate or any other rates.*

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## LETTER FROM THE BOARD

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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 712)**

*Executive Directors:*

Qiao Shibo (*Chairman*)  
Shi Shanbo (*Vice Chairman and General Manager*)  
Zhou Junqing  
Zhou Longshan  
Sun Mingquan  
Zheng Yi

*Registered office:*

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

*Non-executive Directors:*

Ning Gaoning  
Jiang Wei  
Keung Chi Wang, Ralph

*Head office and principal place of  
business in Hong Kong:*

Room 4107, 41/F  
China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

*Independent non-executive Directors:*

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

27 October 2004

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

### **ACQUISITION OF APPROXIMATELY 67.86% EQUITY INTEREST AND UNDERTAKING TO ACQUIRE FURTHER APPROXIMATELY 5.97% EQUITY INTEREST IN GUANGXI HONGSHUIHE CEMENT**

#### **INTRODUCTION**

The Directors announced on 6 October 2004 that CR Cement, the Company's wholly owned subsidiary, entered into an Acquisition Agreement with the Vendor on 27 September 2004 for the acquisition of approximately 67.86% equity interest in Guangxi Hongshuihe Cement. In addition, the Company has undertaken to the Vendor under the Acquisition Agreement to acquire further approximately 5.97% equity interest in Guangxi Hongshuihe Cement.

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## LETTER FROM THE BOARD

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### THE ACQUISITION AGREEMENT DATED 27 SEPTEMBER 2004

**Seller:** The Vendor, which principal activities comprise the supervision and administration of state-owned assets in Nanning, including the holding of 67.86% equity interest in Guangxi Hongshuihe Cement.

**Buyer:** CR Cement, which principal activity is investment holding.

**Assets to be acquired:** 67.86% equity interest in Guangxi Hongshuihe Cement.

**Undertaking:** The seller has requested the buyer to acquire all the shares in Guangxi Hongshuihe Cement held by individual shareholders upon the completion of the Acquisition, representing approximately 5.97% equity interest in Guangxi Hongshuihe Cement. Accordingly, the buyer has undertaken to the seller that it will purchase all the shares in Guangxi Hongshuihe Cement held by individual shareholders within two months after the completion of the Acquisition at the consideration of approximately RMB19.4 million (equivalent to approximately HK\$18.3 million). The individual shareholders comprise about 2,000 individuals who are Independent Third Parties to the Company. The consideration represents the par value of the shares in Guangxi Hongshuihe Cement held by such individual shareholders.

As at the Latest Practicable Date, there is no agreement between the Company and those individuals.

**Consideration:** CR Cement will assume certain liabilities of Guangxi Hongshuihe Cement in respect of employees retired by age from or laid-off temporarily by Guangxi Hongshuihe Cement and will make certain payments as incurred by Guangxi Hongshuihe Cement, estimated in total to be approximately RMB61.9 million (equivalent to approximately HK\$58.4 million) which has not been provided for in the audited accounts of Guangxi Hongshuihe Cement as at 30 June 2004.

**Condition:** The Acquisition Agreement is conditional upon the approval of the Shareholders.

**Long stop date:** There is no long stop date in the Acquisition Agreement.

**Completion:** It is expected that the Acquisition will be completed on or before 31 December 2004. Guangxi Hongshuihe Cement will become a subsidiary of the Company upon the completion of the Acquisition and its results and assets and liabilities will be consolidated into the Company's accounts.

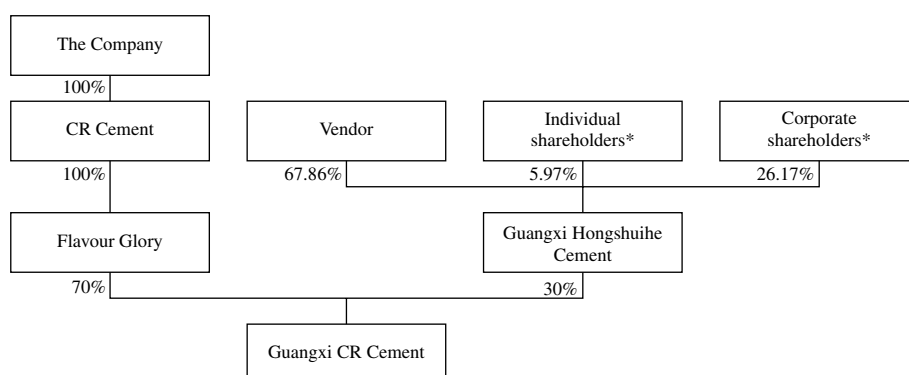
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## LETTER FROM THE BOARD

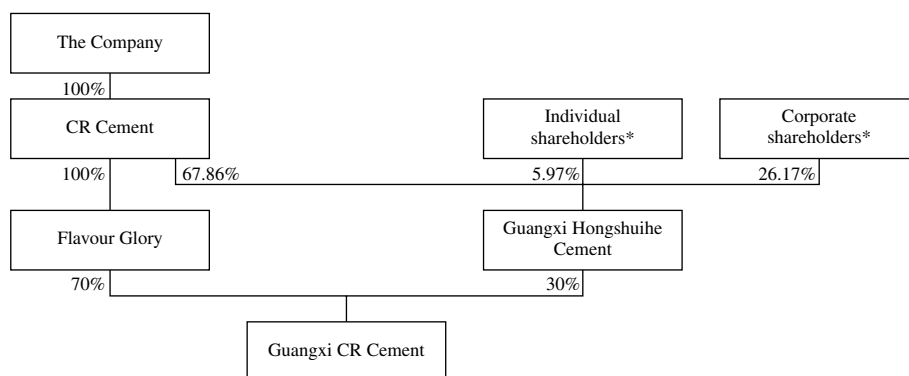
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### THE STRUCTURE BEFORE THE ACQUISITION, AFTER THE ACQUISITION AND ASSUMED TO HAVE ACQUIRED THE SHARES IN GUANGXI HONGSHUIHE CEMENT PURSUANT TO THE UNDERTAKING

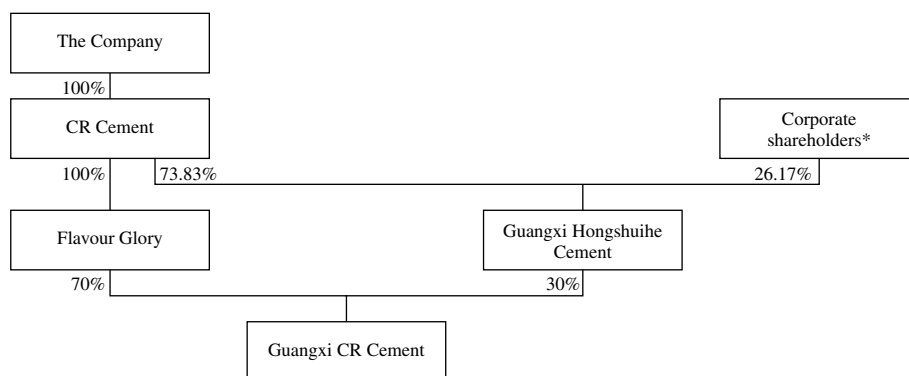
#### *BEFORE THE ACQUISITION*



#### *AFTER THE ACQUISITION*



#### *AFTER THE ACQUISITION AND ASSUMED TO HAVE ACQUIRED THE SHARES IN GUANGXI HONGSHUIHE CEMENT PURSUANT TO THE UNDERTAKING*



\* Independent Third Parties



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## LETTER FROM THE BOARD

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### BASIS OF DETERMINATION OF CONSIDERATION

The consideration for the Acquisition was arrived at after arm's length negotiation and was determined with reference to the audited net asset value of Guangxi Hongshuihe Cement as at 30 June 2004, amounted to approximately RMB106.9 million (equivalent to approximately HK\$100.8 million), calculated in accordance with the PRC Accounting Standards, and the liabilities in respect of retirement benefits and welfares payable to employees formerly retired by age from or laid off temporarily by Guangxi Hongshuihe Cement and certain payments as incurred by Guangxi Hongshuihe Cement, estimated in total to be approximately RMB61.9 million (equivalent to approximately HK\$58.4 million), which has not been provided for in the audited accounts of Guangxi Hongshuihe Cement as at 30 June 2004.

Based on the estimation by the Company, the payment of these retirement benefits and welfares payable will amount to approximately RMB4.0 million (equivalent to approximately HK\$3.8 million) and RMB3.8 million (equivalent to approximately HK\$3.6 million) in 2005 and 2006 respectively. Such payments will decline gradually to approximately RMB1.9 million (equivalent to approximately HK\$1.8 million) per annum in 2016. It is estimated that from 2017 to 2026, an average of approximately RMB1.3 million (equivalent to approximately HK\$1.2 million) will be paid in each year. The Company is not required to pay any other considerations for the Acquisition. The respective original cost of investments devoted by the Vendor as at 27 September 2004 was approximately RMB220.2 million (equivalent to approximately HK\$207.7 million).

Guangxi Hongshuihe Cement originally operated a cement factory in Li Tang Guangxi and had made losses for several years. In 2001, Guangxi Hongshuihe Cement entered into a joint venture agreement with a wholly owned subsidiary of China Resources Holdings to establish Guangxi CR Cement in order to continue operation of the cement plant. Since then, the principal asset of Guangxi Hongshuihe Cement is its 30% equity interest in Guangxi CR Cement. Guangxi Hongshuihe Cement also carries out other minor operations including management of a guesthouse and property leasing. During the long history of operation and because of the decrease in size of business, Guangxi Hongshuihe Cement has retired approximately 400 employees and temporarily laid-off approximately 400 employees. The calculation of the payments and payment schedule to the retired or temporarily laid-off employee is based on the demographic data of these staff and the relevant government's regulations on retirement benefits and welfare payable. Such payments comprise various benefits, including old age insurance (養老保險金), subsidies for retirement (退休生活補貼), social medical insurance (社會醫療保險金) and related expenses. The Company estimated such payments to be approximately RMB61.9 million (equivalent to approximately HK\$58.4 million).

### REASONS FOR THE ACQUISITION

As Guangxi Hongshuihe Cement owns 30% equity interest of Guangxi CR Cement, the Company will effectively acquire an additional interest of approximately 20.36% equity interest of Guangxi CR Cement through the Acquisition. Upon the completion of the Acquisition, the Company will hold an effective equity interest of approximately 90.36% of Guangxi CR Cement and the remaining approximately 9.64% is and will be held by a group of Independent Third Parties. With the further acquisition of 5.97% of Guangxi Hongshuihe Cement pursuant to the Undertaking, the effective equity interest of Guangxi CR Cement held by the Company will increase to 92.15%. The

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## LETTER FROM THE BOARD

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Acquisition will enable the Company to centralise the management and operation of Guangxi CR Cement and effectively integrate the operation of Guangxi CR Cement with other cement plants of the Group. The Acquisition will not only enable the Company to implement its development strategy through Guangxi CR Cement but also lead the restructuring of the cement industry in the Guangxi Zhuang Autonomous Region.

The Directors consider that the Acquisition Agreement was entered into in the usual and ordinary course of business and on normal commercial terms and the consideration is fair and reasonable as far as the shareholders of the Company are concerned and the Acquisition Agreement is in the interest of the Company and its shareholders as a whole.

### FINANCIAL EFFECT OF THE ACQUISITION ON THE COMPANY

After completion of the Acquisition Agreement, the accounts of Guangxi Hongshuihe Cement will be consolidated into the Group. Guangxi Hongshuihe Cement was loss making in 2003 mainly due to non-recurring expenses including the bad debts provisions and payments to retired or temporarily laid-off employees. It is expected that the Group will be able to utilise the experienced staff of Guangxi Hongshuihe Cement to cope with the future expansion of the Group, and to improve the financial results of Guangxi Hongshuihe Cement. The Group will explore any other synergy opportunities between the Group and Guangxi Hongshuihe Cement.

As at 30 June 2004, Guangxi Hongshuihe Cement did not have any borrowings or bank loan outstanding and has net asset value of approximately RMB106.9 million (approximately HK\$100.8 million). The aggregate consideration of approximately RMB81.3 million (equivalent to approximately HK\$76.7 million) represents a 3% premium to the net asset value of approximately RMB78.9 million (equivalent to approximately HK\$74.4 million) attributable to the 73.83% equity interest in Guangxi Hongshuihe Cement to be acquired by the Group and a goodwill of HK\$2.3 million arising from the Acquisition. There will be an amortisation expense of approximately HK\$0.5 million per year charged to the profit and loss account of the Group according to the Company's accounting policy on amortisation of goodwill over five years.

### INFORMATION ABOUT GUANGXI HONGSHUIHE CEMENT

Guangxi Hongshuihe Cement is a joint stock company established in the PRC with a registered capital of RMB324.5 million (equivalent to approximately HK\$306.1 million). It is beneficially held as to approximately 67.86% by the Vendor and approximately 32.14% by a group of Independent Third Parties. Guangxi Hongshuihe Cement is allowed under its business licence to carry out investment holding, cement manufacturing technical consultancy, trading and supply of materials. Its principal business is the holding of Guangxi CR Cement. Guangxi CR Cement's cement plant and relevant facilities are located at Li Tang Town, Bin Yang County, Guangxi Zhuang Autonomous Region, the PRC. The cement plant currently consists of five wet process rotary kilns and one dry process rotary kiln for the production of clinker, and six grinding mills to process clinker into cement. It has an annual production capacity of approximately 2,100,000 tonnes of cement. Guangxi CR Cement's subsidiary in Zhanjiang operates a grinding mill with annual production capacity of approximately 200,000 tonnes of cement.

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## LETTER FROM THE BOARD

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According to the audited financial statements of Guangxi Hongshuihe Cement prepared under the PRC Accounting Standards, the audited loss before taxation and extraordinary items and audited net loss after taxation and extraordinary items of Guangxi Hongshuihe Cement for the year ended 31 December 2003 were approximately RMB19.1 million (equivalent to approximately HK\$18.0 million) and approximately RMB19.1 million (equivalent to approximately HK\$18.0 million) respectively and the audited loss before taxation and extraordinary items and audited net loss after taxation and extraordinary items for the year ended 31 December 2002 were approximately RMB18.2 million (equivalent to approximately HK\$17.2 million) and approximately RMB18.2 million (equivalent to approximately HK\$17.2 million) respectively.

### 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 PRC.

### GENERAL

As the applicable ratios exceed 5% but are below 25% and the Vendor owns 67.86% equity interest in Guangxi Hongshuihe Cement (a connected person, as defined in the Listing Rules, of the Company), the transactions contemplated under the Acquisition Agreement constitute a discloseable and connected transaction of the Company under the Listing Rules.

The Acquisition Agreement is conditional upon the approval of the Shareholders. China Resources Holdings together with its Associates hold approximately 74.5% of the issued share capital of the Company and are not interested in the Acquisition Agreement except through their interests in the Company. Accordingly, China Resources Holdings and its Associates are not required to abstain from voting in respect of the Acquisition Agreement under the Listing Rules. No Shareholder is required to abstain from voting if the Company were to convene a general meeting for approval of the Acquisition Agreement. Written approval of the Acquisition Agreement has been obtained from China Resources Holdings. In view of the aforesaid 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 in the interest of the Company and its Shareholders as a whole. The Company has made an application to the Stock Exchange for a waiver from strict compliance with the Listing Rules regarding the holding of a physical shareholders' meeting for the approval of the Acquisition Agreement pursuant to rule 14A.43 of the Listing Rules.

Your attention is drawn to the letter from the Independent Board Committee, the letter from Somerley and the additional information set out in the appendix to this circular.

Yours faithfully,  
for and on behalf of the Board  
**Qiao Shibo**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 712)**

27 October 2004

*To the Shareholders*

Dear Sir or Madam,

### **ACQUISITION OF APPROXIMATELY 67.86% EQUITY INTEREST AND UNDERTAKING TO ACQUIRE FURTHER APPROXIMATELY 5.97% EQUITY INTEREST IN GUANGXI HONGSHUIHE CEMENT**

We have been appointed as members of the Independent Board Committee to advise you in connection with the Acquisition, details of which are set out in the Letter from the Board contained in this circular (the “Circular”). Terms defined in the Circular shall have the same meanings herein, unless the context otherwise requires.

Having taken into account the advice and recommendation of Somerley as set out on pages 12 to 21 of the Circular, we are of the opinion that the Acquisition is on normal commercial terms and in the ordinary and usual course of business of the Company. We also consider that the terms of the Acquisition Agreement including, among other things, the consideration and payment terms for the Acquisition and the Undertaking are fair and reasonable and that the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

We understand that the Acquisition Agreement is conditional upon the approval of the shareholders of the Company. However, China Resources Holdings together with its Associates hold approximately 74.5% of the issued share capital of the Company and are not interested in the Acquisition Agreement except through their interests in the Company. Accordingly, China Resources Holdings and its Associates are not required to abstain from voting in respect of the Acquisition Agreement under the Listing Rules. No Shareholder is required to abstain from voting if the Company were to convene a general meeting for approval of the Acquisition Agreement. Written approval of the Acquisition Agreement has been obtained from China Resources Holdings. In view

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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of the aforesaid 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 in the interest of the Company and its Shareholders as a whole. The Company has made an application to the Stock Exchange for a waiver from strict compliance with the Listing Rules regarding the holding of a physical shareholders' meeting for the approval of the Acquisition Agreement pursuant to rule 14A.43 of the Listing Rules.

Yours faithfully,

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

*Independent Board Committee*

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## LETTER FROM SOMERLEY

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*The following is the letter of advice from Somerley to the Independent Board Committee and the Shareholders prepared for the purpose of inclusion in this circular.*



**SOMERLEY LIMITED**

Suite 2201, 22nd Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

27 October 2004

*To the Independent Board Committee and  
the Shareholders*

Dear Sir and Madam,

**CONNECTED TRANSACTION  
ACQUISITION OF 67.86% EQUITY INTEREST AND  
UNDERTAKING TO ACQUIRE A FURTHER 5.97% EQUITY INTEREST  
IN GUANGXI HONGSHUIHE CEMENT JOINT STOCK COMPANY LIMITED**

We refer to our appointment to advise the Independent Board Committee and the Shareholders as regards the terms of acquisition of 67.86% equity interest and undertaking to acquire a further 5.97% equity interest in Guangxi Hongshuihe Cement, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 27 October 2004 (the “Circular”), of which this letter forms part. Capitalised terms use in this letter shall have the same meanings as defined in the Circular.

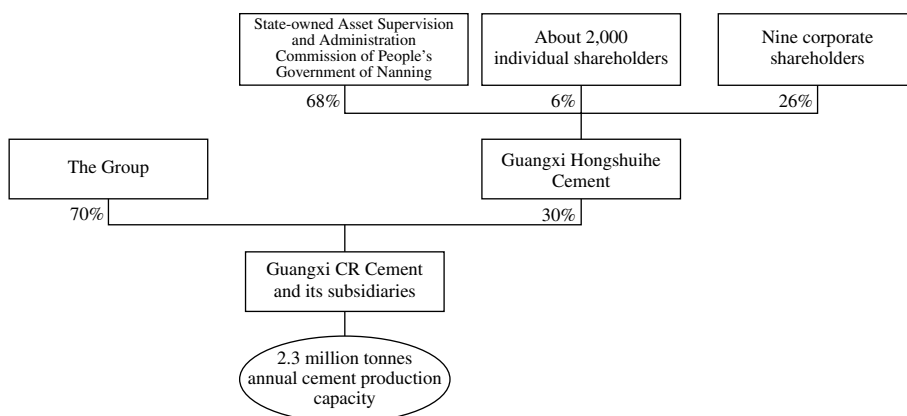
The Group owns 70% in Guangxi CR Cement. The remaining 30% is owned by Guangxi Hongshuihe Cement. Guangxi Hongshuihe Cement in turn is owned as to 67.86% by the State-Owned Asset Supervision and Administration Commission of the People’s Government of Nanning (the “Vendor”), 5.97% by approximately 2,000 individuals who are Independent Third Parties and 26.17% by nine PRC companies which are also Independent Third Parties. By virtue of the Vendor’s 67.86% interest in Guangxi Hongshuihe Cement (a connected person of the Company (as defined under the Listing Rules)), the Acquisition constitutes a connected transaction of the Company under the Listing Rules.

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## LETTER FROM SOMERLEY

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Set out below is a simplified version of the shareholding structure of Guangxi CR Cement:



The Independent Board Committee, comprising all the independent non-executive Directors, Mr. Chan Mo Po, Paul, Mr. Lin Zongshou and Mr. Lui Pui Kee, Francis, has been constituted to consider whether the terms of the Acquisition Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole. We have been appointed to advise the Independent Board Committee and the Shareholders in this respect.

Under the Listing Rules, the Acquisition Agreement constitutes a connected transaction of the Company and would require Shareholders' approval at a general meeting of the Company. However, the Company has made an application to the Stock Exchange for a waiver from strict compliance with Rule 14A.43 of the Listing Rules for holding of a general meeting to seek Shareholders' approval in respect of the Acquisition Agreement. China Resources Holdings and its Associates in aggregate hold approximately 74.5% of the issued share capital of the Company and have given their written approval to the Company in respect of the Acquisition Agreement. As no Shareholder, including China Resources Holdings and its Associates, is interested in the Acquisition Agreement except as a Shareholder, no Shareholder would have been required to abstain from voting at the general meeting of the Company to approve the Acquisition Agreement.

In formulating our opinion, 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 such information, facts and opinions 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 Guangxi Hongshuihe Cement. 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 at the date of the Circular.

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## LETTER FROM SOMERLEY

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### PRINCIPAL FACTORS TAKEN INTO ACCOUNT

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

#### **I. Background of and reasons for the Acquisition Agreement**

Based on the Company's 2003 annual report ("2003 Annual Report") and the Company's 2004 unaudited interim report, sale of cement products by the Group for the year ended 31 December 2003 and the six months ended 30 June 2004 amounted to approximately HK\$586.2 million and HK\$349.3 million respectively, representing approximately 54.8% and 52.0% of the total sales of the Group during the same periods. The operating profit of the Group for the year ended 31 December 2003 and for the six months ended 30 June 2004 attributable to cement operations amounted to approximately HK\$66.7 million and HK\$70.1 million respectively, representing approximately 66.4% and 83.2% of the total operating profit of the Group from all its business segments during the same periods.

As at the end of 2003, the Group had total cement production capacity of approximately 3.3 million tonnes per annum. Guangxi CR Cement together with its subsidiary accounts for approximately 2.3 million tonnes of annual production capacity and so represents about 70% of the Group's total cement production capacity.

The reason for the Acquisition Agreement is to enable the Company to consolidate its control over the management and operations of Guangxi CR Cement. The Group already holds 70% interest in Guangxi CR Cement and has majority board representation. However, Guangxi Hongshuihe Cement, the 30% shareholder, is controlled by the State-Owned Asset Supervision and Administration Commission of the People's Government of Nanning and can exercise a significant influence on the policy and strategic decisions of Guangxi CR Cement. We concur with the Board's view that completion of the Acquisition Agreement will increase its freedom of action as regards one of the Group's most important units.



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## LETTER FROM SOMERLEY

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### **II. Business, financial position and historical performance of Guangxi Hongshuihe Cement**

#### *Business*

Guangxi CR Cement's history dates back to 1978 when a cement plant in Li Tang Town, Bin Yang County, Guangxi Zhuang Autonomous Region, the PRC, was established. Li Tang Town was selected as the site for the construction of cement manufacturing plant due to the abundance of limestone and sandstone. Guangxi Hongshuihe Cement originally operated the cement plant in Li Tang Town and had made losses for several years since it commenced operation in 1984.

In 2001, a wholly owned subsidiary of China Resources Holdings and Guangxi Hongshuihe Cement entered into a joint venture agreement to establish Guangxi CR Cement. The capital contribution of RMB140 million by the subsidiary of China Resources Holdings was satisfied by cash. The capital contribution of Guangxi Hongshuihe Cement of RMB60 million was satisfied by asset injection, principally of cement manufacturing facilities, mining rights, railway rights, waterway use rights and land use rights then held by Guangxi Hongshuihe Cement. Further details on the background of Guangxi CR Cement are set out in the prospectus of the Company dated 26 June 2003.

After the formation of Guangxi CR Cement on 24 December 2001, the principal asset of Guangxi Hongshuihe Cement is its 30% equity interest in Guangxi CR Cement. Guangxi Hongshuihe Cement also carries out other minor operations including management of a guesthouse and property leasing. For the six months ended 30 June 2004, these minor operations generated approximately RMB0.1 million income for the Guangxi Hongshuihe Cement. Guangxi Hongshuihe Cement does not carry out any other business.

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## LETTER FROM SOMERLEY

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### *Net asset value*

Based on financial statements prepared by the management of Guangxi Hongshuihe Cement in accordance with the relevant PRC accounting standards, Guangxi Hongshuihe Cement had net asset value of approximately RMB106.9 million (equivalent to approximately HK\$100.8 million) as at 30 June 2004. Set out below is a summary of the assets and liabilities of Guangxi Hongshuihe Cement as at 30 June 2004.

	<i>Notes</i>	<i>RMB million</i>	<i>Equivalent in HK\$ million</i>
<b>Current assets</b>			
Cash and bank balances		13.5	12.7
Trade and other receivables	<i>1</i>	19.6	18.4
<b>Non-current assets</b>			
Long term investment	<i>2</i>	83.4	78.7
Fixed assets	<i>3</i>	10.6	10.0
Land use right	<i>4</i>	4.9	4.6
<b>Total assets</b>		132.0	124.4
<b>Current liabilities</b>			
Trade payables		2.5	2.4
Deposit received		1.1	1.0
Accrued salaries		11.7	11.0
Tax payable and unclaimed dividend		1.1	1.0
Other payables		8.7	8.2
<b>Total liabilities</b>		25.1	23.6
<b>Net asset value</b>		106.9	100.8

*Notes:*

1. Balance included approximately RMB15.6 million due from Guangxi CR Cement. Such balance mainly represented the redundancy payment for the workers transferred from Guangxi Hongshuihe Cement to Guangxi CR Cement.
2. Long term investment represents interest in Guangxi CR Cement.
3. Fixed assets included plant, machinery and investment properties.
4. Land use right in respect of scattered pieces of land in the proximity of the cement plant and the access road to the cement plant.

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## LETTER FROM SOMERLEY

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### *Past performance*

Set out below is the summary of the profit and loss account of Guangxi Hongshuihe Cement for the years ended 31 December 2002 and 2003.

	<i>Notes</i>	<b>2002</b> <i>RMB million</i>	<b>2003</b> <i>RMB million</i>
Revenue	<i>1</i>	–	–
Other non-operating income	<i>2</i>	1.7	0.3
Tax refund		1.8	–
Salaries, administration and other expenses		(8.1)	(4.0)
Payment to retired and temporarily laid-off employees		(3.3)	(3.8)
Provisions for bad debts		(11.6)	(19.6)
Share of profit of Guangxi CR Cement		3.2	9.9
Amortisation of valuation deficit on fixed asset upon capital injection to Guangxi CR Cement	<i>3</i>	(1.9)	(1.9)
Loss attributable to shareholders		<u>(18.2)</u>	<u>(19.1)</u>

*Notes:*

- Guangxi Hongshuihe Cement is an investment holding company the principal operation of which is holding of 30% equity interest in Guangxi CR Cement.
- The non-operating income includes the income generated from management of a guesthouse and property leasing.
- RMB1.9 million represents annual amortisation expenses of valuation deficit arose from the valuation of fixed asset upon the capital injection of Guangxi Hongshuihe Cement to Guangxi CR Cement. The valuation deficit amounted to approximately RMB96.5 million was accounted for by Guangxi Hongshuihe Cement under long term investment and was amortised over a maximum period of 50 years according to the relevant PRC accounting standards. However, such valuation deficit has been fully provided in June 2004, and no amortisation of such valuation deficit will be charged to the books of Guangxi Hongshuihe Cements thereafter.

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## LETTER FROM SOMERLEY

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As shown in the above table, Guangxi Hongshuihe Cement recorded losses of approximately RMB18.2 million and RMB19.1 million for the years ended 31 December 2002 and 2003 respectively. The loss in 2002 was largely due to the bad debt provision for receivables which remained outstanding for longer than three years of approximately RMB11.6 million, the payment of approximately RMB3.3 million to retired or temporarily laid-off employees and the amortisation expenses of RMB1.9 million. Similar to 2002, the loss of approximately RMB19.1 million for the year ended 31 December 2003 was largely attributable to the bad debt provision for receivables of approximately RMB19.6 million, the payment of approximately RMB3.8 million to retired or temporarily laid-off employees and the amortisation expenses of RMB1.9 million.

We have discussed with the management of the Company and are satisfied that such substantial provision for bad debts is not likely to recur in the coming years given that only approximately RMB4.0 million as at 30 June 2004 is due from parties other than Guanxi CR Cement. Also, as the Group will assume the responsibility for paying retired or temporarily laid-off employees after completion of the Acquisition Agreement, such payment will not be a charge in the books of Guangxi Hongshuihe Cement.

### **III. Principal terms of the Acquisition Agreement**

#### *Aggregate consideration and payment terms*

Pursuant to the Acquisition Agreement, the Group will acquire approximately 67.86% equity interest in Guangxi Hongshuihe Cement from the Vendor and has undertaken to acquire a further 5.97% equity interest in Guangxi Hongshuihe Cement from approximately 2,000 individual shareholders of Guangxi Hongshuihe Cement two months after completion of the Acquisition Agreement.

The Undertaking forms part of the Acquisition Agreement and we consider it appropriate to analyse the consideration of the Acquisition and the Undertaking on an aggregate basis. The aggregate consideration for the Acquisition Agreement is approximately RMB81.3 million (equivalent to approximately HK\$76.7 million). The consideration for the Acquisition will be satisfied by the Group assuming the liabilities of approximately RMB61.9 million (equivalent to approximately HK\$58.4 million) principally in respect of payments to retired or temporarily laid-off employees of Guangxi Hongshuihe Cement. The calculation of the payments to the approximately 400 retired employees and approximately 400 temporarily laid-off employees is based

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## LETTER FROM SOMERLEY

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on the demographic data of these staff and the relevant government regulations on retirement benefits and welfare payable. Such payment comprises various benefits, including old age insurance (養老保險金), subsidies for retirement (退休生活補貼) and social medical insurance (社會醫療保險金). Based on the payment schedule provided by the Company, it is estimated that a sum of approximately RMB4.0 million will be payable by the Group in 2005 and approximately RMB3.8 million in 2006. Such payments will decline gradually to approximately RMB1.9 million per annum in 2016. It is estimated that from 2017 to 2026, an average of approximately RMB1.3 million will be paid in each year.

The consideration for the Undertaking given by the Group to offer to acquire 5.97% equity interest in Guangxi Hongshuihe Cement will be satisfied by cash at the price of RMB1.0 per share, being the par value of each Guangxi Hongshuihe Cement share. On the assumption that all 2,000 individual shareholders accept the offer from the Group, the maximum consideration will be approximately RMB19.4 million (equivalent to approximately HK\$18.3 million).

#### **IV. Financial effects of the Acquisition Agreement**

##### *Net asset value*

The aggregate consideration of approximately RMB81.3 million (equivalent to approximately HK\$76.7 million) represents a 3% premium to the net asset value of approximately RMB78.9 million (equivalent to approximately HK\$74.4 million) as at 30 June 2004 attributable to the 73.83% equity interest in Guangxi Hongshuihe Cement to be acquired by the Group. After completion of the Acquisition Agreement, due to the goodwill of RMB2.4 million (equivalent to approximately HK\$2.3 million) created, the net tangible asset value of the Group will be reduced by RMB2.4 million (equivalent to approximately HK\$2.3 million).

##### *Earnings*

After completion of the Acquisition Agreement, the accounts of Guangxi Hongshuihe Cement will be consolidated into the Group. Guangxi Hongshuihe Cement recorded a loss of approximately RMB19.1 million for the year ended 31 December 2003. Such loss was largely attributable to the non-recurring items including the bad debts provisions, the payments to retired or temporarily laid-off employees and the amortisation expense of valuation deficit which amounted to approximately RMB25.3 million. Adding back these non-recurring items, Guangxi Hongshuihe Cement would have made a profit of approximately RMB6.2 million.

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## LETTER FROM SOMERLEY

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According to the Company's accounting policy, goodwill will be amortised over five years. On the assumption that goodwill of approximately HK\$2.3 million is amortised over a five-year period, an amortisation expense of approximately HK\$0.5 million per year will be charged to the profit and loss account of the Group.

### *Gearing*

As at 30 June 2004, Guangxi Hongshuihe Cement did not have any borrowings or bank loan outstanding and has net asset value of approximately RMB106.9 million (approximately HK\$100.8 million). The Acquisition Agreement will have no material adverse impact on the gearing ratio of the Group.

### *Working capital*

Based on the unaudited interim report of the Group for the six months ended 30 June 2004, the Group's cash and bank balances amounted to approximately HK\$243.3 million. Having taken into account the payment terms of the consideration for the Acquisition Agreement, we consider the Acquisition Agreement will not have a significant adverse impact on the Group's working capital position.

Based on the above, we do not consider the Acquisition Agreement will have a significant adverse impact on the net asset value, earnings, gearing or working capital position of the Group.

## DISCUSSION

As noted in the 2003 Annual Report, cement business represented over 50% of the Group's turnover and total operating profit of the Group from all its business segments in 2003. Guangxi CR Cement in turn represents approximately 70% of the Group's total cement production capacity. Completion of the Acquisition Agreement will allow the Group to obtain control of Guangxi Hongshuihe Cement, the 30% minority shareholder of Guangxi CR Cement. This should in turn enable the Group to streamline the decision making process and to implement its corporate strategy for Guangxi CR Cement more efficiently.

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## LETTER FROM SOMERLEY

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The aggregate consideration of HK\$76.7 million represents a 3% premium over the attributable net asset value of Guangxi Hongshuihe Cement. Guangxi Hongshuihe Cement has made significant losses in the past but we are satisfied that the major item, principally provisions for bad debts, will not recur (receivables from third parties are now only about RMB4.0 million). Apart from a cash payment of RMB19.4 million to individual shareholders, the remainder of the consideration (approximately RMB61.9 million in aggregate) is payable in declining annual amounts up to the year 2026. Consequently, we consider the completion of the Acquisition Agreement will not have a material adverse impact on the balance sheet, the earnings or the working capital of the Group and that any impact there may be will be outweighed by the benefits of obtaining more effective control over one of the most important units of the Group.

### OPINION

Having taken into account the above factors and reasons, we are of the opinion that the Acquisition is on normal commercial terms and in the ordinary and usual course of business of the Company. We also consider that the terms of the Acquisition Agreement including, among other things, the consideration and payment terms for the Acquisition and the Undertaking are fair and reasonable and that the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

Yours faithfully,  
for and on behalf of  
**SOMERLEY LIMITED**  
**M. N. Sabine**  
*Chairman*

## 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 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.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive 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 are required to be 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 and chief executive of the Company are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO to be entered in the register referred to therein or 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 in the Listing Rules, to be notified to the Company and the Stock Exchange on which were required, pursuant to the requirements of the Takeovers Code, to be disclosed in this circular, were as follows:

## Long position in the shares and underlying shares of:

(a) *The Company*

Name of Director	Capacity	Number of Shares held	Underlying Shares	Total	Aggregate long position in Shares and underlying Shares to issued share capital of the Company (Note) %
Qiao Shibo	Beneficial owner	–	3,000,000	3,000,000	0.827
Shi Shanbo	Beneficial owner	–	2,300,000	2,300,000	0.634
Zhou Junqing	Beneficial owner	–	2,000,000	2,000,000	0.551
Zhou Longshan	Beneficial owner	–	2,000,000	2,000,000	0.551
Sun Mingquan	Beneficial owner	–	1,800,000	1,800,000	0.496
Zheng Yi	Beneficial owner	–	1,800,000	1,800,000	0.496
Ning Gaoning	Beneficial owner	163,000	–	163,000	0.045
Keung Chi Wang, Ralph	Beneficial owner	–	800,000	800,000	0.221
Chan Mo Po, Paul	Beneficial owner	–	200,000	200,000	0.055
Lin Zongshou	Beneficial owner	–	200,000	200,000	0.055
Lui Pui Kee, Francis	Beneficial owner	–	200,000	200,000	0.055



Underlying Shares represented by share options outstanding under the share option scheme of the Company to subscribe for Shares are as follows:

Name of Director	Date of grant	Date of expiry	Exercise price <i>HK\$</i>	Aggregate	
				Number of underlying Shares	long position in underlying Shares to issued share capital of the Company <i>(Note)</i> %
Qiao Shibo	5 December 2003	4 December 2013	2.325	3,000,000	0.827
Shi Shanbo	5 December 2003	4 December 2013	2.325	2,300,000	0.634
Zhou Junqing	5 December 2003	4 December 2013	2.325	2,000,000	0.551
Zhou Longshan	5 December 2003	4 December 2013	2.325	2,000,000	0.551
Sun Mingquan	5 December 2003	4 December 2013	2.325	1,800,000	0.496
Zheng Yi	5 December 2003	4 December 2013	2.325	1,800,000	0.496
Keung Chi Wang, Ralph	5 December 2003	4 December 2013	2.325	800,000	0.221
Chan Mo Po, Paul	5 December 2003	4 December 2013	2.325	200,000	0.055
Lin Zongshou	5 December 2003	4 December 2013	2.325	200,000	0.055
Lui Pui Kee, Francis	5 December 2003	4 December 2013	2.325	200,000	0.055

*Note:* Based on 362,807,461 Shares in issue as at the Latest Practicable Date.

*(b) China Resources Enterprise, Limited (“CRE”), an associated corporation of the Company*

Name of Director	Capacity	Number of shares held	Underlying shares	Total	Aggregate long position in shares and underlying shares to issued share capital of CRE (Note 1) %
Qiao Shibo	Beneficial owner	–	3,800,000	3,800,000	0.180
Shi Shanbo	Beneficial owner	–	100,000	100,000	0.005
Zhou Junqing	Beneficial owner	–	100,000	100,000	0.005
Zhou Longshan	Beneficial owner	–	560,000	560,000	0.027
	Interest of spouse	–	50,000	50,000	0.002
Sun Mingquan	Beneficial owner	–	60,000	60,000	0.003
	Interest of spouse	100,000	784,000	884,000	0.042
Zheng Yi	Beneficial owner	–	60,000	60,000	0.003
Ning Gaoning	Beneficial owner	1,630,000	4,500,000	6,130,000	0.291
Jiang Wei	Beneficial owner	–	600,000	600,000	0.028
Keung Chi Wang, Ralph	Beneficial owner	–	2,966,000	2,966,000	0.141

Underlying shares represented by share options outstanding under the two share option schemes of CRE (the old scheme being adopted on 17 September 1992, amended on 17 June 1999 and terminated on 31 January 2002 and the new scheme being adopted on 31 January 2002) to subscribe for ordinary shares in CRE are as follows:

Name of Director	Date of grant	Date of expiry	Exercise price HK\$	Number of underlying shares	Aggregate long positions in
					underlying shares to issued share capital of CRE (Note 1) %
Qiao Shibo	7 February 2002	6 February 2012	7.17	1,800,000	0.180
	14 January 2004	13 January 2014	9.72	2,000,000	
Shi Shanbo	5 March 2002	4 March 2012	7.35	100,000	0.005
Zhou Junqing	5 March 2002	4 March 2012	7.35	100,000	0.005
Zhou Longshan	5 March 2002	4 March 2012	7.35	110,000	0.029 (Note 2)
	14 April 2003	13 April 2013	6.29	500,000	
Sun Mingquan	7 February 2002	6 February 2012	7.17	450,000	0.040 (Note 3)
	5 March 2002	4 March 2012	7.35	60,000	
	14 January 2004	13 January 2014	9.72	200,000	
	25 May 2004	24 May 2014	9.15	134,000	
Zheng Yi	5 March 2002	4 March 2012	7.35	60,000	0.003
Ning Gaoning	20 June 2000	19 June 2010	7.19	3,300,000	0.213
	7 February 2002	6 February 2012	7.17	1,200,000	
Jiang Wei	8 March 2002	7 March 2012	7.50	600,000	0.028
Keung Chi Wang, Ralph	20 June 2000	19 June 2010	7.19	1,400,000	0.141
	7 February 2002	6 February 2012	7.17	500,000	
	14 January 2004	13 January 2014	9.72	216,000	
	2 June 2004	1 June 2014	9.55	850,000	

*Notes:*

1. Based on 2,108,831,215 shares of CRE in issue as at the Latest Practicable Date.
2. Out of these options for 110,000 shares in CRE, options for 50,000 shares are held by Mr. Zhou Longshan's spouse, and therefore Mr. Zhou is deemed to be interested in these share options.
3. Total options for 784,000 shares in CRE are held by Ms. Sun Mingquan's spouse, and therefore Ms. Sun is deemed to be interested in these share options.
4. The options are generally either fully vested and exercisable within a period of 10 years immediately after the date of grant or are vested over a period of time up to a maximum of four years after the acceptance of a grant.
5. Consideration for each of the above grants is HK\$1.00.

(c) *China Resources Logic Limited (“CR Logic”), an associated corporation of the Company*

Name of Director	Capacity	Number of shares held	Underlying shares	Total	Aggregate long position in shares and underlying shares to issued share capital of CR Logic (Note 1) %
Shi Shanbo	Beneficial owner	96,000	120,000	216,000	0.008
Zhou Junqing	Beneficial owner	–	120,000	120,000	0.005
Zhou Longshan	Beneficial owner	–	60,000	60,000	0.002
	Interest of spouse	100,000	60,000	160,000	0.006
Sun Mingquan	Beneficial owner	50,000	60,000	110,000	0.004
Zheng Yi	Beneficial owner	–	60,000	60,000	0.002
Ning Gaoning	Beneficial owner	–	3,000,000	3,000,000	0.113
Jiang Wei	Beneficial owner	–	720,000	720,000	0.027

Underlying shares represented by share options outstanding under the share option scheme of CR Logic being adopted on 26 November 2001 and amended on 21 February 2002 to subscribe for ordinary shares in CR Logic are as follows:

Name of Director	Date of grant	Date of expiry	Exercise price HK\$	Number of underlying shares	Aggregate
					long position in underlying shares to issued share capital of CR Logic (Note 1) %
Shi Shanbo	9 April 2002	8 April 2012	0.820	120,000	0.005
Zhou Junqing	9 April 2002	8 April 2012	0.820	120,000	0.005
Zhou Longshan	9 April 2002	8 April 2012	0.820	120,000	0.005 (Note 2)
Sun Mingquan	9 April 2002	8 April 2012	0.820	60,000	0.002
Zheng Yi	9 April 2002	8 April 2012	0.820	60,000	0.002
Ning Gaoning	2 October 2002	1 October 2012	0.570	2,000,000	0.113
	9 April 2003	8 April 2013	0.479	1,000,000	
Jiang Wei	9 April 2002	8 April 2012	0.820	720,000	0.027

*Notes:*

1. Based on 2,644,347,071 shares of CR Logic in issue as at the Latest Practicable Date.
2. Out of these options for 120,000 shares in CR Logic, options for 60,000 shares are held by Mr. Zhou Longshan's spouse and therefore Mr. Zhou is deemed to be interested in these share options.
3. Except for options granted on 9 April 2002 which are exercisable in 4 tranches of 25% each, from 9 April 2002 to 8 April 2012, from 1 January 2003, 2004 and 2005 to 8 April 2012, the other share options are exercisable within a period of 10 years from the date of grant of the relevant options.
4. Consideration for each of the above grants is HK\$1.00.

*(d) China Resources Land Limited (“CR Land”), an associated corporation of the Company*

Name of Director	Capacity	Number of shares held	Underlying shares	Total	Aggregate long position in shares and underlying shares to issued share capital of CR Land <i>(Note 1)</i> %
Shi Shanbo	Beneficial owner	–	120,000	120,000	0.008
Zhou Junqing	Beneficial owner	–	120,000	120,000	0.008
Zhou Longshan	Beneficial owner	–	80,000	80,000	0.005
	Interest of spouse	–	60,000	60,000	0.004
Sun Mingquan	Beneficial owner	–	80,000	80,000	0.005
Zheng Yi	Beneficial owner	–	80,000	80,000	0.005
Ning Gaoning	Beneficial owner	–	5,000,000	5,000,000	0.333
Jiang Wei	Beneficial owner	–	720,000	720,000	0.048
Keung Chi Wang, Ralph	Beneficial owner	–	3,300,000	3,300,000	0.220

Underlying shares represented by share options outstanding under the two share option schemes of CR Land (the old scheme being adopted on 28 May 1997 and terminated on 31 January 2002, and the new scheme being adopted on 31 January 2002) to subscribe for ordinary shares in CR Land are as follows:

Name of Director	Date of grant	Date of expiry	Exercise price HK\$	Number of underlying shares	Aggregate
					long position in underlying shares to issued share capital of CR Land (Note 1) %
Shi Shanbo	4 March 2002	3 March 2012	1.590	120,000	0.008
Zhou Junqing	4 March 2002	3 March 2012	1.590	120,000	0.008
Zhou Longshan	4 March 2002	3 March 2012	1.590	140,000	0.009 (Note 2)
Sun Mingquan	4 March 2002	3 March 2012	1.590	80,000	0.005
Zheng Yi	4 March 2002	3 March 2012	1.590	80,000	0.005
Ning Gaoning	27 June 1997	27 May 2007	4.592	2,500,000	0.333
	20 July 2000	27 May 2007	0.990	2,500,000	
Jiang Wei	4 March 2002	3 March 2012	1.590	720,000	0.048
Keung Chi Wang, Ralph	27 June 1997	27 May 2007	4.592	2,000,000	0.220
	20 July 2000	27 May 2007	0.990	1,300,000	

*Notes:*

1. Based on 1,502,667,428 shares of CR Land in issue as at the Latest Practicable Date.
2. Out of the options for 140,000 shares in CR Land, options for 60,000 shares are held by Mr. Zhou Longshan's spouse and therefore Mr. Zhou is deemed to be interested in these share options.
3. Except for options granted on 4 March 2002 which are exercisable within a period of 10 years from the date of grant, the expiry date for all other share options mentioned above is 27 May 2007.
4. Consideration for each of the above grants is HK\$1.00.

(e) *China Resources Power Holdings Company Limited (“CR Power”), an associated corporation of the Company*

Name of Director	Capacity	Number of shares held	Underlying shares	Total	Aggregate long position in shares and underlying shares to issued share capital of CR Power
					(Note 1) %
Qiao Shibo	Beneficial owner	–	600,000	600,000	0.016
	Interest of spouse	–	30,000	30,000	0.001
Shi Shanbo	Beneficial owner	–	500,000	500,000	0.013
Zhou Junqing	Beneficial owner	–	120,000	120,000	0.003
Zhou Longshan	Beneficial owner	–	120,000	120,000	0.003
	Interest of spouse	–	30,000	30,000	0.001
Sun Mingquan	Beneficial owner	–	90,000	90,000	0.002
	Interest of spouse	–	100,000	100,000	0.003
Zheng Yi	Beneficial owner	–	90,000	90,000	0.002
Ning Gaoning	Beneficial owner	–	1,000,000	1,000,000	0.026
Jiang Wei	Beneficial owner	–	1,000,000	1,000,000	0.026



Underlying shares represented by share options outstanding under the Pre-IPO Share Option Scheme of CR Power (adopted on 6 October 2003) to subscribe for ordinary shares in CR Power are as follows:

Name of Director	Date of grant	Date of expiry	Exercise price HK\$	Number of underlying shares	Aggregate
					long position in underlying shares to issued share capital of CR Power (Note 1) %
Qiao Shibo	12 November 2003	5 October 2013	2.80	630,000	0.017 (Note 2)
Shi Shanbo	12 November 2003	5 October 2013	2.80	500,000	0.013
Zhou Junqing	12 November 2003	5 October 2013	2.80	120,000	0.003
Zhou Longshan	12 November 2003	5 October 2013	2.80	150,000	0.004 (Note 3)
Sun Mingquan	12 November 2003	5 October 2013	2.80	190,000	0.005 (Note 4)
Zheng Yi	12 November 2003	5 October 2013	2.80	90,000	0.002
Ning Gaoning	12 November 2003	5 October 2013	2.80	1,000,000	0.026
Jiang Wei	12 November 2003	5 October 2013	2.80	1,000,000	0.026

*Notes:*

1. Based on 3,808,000,000 shares of CR Power in issue as at the Latest Practicable Date.
2. Out of these options for 630,000 shares in CR Power, options for 30,000 shares are held by Mr. Qiao Shibo's spouse, and therefore Mr. Qiao is deemed to be interested in these share options.
3. Out of these options for 150,000 shares in CR Power, options for 30,000 shares are held by Mr. Zhou Longshan's spouse, and therefore Mr. Zhou is deemed to be interested in these share options.
4. Out of these options for 190,000 shares in CR Power, options for 100,000 shares are held by Ms. Sun Mingquan's spouse, and therefore Ms. Sun is deemed to be interested in these share options.
5. The exercisable period is divided into 5 tranches exercisable during the periods from 6 October 2004, 2005, 2006, 2007 and 2008 to 5 October 2013.
6. Consideration for each of the above grants is HK\$1.00.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, no interests or short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or chief executive of the Company or their respective Associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or pursuant to the Model Code or which were required pursuant to Section 352 of the SFO to be recorded in the register referred to therein. Nor any of the Directors and the chief executive (including their spouses and children under the age of 18) had, as at the Latest Practicable Date, any interest in, or had been granted any right to subscribe for the securities and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

### SHAREHOLDERS WITH NOTIFIABLE INTERESTS

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executives of the Company, the following persons, not being a Director or chief executive of the Company, had interests and/or short positions in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, 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	Approximate shareholding %
China Resources National Corporation (“CRNC”)	270,132,647	74.5
China Resources Co., Limited	270,132,647	74.5
CRC Bluesky Limited	270,132,647	74.5
China Resources Holdings	270,132,647	74.5

*Note:* China Resources Holdings 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. Each of CRNC, China Resources Co., Limited and CRC Bluesky Limited is deemed by virtue of Section 316 of Part XV of the SFO to have the same interests in shares as those of CR Holdings.

As at the Latest Practicable Date, so far as is known to the Directors, 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:

<b>Name of company</b>	<b>Name of substantial shareholder</b>	<b>Approximate shareholding interests held</b> %
China Resources Dongguan Cement Manufactory Holdings Limited	(1) Sumitomo Corporation and its associate, Sumitomo Corporation (Hong Kong) Ltd.	12.5
	(2) UBE Industries Ltd.	12.5
Guangxi CR Cement	Guangxi Hongshuihe Cement	30.0
Zhanjiang China Resources Hongshuihe Cement Co., Ltd.	Profit Pool Holdings Limited	49.0

Save as disclosed above, so far as is known to the Directors or chief executives, as at the Latest Practicable Date, no other persons had interests or short positions in the shares and underlying shares 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 which were recorded in the register required to be kept by the Company under Section 336 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 or any options in respect of such capital.

#### **SERVICE CONTRACTS**

As at the Latest Practicable Date, no Director 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.

#### **MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003 (the date to which the latest published audited accounts of the Group were made up).

**LITIGATION**

Neither the Company nor any of its subsidiaries is engaged in any litigation or claims of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

**DIRECTORS' INTEREST IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors or their respective Associates has any interest in any company or business which competes or may compete with the business of the Group.

**OTHER INTERESTS OF THE DIRECTORS**

As at the Latest Practicable Date:

- (i) none of the Directors had any interest, either direct or indirect, in any assets which have been, since 31 December 2003, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (ii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which is subsisting as at the date of this circular and is significant in relation to the business of the Group.

**EXPERT AND CONSENT**

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

<b>Name</b>	<b>Qualification</b>
Somerley	A licensed corporation under the SFO to conduct types 1 (dealing in Securities), 4 (advising on Securities), 6 (advising in corporate finance) and 9 (asset management) regulated activities.

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 they appear.

As at the Latest Practicable Date, Somerley was not interested beneficially or otherwise in any shares of 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 of 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 13 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**

- (a) The Company's Hong Kong share registrar is Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (b) The company secretary is Mr. Lee Yip Wah, Peter, a practising solicitor in Hong Kong.
- (c) The Company's qualified accountant, Mr. Lau Chung Kwok Robert, is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and a member of the Canadian Institute of Chartered Accountants.
- (d) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the Company's Head Office at Room 4107, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, from the date of this circular up to 11 November 2004.

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the financial year ended 31 December 2003;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 10 to 11 of this circular;
- (d) the letter from Somerley dated 27 October 2004, the text of which is set out on pages 12 to 21 of this circular;
- (e) the consent letter from Somerley referred to in the section headed "Expert and consent" in this appendix; and
- (f) the Acquisition Agreement.