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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)

**MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF 73.5% INTEREST IN THE PINGNAN JOINT
VENTURE
FROM CHINA RESOURCES (HOLDINGS) COMPANY LIMITED**

**CONNECTED TRANSACTIONS
PROPOSED ISSUE OF ZERO COUPON CONVERTIBLE BONDS DUE
2010
GUARANTEED BY AND CONVERTIBLE INTO ORDINARY SHARES
OF
CHINA RESOURCES CEMENT HOLDINGS LIMITED
AND
FINANCIAL ASSISTANCE TO A SUBSTANTIAL SHAREHOLDER OF
THE PINGNAN JOINT VENTURE**

Financial adviser

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

On 29 November 2004, the Company entered into the Acquisition Agreement with its parent company, China Resources Holdings, whereby China Resources Holdings, has agreed to sell and the Company has agreed to acquire, the entire issued share capital of Tricot Limited, which in turn holds approximately 73.5% interest in the Pingnan Joint Venture, and the related shareholder's loan for a total consideration of approximately HK\$151.7 million. The Company will finance the Acquisition by a portion of the proceeds from the issue of the Bonds. The Acquisition constitutes a major and connected transaction for the Company under the Listing Rules and is subject to the Independent Shareholders' approval.

On the same date, the Company also entered into the Subscription Agreement with China Resources Holdings, under which the Subscriber, a wholly owned subsidiary of China Resources Holdings, has agreed to subscribe for the Bonds to be issued by the Issuer, a wholly owned subsidiary of the Company, and guaranteed by the Company in an aggregate principal amount of HK\$800.0 million.

As the Bonds will be issued by the Issuer, a wholly owned subsidiary of the Company, to the Subscriber which is a wholly owned subsidiary of China Resources Holdings, it will constitute a connected transaction under the Listing Rules. The initial Conversion Price is HK\$2.0 per Share, representing a premium of approximately 6.4% over the closing price of HK\$1.88 of the Shares on the Stock Exchange on 29 November 2004, being the last trading day immediately before the release of this announcement. Assuming conversion of the Bonds at the initial Conversion Price of HK\$2.0 per Share, the Bonds will be convertible into approximately 400,000,000 Shares, representing approximately 110.3% of the number of issued Shares as at the date of this announcement and approximately 52.4% of the number of issued Shares as enlarged after the issue of the Conversion Shares. Based on the closing price of HK\$1.88 of the Shares on the Stock Exchange on 29 November 2004, the Conversion Shares would have a total market value of HK\$752.0 million.

Completion of the Subscription Agreement is subject to the satisfaction and, or, waiver of the conditions precedent set out in the Subscription Agreement. In addition, the Subscription Agreement may be terminated under certain circumstances. Please refer to the paragraph headed "The Subscription Agreement" below for further information.

China Resources Holdings will conditionally offer the Bonds to the Qualifying Shareholders who hold board lot(s) of Shares on a pro rata basis to their shareholdings in the aggregate amount of not more than HK\$200.0 million at the issue price. Any Bonds not acquired by the Qualifying Shareholders will be available for excess application by other Qualifying Shareholders. The Prospectus Documents will be made after the approval of the issue of Bonds at the EGM.

The Directors will allocate the Bonds under excess applications at their discretion on a fair and reasonable basis, but will give preference to applications for Bonds in the denomination of HK\$4,000 for Qualifying Shareholders with a holding of less than a whole board lot.

A circular containing, among other things, further details of the Acquisition Agreement and the Subscription Agreement, a letter from the independent financial adviser containing its advice to the independent board committee and the recommendations of the independent board committee will be despatched to the Shareholders as soon as possible.

The Clawback Offer is conditional upon: (i) the Stock Exchange granting the approval of the listing of, and the permission to deal in, the Bonds; and (ii) Bonds in an aggregate principal amount of not less than HK\$50.0 million being accepted and, or having been applied for and allocated under the excess application by the Qualifying Shareholders. Qualifying Shareholders and investors should exercise caution when applying for the Bonds and dealing in the Shares.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 30 November 2004 pending the release of this announcement. The Company has applied for a resumption of trading in its Shares with effect from 9:30 a.m. on 3 December 2004.

THE ACQUISITION AGREEMENT DATED 29 NOVEMBER 2004

Background

Reference is made to the prospectus of the Company dated 26 June 2003 and the announcement of the Company dated 12 August 2003.

On 28 April 2003, China Resources Machinery and Minmetals (Holdings) Co., Limited, a wholly owned subsidiary of China Resources Holdings, entered into a memorandum of understanding with Guangxi Yufeng Group Company Limited for a possible acquisition from Guangxi Yufeng Group Company Limited of interest in the Pingnan Joint Venture.

On 20 June 2003, the Company entered into an option deed with China Resources Holdings pursuant to which a call option was granted to the Company by China Resources Holdings which provided the Company with the right to call for the transfer to it or its nominees, all or part of the interest in the Pingnan Joint Venture at the original investment costs plus interest at 0.5% above HIBOR accruing from the period commencing on the respective dates of payments of such investment up to the date of such option being exercisable for a period of twelve months from the commencement of commercial production of the Pingnan Joint Venture.

On 11 August 2003, Tricot Limited, a wholly owned subsidiary of China Resources Holdings, acquired an approximately 73.5% interest in the Pingnan Joint Venture at an aggregate consideration of approximately RMB160.0 million (equivalent to approximately HK\$150.1 million).

On 29 November 2004, the Company exercised the option pursuant to the option deed and entered into the Acquisition Agreement.

Summary

Subject to the fulfillment of the conditions set out below in the section headed "Conditions precedent of the Acquisition Agreement", China Resources Holdings has agreed to sell, and the Company has agreed to acquire the entire issued share capital of Tricot Limited, which in turn holds approximately 73.5% interest in the Pingnan Joint Venture, and the shareholder's loan from China Resources Holdings to Tricot Limited.

Vendor

China Resources Holdings

Purchaser

The Company

Assets to be acquired

The entire issued share capital of Tricot Limited and the shareholder's loan from China Resources Holdings. The principal asset of Tricot Limited is the 73.5% interest in the Pingnan Joint Venture.

Consideration

The aggregate purchase price for the entire issued share capital of Tricot Limited and the shareholder's loan from China Resources Holdings is approximately HK\$151.7 million. The consideration will be financed by a portion of the proceeds from the issue of the Bonds and payable upon the completion of the issue of the Bonds. The consideration was based on the original investment cost of China Resources Holdings of RMB160.0 million (equivalent to approximately HK\$150.1 million) plus interest at 0.5% above HIBOR accruing from the period commencing from the respective dates of payments of such investment up to the date of such transfer as set out under the option deed dated 20 June 2003 entered into between China Resources Holdings and the Company.

As at 30 September 2004, the unaudited consolidated net tangible liability of Tricot Limited was approximately HK\$7.7 million and the shareholder's loan due to China Resources Holdings was approximately HK\$150.3 million. The consideration of approximately HK\$151.7 million represents a premium of approximately 6.4% to the aggregate value of the unaudited consolidated net tangible liability of Tricot Limited and the shareholder's loan due to China Resources Holdings of approximately HK\$142.6 million as at 30 September 2004.

Conditions precedent of the Acquisition Agreement

The Acquisition is conditional, amongst other things, on the following conditions being met:

- the passing of the ordinary resolution by the Independent Shareholders in general meeting by poll, to approve the transactions contemplated under the Acquisition Agreement, which constitutes major and connected transactions under Chapters 14 and 14A of the Listing Rules; and
- closing of the issue of the Bonds.

If the conditions have not been fulfilled on or before 31 March 2005 (or in the case of the second condition, waived by the Company on terms it deems fit), the Acquisition Agreement shall forthwith terminate.

Completion

It is expected that the Acquisition will be completed on or before 31 March 2005. The Pingnan Joint Venture will become a subsidiary of the Company upon the completion of the Acquisition.

Reasons and benefits for the Acquisition

As stated in the interim report of the Company dated 9 September 2004, the Group's cement manufacturing plants produced and sold a total of approximately 1,700,000 tonnes of cement in the first half of 2004. The Group's total annual cement production capacity is approximately 3,300,000 tonnes. On a pro rata basis, the production of the Group's cement manufacturing plants is at approximately 104% of the total production capacity of its installed production capacity.

According to the information published by China Cement Association, which is a non-profit making association of cement manufacturers in the PRC, during the first ten months of the year, there continued to be strong market demand and stable market prices for cement products in the PRD. In order to reduce environmental pollution from cement production, the PRC government has encouraged the establishment of dry process rotary kiln clinker production lines with capacity of over 4,000 tonnes per day (equivalent to an annual cement production capacity of approximately 1,500,000 tonnes) in the PRC. The government is also implementing an administrative policy to close down cement plants using vertical kilns with poor environmental standards in various cities within the PRD. As a result, it is expected that the production of cement products in the region will decrease. In view of the above, the Directors anticipate that the demand and prices of cement products of the Group will remain strong in the foreseeable future.

As the production capacity of the Group has been fully utilised, the Group needs to expand its production capacity in order to meet increasing demand in the future.

The Pingnan Joint Venture has in operation a 5,000 tonnes per day clinker production line (equivalent to an annual cement production capacity of 1,900,000 tonnes). The Acquisition will, therefore, increase the annual cement production capacity of the Group from 3,300,000 tonnes by approximately 57.6% to 5,200,000 tonnes immediately.

The breakdown of the annual clinker and cement production capacity of the Group is as follows:

Type of production lines	Location	Commencement of operation	Annual clinker production capacity (in tonnes)	Annual cement production capacity (in tonnes)
Five wet process rotary kiln clinker production lines	Guangxi	Since acquisition in December 2001	1,000,000	1,200,000
Cement grinding factory	Dongguan	May 1998	Nil	1,000,000
Cement grinding factory	Zhanjiang	May 2003	Nil	200,000
2,500 tonnes per day dry process rotary kiln clinker production line	Guangxi	October 2003	750,000 (note 2)	900,000
Existing capacity			1,750,000	3,300,000
5,000 tonnes per day dry process rotary kiln clinker production line (note 1)	Guangxi	October 2004	1,550,000 (note 2)	1,900,000
Upon completion of the Acquisition			3,300,000	5,200,000

Notes:

- To be acquired under the Acquisition.
- Production capacity with dry process rotary kiln clinker production.

Wet process rotary kiln clinker production requires the raw materials to be ground in water to form a pumpable slurry and then dried in the rotary kiln during incineration in the production process. Consequently, this process consumes more energy and is thus less cost effective than a dry process production. The production line of the Pingnan Joint Venture is a 5,000 tonnes per day dry process rotary kiln clinker production line which is both cost effective and environmentally friendly. Upon the completion of the Acquisition, the Group's clinker production using dry process kilns will increase from 750,000 tonnes to 2,300,000 tonnes, representing an increase from 42.9% to 69.7% of the Group's total clinker production. Accordingly, the overall production efficiency of the Group will be significantly improved.

The production facility of the Pingnan Joint Venture is situated on the north bank of Xijiang River, a major waterway linking Guangxi and the PRD and is about 418 kilometres from Guangzhou by water. The Xijiang River has enabled the Pingnan Joint Venture to use river transportation to distribute its products through the use of its three river berths which can accommodate vessels of up to 2,000 tonnes. This has also enabled the Pingnan Joint Venture to enjoy significant cost savings in transportation.

The principal cement business strategy of the Group can be summarised with the expression “Two points, one stroke” (「兩點一線」). The first point refers to the target market of PRD which is one of the PRC’s largest and fastest growing cement markets with an annual cement consumption of over 60.0 million tonnes. The second point refers to Guangxi which possesses one of the best quality and the most abundant reserves of limestone in the PRC and it is where the major production base of the Group is located. One stroke represents the Xijiang River which provides the cheapest means of transportation for the delivery of the cement products from the production base in Guangxi to the target market in the PRD. The Directors consider that the Acquisition is an important step in the Group’s achievement of the “Two points, one stroke” strategy and facilitates the Group’s expansion into the Southern part of the PRC in the future.

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

The independent non-executive Directors will provide their views on the Acquisition Agreement in the circular to be despatched to the Shareholders upon reviewing the letter of recommendation to be provided by the independent financial adviser.

Financial assistance to a substantial shareholder of the Pingnan Joint Venture

As at 30 September 2004, China Resources Holdings provided guarantees for bank loans of: (i) RMB200.0 million (equivalent to approximately HK\$188.7 million) and (ii) HK\$195.0 million, to the Pingnan Joint Venture, which represented 100% of total required guarantees for the loan facility.

Upon the completion of the Acquisition, the Company will provide:

- (i) an equivalent guarantee to replace that currently provided by China Resources Holdings for the bank loan of RMB200.0 million (equivalent to approximately HK\$188.7 million) with a guarantee fee of 0.5% per annum of the amount of the guarantee; and
- (ii) a shareholder’s loan to the Pingnan Joint Venture for the repayment of the bank loan of HK\$195.0 million. The shareholder’s loan will bear interest at market rates and will be repayable on demand.

The guarantee and shareholder’s loan to be provided by the Company is not in proportion to its 73.5% shareholding interest in the Pingnan Joint Venture and the provision of such guarantee and shareholder’s loan on a 100% basis is considered to be financial assistance to a substantial shareholder of Pingnan Joint Venture, Guangxi Yufeng Group Cement Company Limited, under the Listing Rules and constitutes a connected transaction not exempted under Chapter 14A of the Listing Rules. Accordingly, Independent Shareholders’ approval is required.

Possible exempt on-going connected transactions

Upon the completion of the Acquisition, the Pingnan Joint Venture will become a non-wholly owned subsidiary of the Group. It is the present intention of the Company that the Pingnan Joint Venture will sell clinker to other non-wholly owned subsidiaries of the Company. The sale of clinker by the Pingnan Joint Venture to other non-wholly owned subsidiaries of the Company will constitute on-going connected transactions but will be exempt from the reporting, announcement and independent shareholders’ approval requirements under rule 14A.31(1) of the Listing Rules. If the Company enters into such transactions, it will satisfy all the then relevant requirements under the Listing Rules.

Information on Tricot Limited

Tricot Limited is an investment holding company which was incorporated in the British Virgin Islands on 1 July 2003 and its principal asset is the 73.5% interest in the Pingnan Joint Venture.

Since the Pingnan Joint Venture only commenced operation in October 2004, no turnover was recorded for the period from the date of establishment to 30 September 2004. For the nine months ended 30 September 2004, Tricot Limited recorded a loss of approximately HK\$5.0 million. As at 30 September 2004, the aggregate value of the unaudited consolidated net tangible liability of Tricot Limited and the shareholder's loan due to China Resources Holdings was approximately HK\$142.6 million.

The Pingnan Joint Venture was established on 20 May 2002 with a registered and paid up capital of RMB217.7 million (equivalent to approximately HK\$205.4 million). The remaining 26.5% interest in the Pingnan Joint Venture is held by Guangxi Yufeng Group Cement Company Limited which is an independent third party and not a connected person of the Company. However, it will become a connected person of the Company upon the completion of the Acquisition. As at 30 September 2004, the unaudited consolidated net tangible asset of the Pingnan Joint Venture is approximately RMB206.7 million (equivalent to approximately HK\$195.0 million). The principal activity of the Pingnan Joint Venture is the production and sale of cement products.

THE SUBSCRIPTION AGREEMENT DATED 29 NOVEMBER 2004

Summary

Subject to the fulfillment of the conditions set out below in the section headed "Conditions precedent of the Subscription Agreement", the Subscriber has agreed to subscribe for the Bonds with an aggregate principal amount of HK\$800.0 million to be issued by the Issuer. The Company guarantees the obligations of the Issuer in relation to the Bonds and China Resources Holdings guarantees the obligations of the Subscriber under the Subscription Agreement.

Parties to the Subscription Agreement

Issuer:	China Resources Cement Finance Limited, its principal activity is the issue of the Bonds
Guarantor of Issuer:	The Company
Subscriber:	Firstsuccess Investments Limited, its principal activity is investment holding
Guarantor of Subscriber:	China Resources Holdings

Conditions precedent of the Subscription Agreement

Completion of the Subscription Agreement is conditional upon, among other things:

- to the extent required, the Stock Exchange having approved and not withdrawn such approval for the issue of the Bonds;
- the Independent Shareholders' approval at the EGM for the issue of the Bonds and the allotment and issue of the Conversion Shares; and
- the Stock Exchange granting the approval of the listing of, and the permission to deal in, the Shares falling to be issued upon conversion of the Bonds (or the Subscriber being satisfied that such listing will be granted on or before the Closing Date) on or prior to the Closing Date.

If the conditions have not been fulfilled at or before 5:00 p.m. on 31 March 2005 (or such later date as parties may agree in writing), the Subscription Agreement shall forthwith terminate.

Undertaking

The Issuer and the Company have, among other things, jointly and severally undertaken with the Subscriber that it will not, nor will any person acting on its behalf, (i) issue, offer, sell, contract to sell or otherwise dispose of any securities of the same class as the Bonds or the Shares or any securities convertible into, exchangeable for or representing interests in, the Bonds, the Shares or any securities convertible into, exchangeable for or representing interests in securities of the same class as the Bonds or the Shares or other instruments, warrants or options (whether settled by physical delivery, cash or otherwise) representing or granting interests in such securities; or (ii) issue any form of announcement or publication in connection with an issue, offer, sale, contract to sell or other disposition as set out in (i) above, in any such case, without the prior written consent of the Subscriber for a period beginning on the date of this Subscription Agreement and ending on the date which is 60 days after the Closing Date provided that such consent shall not be required in respect of (i) the issue of Shares as scrip dividends; or (ii) the conversion of the Bonds; or (iii) any exercise of the conversion rights under options existing as at the date of the Subscription Agreement (provided that in the case of each of the issues specified, such issue shall be completed on terms no more favorable than the issue of the Bonds whether as to coupon or conversion premium or yield to maturity); or (iv) the issue of Shares pursuant to a bonus issue; or (v) the grant of options and, or issue of Shares pursuant to the existing employee share scheme of the Company; or (vi) the issue of Shares as consideration for the acquisition of any assets, equity interests or otherwise by the Company.

Subordination

The Bonds will be subordinated and subject in right of payment to the prior payment in full of all liabilities owing at any time and from time to time by the Company under the Facility Agreement and accordingly the banks which are party to the Facility Agreement shall be entitled to receive payment in full of all liabilities to them by the Company under or pursuant to the Facility Agreement before the Bondholders shall be entitled to receive any payment under the Bonds. These terms of Subordination shall cease to have any further effect upon the cancellation, termination or repayment of the banking facilities and the full release or discharge of all outstanding liabilities.

If required, the Bonds will also be subordinated to any future indebtedness whether in the form of bank loans, facilities, credits or to issue any bonds, debentures, notes or other debt securities of any kind for the purposes of funding any capital requirements of the Company.

Termination

The Subscriber and, or, China Resources Holdings may terminate the Subscription Agreement, by notice in writing to the Issuer and the Company, at any time on or prior to the Closing Date if:

- there comes to the notice of the Subscriber any matter or event showing any of the representations, warranties and, or, undertakings of the Company and, or the Issuer under the Subscription Agreement to be untrue or misleading in any material respect; or
- there is any material breach on the part of the Company and, or, the Issuer of any provision of the Subscription Agreement; or
- there has been, since the date of the Subscription Agreement, any material adverse effect on the assets or liabilities of the Company and, or, the Issuer, whether or not arising in the ordinary course of business.

The Issuer may terminate the Subscription Agreement, by notice in writing to the Subscriber or China Resources Holdings, at any time on or prior to the Closing Date if:

- there comes to the notice of the Issuer any matter or event showing any of the representations, warranties and, or undertakings of the Subscriber and, or, China Resources Holdings under the Subscription Agreement to be untrue or misleading in any material respect; or

- there is any material breach on the part of the Subscriber and, or, China Resources Holdings of any provision of the Subscription Agreement.

Principal terms of the Bonds

The principal terms of the Bonds are summarised as follows:

Principal amount

The aggregate principal amount of the Bonds will be HK\$800.0 million.

Issue price

100% of the principal amount of the Bonds.

Interest

The Bonds bear zero interest.

Conversion Period

During the period beginning on the date of issue of the Bonds and ending at the close of business in Hong Kong on the Maturity Date (both days inclusive), the Bondholders will have the right at any time and from time to time to convert all or any of their holding of such Bonds into Shares. The Shares to be issued and allotted to the Bondholders on the exercise of the conversion rights will rank pari passu in all respects with all the other Shares then in issue.

Conversion Price

The Bonds will be convertible into Shares at an initial Conversion Price of HK\$2.0 per Share. The Conversion Price will be subject to adjustment for, among other things, subdivision or consolidation of the Shares, bonus issues, rights issues, distributions and other dilutive events.

The Conversion Price shall not be reduced to below the par value of the Shares (currently at HK\$0.10 per Share).

The Conversion Price of HK\$2.0 per Share represents:

- (i) a premium of approximately 6.4% to the closing price of the Shares of HK\$1.88 as quoted on the Stock Exchange on 29 November 2004, being the last trading day immediately before the release of this announcement;
- (ii) a premium of approximately 7.0% to the five day average closing price of the Shares of HK\$1.87 over the five trading days up to and including 29 November 2004; and
- (iii) a premium of approximately 6.2% to the ten day average closing price of the Shares of HK\$1.883 over the ten trading days up to and including 29 November 2004.

The initial Conversion Price of HK\$2.0 per Share was negotiated between the Company and China Resources Holdings on an arm's length basis and with reference to the three months average closing price of the Shares of HK\$1.8477 over the three months up to and including 29 November 2004 and with the objective of avoiding the increase in number of odd lot shareholdings following conversion of the Bonds.

Transfer

The Bonds will be transferable without restrictions, save and except that the Bonds may not be transferred to a connected person or an associate of the Company in the absence of the prior written approval of the Company. No transfer will be effective unless and until it has been entered on the register of the Bondholders to be maintained by or on behalf of the Issuer.

Maturity

Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in the conditions of the Bonds, the Company will redeem each Bond at 100.0% of its principal amount on the Maturity Date, being the date following five years after the Closing Date, currently expected to be 14 January 2010.

Mandatory conversion or redemption

On or at any time and prior to the Maturity Date, the Company may, by notice, redeem or require the Bondholders to convert all or from time to time some only (being HK\$4,000 in principal amount or integral multiples thereof) of the Bonds if:

- (i) the average closing price of the Shares (as derived from the daily quotation sheet of the Stock Exchange or, as the case may be, the equivalent quotation sheet of an alternative stock exchange (as defined in the terms and conditions of the Bonds)), for the 30 trading days preceding the date upon which notice of such redemption or conversion is given, was at least 150% of the Conversion Price; or
- (ii) the aggregate principal amount of all the Bonds then in issue and outstanding is less than HK\$30.0 million.

Form of the Bonds and denomination

The Bonds will be in registered form and in denominations of HK\$4,000 each or integral multiples thereof.

Ranking of the Bonds

The Bonds will be guaranteed by the Company and will be subordinated to the amounts owed by the Company to certain of its bankers or when required, to any future indebtedness of the Company as mentioned in the paragraph headed "Subordination" above.

Bondholders will not have any voting rights or rights to attend shareholders meetings of the Company until and unless they have converted their Bonds into Shares except on matters directly affecting the rights of the Bondholders in respect of which meetings of Bondholders will be convened.

Default

The principal amount outstanding on the Bonds shall become immediately repayable on the occurrence of certain events of default (including but not limited to, default in making payment of principal, material breach by the Company of any covenants or conditions of the Bonds and the passing of a resolution or the making of a court order for the winding up or dissolution or administration of the Company, the Issuer or any material subsidiary of the Company).

Guarantee

The Company unconditionally and irrevocably guarantees the payment obligations of the Issuer under and subject to the terms and conditions of the Bonds.

Listing

The Company will apply to the Stock Exchange for, the listing of, and permission to deal in, the Conversion Shares and subject to conditions of the Clawback Offer described below, the listing of, and permission to deal in, the Bonds (please see below).

The Company has not raised any funds by means of equity in the past twelve months.

THE CLAWBACK OFFER

Summary

In order to provide opportunity for the Independent Shareholders to participate in the future development of the Company, China Resources Holdings will offer the Bonds to the Qualifying Shareholders who hold board lot(s) of Shares on a pro rata basis to their shareholdings in the aggregate amount of not more than HK\$200.0 million, subject to conditions (please see below). Any Bonds not acquired by the Qualifying Shareholders will be available for excess application by other Qualifying Shareholders. The Prospectus Documents will be issued after the approval of the issue of the Bonds at the EGM.

Basis of the Clawback Offer

Bonds in principal amount in the denomination of HK\$4,000 is offered for every board lot of 2,000 Shares held by Qualifying Shareholders.

No offer of the Bonds will be made to the Qualifying Shareholders with Shares of less than a board lot of 2,000 or if holding of more than a board lot but the holding which is not in a multiple of a board lot. However, preference will be given to those Qualifying Shareholders with less than a board lot of Shares but desire to apply for the Bonds in the denomination of HK\$4,000. Such Qualifying Shareholders are required to apply under excess application. Such Qualifying Shareholder may also apply for additional Bonds in excess of a single board lot of the Bonds in the denomination of HK\$4,000 or multiple integrals thereof under the excess application forms. No preference will be given to such additional applications but they will be allocated on an equitable basis.

Transfer of Bonds under the Clawback Offer will be subject to payment of stamp duty in Hong Kong under the Stamp Duty Ordinance (Cap 117 of the Laws of Hong Kong).

Conditions precedent of the Clawback Offer

The Clawback Offer is conditional upon, among other things:

- the Bonds in an aggregate principal amount of not less than HK\$50.0 million being accepted and, or having been applied for and allocated under excess application by the Qualifying Shareholders; and
- the Stock Exchange granting the approval of the listing of, and the permission to deal in, the Bonds.

If the conditions have not been fulfilled at or before 5:00 p.m. on 31 March 2005 (or such later date as China Resources Holdings or the Company may agree in writing), the Clawback Offer shall forthwith terminate and lapse.

Qualifying Shareholders

The Prospectus Documents will be despatched to Qualifying Shareholders only. To qualify for the Clawback Offer, a Shareholder must:

- be registered as a member of the Company on the record date, being the date by reference to which entitlements of the Shareholders to the Clawback Offer will be determined; and
- have an address in Hong Kong as its, his, her address on the register of members of the Company on the record date.

In order to be registered as a member on the record date, Shareholders must lodge any transfer of Shares, with the relevant share certificates with the Company's share registrar by 4:00 p.m. on Thursday, 6 January 2005.

The Company's share registrar in Hong Kong is:

Standard Registrars Limited
Ground Floor, Bank of East Asia Harbour View Centre,
56 Gloucester Road, Wanchai, Hong Kong

The register of members of the Company will be closed from Friday, 7 January to Monday, 10 January 2005, both days inclusive. No transfer of Shares will be registered during this period.

Price for the transfer of Bonds

The principal amount of Bonds, together with the buyers' share of stamp duty, is payable in full upon acceptance by the Qualifying Shareholder in accordance with the terms and conditions of the Clawback Offer.

Overseas Shareholders

The Prospectus Documents will not be registered under the securities legislation of any jurisdiction other than Hong Kong. Accordingly, if on the record date a Shareholder's address on the Company's register of members is outside Hong Kong, that Shareholder cannot take part in the Clawback Offer. The Company will arrange for the despatch of the document related to the Clawback Offer and the proposed listing of the Bonds to Overseas Shareholders for their information only, but the Company will not send acceptance forms and excess application forms to them.

Fractions of the Bonds

Qualifying Shareholders are not entitled to purchase any fractions of the Bonds of less than a denomination of HK\$4,000.

Excess application for the Bonds

Qualifying Shareholders are entitled to apply for Bonds which would have been offered to the Overseas Shareholders but for the terms of the Clawback Offer mentioned herein, Bonds not allocated to the Qualifying Shareholders holding Shares of less than a board lot, any Bonds not provisionally allocated from the HK\$200.0 million nominal of the Bonds reserved for the Clawback Offer and any Bonds offered but not taken up.

Application is made by completing the excess application form which will accompany the Prospectus Documents. The Directors will allocate the excess Bonds at their discretion on a fair and reasonable basis, but will give preference to applications for Bonds in the denomination of HK\$4,000 for Qualifying Shareholders with a holding of less than a whole board lot.

Application for listing

The Clawback Offer is conditional upon: (i) the Stock Exchange granting the approval of the listing of, and the permission to deal in, the Bonds; and (ii) Bonds in an aggregate principal amount of not less than HK\$50.0 million being accepted and, or having been applied for and allocated under the excess application by the Qualifying Shareholders. Qualifying Shareholders and investors should exercise caution when applying for the Bonds and dealing in the Shares.

EFFECT ON THE SHARE CAPITAL OF THE COMPANY AS A RESULT OF CONVERSION

Based on the initial conversion price of HK\$2.0 per Share and assuming full conversion of the Bonds, the Bonds will be convertible into 400,000,000 Shares, representing approximately 110.3% of the number of issued Shares as at the date of this announcement and approximately 52.4% of the number of issued Shares as enlarged by the issue of the Conversion Shares.

The following table summarises the potential effects on the shareholding structure of the Company as a result of the conversion of the Bonds (by reference to current shareholdings):

Shareholders	Before the conversion of the Bonds		After the conversion of the Bonds (assume Qualifying Shareholders taken up all the Bonds under the Clawback Offer)		After the conversion of the Bonds (assume no Qualifying Shareholders taken up the Bonds under the Clawback Offer)	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
	China Resources Holdings	270,132,647	74.5	570,132,647	74.7	670,132,647
Public	92,674,814	25.5	192,674,814	25.3	92,674,814	12.1
	<u>362,807,461</u>	<u>100.0</u>	<u>762,807,461</u>	<u>100.0</u>	<u>762,807,461</u>	<u>100.0</u>

In addition, China Resources Holdings will undertake to the Company and the Stock Exchange that it will not exercise its rights to convert the Bonds if such conversion would result in Shares of less than the specified percentage required by the then prevailing Listing Rules being held by the public. As at the date of this announcement, this percentage is currently at 25% for the Company.

USE OF PROCEEDS

The estimated net proceeds from the issue of the Bonds are approximately HK\$797.0 million and are presently intended to be applied by the Company as follows:

- approximately HK\$151.7 million for the Acquisition;
- approximately HK\$195.0 million for repayment of bank loan of the Pingnan Joint Venture;
- approximately HK\$360.0 million being part of the funds required for development of a new cement production line in Guigang, Guangxi, as detailed below; and
- the remaining balance of approximately HK\$90.3 million for general corporate and working capital purpose.

The Company will be responsible for all the expenses in connection with the issue of the Bonds, the Clawback Offer (except the stamp duty) and the listing expenses of the Bonds.

As disclosed in the interim report of the Company dated 9 September 2004, the Company has obtained approval for the construction of the 5,000 tonnes per day clinker production line with an annual cement production capacity of 1,900,000 tonnes in Guigang, Guangxi. The major construction of this production line is expected to commence in the first quarter of 2005. Upon the completion of this production line at around end of 2005, the total annual cement production capital of the Group will increase to approximately 7,100,000 tonnes. It is estimated that the total investment of the Guigang project is approximately RMB700.0 million (equivalent to approximately HK\$660.4 million) which will be financed partly by the fund raised from the issue of the Bonds and the Facility Agreement. Please refer to the announcement of the Company dated 25 October 2004 for details of the Facility Agreement.

REASONS FOR AND BENEFITS OF THE ISSUE OF THE BONDS

The issue of the Bonds will raise immediate funds for the Company which will be used to finance the Acquisition, the construction of new production line in Guigang, Guangxi and general corporate and working capital purposes including financing other possible acquisitions. The conversion of the Bonds into Conversion Shares will enlarge the shareholder capital base of the Company and the Directors consider that this will facilitate the development and expansion of the Company.

The Directors consider that the Subscription Agreement was entered into in the ordinary course of business and on normal commercial terms and, taking into account that the Conversion Price represents a premium to the closing price of the Shares as quoted on the Stock Exchange on 29 November 2004, the terms and conditions of the Subscription Agreement is fair and reasonable as far as the Independent Shareholders are concerned and the Subscription Agreement is in the interest of the Company and its Shareholders as a whole.

The independent non-executive Directors will provide their views on the Subscription Agreement in the circular to be despatched to the Shareholders upon reviewing the letter of recommendation to be provided by the independent financial adviser.

INFORMATION ABOUT CHINA RESOURCES HOLDINGS

China Resources Holdings is a company incorporated in Hong Kong with limited liability and the controlling shareholder of the Company. Other than the activities engaged by the Company, China Resources Holdings is also engaged in retail distribution, brewing and the distribution of beverages, textiles, property development, electric power and microelectronics, telecommunications, infrastructure development and other industries.

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.

REQUIREMENT OF THE LISTING RULES

As the applicable ratios for the Acquisition exceed 25% but are below 100% and China Resources Holdings owns 74.5% of the Company, the transactions (including the Acquisition and financial assistance to a substantial shareholder of the Pingnan Joint Venture) contemplated under the Acquisition Agreement constitute major and connected transactions of the Company under the Listing Rules.

As China Resources Holdings owns 74.5% of the Company, the entering into the Subscription Agreement between China Resources Holdings and the Company constitutes a connected transaction of the Company under the Listing Rules.

Accordingly, both the Acquisition Agreement and the Subscription Agreement are conditional upon the approval of the Independent Shareholders at the EGM.

A circular containing, among other things, further details of the Acquisition Agreement and the Subscription Agreement, a letter from the independent financial adviser containing its advice to the independent board committee and the recommendations of the independent board committee will be despatched to the Shareholders as soon as possible.

EXPECTED TIMETABLE

2004

Despatch of circular and notice of extraordinary general meeting to Shareholders	Wednesday, 22 December
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2005

Last day of dealings in Shares on a cum-entitlement basis	Tuesday, 4 January
Commencement of dealings in Shares on an ex-entitlement basis	Wednesday, 5 January
Latest time for Shareholders to lodge transfer in order to qualify for the Clawback Offer	4:00 p.m. Thursday, 6 January
Latest time for return of forms of proxy for EGM	4:00 p.m. Saturday, 8 January
Period for closure of register of members (both days inclusive)	Friday, 7 January to Monday, 10 January
EGM held	4:00 p.m. Monday, 10 January
Record date	Monday, 10 January
Register of members reopens	Tuesday, 11 January
Despatch of the Prospectus Documents	Wednesday, 12 January
Commencement of the Clawback Offer	Wednesday, 12 January
Latest time for acceptance and payment	4:00 p.m. Friday, 28 January
Announcement of results of acceptance and allocation appearing in newspapers	Thursday, 3 February
Refund cheques and certificates for the Bonds despatched	Monday, 7 February
Commencement of dealings in the Bonds	Monday, 14 February

Further announcement will be made if the above timetable is being amended.

GENERAL

The Company will notify the Stock Exchange if it becomes aware of any dealings in the Bonds by connected persons.

Completion of the Subscription Agreement is subject to the satisfaction and, or, waiver of the conditions precedent therein. In addition, the Subscription Agreement may be terminated under certain circumstances. Please refer to the paragraph headed “The Subscription Agreement” above for further information.

Anglo Chinese Corporate Finance, Limited is the financial adviser to the Company in connection with the issue of the Bonds and the Acquisition. An independent financial adviser will be appointed to advise the independent board committee of the Company in relation to the issue of the Bonds and the transactions contemplated under the Acquisition Agreement.

Trading in Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 30 November 2004 pending the release of this announcement. The Company has applied for a resumption of trading in its Shares with effect from 9:30 a.m. on 3 December 2004.

DEFINITIONS

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Acquisition”	the acquisition of the 73.5% equity interest in the Pingnan Joint Venture pursuant to the Acquisition Agreement
“Acquisition Agreement”	a sale and purchase agreement dated 29 November 2004 entered into between the Company and China Resources Holdings
“Board”	the board of directors of the Company
“Bond(s)”	the zero coupon guaranteed convertible bond(s) due 2010 in the aggregate principal amount of HK\$800 million
“Bondholders”	holders of the Bonds from time to time
“China Resources Holdings”	China Resources (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability
“Clawback Offer”	the offer of Bonds of an aggregate denominated value of not more than HK\$200.0 million to the Qualifying Shareholders by the China Resources Holdings
“Closing Date”	the date (currently expected to be on 13 January 2005 or such other date as the Company and China Resources Holdings may agree) on which the Bonds are issued
“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
“connected person”	has the meaning ascribed to it in the Listing Rules
“Conversion Period”	on or after the Closing Date up to and including the close of business (at the place where the certificate evidencing such Bonds are deposited for conversion) on the Maturity Date or if such Bonds shall have been called for redemption before the Maturity Date, then up to the close of business (at the place aforesaid) on the seventh business day (at the place aforesaid) prior to the date fixed for redemption thereof

“Conversion Price”	HK\$2.00, being the price per Share at which the Bonds may be converted into Conversion Shares
“Conversion Shares”	Shares to be allotted and issued by the Company upon conversion of the Bonds
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held to consider and approve, amongst other things, the Acquisition Agreement and the Subscription Agreement
“Facility Agreement”	the loan agreement dated 25 October 2004 between the Company and various banks
“Group”	Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than China Resources Holdings and its associates
“Issuer”	Bestleap Group Limited, the issuer of the Bonds, the name of which will be changed to China Resources Cement Finance Limited
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the next date following the expiration of a five year period after the Closing Date
“Overseas Shareholders”	Independent Shareholders whose names appear on the register of members of the Company at the close of business on the record date and whose addresses as shown in the register of members of the Company are outside Hong Kong
“Pingnan Joint Venture”	Guangxi Pingnan China Resources Yufeng Cement Company Limited, a company established in the PRC on 20 May 2002
“PRC”	The People’s Republic of China
“PRD”	Pearl River Delta region in Guangdong Province, PRC
“Prospectus Documents”	documents in relating to the proposed listing of Bonds, the Clawback Offer, the acceptance forms and the excess application forms
“Qualifying Shareholders”	Independent Shareholders other than the Overseas Shareholders
“RMB”	Renminbi, the legal currency in the PRC
“Subscriber”	Firstsuccess Investments Limited, the subscriber of the Bonds

“Subscription Agreement”	a subscription agreement dated 29 November 2004 entered into by the Issuer, the Company, Subscriber and China Resources Holdings relating to the issue of the Bonds
“Share(s)”	Share(s) of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

Unless otherwise specified in this announcement, amounts denominated in RMB 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.

By order of the Board
Shi Shanbo
Director

Hong Kong, 2 December 2004

As at the date of this announcement, the Board comprises twelve Directors, of which six are executive Directors, namely Mr. Qiao Shibo, Mr. Shi Shanbo, Ms. Zhou Junqing, Mr. Zhou Longshan, Ms. Sun Mingquan and Mr. Zheng Yi; three are non-executive Directors, namely Mr. Ning Gaoning, Mr. Jiang Wei and Mr. Keung Chi Wang, Ralph and three are independent non-executive Directors, namely Mr. Chan Mo Po, Paul, Mr. Lin Zongshou and Mr. Lui Pui Kee, Francis.

Please also refer to the published version of this announcement in The Standard.