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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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).

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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 to  
China Resources Cement Holdings Limited

**ANGLO CHINESE**  
CORPORATE FINANCE, LIMITED

Independent financial adviser to  
the independent board committee  
and the independent shareholders 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 26 to 27 of this circular.

A letter from Somerley Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of China Resources Cement Holdings Limited is set out on pages 28 to 45 of this circular.

A notice convening an extraordinary general meeting of China Resources Cement Holdings Limited to be held at 4:00 p.m. on Monday, 10 January 2005, is set out on pages 156 to 158 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the share registrar and transfer office of China Resources Cement Holdings Limited, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting of China Resources Cement Holdings Limited or any adjournment thereof. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the extraordinary general meeting of China Resources Cement Holdings Limited or any adjourned meeting should you so wish.

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## EXPECTED TIMETABLE

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**2004**

Despatch of circular and notice of  
extraordinary general meeting to Shareholders ..... Friday, 24 December

**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

**Conditional upon approval of the Clawback Offer having been approved at the EGM:**

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 if applicable,  
allocation, appearing in newspapers ..... Thursday, 3 February

Refund cheques and, or, certificates for the Bonds despatched ..... Monday, 7 February

Expected commencement date of dealings in the Bonds ..... Monday, 14 February

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

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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”	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
“Announcement”	the announcement of the Company dated 2 December 2004
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	board of Directors
“Bond(s)”	the zero coupon guaranteed convertible bond(s) due 2010 in the aggregate principal amount of HK\$800.0 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 less than HK\$200.0 million to the Qualifying Shareholders by 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, subject to satisfaction or as the case may be, waiver of the conditions precedent, will be 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

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## DEFINITIONS

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“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 is 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
“Director(s)”	director(s) of the Company
“Enlarged Group”	the Group and Tricot Limited and its subsidiary
“EGM”	the extraordinary general meeting to be held by the Company at 4:00 p.m. on Monday, 10 January 2005 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”	the Company and its subsidiaries
“Hong Kong”	the 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, among others, the Acquisition Agreement and the Subscription Agreement
“Independent Shareholders”	Shareholders other than China Resources Holdings and its associates

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## DEFINITIONS

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“Independent Third Parties”	parties and their respective ultimate beneficial owners, who are independent from and not connected with the Company or its connected person and are not connected persons of the Company
“Issuer”	China Resources Cement Finance Limited (formerly known as Bestleap Group Limited), incorporated in the British Virgin Islands with limited liability, the issuer of the Bonds
“Latest Practicable Date”	21 December 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”	The Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the 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 relation 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
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Somerley”	Somerley 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 and the Independent Shareholders
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Firstsuccess Investments Limited, the subscriber of the Bonds and a wholly owned subsidiary of China Resources Holdings, incorporated in the British Virgin Islands with limited liability
“Subscription Agreement”	a subscription agreement dated 29 November 2004 entered into by the Issuer, the Company, the Subscriber and China Resources Holdings relating to the issue of the Bonds
“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 = RMB1.0661. 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

24 December 2004

*To the Shareholders*

Dear Sir or Madam,

**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**

**INTRODUCTION**

The Directors announced on 2 December 2004 that the Company entered into the Acquisition Agreement on 29 November 2004 with its parent company, China Resources Holdings, whereby China Resources Holdings, has agreed to sell and the Company has agreed to acquire, the entire



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## LETTER FROM THE BOARD

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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. 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.

### 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 of China Resources Holdings 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 the agreement for the transfer of such interest. Such option is 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 RMB160.0 million (equivalent to approximately HK\$150.1 million) which was paid on 21 November 2003.

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

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## LETTER FROM THE BOARD

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### **Summary**

Subject to the fulfillment or if appropriate, waiver 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 due to China Resources Holdings of approximately HK\$150.3 million 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.

### **Basis of consideration**

The consideration was based on the original investment cost of China Resources Holdings of HK\$150.1 million (equivalent to approximately RMB160.0 million) plus interest at 0.5% above HIBOR accruing from the period commencing from the date of payment of such investment up to the date of the Acquisition Agreement.

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.

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## LETTER FROM THE BOARD

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### Conditions precedent of the Acquisition Agreement

The Acquisition is conditional, among 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 constitute 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.

As at the Latest Practicable Date, the conditions set out above have yet to be fulfilled.

### Completion

It is expected that the Acquisition will be completed on or before 31 March 2005. Upon the completion of the Acquisition, the Company will hold a shareholding of 73.5% in the Pingnan Joint Venture which will become a subsidiary of the Company.

### 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.

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## LETTER FROM THE BOARD

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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
<b>Existing capacity</b>			<b>1,750,000</b>	<b>3,300,000</b>
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
<b>Upon completion of the Acquisition</b>			<b>3,300,000</b>	<b>5,200,000</b>

Notes:

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

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## LETTER FROM THE BOARD

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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 the 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 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 views of the Independent Board Committee are set out in the "Letter from the Independent Board Committee" on pages 26 to 27 of this circular.

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## LETTER FROM THE BOARD

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### **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\$187.6 million) and (ii) HK\$195.0 million, to the Pingnan Joint Venture, which represented 100% of total required guarantees for the loan facilities.

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\$187.6 million) with a guarantee fee of 0.5% per annum of the amount of the guarantee; and
- (ii) a shareholder's loan through Tricot Limited 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 are 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 continuing 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 continuing 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.

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## LETTER FROM THE BOARD

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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\$204.2 million). The remaining 26.5% interest in the Pingnan Joint Venture is held by Guangxi Yufeng Group Cement Company Limited which is currently an Independent Third Party. 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\$193.9 million). The principal activity of the Pingnan Joint Venture is the production and sale of cement products.

### **Financial information on Tricot Limited**

Since the Pingnan Joint Venture only commenced operation in October 2004, no turnover was recorded for the period from its 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 SUBSCRIPTION AGREEMENT DATED 29 NOVEMBER 2004**

#### **Summary**

Subject to the fulfillment or as the case may be, waiver 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

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## LETTER FROM THE BOARD

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### 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 or if appropriate, waived at or before 5:00 p.m. on 31 March 2005 (or such later date as the parties to the Subscription Agreement may agree in writing), the Subscription Agreement shall forthwith terminate.

As at the Latest Practicable Date, the conditions set out above have yet to be fulfilled.

### 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 the 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 option 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.



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## LETTER FROM THE BOARD

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### **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 under the Facility Agreement.

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.

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## LETTER FROM THE BOARD

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### 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\$2.00 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 in accordance with the terms and conditions of the Bonds.

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\$2.00 per Share represents:

- (i) a premium of approximately 6.4% to the closing price of the Shares of HK\$1.88 per Share as quoted on the Stock Exchange on 29 November 2004, being the last trading day immediately before the release of the Announcement;

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## LETTER FROM THE BOARD

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- (ii) a premium of approximately 19.8% to the five day average closing price of HK\$1.67 per Share over the five trading days up to and including the Latest Practicable Date; and
- (iii) a premium of approximately 19.4% to the ten day average closing price of HK\$1.675 per Share over the ten trading days up to and including the Latest Practicable Date.
- (iv) a discount of approximately 29.6% to the unaudited net asset value of the Company per Share of HK\$2.84 as at 30 June 2004.

The initial Conversion Price of HK\$2.00 per Share was negotiated between the Company and China Resources Holdings on an arm's length basis and with reference to the average closing price of HK\$1.8477 per Share 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\$4,000.00 in principal amount or integral multiples thereof) of the Bonds if:

- (i) the average closing price per Share (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, is higher than 150.0% of the Conversion Price; or

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## LETTER FROM THE BOARD

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- (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\$4,000.00 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.

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## LETTER FROM THE BOARD

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### 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 is required under the Subscription Agreement to offer, on terms and conditions approved by the Company, 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. Further details of the Clawback Offer, including but not limited to the terms and conditions of the Clawback Offer are set out in the Prospectus Documents which 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\$4,000.00 is offered for every board lot of 2,000 Shares held by Qualifying Shareholders as at the record date.

No offer of the Bonds will be made to the Qualifying Shareholders with Shares of less than a board lot of 2,000 or in respect of any odd lot of Shares held by any Qualifying Shareholders, if they are holding more than a board lot but the holding of which is not in a multiple or multiples of a board lot. However, preference will be given to those Qualifying Shareholders with less than a board lot of Shares (for the avoidance of doubt, including those who hold more than a board lot of Shares but the total holding is not in a multiple or multiples of a board lot) but desire to apply for the Bonds in the denomination of HK\$4,000.00. Such Qualifying Shareholders are required to apply under excess application. A Qualifying Shareholder may also apply for additional Bonds in excess of a single board lot of the Bonds in the denomination of HK\$4,000.00 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 having been accepted and, or applied for and allocated under excess application by the Qualifying Shareholders; and

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## LETTER FROM THE BOARD

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- 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 be qualified 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 and if applicable, other levies and fees, is payable in full upon acceptance by the Qualifying Shareholder in accordance with the terms and conditions of the Clawback Offer.

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## LETTER FROM THE BOARD

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### 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\$4,000.00.

### 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 forms part of 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\$4,000.00 by Qualifying Shareholders with a total holding not in multiple(s) of a 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 having been accepted and, or applied for and allocated under the excess application by the Qualifying Shareholders. Qualifying Shareholders and investors should exercise caution when applying for the Bonds or 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\$2.00 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 Latest Practicable Date and approximately 52.4% of the number of issued Shares as enlarged by the issue of the Conversion Shares.

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## LETTER FROM THE BOARD

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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 shareholdings as at the Latest Practicable Date):

Shareholders	Before the conversion of the Bonds		After the conversion of the Bonds (assume Qualifying Shareholders take up all the Bonds under the Clawback Offer)		After the conversion of the Bonds (assume no Qualifying Shareholders take 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 has undertaken 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 Latest Practicable Date, this percentage is at 25% for the Company.

The conversion of the Bonds will not result in a change of control of 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\$356.6 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\$93.7 million for general corporate and working capital purpose.



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## LETTER FROM THE BOARD

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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 if applicable, any levies and fees payable to the Stock Exchange) 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 dry process 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 capacity 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\$656.6 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 shareholders' funds 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 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 are 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 views of the Independent Board Committee are set out in the "Letter from the Independent Board Committee" on pages 26 to 27 of this circular.

### **FINANCIAL EFFECT ON THE GROUP**

#### **Net tangible assets**

Based on the unaudited pro forma consolidated statement of assets and liabilities as set out in appendix III to this circular, the unaudited consolidated net tangible assets of the Group immediately before the completion of the Acquisition and issue of Bonds, and that of the Enlarged Group immediately after the completion of the Acquisition and issue of Bonds will be approximately

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## LETTER FROM THE BOARD

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HK\$1,016.2 million and approximately HK\$1,004.0 million respectively. The decrease of approximately 1.2% is mainly attributable to the goodwill arising from acquisition of the Tricot Limited of HK\$9.2 million and estimated Bonds issuing expenses of HK\$3.0 million.

Based on 362,807,461 Shares in issue, the unaudited pro forma consolidated net tangible assets per Share immediately after the completion of the Acquisition and issue of Bonds will be approximately HK\$2.77.

### **Earnings**

For the two years ended 31 December 2003, the Group's unaudited pro forma combined net profit amounted to approximately HK\$72.8 million and approximately HK\$49.3 million respectively.

Upon completion of the Acquisition and issue of Bonds, Tricot Limited will become a subsidiary of the Company. Accordingly, the financial results of Tricot Limited will be consolidated into those of the Group.

### **Financial and trading prospects of the Enlarged Group**

The unaudited pro forma combined turnover of the Group for the two years ended 31 December 2003 amounted to approximately HK\$899.5 million and HK\$1,070.2 million respectively which comprised the sales of cement and concrete products in Hong Kong and in the PRC.

The Group's unaudited pro forma combined net profit amounted to approximately HK\$72.8 million and approximately HK\$49.3 million for the two years ended 31 December 2003 respectively. The unaudited pro forma earnings per Share for the two years ended 31 December 2003 were HK\$0.201 and HK\$0.136 respectively. The drop in unaudited pro forma combined net profit was attributable to the significant drop in selling price of concrete in Hong Kong and the increase in manufacturing costs for the cement business.

### **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 distribution of beverages, textiles, property development, electric power and microelectronics, telecommunications, infrastructure development and other industries.

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## LETTER FROM THE BOARD

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### 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 and its associates 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 and its associates 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, among other things, the approval of the Independent Shareholders at the EGM.

As China Resources Holdings is a connected person of the Company under the Listing Rules, China Resources Holdings and its associates, owns in aggregate 74.5% of the issued share capital of the Company, will abstain from voting.

### EGM

A notice of EGM to be held at 4:00 p.m. on Monday, 10 January 2005 at 49th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, for the purpose of considering and, if thought fit, approving, among other things, the Acquisition Agreement, the Subscription Agreement and the provision of financial assistance as set out on pages 156 to 158 of this circular.

Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the share registrar and transfer office of the Company, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjourned meeting thereof should you so wish.

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## LETTER FROM THE BOARD

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### RECOMMENDATIONS

The Directors consider that the entering into the Acquisition Agreement, the Subscription Agreement and the provision of financial assistance are on normal commercial terms and are in the interest of the Company and the Shareholders as a whole and the terms are fair and reasonable as far as the Independent Shareholders are concerned. The Directors therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Acquisition Agreement, the Subscription Agreement, the provision of financial assistance and matters ancillary thereto respectively as set out in the notice of EGM.

### 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.

Your attention is drawn to the letter from the Independent Board Committee, the letter from Somerley and the additional information set out in the appendices 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)**

24 December 2004

*To the Independent Shareholders*

Dear Sir or Madam,

**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**

We refer to the circular of the Company dated 24 December 2004 (the “Circular”) of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders in connection with (i) the acquisition of 73.5% interest in the Pingnan Joint Venture from China Resources Holdings, including arrangements for the provision of a bank guarantee and a shareholder’s loan to the Pingnan Joint Venture; and (ii) the proposed issue of HK\$800 million convertible bonds to China Resources Holdings. Details of which are contained in the letter from the Board set out on pages 5 to 25 of the Circular.

We wish to draw your attention to the letter of advice from Somerley as set out on pages 28 to 45 of the Circular. We have considered this letter and the advice contained therein and the various factors contained in the letter from the Board.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having reviewed the information contained in the letter from the Board and taking into account the advice of Somerley, we consider that the terms of Acquisition Agreement (including the consideration), the Financial Assistance and the Subscription Agreement for the Bonds are on normal commercial terms and are fair and reasonable to the Independent Shareholders and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions as set out in the notice of the EGM.

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 Independent Shareholders prepared for inclusion in this circular.*



**SOMERLEY LIMITED**

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

24 December 2004

*To: The Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### **CONNECTED TRANSACTIONS**

**(1) PROPOSED ACQUISITION OF 73.5% INTEREST IN  
THE PINGNAN JOINT VENTURE FROM  
CHINA RESOURCES (HOLDINGS) COMPANY LIMITED  
INCLUDING  
FINANCIAL ASSISTANCE TO A SUBSTANTIAL SHAREHOLDER OF  
THE PINGNAN JOINT VENTURE**

**AND**

**(2) PROPOSED ISSUE OF ZERO COUPON CONVERTIBLE BONDS DUE  
2010 GUARANTEED BY AND CONVERTIBLE INTO ORDINARY SHARES  
OF  
CHINA RESOURCES CEMENT HOLDINGS LIMITED**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders as regards the terms of (i) the acquisition of 73.5% interest in the Pingnan Joint Venture from China Resources Holdings, including arrangements for the provision of a bank guarantee and a shareholder's loan to the Pingnan Joint Venture; and (ii) the proposed issue of HK\$800 million convertible bonds to China Resources Holdings. Details of these transactions are set out in the Letter from the Board contained in the circular to the Shareholders dated 24 December 2004 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular.

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## LETTER FROM SOMERLEY

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China Resources Holdings is interested in approximately 74.5% of the issued share capital of the Company. The Acquisition and the issue of the Bonds therefore constitute connected transactions of the Company under the Listing Rules. Upon completion of the Acquisition, the Company will provide a guarantee to the Pingnan Joint Venture for a bank loan of RMB200 million to replace the guarantee currently provided by China Resources Holdings. The Company will also provide a shareholder's loan of approximately HK\$195 million to the Pingnan Joint Venture to repay a bank loan of equivalent amount. The Company will provide all of the bank guarantee and the shareholder's loan, whereas the Company's percentage interest in the Pingnan Joint Venture will be 73.5% (not 100%). Consequently, the provision of the bank guarantee and the shareholder's loan constitutes financial assistance (the "Financial Assistance") to Guangxi Yufeng Group Cement Company Limited ("Yufeng"), which is a connected person of the Company under the Listing Rules by virtue of its 26.5% interest in the Pingnan Joint Venture.

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 (i) the Acquisition Agreement, including the Financial Assistance; and (ii) the issue of the Bonds are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Acquisition is conditional on, among other things, the closing of the issue of the Bonds. We have been appointed to advise the Independent Board Committee and the Independent Shareholders on these matters.

China Resources Holdings is a connected person of the Company and has material interest in the Acquisition and the related arrangements. China Resources Holdings and its associates will therefore abstain from voting on the resolutions to be proposed at the EGM.

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 to us. We have not, however, conducted an independent investigation into the business, operations or financial condition of the Group, Tricot Limited or the Pingnan Joint Venture. We have also assumed that the statements and representations made or referred to in the Circular are accurate at date of the Circular and will continue to be accurate up to the date of the EGM.



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## LETTER FROM SOMERLEY

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### PRINCIPAL FACTORS TAKEN INTO ACCOUNT

#### A. Acquisition Agreement and Financial Assistance

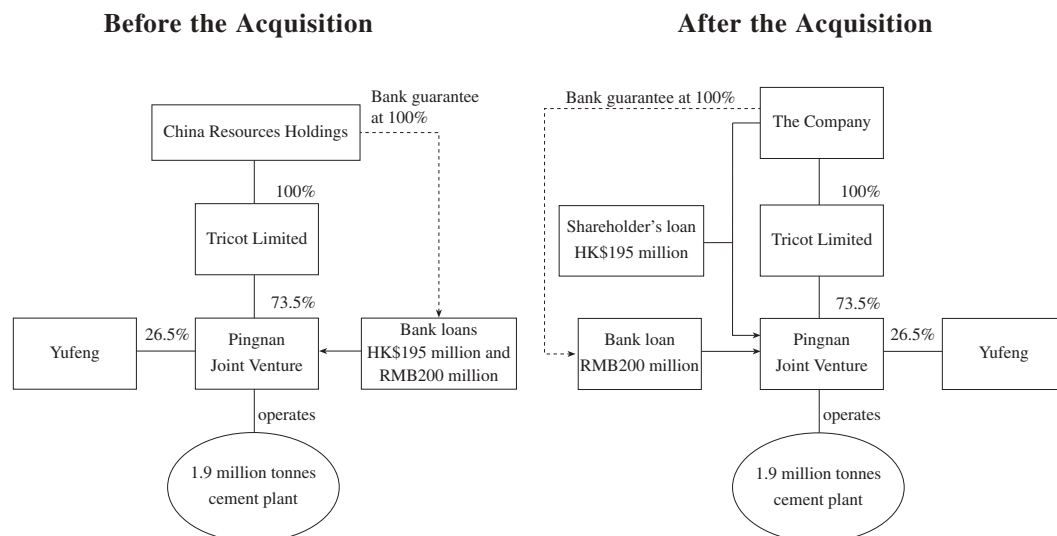
In arriving at our opinion with regard to the Acquisition Agreement and the Financial Assistance, we have taken into account the following principal factors:

##### *i. Background*

The Acquisition was contemplated at the time of the Company's flotation. On 28 April 2003, a subsidiary of China Resources Holdings had entered into a memorandum of understanding with Guangxi Yufeng Group Company Limited for a possible acquisition of an equity interest in the Pingnan Joint Venture, which was established in May 2002. On 20 June 2003, the Company entered into an option deed with China Resources Holdings pursuant to which the Company has the right to require China Resources Holdings to transfer to the Company, or its nominees, all or part of its interest in the Pingnan Joint Venture at original investment cost plus accrued interest at 0.5% above HIBOR. The option is 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 for a consideration of RMB160.0 million (equivalent to approximately HK\$150.1 million). On 29 November 2004, the Company exercised its right pursuant to the option deed to acquire China Resources Holdings' entire interest in Tricot Limited.

The structure of the Acquisition and the Financial Assistance is as follows:



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## LETTER FROM SOMERLEY

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*ii. Reasons for the Acquisition*

The central government of the PRC has implemented policies to reduce pollution caused by cement plants. In carrying out these policies, municipal governments in the Pearl River Delta region have ordered the closure of many cement plants, particularly those using “vertical” kilns with poor environmental standards. The closure of these cement plants is expected to create a shortage in supply, while demand has remained strong in the Pearl River Delta region. The Pingnan Joint Venture is equipped with a new “dry rotary” kiln production line (“Pingnan plant”) which fulfills the environmental standards imposed by the PRC government and is also energy efficient.

As set out in the Letter from the Board, the Company’s production has exceeded its installed production capacity. For the first half of 2004, the Group produced and sold approximately 1.7 million tonnes of cement products, equivalent on an annualised basis to approximately 3.4 million tonnes per annum. This exceeds the Group’s annual installed production capacity of 3.3 million tonnes by approximately 3%. The Acquisition will enable the Group to expand its annual production capacity by approximately 58% from 3.3 million tonnes to 5.2 million tonnes.

In addition, as previously announced, the Company has obtained approval for construction of a further cement plant (“Guigang plant”) with an annual production capacity of 1.9 million tonnes in Guigang, Guangxi. The Guigang plant also employs a dry rotary kiln production process and has the same annual production capacity as the Pingnan plant. Major construction at the Guigang plant is expected to start in the first quarter of 2005, with completion around the end of 2005. The estimated total investment in the Guigang plant is approximately RMB700 million (equivalent to approximately HK\$656.6 million). About HK\$300 million will be financed by a bank facility obtained in October 2004 with the remaining approximately HK\$356.6 million to be financed by proceeds from the issue of the Bonds.

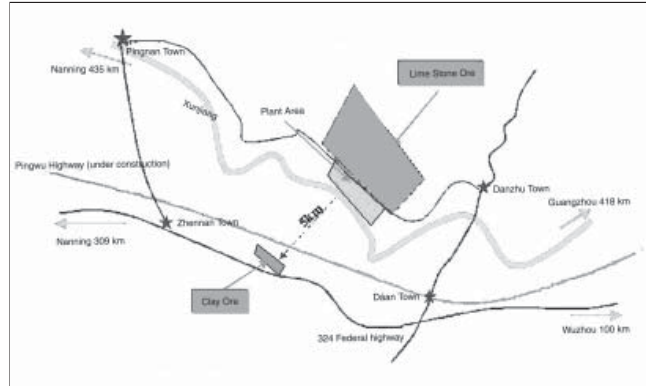
We consider the Acquisition is an immediate way to provide the Group with additional production capacity in response to rising demand and shortage in supply of cement products in the Pearl River Delta region. Such additional production capacity is available approximately one year before the Guigang plant, which the Group is constructing itself, can commence production.

The Guigang plant and the Pingnan plant together will bring the Group’s annual production capacity to approximately 7.1 million tonnes, equivalent to approximately 12% of the estimated cement consumption of the Pearl River Delta region, which is estimated to be in excess of 60 million tonnes. The additional production capacity not only could position the Group to take advantage of shortage in supply of cement products in the Pearl River Delta region in the near future, it also provides the Group with sufficient production capacity to expand its presence in the Southern part of the PRC in the future.

## LETTER FROM SOMERLEY

Both Pingnan plant and Guigang plant are situated in Guangxi. The advantage of Guangxi is that it possesses large quantities of good quality limestone, the basic raw material for cement. Through berths for vessels of up to 2,000 tonnes each, cement products can be efficiently distributed from the Pingnan plant to the Pearl River Delta region, which is the primary market for the Group's cement products. The locations of the Pingnan plant and the Guigang plant are illustrated below:

Pingnan plant



Guangxi Zhuang Autonomous Region



Guigang plant



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## LETTER FROM SOMERLEY

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### iii. *Tricot Limited*

#### *Business and financial position*

Tricot Limited is an investment holding company. The principal asset of Tricot Limited is its holding of 73.5% interest in the Pingnan Joint Venture. As at 30 September 2004, Tricot Limited recorded net liabilities of approximately HK\$7.74 million, which are principally attributable to the net loss of approximately HK\$2.78 million for the period from 1 July 2003 to 31 December 2003 and the net loss of approximately HK\$4.96 million for the nine months ended 30 September 2004.

We set out below a summary of the unaudited consolidated balance sheet of Tricot Limited as at 30 September 2004:

	<i>HK\$ million</i>
Assets	
– Leasehold land and other fixed assets	18.76
– Construction in progress	502.45
– Deposits and other receivables	24.70
– Raw materials and other consumables	9.80
– Cash and bank balances	49.78
	<hr/>
<b>Total assets</b>	<b>605.49</b>
	<hr/>
Liabilities	
– Trade and other payables	(29.13)
– Amounts due to immediate holding company and other related companies	(151.02)
– Bank loans	(381.69)
	<hr/>
<b>Total liabilities</b>	<b>(561.84)</b>
	<hr/>
Minority interests	(51.39)
	<hr/>
<b>Net liabilities</b>	<b>(7.74)</b>
<i>Add: Shareholder's loan from China Resources Holdings</i>	150.26
	<hr/>
Shareholder's funds	142.52
	<hr/> <hr/>
Consideration payable by the Company for the shares of Tricot Limited and the shareholder's loan	151.70
	<hr/>
Excess of consideration over shareholder's funds	6.4%

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## LETTER FROM SOMERLEY

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The total assets of Tricot Limited as at 30 September 2004 were HK\$605.5 million comprising principally construction in progress of the Pingnan plant of HK\$502.4 million and cash and bank balances of HK\$49.8 million. The total liabilities of Tricot Limited as at 30 September 2004 were HK\$561.8 million comprising principally bank loans of HK\$381.7 million and amounts due to China Resources Holdings of HK\$150.3 million.

Based on construction in progress of HK\$502.4 million, leasehold land of HK\$15.1 million and the cost to completion of HK\$83.8 million, the total cost of the 1.9 million tonnes capacity Pingnan plant is approximately HK\$601.3 million. This compares with the estimated cost of construction of the Guigang plant of approximately HK\$656.6 million.

### *Results*

As stated above, the principal asset of Tricot Limited is its interest in the Pingnan Joint Venture. Since establishment, Tricot Limited has not carried out any other business other than those incidental to construction of the Pingnan plant.

Set out below is a summary of the consolidated profit and loss account of Tricot Limited:

	<b>Nine months ended</b>	<b>From</b>
	<b>30 September 2004</b>	<b>1 July 2003 to</b>
	<i>HK\$ million</i>	<b>31 December 2003</b>
		<i>HK\$ million</i>
Revenue	–	–
Other income	0.03	0.09
Administrative expenses	(6.77)	(2.85)
Impairment loss recognised in respect of goodwill arising on acquisition of a subsidiary	–	(0.72)
Loss from operation	(6.74)	(3.48)
Minority interests	1.78	0.70
Net loss for the period	<u>(4.96)</u>	<u>(2.78)</u>

Pingnan Joint Venture did not commence operation until October 2004. Accordingly, Tricot Limited did not record any revenue for the nine months ended 30 September 2004. The losses recorded in 2003 and 2004 were chiefly attributable to the administrative costs incurred during that period.

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## LETTER FROM SOMERLEY

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*iv. Elements of Financial Assistance*

*(a) Bank Guarantee*

China Resources Holdings has been providing a guarantee to the Pingnan Joint Venture in respect of a bank loan of RMB200 million (equivalent to approximately HK\$187.6 million) and a second bank loan of HK\$195 million, which were used for construction of the Pingnan plant. This is in accordance with the loan agreements between the Pingnan Joint Venture and the lending bank. After completion of the Acquisition, the Company will replace China Resources Holdings as the guarantor for the RMB200 million bank loan. A fee of 0.5% per annum will be chargeable by the Company calculated based on the guaranteed amount of RMB200 million. The guarantee will be fully provided by the Company which is not in proportion to its 73.5% interest in the Pingnan Joint Venture and therefore constitutes a non-exempt continuing connected transaction of the Company under the Listing Rules.

*(b) Shareholder's loan*

The Company will provide a shareholder's loan of HK\$195 million to the Pingnan Joint Venture to repay the second bank loan of equivalent amount, which, as noted above, was also used for construction of the Pingnan plant. Under the loan agreement between the Pingnan Joint Venture and the lending bank, this repayment is triggered in the event of China Resources Holdings ceasing to hold at least 73.5% direct or indirect interest in the Pingnan Joint Venture. The shareholder's loan will carry interest at a commercial rate and will be financed by the issue of the Bonds. The shareholder's loan to the Pingnan Joint Venture will again not be in proportion to the Company's 73.5% interest in the Pingnan Joint Venture. The shareholder's loan therefore also constitutes a non-exempt continuing connected transaction of the Company under the Listing Rules.

*v. Consideration*

The basis for determining the consideration for the Acquisition has been agreed between the Company and China Resources Holdings at the date of the option deed. Under the option deed, it was agreed that the consideration will be made up of the original investment cost of China Resources Holdings plus interest calculated at 0.5% above HIBOR accruing from the period commencing from the respective dates of payments of such investment up to the date of the Acquisition Agreement. The consideration for the Acquisition of HK\$151.7 million is made up of the investment cost of China Resources Holdings in acquiring the 73.5% interest in the Pingnan Joint Venture in August 2003 of RMB160.0 million (equivalent to approximately HK\$150.1 million), the accumulated interest up to the date of the Acquisition Agreement of approximately HK\$1.4 million and costs of approximately HK\$0.2 million relating to the acquisition of the 73.5% interest in the Pingnan Joint Venture incurred by Tricot Limited.

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## LETTER FROM SOMERLEY

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*Comparison of consideration with price-to-book ratio of other listed companies*

The consideration represents a slight premium of 6.4% over the aggregate of the net liabilities of Tricot Limited of HK\$7.7 million as at 30 September 2004 and the face value of a shareholder's loan of HK\$150.3 million due to China Resources Holdings as at 30 September 2004. This is equivalent to a "price-to-book" ratio of 1.06 times. As a cross-check, we have looked at the price-to-book ratio of two Hong Kong listed companies, which are principally engaged in sale and production of cement products in the PRC. Our findings are set out below:

	<b>Closing price as at the Latest Practicable Date</b>	<b>Net asset value per share as disclosed in the latest published financial statements</b>	<b>Price-to- book ratio</b>
	<i>HK\$</i>	<i>HK\$</i>	
Chia Hsin Cement Greater China Holding Corporation ("Chia Hsin")	1.16	1.26	0.92
Anhui Conch Cement Co Limited ("Anhui Conch") (H-Share)	8.50	3.514	2.42
<b>Average</b>			<b>1.67</b>
<b>Acquisition</b>	<b>151.7</b>	<b>142.6</b>	<b>1.06</b>

As set out in the schedule above, the price-to-book ratio of Chia Hsin is at a slight discount to its net asset value, while Anhui Conch, which is an H-Share company, is traded at 2.42 times of its book value. The price-to-book ratio implied by the consideration is within the above range and is below the average of 1.67 times.

We are not able to use price-earnings multiple as a basis of cross-check for the consideration for the Acquisition as the Pingnan Joint Venture did not commence operations until October 2004. Accordingly, no earning figures are available for determining the price-earnings multiple implied by the consideration.

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## LETTER FROM SOMERLEY

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### B. Bonds

Pursuant to the Subscription Agreement entered into between the Issuer (a wholly-owned subsidiary of the Company) and the Subscriber (a wholly-owned subsidiary of China Resources Holdings), the Subscriber will subscribe for the zero coupon convertible bonds in the principal amount of HK\$800 million. The proceeds net of estimated expenses will be approximately HK\$797 million. HK\$151.7 million will be used to finance the Acquisition, HK\$195.0 million will be used to finance the shareholder's loan to the Pingnan Joint Venture and HK\$356.6 million will be used to finance development of the Guigang plant. The remaining balance of HK\$93.7 million will be available as working capital of the Group.

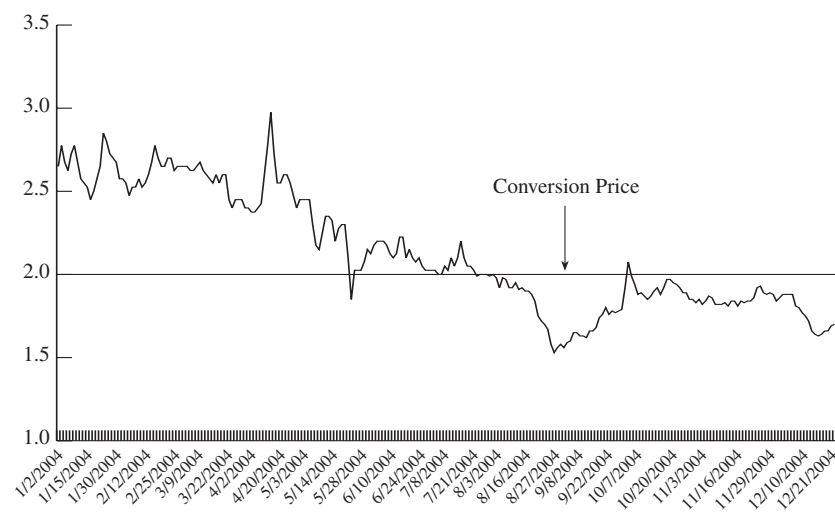
In arriving at our opinion with regard to the issue of the Bonds, we have taken into account the following principal factors:

#### *i. Conversion price*

The Bonds are convertible at an initial conversion price of HK\$2.0 per Share at any time during the period from the date of issue, currently expected to be 14 January 2005, up to the Maturity Date which on that basis would be January 2010. The Conversion Price was negotiated between the Company and China Resources Holdings with reference to the average closing price of the Shares during the three months up to and including 29 November 2004 (the "Last Trading Day"). The Company may require the Bondholders to convert the Bonds if the average closing price of the Shares for the 30 trading days preceding the date of notice given by the Company exceeds 150% of the Conversion Price (i.e. HK\$3.0 per Share).

#### *ii. Historical Share price as compared to the Conversion Price*

The chart below shows the closing prices of the Shares traded on the Stock Exchange during the period from 2 January 2004 to the Latest Practicable Date.



Source: Bloomberg



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## LETTER FROM SOMERLEY

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During the period under review, the closing price of the Shares ranged from HK\$2.975 to HK\$1.53. For most of the first quarter of 2004, the Share price was above HK\$2.5. In early April 2004, the central government of the PRC announced measures to prevent over-investment in various sectors, including the cement industry. After such announcement, share prices of cement companies across the board dropped substantially. The price of the Share dropped by approximately 14% from HK\$2.975 on 8 April 2004 to HK\$2.55 on 15 April 2004. The Share price continued declining during the period from 16 April 2004 and closed at HK\$1.53 per Share on 16 August 2004. Since then, the Share price has edged up to the region of HK\$1.7 to HK\$2.0 per Share. As at the Latest Practicable Date, the Share price closed at HK\$1.7.

The Conversion Price represents:

- (i) a premium of 6.4% over the closing price of the Share of HK\$1.88 as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of 19.8% over the average closing price of the Share of HK\$1.67 over the five trading days up to and including the Latest Practicable Date; and
- (iii) a premium of 8.1% over the average closing price of the Share of HK\$1.85 over the three months period up to and including the Last Trading Day; and
- (iv) a discount of 29.6% to the unaudited consolidated net asset value of the Company per Share of HK\$2.84 as at 30 June 2004.

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## LETTER FROM SOMERLEY

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*iii. Comparison with conversion price of other recent convertible issues*

We have compared the Conversion Price to the conversion price of other recent convertible bonds issued by listed companies in Hong Kong. In doing so, we have reviewed convertible bonds with zero coupon and no redemption premium issued during the period from 1st January, 2004 up to the Latest Practicable Date. We set out below our findings:

Announcement date	Issuer	Principal amount	Maturity	Premium/ (discount) to closing price of the share before the announcement of the issue of respective convertible bonds
6 January 2004	Forefront International Holdings Limited	US\$35 million	5 years	16.1%
3 March 2004	Eagle Nice (International) Holdings Limited	HK\$207 million	3 years	12.0%
1 April 2004	Goldbond Group Holdings Limited	HK\$70 million	3 years	(3.4%)
2 April 2004	Haier-CCT Holdings Limited <i>(Note)</i>	HK\$260 million	3 years	(57.1%)
20 October 2004	Goldbond Group Holdings Limited	HK\$30 million	3 years	1.6%
2 December 2004	The Company	HK\$800 million	5 years	6.4%

*Note:* issued in the context of an asset injection.

As set out above, the conversion price of the convertible bonds issued by other listed companies ranged from a 57.1% discount to the closing price (which however we regard as exceptional) to a 16.1% premium over the closing price. The Conversion Price, which represents 6.4% premium over the closing price of the Share on the Last Trading Day, is within this range.

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## LETTER FROM SOMERLEY

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*iv. Clawback Offer and possible dilution*

China Resources Holdings will offer Bonds to Qualifying Shareholders whose registered addresses are in Hong Kong on the Record Date. The Clawback Offer covers HK\$200 million nominal of Bonds out of the total issue of HK\$800 million, that is 25%, approximately the same percentage as the Independent Shareholders' aggregate holdings in the Company.

The Clawback Offer will be made on basis of Bonds in the denomination of HK\$4,000 for each board lot of 2,000 Shares held. Shareholders who hold less than one board lot of Shares (2,000 Shares) will be able to apply for Bonds through excess application and preference will be given to those who wish to apply for the Bonds in the denomination of HK\$4,000. Qualifying Shareholders who hold one board lot or more but the holding of which is not in a multiple or multiples of a board lot will also be given the preference if they so wish to apply for additional bonds in denomination of HK\$4,000. Accordingly, we consider that all the Independent Shareholders who wish to maintain their percentage shareholding in the Company could achieve that through the Clawback Offer except for Overseas Shareholders.

The Clawback Offer is conditional on (i) the granting by the Stock Exchange of the listing of and permission to deal in the Bonds; and (ii) not less than HK\$50 million Bonds out of the total HK\$200 million Bonds being offered under the Clawback Offer having been accepted, or applied for by, and allocated under excess applications to the Qualifying Shareholders. We consider such condition is acceptable on the basis that if less than one quarter of the Qualifying Shareholders, which represents approximately 6% of the total issued share capital of the Company, accept or apply for excess under the Clawback Offer, the low response level will not justify the cost of administering public holdings of the Bonds up to the Maturity Date. All costs in relation to the issue and administration of the Bonds after their issue will be borne by the Group.

The schedule below illustrates the Company's shareholding structure before and after conversion:

	Before the conversion of the Bonds		After the conversion of the Bonds (assume Qualifying Shareholders take up all the Bonds under the Clawback Offer)		After the conversion of the Bonds (assume no Qualifying Shareholders take up the Bonds under the Clawback Offer)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
China Resources Holdings	270,132,647	74.5	570,132,647	74.7	670,132,647	87.9
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>

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## LETTER FROM SOMERLEY

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The Clawback Offer provides the Independent Shareholders with an opportunity to participate in the future growth of the Company. It is also a mechanism to allow the Independent Shareholders to maintain their percentage holding in the Company, if they so wish, provided that more than HK\$50 million Bonds are accepted, or applied for by, and allocated under excess applications to the Independent Shareholders. If the Clawback Offer does not proceed, the shareholding interest of Independent Shareholders in the Company would be diluted from approximately 25.5% to 12.1% after full conversion of the Bonds.

The terms of the Bonds provide that China Resources Holdings is allowed to convert the Bonds only to the extent that the Company would not suffer a shortfall in public float. Therefore, the dilution to the existing Independent Shareholders, if it materialises, is likely to be gradual and limited to the extent that the Shares can be absorbed by the market, since China Resources Holdings already holds 74.5% of the existing issued Shares.

### **FINANCIAL EFFECT ON THE GROUP**

#### **Net asset value**

As set out in Appendix III to the Circular, after completion of the Acquisition and the issue of the Bonds, the net asset of the Enlarged Group would decrease slightly from HK\$1,029 million to HK\$1,026 million, owing to the approximately HK\$3 million expenses of the issue of the Bonds.

Assuming full conversion of the Bonds, the net asset value per Share will decrease from HK\$2.84 per Share as at 30 June 2004 to HK\$2.39 per Share, owing to the Conversion Price of HK\$2 per Share being below the net asset value. Given the anticipated contribution from the Pingnan Joint Venture and the additional production capacity that the Group will gain after completion of the Acquisition and the construction of the Guigang plant, we consider that the decrease in net asset value per Share of the Enlarged Group is acceptable.

#### **Earnings**

After completion of the Acquisition, the accounts of Tricot Limited will be consolidated into the accounts of the Group. Tricot Limited recorded a consolidated loss of approximately HK\$4.96 million for the nine months ended 30 September 2004. However, the Pingnan Joint Venture did not commence operations until October 2004. Given that the demand for cement products remains high in the Pearl River Delta region and supply of cement has decreased due to government policy, the prospects of Tricot Limited appear encouraging to us.

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## LETTER FROM SOMERLEY

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### **Gearing**

The gearing ratio of the Group as at 30 June 2004 was 65.3%. After completion of the Acquisition and the issue of the Bonds, the gearing ratio of the Enlarged Group would be 161.7%. The substantial increase is due largely to the issue of the Bonds. The Company has an obligation to repay the Bonds at par at the end of their five-year life in 2010 if they have not been previously converted. If the Company has misjudged the market and the large additional capacity cannot in the event be profitably utilised, there is a risk that the Bonds may not be converted and that the Company might be unable to repay the Bonds in 2010. The consequences in those circumstances might include a re-financing, a financial restructuring and/or a proposal to re-set the conversion price at a lower figure than \$2 per Share.

Under the Subscription Agreement, China Resources Holdings has agreed that the Bonds will be subordinated to the Company's existing bank facilities until these facilities are terminated or repaid in full. China Resources Holdings has also agreed that, if necessary, the Bonds could be subordinated to any future indebtedness in any form for the purpose of funding any capital requirement of the Company. On this basis, we consider the gearing ratio, although high, should not have a significant adverse impact on the Company's ability to raise loan capital.

### **Cashflow**

The cash reserves of the Group as at 30 June 2004 were HK\$243.3 million. After completion of the Acquisition, the provision of the Financial Assistance and the issue of the Bonds, cash reserves of the Group will be increased by approximately HK\$93.7 million assuming HK\$356.6 million is reserved to fund a portion of the construction costs of the Guigang plant. We have been advised by the management of the Company that there is no further significant capital investment required for the Pingnan plant in the near future. In view of the above, we believe the issue of the Bonds is sufficient to finance the Acquisition, the provision of the Financial Assistance and the commissioning of the Pingnan plant and the Guigang plant.

## **DISCUSSION AND ANALYSIS**

### **The Acquisition**

The Company is exercising a right granted to it by China Resources Holdings in June 2003 to acquire 73.5% of the Pingnan Joint Venture at cost plus interest (at HIBOR + 0.5%).

The Pingnan plant is a modern cement plant with an annual production capacity of 1.9 million tonnes of cement which has just come into commercial production. It is situated on a major waterway in Guangxi about 400 kilometres (by water) from Guangzhou allowing distribution to the Pearl River Delta region.

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## LETTER FROM SOMERLEY

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Owing to strong demand in the Pearl River Delta region and the closure of older inefficient cement plants run by competitors, the Company is unable to fill customer demand and needs to increase its production capacity. We regard the Acquisition, on the basis of cost plus interest, as equivalent to the Company deciding to build its own new plant, except that the Pingnan plant is already in production, thus providing an immediate boost to the Group's production capacity.

The Group anticipates a further substantial increase to production capacity will be needed to satisfy the demand in the Pearl River Delta region and in view of its plan to expand its presence in the Southern part of the PRC. As previously announced, it has obtained approval to construct a second 1.9 million tonnes capacity cement plant at Guigang, Guangxi for completion at the end of 2005 at a cost equivalent to HK\$656.6 million. This is part of the reason for the issue of the Bonds (see below). The Pingnan plant and the Guigang plant are both of 1.9 million tonnes capacity. Although a direct comparison of plants in different locations is difficult, we note that the cost of the Pingnan plant, acquired from China Resources Holdings, is lower than the Guigang plant which the Company is building itself arms length.

### **Financial Assistance**

China Resources Holdings, at the request of lending banks, has been providing the guarantees required for the purpose of the bank loans taken out by the Pingnan Joint Venture. As part of the Acquisition, it is necessary for the Company to provide to the Pingnan Joint Venture a guarantee of RMB200 million for one of the bank loans and a shareholder's loan to refinance a bank loan of HK\$195 million, repayment of which is triggered by the transfer of China Resources Holdings' entire interest in the Pingnan Joint Venture to the Company. The Company will receive a guarantee fee and interest on the shareholder's loan. The Company will provide all of the bank guarantee and the shareholder's loan, whereas the Company's percentage interest in the Pingnan Joint Venture will be 73.5%. We consider that these are normal financial arrangements similar to those the Company would have had to make if it had developed the Pingnan plant itself.

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## LETTER FROM SOMERLEY

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### The Bonds

The Acquisition, the Financial Assistance and the funding of the construction of Guigang plant will require the following amounts:

	<i>HK\$ million</i>
The Acquisition consideration	151.7
Repayment of bank loan	195.0
	<hr/>
	346.7
Construction of Guigang plant (unfunded portion)	356.6
	<hr/>
	703.3
Working capital and Bond issuing expenses	96.7
	<hr/>
Total nominal amount of Bond issue	<u>800.0</u>

On the above basis, approximately 88% of the proceeds from the Bonds will be used to finance the Acquisition and the construction of additional production capacity, while the remaining 12% is available for working capital and expenses. We consider this is a reasonable use of the proceeds and that the size of the issue, which is at HK\$800 million, exceeds the Company's total present market capitalisation of approximately HK\$616.8 million, is justified. It results in gearing of over 150%, which is high, but the Bonds can be subordinated to other borrowings, which should preserve the Enlarged Group's borrowing capacity. However, if the additional production capacity financed by the Bonds does not generate profits, repayment of the Bonds in 2010 could be in doubt.

The Bonds are "zero coupon" so there is no interest payable by the Company. The conversion price of \$2 is within the range of conversion price of other convertible bonds which have similar terms. It also exceeds the recent 3 months average closing price of the Shares of \$1.85 by approximately 8%. Consequently, the issue of the Bonds does not involve dilution for Independent Shareholders in term of market value. The Conversion Price does involve a dilution in net asset value by about 16%, which we do not consider a critical factor. If China Resources Holdings takes up the Bonds in full, the interest of Independent Shareholders would be diluted from 25.5% to 12.1%. However, through the Clawback mechanism, Independent Shareholders have the right, provided at least HK\$50 million of Bonds are accepted or applied for, to take up (with small exceptions) their proportionate share of the Bond issue. Conversion of the Bonds is limited to amounts and circumstances which will not cause the public float of Shares to drop below 25%, i.e. China Resources Holdings may have to place out Shares before or at the time of any conversion.

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## LETTER FROM SOMERLEY

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### OPINION

Having considered the above factors, we are of the opinion that the terms of Acquisition Agreement (including the consideration), the Financial Assistance and the Subscription Agreement for the Bonds are on normal commercial terms and in the ordinary course of business of the Company and are fair and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that Independent Shareholders should vote in favour of the resolutions to approve and implement the above transactions.

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



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## APPENDIX I      ACCOUNTANTS' REPORT ON TRICOT LIMITED

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*The following is the text of a report, prepared for the purpose of incorporation in this Circular, received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong*

**Deloitte.**  
**德勤**

24 December 2004

*The Directors*  
**Tricot Limited**

Dear Sirs/Mesdames,

We set out below our report on the financial information (“Financial Information”) relating to Tricot Limited and its subsidiary (hereinafter collectively referred to as the “Tricot Group”) for the period from 1 July 2003 (date of incorporation of Tricot Limited) to 31 December 2003 and the nine months ended 30 September 2004 (the “Relevant Periods”) and for inclusion in the circular of China Resources Cement Holdings Limited (the “Company”), dated 24 December 2004 in connection with the proposed acquisition of 100% equity interest of Tricot Limited (the “Circular”).

Tricot Limited was incorporated in the British Virgin Islands (the “BVI”) as an international business company with limited liability under International Business Companies Ordinance on 1 July 2003.

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## APPENDIX I      ACCOUNTANTS' REPORT ON TRICOT LIMITED

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At the date of this report, Tricot Limited has the following subsidiary, which is a limited company established outside Hong Kong.

Name of subsidiary	Place and date of establishment	Form of business	Registered capital	Attributable equity interest of Tricot Limited	Principal activities
廣西平南華潤魚峰水泥有限公司 Guangxi Pingnan China Resources Yufeng Cement Company Limited ("Pingnan Joint Venture")	The People's Republic of China (the "PRC") 20 May 2002	Sino-foreign equity joint venture	RMB217,700,000	73.5%	Manufacturing and sale of cement

No audited financial statements have been prepared for Tricot Limited since its date of incorporation. For the purpose of this report, we have carried out independent audit procedures in respect of the consolidated management accounts of Tricot Limited including Pingnan Joint Venture for the Relevant Periods prepared in accordance with accounting principles generally accepted in Hong Kong (the "HKFRS Consolidated Financial Statements of Tricot Limited").

The statutory financial statements of Pingnan Joint Venture for the year ended 31 December 2003 were prepared in accordance with the applicable accounting principles and financial regulations in the PRC. The statutory financial statements of Pingnan Joint Venture for the year ended 31 December 2003 were audited by 廣西正則會計師事務所 (translated as Guangxi Zhengze Certified Public Accountants), which is certified public accountants registered in the PRC. For the purpose of this report, we have however, undertaken our own independent audit of the financial statements, which were prepared in accordance with accounting principles generally accepted in Hong Kong, for the Relevant Periods in accordance with Statements of Auditing Standards in Hong Kong.

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## APPENDIX I      ACCOUNTANTS' REPORT ON TRICOT LIMITED

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We have examined the HKFRS Consolidated Financial Statements in accordance with the Auditing Guideline "Prospectus and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants.

The preparation of the HKFRS Consolidated Financial Statements are the responsibility of the directors of Tricot Limited . The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Consolidated Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Tricot Group as at 31 December 2003 and 30 September 2004, and of the consolidated results and cash flows of the Tricot Group for the Relevant Periods.

### A. FINANCIAL INFORMATION

#### Consolidated profit and loss account

		1/1/2004 to 30/9/2004 HK\$'000	1/7/2003 to 31/12/2003 HK\$'000
	<i>Notes</i>		
Turnover	3	–	–
Other income		30	94
Administrative expenses		(6,770)	(2,855)
Impairment loss recognised in respect of goodwill arising on acquisition of a subsidiary		–	(727)
		—————	—————
Loss from operations		(6,740)	(3,488)
Finance costs	4	–	–
		—————	—————
Loss before minority interests	5	(6,740)	(3,488)
Minority interests		1,784	700
		—————	—————
Net loss for the period		<u>(4,956)</u>	<u>(2,788)</u>
Loss per share	8	<u>(4,956)</u>	<u>(2,788)</u>

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**APPENDIX I                      ACCOUNTANTS' REPORT ON TRICOT LIMITED**

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**Consolidated balance sheet**

		<b>At</b>	<b>At</b>
		<b>30 September</b>	<b>31 December</b>
		<b>2004</b>	<b>2003</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Fixed assets	<i>9</i>	521,209	64,895
Deposits paid	<i>10</i>	18,377	91,791
		<hr/>	<hr/>
		539,586	156,686
		<hr/>	<hr/>
<b>Current assets</b>			
Stocks	<i>11</i>	9,804	20
Other receivables		6,322	4,906
Cash and bank balances		49,767	67,794
		<hr/>	<hr/>
		65,893	72,720
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade payables	<i>12</i>	1,704	–
Other payables		27,428	27,795
Amounts due to a minority shareholder of a subsidiary		755	974
Amount due to immediate holding company	<i>13</i>	150,265	150,256
Bank loan – amount due within one year	<i>14</i>	194,086	–
		<hr/>	<hr/>
		374,238	179,025
		<hr/>	<hr/>
Net current liabilities		(308,345)	(106,305)
		<hr/>	<hr/>
Total assets less current liabilities		231,241	50,381
		<hr/>	<hr/>

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		At 30 September 2004	At 31 December 2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities			
Bank loan – amount due after one year	<i>14</i>	187,600	–
		<hr/>	<hr/>
Minority interests		51,385	53,169
		<hr/>	<hr/>
		(7,744)	(2,788)
		<hr/> <hr/>	<hr/> <hr/>
Capital and reserves			
Share capital	<i>15</i>	–	–
Reserves	<i>16</i>	(7,744)	(2,788)
		<hr/>	<hr/>
		(7,744)	(2,788)
		<hr/> <hr/>	<hr/> <hr/>

**Consolidated statement of changes in equity**

	Share capital <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Issue of share at the date of incorporation	–	–	–
Net loss for the period	–	(2,788)	(2,788)
	<hr/>	<hr/>	<hr/>
As at 31 December 2003	–	(2,788)	(2,788)
Net loss for the period	–	(4,956)	(4,956)
	<hr/>	<hr/>	<hr/>
As at 30 September 2004	–	(7,744)	(7,744)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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**APPENDIX I                      ACCOUNTANTS' REPORT ON TRICOT LIMITED**

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**Consolidated cash flow statement**

	<b>1/1/2004</b>	<b>1/7/2003</b>
	<b>to</b>	<b>to</b>
	<b>30/9/2004</b>	<b>31/12/2003</b>
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cash flows from operating activities</b>		
Loss before minority interests	(6,740)	(3,488)
Adjustments for:		
Depreciation	368	26
Impairment loss recognised in respect of goodwill arising on acquisition of a subsidiary	–	727
Interest income	(30)	(94)
	<hr/>	<hr/>
Operating cash outflow before movements in working capital	(6,402)	(2,829)
Increase in stocks	(9,784)	(20)
(Increase) decrease in other receivables	(1,416)	70,405
Increase in trade payables	1,704	–
(Decrease) increase in other payables	(367)	25,068
(Decrease) increase in amounts due to a minority shareholder of a subsidiary	(219)	118
	<hr/>	<hr/>
Cash (used in) generated from operating activities	(16,484)	92,742
Interest paid	(5,808)	–
	<hr/>	<hr/>
Net cash (used in) generated from operating activities	(22,292)	92,742
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Interest received	220	94
Purchase of fixed assets	(375,923)	(12,993)
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	–	(125,815)
<i>18</i>		
Deposits paid	(1,727)	(36,490)
	<hr/>	<hr/>
Net cash used in investing activities	(377,430)	(175,204)
	<hr/>	<hr/>

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**APPENDIX I                      ACCOUNTANTS' REPORT ON TRICOT LIMITED**

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	<b>1/1/2004</b>	<b>1/7/2003</b>
	<b>to</b>	<b>to</b>
	<b>30/9/2004</b>	<b>31/12/2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from financing activities		
Bank loans raised	381,686	–
Net advance from immediate holding company	9	150,256
Proceeds from issue of share	–	–
	<hr/>	<hr/>
Net cash generated from financing activities	381,695	150,256
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(18,027)	67,794
Cash and cash equivalents at beginning of period	67,794	–
	<hr/>	<hr/>
Cash and cash equivalents at end of period representing cash and bank balances	<u>49,767</u>	<u>67,794</u>

**NOTES TO THE FINANCIAL STATEMENTS****1.    General****A.    *Ultimate holding company***

In the opinion of the directors, the ultimate holding company of Tricot Limited is China Resources National Corporation, a company established in The People's Republic of China (the "PRC").

**B.    *Principal activities***

Tricot Limited acts as an investment holding company. The principal activities of its subsidiary are the manufacture and sale of cement.

**C.    *Basis of preparation of financial statements***

The financial statements have been prepared on a going concern basis because the holding company has agreed to provide adequate funds to enable Tricot Limited to meet in full its financial obligations as they fall due for the foreseeable future.

**2.    Principal Accounting Policies**

The financial statements have been prepared under the historical cost convention. The principal accounting policies which have been adopted in preparing the Financial Information and which conform with accounting principles generally accepted in Hong Kong are as follows:

**A.    *Consolidation***

The results of subsidiary acquired or disposed of during the period are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.



***B.      Goodwill/Negative goodwill***

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Tricot Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiary at the date of acquisition. Negative goodwill arising from acquisition of a subsidiary represents the excess of the Tricot Group's interest in the fair value of identifiable assets and liabilities acquired over the cost of acquisition.

Goodwill is recognised as an asset and amortised on a straight-line basis over its useful economic life of not more than 20 years and is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment loss.

Negative goodwill arising on acquisition is presented as a deduction from assets and will be released to the consolidated profit and loss account based on an analysis of the circumstances from which the balance resulted.

***C.      Fixed assets***

*(a)      Construction in progress*

Fixed assets in the course of construction for production or administrative purposes or for the purposes not yet determined, are carried at cost less accumulated impairment losses, if any. Cost includes all construction expenditure, professional fees, borrowing cost capitalised and other relevant expenses directly attributable to such projects.

No provision for depreciation is made on construction in progress until such time when construction work is completed and the costs of construction are transferred to the appropriate category of fixed assets.

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(b) *Other fixed assets*

Fixed asset other than construction in progress are stated at cost less depreciation and accumulated impairment loss, if any.

Depreciation of other fixed assets is provided to write off the cost of assets, after taken into account of the residual value of the assets, using the straight line method over their estimated useful lives. The estimated useful lives are as follows:

Leasehold land	Over the unexpired term of lease
Furniture and equipment	5 years
Motor vehicles	5 years

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated profit and loss account.

(c) *Impairment of fixed assets*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated profit and loss account.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount. Such reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account in the year in which the reversals are recognised.

***D.    Stocks***

Stocks are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method.

***E.    Recognition of revenue***

Sale of goods is recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

***F.    Borrowing costs***

Borrowing costs are accounted for on the accrual basis and charged to the consolidated profit and loss account in the year incurred, except for costs related to funding of qualifying assets which are capitalised as part of the cost of that asset up to the date when substantially all the activities necessary to prepare the asset for its intended use or sale are completed.

***G.    Taxation***

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the consolidated profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods, and it further excludes items in the consolidated profit and loss account that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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## APPENDIX I      ACCOUNTANTS' REPORT ON TRICOT LIMITED

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Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiary, except where the Tricot Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the consolidated profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### ***H. Foreign exchange***

Transactions in foreign currencies are initially recorded at the rates of exchange ruling on the transactions dates. Monetary assets and liabilities denominated in such currencies are re-translated at the rates of exchange ruling on the balance sheet date. Exchange differences are included in the determination of operating profit.

On consolidation, the amounts in the balance sheet of subsidiary reported in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates of exchange ruling on the balance sheet date. The profit and loss account of subsidiaries reported in currencies other than Hong Kong dollars is translated at the average rates for the period. Exchange differences are dealt with as movements on reserves.

### ***I. Employee benefits***

Payments to defined contribution retirement benefit plans and government-managed retirement benefit schemes are charged as an expense as they fall due.

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**APPENDIX I                      ACCOUNTANTS' REPORT ON TRICOT LIMITED**

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**3. Business and Geographical Segment**

The Tricot Group was solely engaged in the business of manufacturing and sale of cement. Analysis of turnover and results have not been presented as the Tricot Group has not yet commenced business. All assets are substantially situated in the PRC.

**4. Finance Costs**

	<b>1/1/2004</b>	<b>1/7/2003</b>
	<b>to</b>	<b>to</b>
	<b>30/9/2004</b>	<b>31/12/2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings		
wholly repayable within five years	5,808	–
<i>Less:</i> Amount capitalised in construction in progress	(5,808)	–
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>
	–	–

**5. Loss Before Minority Interests**

	<b>1/1/2004</b>	<b>1/7/2003</b>
	<b>to</b>	<b>to</b>
	<b>30/9/2004</b>	<b>31/12/2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before minority interests has been arrived at after charging:		
Staff costs including directors' remuneration:		
– salaries and other allowances	2,078	–
– retirement benefit costs	297	–
	<u>          </u>	<u>          </u>
	2,375	–
	<u>          </u>	<u>          </u>
Auditors' remuneration	–	60
Depreciation	368	26
and after crediting:		
Interest income (excluding of interest income on the temporary investment of specific borrowings of HK\$190,000 (1/7/2003 – 31/12/2003: nil) which has been capitalised in construction in progress)	<u>          </u>	<u>          </u>
	30	94

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The above amounts are shown net of expenses capitalised in construction in progress as follows:

	<b>1/1/2004</b>	<b>1/7/2003</b>
	<b>to</b>	<b>to</b>
	<b>30/9/2004</b>	<b>31/12/2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other allowances	3,890	400
Retirement benefit cost	203	25
	<u>          </u>	<u>          </u>

**6. Directors' Remuneration and Highest Paid Employees**

(i) Details of directors' remuneration are as follows:

	<b>1/1/2004</b>	<b>1/7/2003</b>
	<b>to</b>	<b>to</b>
	<b>30/9/2004</b>	<b>31/12/2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Directors:		
Fees	–	–
Salaries and other benefits	–	–
	<u>          </u>	<u>          </u>

(ii) Employees

Details of remuneration paid by the Tricot Group to the five highest paid individuals for each of the period referred to in this report are as follows:

	<b>1/1/2004</b>	<b>1/7/2003</b>
	<b>to</b>	<b>to</b>
	<b>30/9/2004</b>	<b>31/12/2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	745	85
	<u>          </u>	<u>          </u>

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**APPENDIX I                      ACCOUNTANTS' REPORT ON TRICOT LIMITED**

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Emoluments of the five highest paid individuals for each of the period fall within the following band:

	<b>1/1/2004 to 30/9/2004</b>	<b>1/7/2003 to 31/12/2003</b>
Nil – HK\$1,000,000	<u>5</u>	<u>5</u>
Number of directors	–	–
Number of other employees	<u>5</u>	<u>5</u>
	<u>5</u>	<u>5</u>

During the Relevant Periods, no emoluments was paid by the Tricot Group to the directors of Tricot Limited or to the five highest paid individuals as an inducement to join or upon joining the Tricot Group or as a compensation for loss of office.

**7. Taxation**

No provision for Hong Kong Profits Tax has been made as the Tricot Group did not have any assessable profit for the Relevant Periods.

Pursuant to the relevant laws and regulations in the PRC, Pingnan Joint Venture is entitled to full exemption from PRC Enterprise Income Tax for the first two years and 50% reduction for the following three years commencing from the first profitable year of operation after fully set off against the accumulated losses brought forward. No provision for taxation has been made in the financial statements during the Relevant Periods as Pingnan Joint Venture did not have any assessable profit for the Relevant Periods.

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**APPENDIX I            ACCOUNTANTS' REPORT ON TRICOT LIMITED**

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The taxation charge for the Relevant Periods can be reconciled to the consolidated loss before minority interests as follows:

	<b>1/1/2004</b>	<b>1/7/2003</b>
	<b>to</b>	<b>to</b>
	<b>30/9/2004</b>	<b>31/12/2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before minority interests	(6,740)	(3,488)
Tax at the domestic income tax rate of 15%	(1,011)	(523)
Tax effect of deductible temporary differences not recognised	1,011	523
Taxation charge for the period	–	–

**8. Loss Per Share**

The calculation of loss per share for the Relevant Periods is based on the consolidated net loss for the period and one share of Tricot Limited issued during the Relevant Periods.

No diluted loss per share has been presented as Tricot Limited did not have any potential shares outstanding during both periods.



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**APPENDIX I ACCOUNTANTS' REPORT ON TRICOT LIMITED**

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**9. Fixed Assets**

	Leasehold land <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE TRICOT GROUP					
COST					
Acquisition of a subsidiary	–	111	731	51,125	51,967
Additions	–	30	8	12,955	12,993
	–	141	739	64,080	64,960
At 31 December 2003	–	141	739	64,080	64,960
Additions	15,243	590	2,483	438,366	456,682
	15,243	731	3,222	502,446	521,642
At 30 September 2004	15,243	731	3,222	502,446	521,642
DEPRECIATION AND AMORTISATION					
Acquisition of a subsidiary	–	6	33	–	39
Provided for the period	–	4	22	–	26
	–	10	55	–	65
At 31 December 2003	–	10	55	–	65
Provided for the period	102	65	201	–	368
	102	75	256	–	433
At 30 September 2004	102	75	256	–	433
NET BOOK VALUES					
At 30 September 2004	15,141	656	2,966	502,446	521,209
At 31 December 2003	–	131	684	64,080	64,895

At 30 September 2004, included in construction in progress is net interest capitalised of HK\$5,618,000 (31 December 2003: nil).

The leasehold land is situated in the PRC under medium term lease.

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**APPENDIX I                      ACCOUNTANTS' REPORT ON TRICOT LIMITED**

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**10.    Deposits Paid**

		<b>At</b>	<b>At</b>
		<b>30 September</b>	<b>31 December</b>
		<b>2004</b>	<b>2003</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits paid for acquisition of fixed assets	<i>(i)</i>	1,727	75,141
Deposits paid for acquisition of mining rights	<i>(ii)</i>	16,650	16,650
		<u>18,377</u>	<u>91,791</u>

*Notes:*

- (i) At 31 December 2003, the deposit paid for acquisition of fixed assets included deposit paid for the acquisition of a land use right of a piece of land in Ping Nan County, the PRC of HK\$15,243,000. In May 2004, Pingnan Joint Venture obtained the land use right from the respective PRC authority.
- (ii) The deposits were paid for the acquisition of Pingnan Joint Venture's rights to extract the limestone and clay for cement production in Ping Nan County, the PRC. In October 2004, Pingnan Joint Venture obtained the mining rights from the respective PRC authorities with terms of twenty years.

**11.    Stocks**

	<b>At</b>	<b>At</b>
	<b>30 September</b>	<b>31 December</b>
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	9,308	–
Consumables	496	20
	<u>9,804</u>	<u>20</u>

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**APPENDIX I      ACCOUNTANTS' REPORT ON TRICOT LIMITED**

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**12. Trade Payables**

The aging analysis of the Tricot Group's trade payables is as follows:

	<b>At</b>	<b>At</b>
	<b>30 September</b>	<b>31 December</b>
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-90 days	1,704	–
	<u>1,704</u>	<u>–</u>

**13. Amount Due to Immediate Holding Company**

The amount is unsecured, interest free and repayable on demand.

**14. Bank Loans**

	<b>At</b>	<b>At</b>
	<b>30 September</b>	<b>31 December</b>
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unsecured bank loans	381,686	–
	<u>381,686</u>	<u>–</u>

The bank loans are repayable as follows:

Within one year	194,086	–
Between two to five years	187,600	–
	<u>381,686</u>	<u>–</u>
<i>Less:</i> Amount due within one year shown under current liabilities	(194,086)	–
	<u>(194,086)</u>	<u>–</u>
Amount due after one year	187,600	–
	<u>187,600</u>	<u>–</u>

The unsecured bank loans above were guaranteed by the immediate holding company.

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**APPENDIX I ACCOUNTANTS' REPORT ON TRICOT LIMITED**

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**15. Share Capital**

	<b>At 31 December 2003 and 30 September 2004</b>	
	<i>US\$'000</i>	<i>HK\$'000</i>
Authorised:		
50,000 shares of US\$1 each	50	390
	<u>          </u>	<u>          </u>
Issued and fully paid:		
1 share of US\$1 each	–	–
	<u>          </u>	<u>          </u>

Tricot Limited was incorporated on 1 July 2003 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. At the time of incorporation, one share of US\$1 each was issued, for cash at par, to subscriber to provide the initial share capital of Tricot Limited.

**16. Reserves**

As at 30 September 2004 and 31 December 2003, Tricot Limited did not have any distributable reserve.

**17. Retirement Benefits Schemes**

The Tricot Group has established retirement benefits scheme for its full-time employees according to the relevant PRC regulations and rules. The Tricot Group is required to contribute certain percentage of its payroll cost to the retirement benefits scheme to fund the benefits. The only obligation of the Tricot Group with respect to the retirement benefits scheme is to make the specific contributions.

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**APPENDIX I                      ACCOUNTANTS' REPORT ON TRICOT LIMITED**

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**18. Acquisition of a Subsidiary**

On 11 August 2003, Tricot Limited entered into acquisition agreements to acquire 73.5% equity interest of Pingnan Joint Venture, for a consideration of RMB160,000,000 (equivalent to approximately HK\$150,136,000). Pingnan Joint Venture was engaged in the business of manufacture and sale of cement. The acquisition was completed in November 2003.

	<b>1/1/2004</b>	<b>1/7/2003</b>
	<b>to</b>	<b>to</b>
	<b>30/9/2004</b>	<b>31/12/2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NET ASSETS ACQUIRED</b>		
Fixed assets	–	51,928
Deposits paid	–	55,301
Other receivables	–	75,311
Cash and bank balances	–	24,321
Other payables	–	(2,727)
Amount due to a minority shareholder of a subsidiary	–	(856)
Minority interests	–	(53,869)
	–	149,409
Goodwill arising on acquisition	–	727
	–	150,136
<b>Total consideration</b>	<b>–</b>	<b>150,136</b>
Satisfied by:		
Cash	–	150,136
Analysis of net outflow of cash and cash equivalents		
in respect of the acquisition of a subsidiary:		
Cash consideration paid	–	(150,136)
Cash and bank balances acquired	–	24,321
	–	(125,815)

During the period from 1 July 2003 to 31 December 2003, the management conducted a review of the recoverable amount of goodwill and an impairment loss of HK\$727,000 was recognised.

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**19. Capital Commitments**

	At 30 September 2004 <i>HK\$'000</i>	At 31 December 2003 <i>HK\$'000</i>
Capital commitments outstanding at the balance sheet date in respect of acquisition of fixed assets contracted but not provided for in the financial statements	65,397	218,355

**B. DIRECTORS' REMUNERATION**

Save as disclosed herein, no remuneration has been paid or is payable, in respect of the Relevant Periods referred to in this report by the Tricot Group to the directors of Tricot Limited.

As at 30 September 2004, the Tricot Group did not have any employment contracts with the directors of Tricot Limited.

**C. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by Tricot Limited or any of the companies comprising the Tricot Group in respect of any period subsequent to 30 September 2004.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

## 1. SUMMARY

A summary of the unaudited pro forma combined results for each of the two years ended 31 December 2003 together with the unaudited pro forma combined assets and liabilities as at 31 December 2002 of the Group and the consolidated assets and liabilities as at 31 December 2003 of the Group, as extracted from the published 2003 annual report of the Company for the period from 13 March 2003 (date of incorporation) to 31 December 2003, is set out below:

	<b>2002</b>	<b>2003</b>
	<b>Unaudited Pro forma combined</b>	<b>Unaudited Pro forma combined</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	899,450	1,070,189
Cost of sales	(631,686)	(811,757)
	<hr/>	<hr/>
Gross profit	267,764	258,432
Other income	30,087	30,891
Selling and distribution costs	(81,607)	(92,738)
General and administrative expenses	(93,572)	(104,124)
Impairment loss in respect of goodwill arising on acquisition of additional interest in subsidiaries	(557)	0
Negative goodwill arising on acquisition of additional interest in a subsidiary realised	919	274
	<hr/>	<hr/>
Profit from operations	123,034	92,735
Finance costs	(29,081)	(17,688)
Share of results of associates	3,962	(4,308)
	<hr/>	<hr/>
Profit before taxation	97,915	70,739
Taxation	(19,528)	(8,214)
	<hr/>	<hr/>
Profit before minority interests	78,387	62,525
Minority interests	(5,615)	(13,253)
	<hr/>	<hr/>
Net profit for the year	<u>72,772</u>	<u>49,272</u>

	<b>2002</b>	<b>2003</b>
	<b>Unaudited Pro forma combined HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>Assets</b>		
Fixed assets	1,088,859	1,252,412
Intangible assets	23,706	10,952
Non-current investments	50,000	107
Retention monies receivable	–	4,334
Prepaid rentals	4,545	3,958
Deferred tax assets	16,844	13,246
Current assets	568,790	835,111
	<hr/>	<hr/>
Total assets	<u>1,752,744</u>	<u>2,120,120</u>
<b>Liabilities</b>		
Current liabilities	458,027	845,759
Non-current liabilities	213,447	144,945
Deferred tax liabilities	48,699	44,836
	<hr/>	<hr/>
Total liabilities	<u>720,173</u>	<u>1,035,540</u>

The unaudited pro forma combined results for each of the two years ended 31 December 2003 together with the unaudited pro forma combined assets and liabilities as at 31 December 2002 of the Group have been prepared on the basis as if the Company had always been the holding company of the subsidiaries under the Group Reorganisation (as described in more details in note 1A to the financial statements for the period from 13 March 2003 (date of incorporation) to 31 December 2003 in the following section on Audited Financial Information) since 1 January 2002. In the opinion of the Directors, the presentation of pro forma combined financial information gives a more meaningful view of the results and state of affairs of the Group as a whole.



## AUDITED FINANCIAL INFORMATION

Set out below is a summary of the audited consolidated profit and loss account of the Group for the period from 13 March 2003 (date of incorporation) to 31 December 2003 and the balance sheet of the Company and the consolidated balance sheet of the Group as at 31 December 2003 together with the relevant notes to the financial statements as extracted from the published 2003 annual report of the Company for the period from 13 March 2003 (date of incorporation) to 31 December 2003.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the period from 13 March 2003 (date of incorporation) to 31 December 2003*

	<i>Notes</i>	<i>HK\$'000</i>
Turnover	3	543,729
Cost of sales		(410,913)
		<hr/>
Gross profit		132,816
Other income		20,127
Selling and distribution expenses		(42,034)
General and administrative expenses		(63,360)
		<hr/>
Profit from operations		47,549
Finance costs	4	(10,024)
Share of results of associates		(3,423)
		<hr/>
Profit before taxation	5	34,102
Taxation	9	(3,254)
		<hr/>
Profit before minority interests		30,848
Minority interests		(7,295)
		<hr/>
Profit attributable to shareholders		23,553
		<hr/> <hr/>
Earnings per share (HK\$)	10	
– basic		0.114
		<hr/> <hr/>
– diluted		0.114
		<hr/> <hr/>

**BALANCE SHEETS***At 31 December 2003*

	<i>Notes</i>	<b>The Group</b> <i>HK\$'000</i>	<b>The Company</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Fixed assets	<i>11</i>	1,252,412	25
Intangible assets	<i>12</i>	10,952	–
Interests in subsidiaries	<i>13</i>	–	726,517
Interest in an associate	<i>14</i>	72	–
Other investments	<i>15</i>	35	–
Retention monies receivable due after one year		4,334	–
Prepaid rentals	<i>16</i>	3,958	–
Deferred tax assets	<i>17</i>	13,246	480
		<u>1,285,009</u>	<u>727,022</u>
<b>Current assets</b>			
Stocks	<i>18</i>	81,662	–
Retention monies receivable due within one year		9,797	–
Trade receivables	<i>19</i>	348,739	–
Other receivables		60,968	18,698
Amounts due from subsidiaries		–	248,645
Pledged bank deposits		1,032	–
Cash and bank balances		332,913	236,004
		<u>835,111</u>	<u>503,347</u>

**APPENDIX II**
**FINANCIAL INFORMATION OF THE GROUP**

	<i>Notes</i>	<b>The Group</b> <i>HK\$'000</i>	<b>The Company</b> <i>HK\$'000</i>
<b>Current liabilities</b>			
Trade payables	20	150,890	–
Other payables		132,528	3,300
Amounts due to fellow subsidiaries		474	–
Amounts due to minority interests		3,152	–
Amounts due to subsidiaries		–	266,735
Taxation payable		113	–
Bank loans – amount due within one year	21	558,602	–
		<u>845,759</u>	<u>270,035</u>
<b>Net current (liabilities) assets</b>		<u>(10,648)</u>	<u>233,312</u>
<b>Total assets less current liabilities</b>		<u>1,274,361</u>	<u>960,334</u>
<b>Non-current liabilities</b>			
Bank loans – amount due after one year	21	103,814	–
Loans from minority interests	22	28,937	–
Advance from minority interest	23	12,194	–
Deferred tax liabilities	17	44,836	–
		<u>189,781</u>	<u>–</u>
<b>Minority interests</b>		<u>100,063</u>	<u>–</u>
<b>Net assets</b>		<u><u>984,517</u></u>	<u><u>960,334</u></u>
<b>Capital and reserves</b>			
Share capital	24	36,281	36,281
Reserves	26	948,236	924,053
<b>Shareholders' funds</b>		<u><u>984,517</u></u>	<u><u>960,334</u></u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 13 March 2003 (date of incorporation) to 31 December 2003

	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Issue of share at the date of incorporation	–	–	–	–	–
Issue of share for cash	–	100,000	–	–	100,000
Issue of shares for the acquisition of subsidiaries	15,476	855,373	–	–	870,849
Capitalisation issue	20,805	(20,805)	–	–	–
Share issuing expenses	–	(8,649)	–	–	(8,649)
Exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong not recognised in the consolidated profit and loss account	–	–	(1,236)	–	(1,236)
Profit attributable to shareholders for the period	–	–	–	23,553	23,553
At 31 December 2003	<u>36,281</u>	<u>925,919</u>	<u>(1,236)</u>	<u>23,553</u>	<u>984,517</u>

**CONSOLIDATED CASH FLOW STATEMENT***For the period from 13 March 2003 (date of incorporation) to 31 December 2003*

HK\$'000

**Cash flows from operating activities**

Profit before taxation	34,102
Adjustments for:	
Depreciation of fixed assets	36,339
Amortisation of goodwill	1,999
Negative goodwill released to income	(3,106)
Amortisation of mining rights	267
Impairment loss recognised in respect of other investments	349
Amortisation of prepaid rentals	236
Interest income	(843)
Interest expenses	10,024
Share of results of associates	3,423
Loss on disposal of fixed assets	825
<b>Operating cash inflow before movements in working capital</b>	<b>83,615</b>
Decrease in stocks	795
Increase in retention monies receivable	(2,016)
Increase in trade receivables	(7,068)
Increase in other receivables	(21,870)
Decrease in amounts due from fellow subsidiaries	28,214
Decrease in amounts due from associates	3,607
Decrease in trade payables	(7,102)
Increase in other payables	11,935
Decrease in amounts due to fellow subsidiaries	(41,939)
Decrease in amounts due to minority interests	(72)
Decrease in amounts due to associates	(13)
Effect of foreign exchange rate changes on inter-company balances	953
<b>Cash generated from operations</b>	<b>49,039</b>
Hong Kong Profits Tax paid	(5,596)
Interest paid	(10,596)
<b>Net cash generated from operating activities</b>	<b>32,847</b>

	<i>Note</i>	<i>HK\$'000</i>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	27	202,700
Interest received		843
Purchase of fixed assets		(58,338)
Proceeds from disposal of fixed assets		245
Decrease in pledged bank deposits		8,097
		<hr/>
<b>Net cash generated from investing activities</b>		153,547
		<hr/>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares		100,000
Bank loans raised		296,746
Repayments of bank loans		(162,469)
Repayments of loans from minority interests		(62,337)
Repayments of advance from minority interest		(4,773)
Repayments of loans from fellow subsidiaries		(11,999)
Payment of share issuing expenses		(8,649)
		<hr/>
<b>Net cash generated from financing activities</b>		146,519
		<hr/>
<b>Increase in cash and cash equivalents for the period and cash and cash equivalents at 31 December 2003, representing cash and bank balances</b>		<b>332,913</b>
		<hr/> <hr/>

## NOTES TO THE FINANCIAL STATEMENTS

## 1. General

*A. Group reorganisation*

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 13 March 2003 under the Companies Law (2002 Revision) of the Cayman Islands. Pursuant to a reorganisation scheme (the “Group Reorganisation”) and the acquisition of Flavour Glory Limited, Clear Bright Investments Limited, Full Sincere Limited and Goodsales Investments Limited (the “Acquisition”), a group structure was formed (the “Group”) which comprised the Company, Innovative Market Limited (subsequently China Resources Cement Limited), Flavour Glory Limited, Clear Bright Investments Limited, Full Sincere Limited and Goodsales Investments Limited and their subsidiaries. The results of the Group are accounted for under acquisition accounting method. The details of the Group Reorganisation and the Acquisition are set out in the prospectus issued by the Company on 26 June 2003 (the “Prospectus”).

Pursuant to the resolution passed by the independent shareholders of China Resources Enterprise, Limited (“CRE”) at its extraordinary general meeting on 15 July 2003, the Company issued and allotted one share of HK\$0.10, credited as fully paid, to CRE as consideration for the acquisition of the entire issued share capital of Innovative Market Limited and the Company issued 208,052,458 shares of HK\$0.10 each in the Company by way of the capitalisation of HK\$20,805,246 standing to the credit of the share premium account of the Company for distribution to CRE. Following this Group Reorganisation, the Company acquired the 100 percentage interest in each of Flavour Glory Limited, Clear Bright Investments Limited, Full Sincere Limited and Goodsales Investments Limited and related shareholders’ loans at the aggregate consideration of approximately HK\$414.1 million, which was satisfied by the issue of 154,755,000 shares of HK\$0.10 each of the Company to China Resources (Holdings) Company Limited (“CR Holdings”). Accordingly, the Company became the holding company of companies then comprising the Group on 22 July 2003.

On 29 July 2003, the Company’s entire shares in issue of 362,807,461 shares of HK\$0.10 each were listed on the Main Board of the Stock Exchange by way of introduction.

***B. Ultimate holding company***

In the opinion of the directors, the Company's ultimate holding company is China Resources National Corporation, a company established in the Chinese Mainland.

***C. Principal activities***

The Company acts as an investment holding company. The principal activities of the Group are the production and sale of cement, concrete and related products and services.

***D. Basis of preparation of financial statements***

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong.

**2. Principal Accounting Policies*****A. Consolidation***

The financial statements of the Group include the financial statements of the Company and all its direct and indirect subsidiaries made up to 31 December and also incorporate the Group's interests in associates on the basis set out in note 2C below.

The results of subsidiaries and associates acquired or disposed of during the period are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

***B. Subsidiaries***

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body. In the Company's balance sheet, investments in subsidiaries are carried at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.



***C. Associates***

An associate is an enterprise, not being a subsidiary, over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee. The consolidated profit and loss account includes the Group's share of the results of associates for the period. In the consolidated balance sheet, interests in associates is stated at the Group's share of net assets of the associates plus unamortised goodwill (negative goodwill) arising on acquisitions, less any impairment loss.

In the Company's balance sheet, investments in associates are stated at cost less any impairment loss.

***D. Other investments***

Other investments are investments in debt and equity securities, except those held either solely for the purpose of recovering advances or, as investments in subsidiaries or associates.

Other investments which are debt securities held-to-maturity are stated at amortised cost in the balance sheet. Amortised cost is cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount.

Other investments which are held for an identified long-term purpose are measured at cost as reduced by any impairment loss that is other than temporary.

Other investments which are neither debt securities held-to-maturity nor securities held for an identified long-term purpose are measured at fair value, with unrealised gains or losses included in the consolidated profit and loss account.

***E. Goodwill/Negative goodwill***

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiary or an associate at the date of acquisition. Negative goodwill arising from acquisitions of subsidiaries or associates represents the excess of the Group's interest in the fair value of identifiable assets and liabilities acquired over the cost of acquisition.

Goodwill is recognised as an asset and amortised on a straight-line basis over its useful economic life of not more than 20 years and is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment loss.

Negative goodwill arising on acquisitions is presented as a deduction from assets and will be released to the consolidated profit and loss account based on an analysis of the circumstances from which the balance resulted.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised in the consolidated profit and loss account. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those identifiable acquired depreciable assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the consolidated profit and loss account immediately.

***F. Fixed assets***

***(a) Construction in progress***

Fixed assets in the course of construction for production, rent or administrative purposes or for the purposes not yet determined, are carried at cost less accumulated impairment losses, if any. Cost includes all construction expenditure, professional fees, borrowing cost capitalised and other relevant expenses directly attributable to such projects.

No provision for depreciation is made on construction in progress until such time when construction work is completed and the costs of construction are transferred to the appropriate category of fixed assets.

***(b) Other fixed assets***

Fixed asset other than construction in progress are stated at cost less depreciation and accumulated impairment loss, if any.

Depreciation of other fixed assets is provided to write off the cost of assets using the straight line method over their estimated useful lives. The estimated useful lives are as follows:

Land and buildings	Over the unexpired term of lease
Silo	10 to 40 years
Plant and machinery	3 to 40 years
Barge and pier	11 to 25 years
Furniture and equipment	3 to 16 <sup>2</sup> / <sub>3</sub> years
Motor vehicles, trucks and mixers	4 to 12 years
Leasehold improvements	Over the unexpired term of lease

(c) *Impairment of fixed assets*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated profit and loss account.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount. Such reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account in the year in which the reversals are recognised.

**G. Mining rights**

Mining rights are stated at cost less accumulated amortisation and any identified impairment loss. The cost of mining rights are amortised on the straight line method over the estimated useful life of 50 years.

***H. Stocks***

Stocks are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method.

***I. Recognition of revenue***

Sale of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

***J. Borrowing costs***

Borrowing costs are accounted for on the accrual basis and charged to the consolidated profit and loss account in the year incurred, except for costs related to funding of qualifying assets which are capitalised as part of the cost of that asset up to the date when substantially all the activities necessary to prepare the asset for its intended use or sale are completed.

***K. Taxation***

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the consolidated profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods, and it further excludes items in the consolidated profit and loss account that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised

to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the consolidated profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

***L. Foreign exchange***

Transactions in foreign currencies are initially recorded at the rates of exchange ruling on the transactions dates. Monetary assets and liabilities denominated in such currencies are re-translated at the rates of exchange ruling on the balance sheet date. Exchange differences are included in the determination of operating profit.

On consolidation, the amounts in the balance sheet of subsidiaries reported in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates of exchange ruling on the balance sheet date. The profit and loss account of subsidiaries reported in currencies other than Hong Kong dollars is translated at the average rates for the year. Exchange differences are dealt with as movements on reserves.

***M. Operating leases***

Rentals income or expense arising from operating leases is recognised in the consolidated profit and loss account on a straight line basis over the periods of the respective leases.

***N. Employee benefits***

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

***O. Employee benefits – Share option schemes***

When options are granted to employees to subscribe for shares of the Company in accordance with the Company's share option schemes, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

### 3. Turnover and Segment Information

Turnover represents the amount received and receivable for goods sold to outside customers.

#### *Primary reporting format – business segments*

#### **Profit and loss account**

	<b>Cement</b> <i>HK\$'000</i>	<b>Concrete</b> <i>HK\$'000</i>	<b>Elimination</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Turnover</b>				
External sales	272,612	271,117	–	543,729
Inter-segment sales	42,460	141	(42,601)	–
	<u>315,072</u>	<u>271,258</u>	<u>(42,601)</u>	<u>543,729</u>

Inter-segment sales are charged at prevailing market prices.

#### **Results**

Segment results	33,642	20,931	–	54,573
Interest income				843
Unallocated corporate expenses				(7,867)
				<u>47,549</u>
Profit from operations				47,549
Finance costs				(10,024)
Share of results of associates	–	(3,423)	–	(3,423)
				<u>34,102</u>
Profit before taxation				34,102
Taxation				(3,254)
				<u>30,848</u>
Profit before minority interests				30,848
Minority interests				(7,295)
				<u>23,553</u>
Profit attributable to shareholders				<u>23,553</u>

**Balance sheet**

	<b>Cement</b> <i>HK\$'000</i>	<b>Concrete</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Assets</b>			
Segment assets	1,154,838	611,462	1,766,300
Interests in an associate	–	72	72
Deferred tax assets			13,246
Unallocated corporate assets			340,502
			<u>2,120,120</u>
<b>Liabilities</b>			
Segment liabilities	172,878	107,894	280,772
Tax liabilities			44,949
Unallocated corporate liabilities			709,819
			<u>1,035,540</u>

**Other information**

	<b>Cement</b> <i>HK\$'000</i>	<b>Concrete</b> <i>HK\$'000</i>	<b>Corporate</b> <b>level</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Additions to fixed assets	57,721	1,163	26	58,910
Depreciation of fixed assets	24,018	12,320	1	36,339
Amortisation of goodwill	–	1,999	–	1,999
Amortisation of mining rights	267	–	–	267
Amortisation of prepaid rentals	236	–	–	236
Release of negative goodwill to income	(2,330)	(776)	–	(3,106)
	<u>(2,330)</u>	<u>(776)</u>	<u>–</u>	<u>(3,106)</u>



*Secondary reporting format – geographical segments by location of customers*

	<i>HK\$'000</i>	
Segment turnover		
Chinese Mainland		299,855
Hong Kong		243,874
		<u>543,729</u>
		<u><u>543,729</u></u>
	<b>Segment assets</b>	<b>Additions to fixed assets</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Chinese Mainland	1,258,843	58,175
Hong Kong	507,457	735
	<u>1,766,300</u>	<u>58,910</u>
	<u><u>1,766,300</u></u>	<u><u>58,910</u></u>

**4. Finance Costs**

	<i>HK\$'000</i>
Interest on:	
Bank loans wholly repayable within five years	10,072
Loans from minority interests of subsidiaries	524
	<u>10,596</u>
<i>Less:</i> Amount capitalised to fixed assets	(572)
	<u>10,024</u>
	<u><u>10,024</u></u>

Capitalisation rate of borrowing costs are calculated at 5.61% to expenditure on qualifying assets.

**5. Profit Before Taxation**

HK\$'000

Profit before taxation has been arrived at after charging:

Directors' emoluments ( <i>Note 6</i> )	1,936
Other staff costs	54,676
Other pension costs and mandatory provident fund contributions, excluding directors	2,477
Total staff costs	59,089
Depreciation of fixed assets	36,339
Amortisation of goodwill (included in general and administrative expenses)	1,999
Amortisation of mining rights (included in general and administrative expenses)	267
Amortisation of prepaid rentals (included in general and administrative expenses)	236
Auditors' remuneration	947
Impairment loss recognised in respect of other investments	349
Operating lease payments in respect of rented premises	13,663
Loss on disposal of fixed assets	825

and after crediting:

Interest income	843
Release of negative goodwill to income (included in other income)	3,106

**6. Directors' Emoluments**

	<i>HK\$'000</i>
Fees to independent non-executive directors	129
Other emoluments for independent non-executive directors	–
Other emoluments for non-executive directors	–
Other emoluments for executive directors	
– basic salaries and allowances	1,679
– pension costs and mandatory provident fund contributions	128
	1,807
Total directors' emoluments	<u>1,936</u>

The total emoluments of all directors were within the following band:

	<b>Number of directors</b>
Nil to HK\$1,000,000	<u>12</u>

**7. Five Highest Paid Employees**

The five highest paid employees during the period included one director, details of whose emoluments are set out in note 6 above. The details of the emoluments paid to the other four highest paid employees are as follows:

	<i>HK\$'000</i>
Basic salaries and allowances	1,703
Pension costs and mandatory provident fund contributions	202
	<u>1,905</u>

Their emoluments were within the following band:

	<b>Number of employees</b>
Nil to HK\$1,000,000	<u>4</u>

## 8. Retirement Benefits Scheme

The Group operates a defined contribution retirement scheme which is available to its employees in Hong Kong. The assets of the scheme are held separately in an independently administered fund. The amount of contributions is based on a specified percentage of the basic salary of employees and is charged to the consolidated profit and loss account. Any forfeited contributions in respect of unvested benefits of staff leavers will be used to reduce the Group's contributions. There was no significant amount of unutilised forfeited contributions at the balance sheet date.

With the introduction of the Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong in 2000, all employees who were members of the Group's defined contribution retirement scheme were given a choice either to remain in the Group's defined contribution retirement scheme or to join the MPF Scheme. All new employees must join the MPF Scheme.

The employees of the Group in the Chinese Mainland are members of government-managed retirement benefit schemes operated by the respective local government in the Chinese Mainland. The Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

## 9. Taxation

	<i>HK\$'000</i>
Current taxation	
Hong Kong Profits Tax	
Company and subsidiaries	3,320
Deferred taxation	
Current period	(66)
	<hr/>
	<u>3,254</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for the period.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. No provision for taxation for other jurisdictions has been made as all subsidiaries in the Chinese Mainland are entitled to full exemption from PRC Enterprise Income Tax for the first two years and 50% reduction for the following three years commencing from the first profitable year of operation after fully set off against the accumulated losses brought forward.

The charge for the period can be reconciled to the consolidated profit before taxation as follows:

	<i>HK\$'000</i>
Profit before taxation	34,102
Tax at the domestic income tax rate of 17.5%	5,968
Tax effect of expenses that are not deductible in determining taxable profit	2,326
Tax effect of income that are not allowable in determining taxable profit	(1,100)
Tax effect of utilisation of tax losses not previously recognised	161
Effect of different tax rates of subsidiaries operating in other jurisdictions	(4,101)
Tax expense at effective tax rate for the period	3,254

**10. Earnings Per Share**

The calculation of the basic and diluted earnings per share is based on the following data:

	<i>HK\$'000</i>
<b>Earnings</b>	
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	23,553
	<u>23,553</u>
	<i>'000</i>
<b>Number of shares</b>	
Weighted average number of shares for the purpose of calculating basic earnings per share	206,805
Effect on dilutive potential shares on share options	305
	<u>207,110</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share	207,110
	<u>207,110</u>

## 11. Fixed Assets

	THE GROUP							THE
	Land		Plant	Barge	Construction		Furniture	
	and buildings	Silo	and machinery	and pier	Others	in progress	Total	and equipment
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>COST</b>								
Relating to acquisition of subsidiaries	437,561	143,546	690,305	78,188	117,448	245,782	1,712,830	–
Additions	12,024	–	553	–	15,788	30,545	58,910	26
Transfer of construction in progress to other fixed assets	38,964	42,755	101,705	–	28,382	(211,806)	–	–
Disposals	(4,490)	(181)	(31,133)	–	(1,342)	–	(37,146)	–
Exchange adjustments	(692)	(629)	(2,305)	(340)	(219)	(1,178)	(5,363)	–
At 31 December 2003	483,367	185,491	759,125	77,848	160,057	63,343	1,729,231	26
<b>ACCUMULATED DEPRECIATION</b>								
Relating to acquisition of subsidiaries	61,924	26,210	308,710	13,406	67,362	–	477,612	–
Charge for the period	6,206	2,826	20,472	1,372	5,463	–	36,339	1
Written back on disposals	(4,023)	(27)	(31,051)	–	(975)	–	(36,076)	–
Exchange adjustments	(76)	(94)	(784)	(65)	(37)	–	(1,056)	–
At 31 December 2003	64,031	28,915	297,347	14,713	71,813	–	476,819	1
<b>NET BOOK VALUES</b>								
At 31 December 2003	419,336	156,576	461,778	63,135	88,244	63,343	1,252,412	25

*HK\$'000*

Net book values of the land and buildings  
of the Group comprise:

Hong Kong properties held on medium-term leases	240,896
Chinese Mainland	
– properties held on medium-term leases	166,103
– properties held on short-term leases	12,337
	<hr/>
	419,336
	<hr/> <hr/>

Included in construction in progress is net interest capitalised of approximately HK\$572,000.

Other fixed assets mainly comprise furniture and equipment, motor vehicles, trucks and mixers and leasehold improvements.



## 12. Intangible Assets

	<b>Goodwill</b> <i>HK\$'000</i> <i>(Note a)</i>	<b>Negative goodwill</b> <i>HK\$'000</i> <i>(Note b)</i>	<b>Mining rights</b> <i>HK\$'000</i> <i>(Note c)</i>	<b>Total</b> <i>HK\$'000</i>
<b>THE GROUP</b>				
<b>COST</b>				
Relating to acquisition of subsidiaries	23,986	(37,259)	23,499	10,226
Exchange adjustments	–	–	(114)	(114)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	23,986	(37,259)	23,385	10,112
<b>AMORTISATION</b>				
Charge (release) for the period	1,999	(3,106)	267	(840)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>NET BOOK VALUES</b>				
At 31 December 2003	<u>21,987</u>	<u>(34,153)</u>	<u>23,118</u>	<u>10,952</u>

*Notes:*

- (a) The amounts represent the goodwill arising on acquisition of subsidiaries during the Period and are amortised over five years.
- (b) The amounts represent the negative goodwill arising on acquisition of subsidiaries during the Period and are released to the consolidated profit and loss account over a period of five years.
- (c) The amounts represent the Group's rights to extract the limestone and sandstone for cement production in the Chinese Mainland for a period of 50 years commencing on 1 January 2002.

**13. Interests in Subsidiaries**

**THE COMPANY**  
*HK\$'000*

Unlisted shares, at cost 726,517

Particulars of the Company's subsidiaries at 31 December 2003 are set out in note 34.

**14. Interest in an Associate**

**THE GROUP**  
*HK\$'000*

Share of net assets 72

Particulars of the Company's associate at 31 December 2003 are set out in note 35.

**15. Other Investments**

**THE GROUP**  
*HK\$'000*

Unlisted shares in Hong Kong, at cost 384  
*Less:* Impairment loss recognised (349)

35

## 16. Prepaid Rentals

	<b>THE GROUP</b> <i>HK\$'000</i>
Total prepaid rentals	4,523
<i>Less:</i> Amount to be utilised within one year included in other receivables	(565)
	<u>3,958</u>

The amount represents the rental prepaid for railway facilities, which is stated at cost and amortised on the straight line method over 10 years.

## 17. Deferred Taxation

**THE GROUP**

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current reporting period.

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Tax losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Acquisition of subsidiaries	(45,991)	14,335	(31,656)
Credit (charge) to income ( <i>Note 9</i> )	1,155	(1,089)	66
	<u>(44,836)</u>	<u>13,246</u>	<u>(31,590)</u>
			<i>HK\$'000</i>
Deferred tax liabilities			(44,836)
Deferred tax assets			13,246
			<u>(31,590)</u>

At 31 December 2003, the Group has unused tax losses of HK\$78.8 million available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$52.4 million of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$26.4 million due to the unpredictability of future profit streams and the expiration of the tax losses in 2005. Other deferred tax assets are carried forward indefinitely.

Temporary differences arising in connection with interest in an associate are insignificant.

#### THE COMPANY

	<b>Tax loss</b> <i>HK\$'000</i>
Credit to income and balance at 31 December	480

#### 18. Stocks

	<b>THE GROUP</b> <i>HK\$'000</i>
Raw materials and consumables	68,955
Work in progress	716
Finished goods	11,991
	<u>81,662</u>

#### 19. Trade Receivables

The Group's trade receivables comprise:

	<i>HK\$'000</i>
Trade receivables from outsiders	307,360
Trade receivables from fellow subsidiaries	7,827
Trade receivables from minority interests	33,552
	<u>348,739</u>

The following is the aging analysis of trade receivables of the Group at the balance sheet date:

	<i>HK\$'000</i>
0 – 90 days	248,458
91 – 180 days	27,128
181 – 365 days	52,316
Over 365 days	20,837
	<hr/>
	348,739
	<hr/> <hr/>

The Group normally trades with its customers under the following credit terms:

- (a) Cash upon delivery; and
- (b) Open credit from 30 to 90 days.

## 20. Trade Payables

The Group's trade payables comprise:

	<i>HK\$'000</i>
Trade payables to outsiders	132,468
Trade payables to fellow subsidiaries	7,420
Trade payables to minority interests	11,002
	<hr/>
	150,890
	<hr/> <hr/>

The following is the aging analysis of trade payables of the Group at the balance sheet date:

	<i>HK\$'000</i>
0 – 90 days	90,026
91 – 180 days	19,308
181 – 365 days	19,823
Over 365 days	21,733
	<u>150,890</u>

## 21. Bank Loans

Bank loans are repayable as follows:

	<b>THE GROUP</b> <i>HK\$'000</i>
Within one year	558,602
After one year but within two years	99,124
After two years but within five years	4,690
	<u>662,416</u>
<i>Less:</i> Amount due within one year included in the current liabilities	<u>(558,602)</u>
Amount due after one year	<u>103,814</u>
Secured	392,406
Unsecured	270,010
	<u>662,416</u>

**22. Loans from Minority Interests**

Loans from minority interests are interest bearing, unsecured and have no fixed repayment terms. In the opinion of the directors, the loans will not be demanded for payment within twelve months from the balance sheet date. Accordingly, the amount is shown in the balance sheet as non-current.

**23. Advance from Minority Interest**

The amount is unsecured, interest free and has no fixed repayment terms. In the opinion of the directors, no demand for repayment will be made by the minority interest in the next twelve months from the balance sheet date. Accordingly, the amount is classified as non-current.

**24. Share Capital**

	<b>Number of shares</b>	<b>Amount</b> <i>HK\$'000</i>
Share of HK\$0.10 each:		
Authorised:		
At the date of incorporation and at 31 December 2003	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Issue of share at the date of incorporation	1	–
Issue of share for cash on 25 March 2003	1	–
Issue of new shares on acquisition of subsidiaries	154,755,001	15,476
Capitalisation issue	<u>208,052,458</u>	<u>20,805</u>
At 31 December 2003	<u>362,807,461</u>	<u>36,281</u>

The Company was incorporated on 13 March 2003 with an authorised share capital of HK\$100,000,000 divided into 1,000,000,000 shares of HK\$0.10 each.

At the date of incorporation, 1 share of HK\$0.10 was allotted and issued, for cash at par, to the subscriber.

On 25 March 2003, 1 share of HK\$0.10 was allotted and issued at HK\$100,000,000, for cash at par, to CRE.

On 15 July 2003, the Company issued 1 share of HK\$0.10 each in the Company, credited as fully paid at par to CRE as consideration for the acquisition of Innovative Market Limited.

On 15 July 2003, the Company issued 208,052,458 shares of HK\$0.10 each in the Company by way of the capitalisation of HK\$20,805,246 standing to the credit of the share premium account of the Company for distribution to CRE.

On 22 July 2003, the Company issued 154,755,000 shares of HK\$0.10 each in the Company, credit as fully paid at par to CR Holdings as consideration for the Acquisition and for the settlement of the outstanding loan of HK\$208,705,000 due by the Group to CR Holdings.

## **25. Share Option Scheme**

On 20 June 2003, the Company's then sole shareholder and directors adopted the Company's first share option scheme (the "Scheme"). The Scheme was approved at an extraordinary general meeting of CRE on 15 July 2003 and was deemed to be adopted on 29 July 2003, the date on which dealings in the shares of the Company first commenced on the Stock Exchange, and will expire on 29 July 2013. The purpose of the Scheme is to provide the participants ("Participants") with the opportunity to acquire proprietary interests in the Company and to encourage Participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Under the Scheme, the board of directors of the Company may grant options to Participants including executive or non-executive directors of the Group; any discretionary object of a discretionary trust established by any employee, executive or non-executive director of the Group; any executives and employees of the Company, its subsidiaries, substantial shareholders of the Company and associates of any of such substantial shareholders; consultants, professional and other advisers to the Group; chief executive; substantial shareholder of the Company; associated companies of the Group; associates of the directors, chief executive and substantial shareholder of the Company.



Subject to the requirements of the prevailing the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”), the subscription price shall be such price determined by the board of directors at its absolute discretion. The maximum entitlement of each Participant under the Scheme is equivalent to the maximum limit permitted under the prevailing Listing Rules. As at the date of this report, the total number of shares available for issue under the Scheme is 36,280,746 shares and represent 10% of the issued share capital of the Company.

The offer of a grant of share options under the Scheme may be accepted within 20 days from the date of the offer together with the payment of nominal consideration of HK\$1 in total by the grantee.

Share options granted are vested for a period of 10 years immediately after the date of grant and 20% of shares to be subscribed under the options granted will commence to be exercisable in each calendar year after the date of grant.

Details of the share options granted under the Scheme during the period and outstanding at 31 December 2003 were as follows:

<b>Participants</b>	<b>Date of grant</b>	<b>Exercise price HK\$</b>	<b>Number of share options granted during the period and outstanding at 31 December 2003</b>
Directors	5 December 2003	2.325	14,300,000
Employees other than directors	5 December 2003	2.325	12,440,000
Other participants	5 December 2003	2.325	1,740,000
			28,480,000

The above options are exercisable as follows:

<b>From</b>	<b>To</b>	<b>Number exercisable</b>
5 December 2004	4 December 2005	Up to 20% of the share options granted
5 December 2005	4 December 2006	Up to 40% of the share options granted, less the number of shares in respect of which the option had been previously exercised
5 December 2006	4 December 2007	Up to 60% of the share options granted, less the number of shares in respect of which the option had been previously exercised
5 December 2007	4 December 2008	Up to 80% of the share options granted, less the number of shares in respect of which the option had been previously exercised
5 December 2008	4 December 2013	The remaining share options which have not been exercised

## 26. Reserves

## THE GROUP

The retained profits of the Group include deficit of HK\$7,000 attributable to the associate of the Group.

## THE COMPANY

	<b>Share premium</b>	<b>Deficit</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Premium arising on issue of share	100,000	–	100,000
Issue of shares for the acquisition of subsidiaries	855,373	–	855,373
Capitalisation issue	(20,805)	–	(20,805)
Share issuing expenses	(8,649)	–	(8,649)
Net loss for the period	–	(1,866)	(1,866)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>925,919</u>	<u>(1,866)</u>	<u>924,053</u>

At 31 December 2003, the Company's distributable reserves amounted to HK\$924,053,000.

## 27. Acquisition of Subsidiaries

HK\$'000

Net assets acquired:	
Fixed assets	1,235,218
Mining rights	23,499
Interests in associates	29,958
Other investments	384
Retention monies receivable	12,115
Prepaid rentals	4,779
Deferred tax assets	14,335
Stocks	82,457
Trade receivables	341,671
Other receivables	38,533
Amounts due from fellow subsidiaries	28,214
Amounts due from associates	3,607
Pledged bank deposits	9,129
Cash and bank balances	225,880
Trade payables	(157,992)
Other payables	(120,593)
Amounts due to fellow subsidiaries	(42,413)
Amounts due to minority interests	(3,224)
Amounts due to associates	(13)
Taxation payable	(2,389)
Bank loans	(529,914)
Loans from minority interests	(91,274)
Loans from fellow subsidiaries	(11,999)
Advance from minority interest	(16,967)
Deferred tax liabilities	(45,991)
Minority interests	(93,245)
	<hr/>
	933,765
Goodwill on acquisition	23,986
Negative goodwill on acquisition	(37,259)
	<hr/>
Total consideration	<u>920,492</u>

HK\$'000

Discharged by:	
Cash	23,180
Issue of shares	870,849
Reclassification of interests in associates upon acquisition of the remaining interests of the associates	26,463
	<u>920,492</u>
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:	
Cash consideration paid	(23,180)
Cash and bank balances acquired	225,880
	<u>202,700</u>

The Group's turnover and profit from operations were substantially contributed by the subsidiaries acquired.

## 28. Operating Lease Commitments

At the balance sheet date, the Group had outstanding commitments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	<b>The Group</b>
	<i>HK\$'000</i>
Within one year	7,426
In the second to fifth year inclusive	7,977
Over five years	308
	<u>15,711</u>

Operating lease payments represent rentals payable by the Group and the Company for certain of its rented premises. Leases are negotiated for an average term of three years.

The Company did not have any operating lease commitments at the balance sheet date.

**29. Contingent Liabilities**

**The Group**  
*HK\$'000*

Guarantees given to financial institutions to facilitate hire purchase loans granted to the Group's sub-contractors for acquisition of trucks	2,567
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The Company did not have any significant contingent liability as at the balance sheet date.

**30. Capital Commitments**

Capital commitments for purchase and construction of fixed assets outstanding at the balance sheet date are as follows:

**The Group**  
*HK\$'000*

Contracted for but not provided for	19,146
Authorised but not contracted for	154,654
	<u>173,800</u>

The Company did not have any capital commitments as at the balance sheet date.

**31. Pledge of Assets**

At 31 December 2003, the Group has pledged certain land and buildings, silo, plant and machinery, barge and pier and other fixed assets with net book values of HK\$52,773,000, HK\$104,577,000, HK\$274,810,000, HK\$55,628,000 and HK\$9,304,000 respectively to banks to secure bank facilities granted to the Group.

**32. Related Party Transactions**

During the period, the Group entered into transactions with related parties as follows:

	<i>Notes</i>	<i>HK\$'000</i>
Sales of goods to fellow subsidiaries	<i>(a)</i>	14,194
Purchase of goods from fellow subsidiaries	<i>(b)</i>	6,570
Testing services provided to fellow subsidiaries	<i>(a)</i>	394
		<u>          </u>

*Notes:*

- (a) The prices of these transactions were determined between the parties with reference to the market prices.
- (b) The purchase prices of these transactions were determined between the parties with reference to the market prices.

In addition, the following related party transactions took place during the Period.

On 20 June 2003, the Company entered into an option deed with CR Holdings, pursuant to which a call option is granted to the Company by CR Holdings which provides the Company with the right to call for the transfer to it, all or any part of the 73.5% interest in Guangxi Ping Nan China Resources Yu Feng Cement Co., Limited (the "Ping Nan Joint Venture"), a company established on 20 May 2002 for the purpose of engaging in cement production in Ping Nan, Guangxi ZAR, at the original investment costs of CR Holdings plus interest at 0.5% above Hong Kong Interbank Offered Rate accruing from the period commencing on the respective dates of payment of such investment (whether in the form of capital contribution or shareholders' loans) up to the date of the agreement for transfer. Such option shall be exercisable for a period of twelve months from the commencement of commercial production of the Ping Nan Joint Venture.

**33. Post Balance Sheet Event**

In January 2004, the Group acquired from independent third parties the entire interests of 深圳市生成混凝土有限公司 (Shenzhen Shengcheng Concrete Limited) and 深圳市文偉混凝土有限公司 (Shenzhen Wenwei Concrete Limited) which are engaged in the business of concrete batching, at the considerations of RMB10,980,000 (equivalent to HK\$10,299,000) and RMB20,000,000 (equivalent to HK\$18,760,000) respectively.

**34. Subsidiaries**

Details of the Company's subsidiaries at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued ordinary shares/ registered capital	Proportion of nominal value of issued share/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Bigwood Limited	Hong Kong	HK\$20	–	100%	Property investment
Britscore Properties Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Cheer Forward Limited	Hong Kong	HK\$2	–	100%	Inactive
China Resources Cement Limited (formerly known as Innovative Market Limited)	British Virgin Islands	US\$2	100%	–	Investment holding
China Resources Concrete Limited (formerly known as Redland Holdings Limited)	British Virgin Islands	US\$1,000	100%	–	Investment holding



**APPENDIX II**
**FINANCIAL INFORMATION OF THE GROUP**

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued ordinary shares/ registered capital	Proportion of nominal value of issued share/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
China Resources Dongguan Cement Manufactory Holdings Limited (formerly known as China Resources Cement Company Limited)	Hong Kong	HK\$150,000,000	–	75%	Investment holding and trading of cement and related products
China Resources Dongguan Concrete Co., Ltd.	Chinese Mainland	HK\$17,000,000	–	100%	Manufacture and sale of concrete
Clear Bright Investments Limited	British Virgin Islands	US\$2	–	100%	Investment holding
Dongguan Huarun Cement Manufactory Co., Ltd.	Chinese Mainland	HK\$149,000,000	–	100%	Manufacture and sale of cement
Dongguan Redland Precast Concrete Products Limited	Chinese Mainland	HK\$12,800,000	–	100%	Manufacture and sale of precast concrete products
Dynashare Investments Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Falcon Strength Limited	British Virgin Islands	US\$1	–	100%	Inactive
First Route Limited	Hong Kong	HK\$2	–	100%	Property holding

**APPENDIX II**
**FINANCIAL INFORMATION OF THE GROUP**

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued ordinary shares/ registered capital	Proportion of nominal value of issued share/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Flavour Glory Limited	British Virgin Islands	US\$2	–	100%	Investment holding
Full Sincere Limited	British Virgin Islands	US\$2	–	100%	Investment holding
General Perfect Limited	Hong Kong	HK\$2	–	100%	Property holding
Goodsales Investments Limited	British Virgin Islands	US\$2	–	100%	Investment holding
Guangxi China Resources Hongshuihe Cement Co., Ltd.	Chinese Mainland	RMB200,000,000	–	70%	Manufacture and sale of cement
Guangxi China Resources Hongshuihe Pier Store Limited	Chinese Mainland	RMB2,000,000	–	95%	Property holding
Hasing Limited	Hong Kong	HK\$2	–	100%	Investment holding
Joyce Ocean Limited	British Virgin Islands	US\$2	–	100%	Investment holding
Maple Hall International Limited	British Virgin Islands	US\$1	–	100%	Investment holding
New Age Resources Ltd.	British Virgin Islands	US\$2	–	100%	Investment holding
New Age Worldwide Ltd.	British Virgin Islands	US\$2	–	100%	Investment holding
Profit Success Development Limited	Hong Kong	HK\$10,000	–	100%	Property holding

**APPENDIX II**
**FINANCIAL INFORMATION OF THE GROUP**

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued ordinary shares/ registered capital	Proportion of nominal value of issued share/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Prosper Supreme Limited	Hong Kong	HK\$2	–	100%	Investment holding
Quality Control Consultants Limited	Hong Kong	HK\$200,000	–	100%	Concrete testing and consultancy services
Redland Ash Limited	Hong Kong	HK\$2	–	100%	Trading of fly ash
Redland Concrete Limited	Hong Kong	HK\$10	–	100%	Manufacture and sales of concrete
Redland Concrete (China) Limited	Hong Kong	HK\$2	–	100%	Inactive
Redland Concrete Connections Limited	Hong Kong	HK\$2	–	100%	Trading of dry mortars
Redland Construction Materials Limited	Hong Kong	HK\$2	–	100%	Trading of construction materials
Redland – GRC Joint Venture Limited	Hong Kong	HK\$100	–	100%	Inactive
Redland Mortars Limited	Hong Kong	HK\$2	–	100%	Trading of mortars
Redland Precast Concrete Products Limited	Hong Kong	HK\$70,000,000	–	100%	Manufacture and sale of precast concrete products
Redland Precast Concrete Products Pte Ltd.	Singapore	S\$100,000	–	100%	Inactive
Redland Quarries Limited	Hong Kong	HK\$2	–	100%	Inactive

**APPENDIX II****FINANCIAL INFORMATION OF THE GROUP**

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued ordinary shares/ registered capital	Proportion of nominal value of issued share/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Redland Shotcrete Limited	Hong Kong	HK\$2	–	100%	Trading of shotcrete
Shenzhen China Resources Tiejian Concrete Co., Ltd.	Chinese Mainland	RMB25,000,000	–	70%	Manufacture and sale of concrete
Standard Wealth Investment Limited	Hong Kong	HK\$2	–	100%	Property holding
Wealth Trinity Limited	British Virgin Islands	US\$2	–	100%	Investment holding
Zhanjiang China Resources Hongshuihe Cement Co., Ltd.	Chinese Mainland	HK\$5,680,000	–	51%	Manufacture and sale of cement

**35. Associate**

Details of the Group's associate at 31 December 2003 are as follows:

Name of associate	Place of incorporation	Nominal value of issued ordinary shares	Proportion of nominal value of issued share capital held by the Group		Principal activity
Man Wah Quarry Limited	Hong Kong	HK\$100,000		50%	Inactive

**UNAUDITED INTERIM RESULTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2004**

*The following is an extract of the unaudited financial statements of the Group from its interim report for the six months ended 30 June 2004.*

**PROFIT AND LOSS ACCOUNT**

		Consolidated		Pro forma combined (Note 3)
		13 March 2003 (date of 1 January 2004 incorporation)		1 January 2003 to 30 June 2003 (Unaudited)
		to 30 June 2004 (Unaudited)	to 30 June 2003 (Unaudited)	to 30 June 2003 (Unaudited)
	Notes	HK\$'000	HK\$'000	HK\$'000
Turnover	4	671,270	–	460,663
Cost of sales		(481,627)	–	(352,405)
Gross profit		189,643	–	108,258
Other income		12,861	–	9,796
Selling and distribution expenses		(53,893)	–	(43,194)
General and administrative expenses		(73,999)	–	(39,357)
Profit from operations		74,612	–	35,503
Finance costs	5	(9,945)	–	(5,779)
Share of results of associates		–	–	504
Profit before taxation	6	64,667	–	30,228
Taxation	7	(5,492)	–	(4,257)
Profit before minority interests		59,175	–	25,971
Minority interests		(13,989)	–	(4,397)
Profit attributable to shareholders		45,186	–	21,574
Earnings per share (HK\$)	8			
– basic		0.125	–	0.059
– diluted		0.124	–	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 June 2004 (Unaudited) HK\$'000	At 31 December 2003 (Audited) HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Fixed assets	9	1,312,761	1,252,412
Intangible assets		13,259	10,952
Interest in an associate		72	72
Other investments		18	35
Retention monies receivable			
due after one year		7,072	4,334
Prepaid rentals		3,675	3,958
Deferred tax assets		7,786	13,246
		1,344,643	1,285,009
<b>Current assets</b>			
Stocks		87,968	81,662
Retention monies receivable			
due within one year		6,663	9,797
Trade receivables	10	396,392	348,739
Other receivables		60,825	60,968
Pledged bank deposits		–	1,032
Cash and bank balances		243,337	332,913
		795,185	835,111
<b>Current liabilities</b>			
Trade payables	11	117,546	150,890
Other payables		158,508	132,528
Amounts due to fellow subsidiaries		474	474
Amounts due to minority shareholders			
of subsidiaries		2,959	3,152
Taxation payable		261	113
Bank loans			
Amount due within one year	12	489,584	558,602
		769,332	845,759

**APPENDIX II****FINANCIAL INFORMATION OF THE GROUP**

		At 30 June 2004 (Unaudited) HK\$'000	At 31 December 2003 (Audited) HK\$'000
	<i>Note</i>		
<b>Net current assets (liabilities)</b>		25,853	(10,648)
<b>Total assets less current liabilities</b>		1,370,496	1,274,361
<b>Non-current liabilities</b>			
Bank loans			
Amount due after one year	12	132,445	103,814
Loans from minority shareholders of subsidiaries		38,403	28,937
Advance from a minority shareholder of a subsidiary		12,194	12,194
Deferred tax liabilities		44,021	44,836
		227,063	189,781
<b>Minority interests</b>		114,003	100,063
<b>Net assets</b>		1,029,430	984,517
<b>Capital and reserves</b>			
Share capital		36,281	36,281
Reserves		993,149	948,236
<b>Shareholders' funds</b>		1,029,430	984,517

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Issue of share on 13 March 2003 (date of incorporation)	–	–	–	–	–
Issue of share for cash	–	100,000	–	–	100,000
At 30 June 2003	–	100,000	–	–	100,000
Issue of shares for the acquisition of subsidiaries	15,476	855,373	–	–	870,849
Capitalisation issue	20,805	(20,805)	–	–	–
Share issuing expenses	–	(8,649)	–	–	(8,649)
Exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong not recognised in the consolidated profit and loss account	–	–	(1,236)	–	(1,236)
Profit attributable to shareholders for the period	–	–	–	23,553	23,553
At 31 December 2003 (Audited)	36,281	925,919	(1,236)	23,553	984,517
Exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong not recognised in the consolidated profit and loss account (Unaudited)	–	–	(273)	–	(273)
Profit attributable to shareholders for the period (Unaudited)	–	–	–	45,186	45,186
At 30 June 2004 (Unaudited)	36,281	925,919	(1,509)	68,739	1,029,430



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

		13 March 2003	
		(date of	
	1 January 2004	incorporation)	
	to	to	
	30 June 2004	30 June 2003	
	(Unaudited)	(Unaudited)	
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated			
from operating activities		51,958	–
Net cash used in investing activities	16	(110,614)	–
Net cash used in financing activities		(30,920)	–
		<hr/>	<hr/>
Net decrease in cash and			
cash equivalents		(89,576)	–
Cash and cash equivalents at			
beginning of the period		332,913	–
		<hr/>	<hr/>
Cash and cash equivalents at end of			
the period, representing cash and			
bank balances		243,337	–
		<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS****1. Basis of Preparation**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and with SSAP No. 25 “Interim financial reporting.”

**2. Principal Accounting Policies**

The condensed consolidated financial statements have been prepared under the historical cost convention and in accordance with accounting policies that are consistent with those followed in the preparation of the Group’s financial statements for the period from 13 March 2003 (date of incorporation) to 31 December 2003.

**3. Pro Forma Combined Financial Information**

- A. The pro forma combined profit and loss account for the six months ended 30 June 2003 of the Enlarged Group has been extracted from the Company’s Interim Report 2003 for information purposes only. The pro forma combined profit and loss account of the Enlarged Group may not be indicative of the results of the Enlarged Group for the six months ended 30 June 2003 had the Company always been the holding company of the Enlarged Group.
- B. The pro forma combined profit and loss account of the Enlarged Group for the six months ended 30 June 2003 has been prepared based on the unaudited financial statements, which are prepared in accordance with accounting principles generally accepted in Hong Kong, of the companies comprising the Enlarged Group and also making certain pro forma adjustments as described in the Company’s Interim Report for 2003, which are considered appropriate by the Directors for the purpose of preparing the pro forma combined financial information of the Enlarged Group.
- C. The pro forma combined financial information has been prepared under the historical cost convention and is consistent with those accounting policies followed in the preparation of Group’s financial statement for the period from 13 March 2003 (date of incorporation) to 31 December 2003 except that the Group Reorganisation and the Acquisition did not satisfy the criteria for the application of merger accounting as set out in SSAP No. 27 “Accounting for group reconstructions” issued by HKICPA.

## 4. Turnover and Segment Information

*Primary reporting format – business segments*

## For the six months ended 30 June

	Cement		Concrete		Elimination		Group	Enlarged Group
	Pro forma		Pro forma		Pro forma			Pro forma
	Consolidated	combined	Consolidated	combined	Consolidated	combined	Consolidated	combined
	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>								
External sales	349,352	268,426	321,918	192,237	–	–	671,270	460,663
Inter-segment sales	53,153	30,103	125	361	(53,278)	(30,464)	–	–
	<u>402,505</u>	<u>298,529</u>	<u>322,043</u>	<u>192,598</u>	<u>(53,278)</u>	<u>(30,464)</u>	<u>671,270</u>	<u>460,663</u>
<b>Results</b>								
Segment results	70,115	24,084	14,187	11,419	–	–	84,302	35,503
Interest income							305	–
Unallocated corporate expenses							(9,995)	–
Profit from operations							74,612	35,503
Finance costs							(9,945)	(5,779)
Share of results of associates	–	–	–	504	–	–	–	504
Profit before taxation							64,667	30,228
Taxation							(5,492)	(4,257)
Profit before minority interests							59,175	25,971
Minority interests							(13,989)	(4,397)
Profit attributable to shareholders							<u>45,186</u>	<u>21,574</u>

## 5. Finance Costs

For the six months ended 30 June

	<b>Consolidated 2004 (Unaudited) <i>HK\$'000</i></b>	<b>Pro forma combined 2003 (Unaudited) <i>HK\$'000</i></b>
Interest on:		
Bank loans wholly repayable within five years	9,824	8,579
Loans from minority shareholders of subsidiaries	648	1,538
	<u>10,472</u>	<u>10,117</u>
<i>Less:</i> Amount capitalised to fixed assets	(527)	(4,338)
	<u>9,945</u>	<u>5,779</u>

## 6. Profit Before Taxation

For the six months ended 30 June

	<b>Consolidated</b>	<b>Pro forma</b>
	<b>2004</b>	<b>combined</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Depreciation of fixed assets	45,890	33,243
Amortisation of goodwill (included in general and administrative expenses)	2,561	–
Amortisation of mining rights (included in general and administrative expenses)	484	182
Amortisation of prepaid rentals (included in general and administrative expenses)	283	283
Loss on disposal of fixed assets	2,779	–
and after crediting:		
Interest income	305	–
Release of negative goodwill (included in other income)	3,726	–
	<u>3,726</u>	<u>–</u>

## 7. Taxation

For the six months ended 30 June

	<b>Consolidated 2004 (Unaudited) HK\$'000</b>	<b>Pro forma combined 2003 (Unaudited) HK\$'000</b>
The taxation charge (credit) comprises:		
Current taxation		
Hong Kong Profits Tax	1,406	1,276
Chinese Mainland Enterprise Income Tax	(729)	–
	<u>677</u>	<u>1,276</u>
Deferred taxation		
Hong Kong	(1,751)	1,639
Chinese Mainland	6,566	1,129
Share of taxation attributable to associates		
Hong Kong	–	213
	<u>5,492</u>	<u>4,257</u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profits for the period.

Chinese Mainland Enterprise Income Tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the relevant subsidiaries in the Chinese Mainland.

**8. Earnings Per Share****For the six months ended 30 June**

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>Consolidated</b> <b>2004</b> <b>(Unaudited)</b> <i>HK\$'000</i>	<b>Pro forma</b> <b>combined</b> <b>2003</b> <b>(Unaudited)</b> <i>HK\$'000</i>
<b>Earnings</b>		
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	45,186	21,574
<b>Number of shares</b>		
Weighted average number of shares for the purpose of calculating basic earnings per share	362,807,461	362,807,461
Effect on dilutive potential shares on share options	1,218,203	–
Weighted average number of shares for the purpose of calculating diluted earnings per share	364,025,664	362,807,461

*Note:* The pro forma combined basic earnings per share was calculated on the assumption that 362,807,461 shares were in issued throughout the period as if the Group Reorganisation and the Acquisition had been completed on 1 January 2003.

No pro forma combined diluted earnings per share for 2003 is presented as the Company did not have any dilutive potential shares at 30 June 2003.

**9. Additions to Fixed Assets**

During the six months ended 30 June 2004, the Group spent approximately HK\$100,340,000 on acquisition of fixed assets.

**10. Trade Receivables**

The Group's trade receivables comprise:

	At 30 June 2004 (Unaudited) <i>HK\$'000</i>	At 31 December 2003 (Audited) <i>HK\$'000</i>
Trade receivables from outsiders	347,852	307,360
Trade receivables from fellow subsidiaries	4,572	7,827
Trade receivables from minority shareholders of subsidiaries	43,968	33,552
	<u>396,392</u>	<u>348,739</u>

The following is the aging analysis of trade receivables of the Group at the balance sheet date:

	At 30 June 2004 (Unaudited) <i>HK\$'000</i>	At 31 December 2003 (Audited) <i>HK\$'000</i>
0 – 90 days	279,767	248,458
91 – 180 days	46,842	27,128
181 – 365 days	30,174	52,316
Over 365 days	39,609	20,837
	<u>396,392</u>	<u>348,739</u>



The Group normally trades with its customers under the following credit terms:

- (a) Cash upon delivery; and
- (b) Open credit from 30 to 90 days.

### 11. Trade Payables

The Group's trade payables comprise:

	At 30 June 2004 (Unaudited) <i>HK\$'000</i>	At 31 December 2003 (Audited) <i>HK\$'000</i>
Trade payables to outsiders	100,541	132,468
Trade payables to fellow subsidiaries	7,741	7,420
Trade payables to minority shareholders of subsidiaries	9,264	11,002
	<u>117,546</u>	<u>150,890</u>

The following is the aging analysis of trade payables of the Group at the balance sheet date:

	At 30 June 2004 (Unaudited) <i>HK\$'000</i>	At 31 December 2003 (Audited) <i>HK\$'000</i>
0 – 90 days	84,597	90,026
91 – 180 days	19,700	19,308
181 – 365 days	4,343	19,823
Over 365 days	8,906	21,733
	<u>117,546</u>	<u>150,890</u>

**12. Bank Loans**

During the current period, the Group obtained new bank loans of HK\$166,026,000 and repaid bank loans of HK\$206,414,000. The bank loans bear interest at market rates and are repayable over a period of three years.

**13. Contingent Liabilities**

	At 30 June 2004 (Unaudited) <i>HK\$'000</i>	At 31 December 2003 (Audited) <i>HK\$'000</i>
Guarantees given to financial institutions to facilitate hire purchase loans granted to the Group's sub-contractors for acquisition of trucks	972	2,567

**14. Capital Commitments**

Capital commitments for purchase and construction of fixed assets outstanding at the balance sheet date are as follows:

	At 30 June 2004 (Unaudited) <i>HK\$'000</i>	At 31 December 2003 (Audited) <i>HK\$'000</i>
Contracted for but not provided for	124,009	19,146
Authorised but not contracted for	56,642	154,654
	180,651	173,800

**15. Pledge of Assets**

At 30 June 2004, the Group has pledged certain land and buildings, silo, plant and machinery, barge and pier and other fixed assets with net book values of approximately HK\$73,045,000 (31/12/2003: HK\$52,773,000), HK\$103,573,000 (31/12/2003: HK\$104,577,000), HK\$301,981,000 (31/12/2003: HK\$274,810,000), HK\$54,374,000 (31/12/2003: HK\$55,628,000) and HK\$26,802,000 (31/12/2003: HK\$9,304,000) respectively to banks to secure bank facilities granted to the Group.

**16. Net Cash Used In Investing Activities**

During the six months ended 30 June 2004, net cash used in investing activities included cash used in acquisition of subsidiaries as follows:

	<b>Consolidated 2004 (Unaudited) HK\$'000</b>	<b>Pro forma combined 2003 (Unaudited) HK\$'000</b>
Net assets acquired	27,434	–
Goodwill on acquisition	1,626	–
	<hr/>	<hr/>
Total consideration	29,060	–
	<hr/>	<hr/>
Discharged by:		
Cash	24,726	–
Deferred consideration included in other payables	4,334	–
	<hr/>	<hr/>
	29,060	–
	<hr/>	<hr/>
Analysis of the net outflow of cash and cash equivalent:		
Cash consideration paid	(24,726)	–
Cash and bank balances acquired	18	–
	<hr/>	<hr/>
	(24,708)	–
	<hr/> <hr/>	<hr/> <hr/>

Subsidiaries acquired during the current period did not make any significant contribution to the results of the Group.

**17. Related Party Transactions**

During the six months ended 30 June 2004, the Group entered into transactions with related parties as follows:

	<b>Consolidated</b>	<b>Pro forma</b>
	<b>2004</b>	<b>combined</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing transactions:		
Sale of goods to fellow subsidiaries	14,119	5,237
Purchase of goods from fellow subsidiaries	20,235	8,494
	<u>          </u>	<u>          </u>
Discontinued transactions:		
Sale of goods to a fellow subsidiary	–	24,055
Sale of goods to a former associate	–	2,761
Purchase of goods from a fellow subsidiary	–	24,055
Interest paid to fellow subsidiaries	–	437
	<u>          </u>	<u>          </u>

The above transactions were entered into in accordance with mutually agreed terms with reference to market price or in accordance with the terms of the contracts or agreements governing the transactions.

**18. Post Balance Sheet Event**

On 19 July 2004, the Company's indirect wholly owned subsidiary, Goodsales Investments Limited, entered into an agreement with 中鐵建廠工程局深圳實業公司 (Zhong Tie Jian Chang Construction Department Shenzhen Industrial Company) for the acquisition of the remaining 30% shareholding interests in Shenzhen CR Tiejian, at a consideration of RMB15.0 million (equivalent to approximately HK\$14.2 million). Thereafter, Shenzhen CR Tiejian became the Group's wholly owned subsidiary.

**INDEBTEDNESS**

As at the close of business on 31 October 2004, being the latest practicable date for the indebtedness statement prior to the printing of this circular, the Enlarged Group had total bank loans and bank overdraft of approximately HK\$1,016.6 million, of which bank loans of approximately HK\$282.6 million were secured by the Enlarged Group's certain fixed assets with the carrying value as at 31 October 2004 of approximately HK\$559.5 million. Of the bank loans and bank overdraft of approximately HK\$1,016.6 million, the amount of approximately HK\$382.2 million and HK\$24.0 million were guaranteed by China Resources Holdings and Sumitomo Corporation respectively.

As at 31 October 2004, the Enlarged Group also had loans from minority shareholders of subsidiaries of approximately HK\$35.6 million which are unsecured and interest bearing.

As at 31 October 2004, the Enlarged Group had contingent liabilities in respect of guarantees given to financial institutions to facilitate hire purchase loans granted to its sub-contractors for acquisition of trucks of approximately HK\$0.5 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the group did not have outstanding at the close of business on 31 October 2004 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Amounts in foreign currency have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the applicable rate of exchange ruling at the close of business on 31 October 2004.

**WORKING CAPITAL**

The Directors, after due and careful consideration, are of the opinion that upon the completion of the Acquisition and issuance of Bonds, and based on available banking and other facilities and internal resources of the Enlarged Group, the Enlarged Group has sufficient working capital for its requirements currently and for the period ending twelve months from the date of this circular.

**MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were 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 audited consolidated financial statements of the Group were made up.

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**APPENDIX III****UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP**

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**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND  
LIABILITIES OF THE ENLARGED GROUP**

The following is the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group assuming that the Acquisition and the issuance of Bonds had been taken place on 30 June 2004. The unaudited pro forma consolidated statement of assets and liabilities was prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2004, which has been extracted from the Interim Report of the Company for the six months ended 30 June 2004, and the consolidated balance sheet of Tricot Limited and its subsidiary (the “Tricot Group”) as at 30 September 2004 in the accountants’ report of Tricot Limited as set out in Appendix I to the circular, with adjustments to reflect the effect of the Acquisition and the issuance of Bonds.

The unaudited pro forma consolidated statement of assets and liabilities was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group or the Enlarged Group at any dates.

		As at 30 June 2004	As at 30 September 2004	Pro forma adjustments	Pro forma consolidated total
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets					
Fixed assets		1,312,761	521,209		1,833,970
Deposits paid		–	18,377		18,377
Intangible assets	2	13,259	–	9,179	22,438
Interest in an associate		72	–		72
Other investments		18	–		18
Retention monies receivable					
Amount due after one year		7,072	–		7,072
Prepaid rentals		3,675	–		3,675
Deferred tax assets		7,786	–		7,786
		<u>1,344,643</u>	<u>539,586</u>		<u>1,893,408</u>

**APPENDIX III**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP**

		As at 30 June 2004 The Group HK\$'000	As at 30 September 2004 Tricot Group HK\$'000	Pro forma adjustments HK\$'000	Pro forma consolidated total HK\$'000
	<i>Notes</i>				
Current assets					
Stocks		87,968	9,804		97,772
Retention monies receivable					
Amount due within one year		6,663	–		6,663
Trade receivables		396,392	–		396,392
Other receivables		60,825	6,322		67,147
Cash and bank balances	<i>1, 2 &amp; 3</i>	243,337	49,767	451,214	744,318
		<u>795,185</u>	<u>65,893</u>		<u>1,312,292</u>
Current liabilities					
Trade payables		117,546	1,704		119,250
Other payables		158,508	27,428		185,936
Amounts due to minority shareholders of subsidiaries		2,959	755		3,714
Amount due to immediate holding company	<i>2</i>	–	150,265	(150,265)	–
Amounts due to fellow subsidiaries		474	–		474
Taxation payable		261			261
Bank loans					
Amount due within one year	<i>3</i>	489,584	194,086	(194,086)	489,584
		<u>769,332</u>	<u>374,238</u>		<u>799,219</u>
Net current assets (liabilities)		<u>25,853</u>	<u>(308,345)</u>		<u>513,073</u>
Total assets less current liabilities		<u>1,370,496</u>	<u>231,241</u>		<u>2,406,481</u>

**APPENDIX III**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP**

		As at 30 June 2004 The Group HK\$'000	As at 30 September 2004 Tricot Group HK\$'000	Pro forma adjustments HK\$'000	Pro forma consolidated total HK\$'000
	<i>Note</i>				
Non-current liabilities					
Bank loans					
Amount due after one year		132,445	187,600		320,045
Loans from minority					
shareholders of subsidiaries		38,403	–		38,403
Advance from a minority					
shareholder of a subsidiary		12,194	–		12,194
Convertible bonds	<i>1</i>	–	–	800,000	800,000
Deferred tax liabilities		44,021	–		44,021
		<u>227,063</u>	<u>187,600</u>		<u>1,214,663</u>
Minority interests		<u>114,003</u>	<u>51,385</u>		<u>165,388</u>
Net assets (liabilities)		<u><u>1,029,430</u></u>	<u><u>(7,744)</u></u>	<u><u>4,744</u></u>	<u><u>1,026,430</u></u>

*Notes:*

- The adjustment reflects the proceeds from the issuance of Bonds amounting to HK\$800,000,000 after netting of estimated issuing expenses of HK\$3,000,000 which would be expensed as they are incurred.
- The adjustment reflects the acquisition of entire equity interest of Tricot Limited, with net liabilities of approximately HK\$7,744,000 as at 30 September 2004, and the related shareholder's loan from China Resources Holdings amounting to approximately HK\$150,265,000, at a consideration of approximately HK\$151,700,000. The goodwill resulting from the Acquisition amounted to approximately HK\$9,179,000.
- The adjustment reflects the repayment of short-term bank loan of Tricot Limited guaranteed by China Resources Holdings, amounting to HK\$194,086,000. Such banking facility will discontinue once China Resources Holdings ceases to own, directly or indirectly, at least 73.5%, equity interest of Pingnan Joint Venture.



**LETTER ON UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS  
AND LIABILITIES OF THE ENLARGED GROUP**

The following is the text of a letter from Deloitte Touche Tohmatsu, the reporting accountants, in respect of the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group.

**Deloitte.**  
**德勤**

24 December 2004

*The Directors*

**China Resources Cement Holdings Limited**

Dear Sirs/Mesdames,

We report on the unaudited pro forma financial information of China Resources Cement Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) and Tricot Limited and its subsidiary (together with the Group hereinafter referred to as the “Enlarged Group”) set out in Appendix III (the “Unaudited Pro Forma Financial Information of the Enlarged Group”) to the circular of the Company dated 24 December 2004 (the “Circular”) in connection with the proposed acquisition of the entire equity interest in Tricot Limited and the related shareholder’s loan from China Resources (Holdings) Company Limited (“China Resources Holdings”) (the “Acquisition”) and the proposed issue of zero coupon convertible bonds due 2010 guaranteed by and convertible into ordinary shares of the Company to China Resources Holdings (the “Bonds”), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition and issuance of Bonds might have affected the financial information presented.

**Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information of the Enlarged Group in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Financial Information of the Enlarged Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information of the Enlarged Group beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on Pro Forma Financial Information pursuant to the Listing Rules” issued by the Auditing Practice Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information of the Enlarged Group with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and accordingly, we do not express any such assurance on the Unaudited Pro Forma Financial Information of the Enlarged Group.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared on the basis set out in the Circular for illustrative purposes only and, because of its nature, it may not be indicative of the financial position of the Group or the Enlarged Group as at 30 June 2004 or at any future date.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information of the Enlarged Group has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information of the Enlarged Group as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

## 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 or 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 1) %
Qiao Shibo	Beneficial owner	–	3,800,000	3,800,000	1.047
Shi Shanbo	Beneficial owner	–	3,100,000	3,100,000	0.854
Zhou Junqing	Beneficial owner	–	2,800,000	2,800,000	0.772
Zhou Longshan	Beneficial owner	–	2,800,000	2,800,000	0.772
Sun Mingquan	Beneficial owner	–	2,600,000	2,600,000	0.717
Zheng Yi	Beneficial owner	–	2,600,000	2,600,000	0.717
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 HK\$	Number of underlying Shares	Aggregate long position in underlying Shares to issued share capital of the Company (Note 1) %
Qiao Shibo	5 December 2003	4 December 2013	2.325	3,000,000	1.047
	16 December 2004	15 December 2014	1.660	800,000	
Shi Shanbo	5 December 2003	4 December 2013	2.325	2,300,000	0.854
	16 December 2004	15 December 2014	1.660	800,000	
Zhou Junqing	5 December 2003	4 December 2013	2.325	2,000,000	0.772
	16 December 2004	15 December 2014	1.660	800,000	
Zhou Longshan	5 December 2003	4 December 2013	2.325	2,000,000	0.772
	16 December 2004	15 December 2014	1.660	800,000	
Sun Mingquan	5 December 2003	4 December 2013	2.325	1,800,000	0.717
	16 December 2004	15 December 2014	1.660	800,000	
Zheng Yi	5 December 2003	4 December 2013	2.325	1,800,000	0.717
	16 December 2004	15 December 2014	1.660	800,000	
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

*Notes:*

1. Based on 362,807,461 Shares in issue as at the Latest Practicable Date.
2. The options granted on 5 December 2003 are exercisable in 5 tranches of 20% each from 5 December 2004. The option granted on 16 December 2004 are exercisable in 4 tranches of 25% each from 16 December 2005.
3. Consideration for each of the above grants is HK\$1.00.

*(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	0.179
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	–	784,000	784,000	0.037
Zheng Yi	Beneficial owner	–	60,000	60,000	0.003
Ning Gaoning	Beneficial owner	1,630,000	4,500,000	6,130,000	0.289
Jiang Wei	Beneficial owner	–	600,000	600,000	0.028
Keung Chi Wang, Ralph	Beneficial owner	–	2,966,000	2,966,000	0.140

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	0.179
	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	0.212
	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	0.140
	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 2,123,009,215 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 2,647,383,071 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 3,808,028,000 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.

Mr. Qiao Shibo, Mr. Ning Gaoning and Mr. Jiang Wei, being Directors, are also directors of China Resources Holdings; Mr. Qiao Shibo and Mr. Ning Gaoning are also directors of CRNC; and Mr. Ning Gaoning is also a director of China Resources Co., Limited.

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:

Name of company	Name of substantial shareholder	Approximate shareholding interests held %
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 Hongshuihe Cement Joint Stock Company Limited	China National Building Material Group Corporation	13.2
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 CONTRACTS

The following contracts have been entered into by members of the Enlarged Group within two years preceding the date of this circular and are or may be material:

- an equity joint venture contract in Chinese dated 12 February 2003 between Guangxi China Resources Hongshuihe Cement Co. Ltd. (“Guangxi CR Cement”) and Profit Pool Holdings Limited (“Profit Pool”) regarding the establishment of 湛江華潤紅水河水泥有限公司 (Zhanjiang China Resources Hongshuihe Cement Company Limited) (“Zhanjiang CR Cement”) with a registered capital of HK\$5,680,000.00 in which Guangxi CR Cement owns 51%;
- a set of articles of association in Chinese dated 12 February 2003 signed by Guangxi CR Cement and Profit Pool in relation to the establishment of Zhanjiang CR Cement;
- a contract for the assignment of and licence to use trademarks in Chinese dated 31 May 2003 signed by China Resources Machinery and Minmetals (Holdings) Co., Limited (“Minmetals Holdings”), Clear Bright Investments Limited (“Dongguan Cement Holding”) and Dongguan Huarun Cement Manufactory Co., Ltd. (“Dongguan Cement”) for the assignment of the “東潤水泥” (“Dongrun Shuini”) and “潤豐水泥” (“Runfeng Shuini”) registered trademarks from Minmetals Holdings to Dongguan Cement Holding at nil consideration, under which an exclusive licence was also granted by Minmetals Holdings to Dongguan Cement for nil consideration to use the marks pending registration of the said transfer;
- an agreement for transfer of equity interest in Chinese dated 21 March 2003 between Dongguan Cement Holding and China Resources Metals & Minerals Company Limited (“CR Metals and Minerals”) in relation to the transfer of a 70% interest in Dongguan Cement by CR Metals and Minerals to Dongguan Cement Holding at a consideration of HK\$85,234,599.59, which was counter signed by Guangdong Dongguan Metals and Minerals Import and Export Ltd. (“Dongguan Metals and Minerals”), Sumitomo Corporation, Sumitomo Corporation (Hong Kong) Ltd. and UBE Industries, Ltd., being the other shareholders of Dongguan Cement;
- a loan assignment in Chinese dated 24 March 2003 between Dongguan Cement Holding, Minmetals Holdings and Dongguan Cement under which the benefit of the loan in the principal sum of HK\$121,200,000.00 due from Dongguan Cement to Minmetals Holdings was assigned to Dongguan Cement Holding in consideration of Dongguan Cement Holding paying the same amount to Minmetals Holdings;

- a loan assignment in Chinese dated 24 March 2003 between China Resources Cement Company Limited (“CR Cement Company”), Minmetals Holdings and Dongguan Cement under which the benefit of the loan in the principal sum of HK\$94,180,000.00 due from Dongguan Cement to Minmetals Holdings was assigned to CR Cement Company in consideration of CR Cement Company paying the same amount to Minmetals Holdings;
- a supplemental agreement in Chinese dated 21 March 2003 between Dongguan Cement Holding, Dongguan Metals and Minerals, Sumitomo Corporation (Hong Kong) Limited, Sumitomo Corporation and UBE Industries, Ltd., in relation to the joint venture contract of Dongguan Cement. Such supplemental agreement was signed pursuant to the transfer of a 70% interest in Dongguan Cement from CR Metals and Minerals to Dongguan Cement Holding;
- a supplemental agreement in Chinese dated 21 March 2003 between Dongguan Cement Holding and Dongguan Metals and Minerals, Sumitomo Corporation (Hong Kong) Limited, Sumitomo Corporation and UBE Industries, Ltd., in relation to the articles of association of Dongguan Cement. Such supplemental agreement was signed pursuant to the transfer of a 70% interest in Dongguan Cement from CR Metals and Minerals to Dongguan Cement Holding;
- an instrument of transfer and a set of bought and sold notes all dated 24 March 2003 regarding the transfer of 700,000 ordinary shares of HK\$1 each in CR Cement Company from CR Metals and Minerals to Dongguan Cement Holding at a consideration of HK\$531,770.00;
- a deed of assignment of debt dated 24 March 2003 regarding the assignment of shareholders’ loan in CR Cement Company from CR Metals and Minerals to Dongguan Cement Holding at a consideration of HK\$87,504,950.93;
- an agreement for transfer of equity interest in Chinese dated 25 February 2003 between Flavour Glory Limited (“Guangxi CR Cement Holding”) and Minmetals Holdings in relation to the transfer of a 70% interest in Guangxi CR Cement by Minmetals Holdings to Guangxi CR Cement Holding at a consideration of HK\$131,866,000.00;
- a supplemental agreement in Chinese dated 25 February 2003 between Guangxi CR Cement Holding and Guangxi Hongshuihe Cement Joint Stock Company Limited (“Guangxi Hongshuihe Cement”) in relation to the joint venture contract of Guangxi CR Cement. Such supplemental agreement was made pursuant to the transfer of a 70% interest in Guangxi CR Cement from Minmetals Holdings to Guangxi CR Cement Holding;



- a supplemental agreement in Chinese dated 25 February 2003 between Guangxi CR Cement Holding and Guangxi Hongshuihe Cement in relation to the articles of association of Guangxi CR Cement signed by the parties. Such supplemental agreement was signed pursuant to the transfer of a 70% interest in Guangxi CR Cement from Minmetals Holdings to Guangxi CR Cement Holding;
- an agreement for transfer of equity interest in Chinese dated 18 February 2003 between Full Sincere Limited (“Dongguan Concrete Holding”) and Minmetals Holdings in relation to the transfer of 100% interest in Dongguan China Resources Concrete Co. Ltd. (“Dongguan Concrete”) by Minmetals Holdings to Dongguan Concrete Holding at a consideration of HK\$12,000,000.00;
- a deed of assignment and trust of equity dated 24 March 2003 between Goodsales Investments Limited (“Shenzhen Concrete Holding”), China Resources (Shenzhen) Co., Ltd. and Minmetals Holdings in relation to the assignment of 70% beneficial interests in Shenzhen China Resources Tiejian Concrete Co., Ltd. (“Shenzhen Concrete”) from Minmetals Holdings to Shenzhen Concrete Holding at a consideration of HK\$16,483,250.00 and the declaration of trust in respect of such 70% interest by China Resources (Shenzhen) Co., Ltd. in favour of Shenzhen Concrete Holding;
- conditional agreement dated 26 March 2003 between the Company and China Resources Holdings regarding the acquisition of the entire issued share capital in, respectively, Dongguan Cement Holding, Dongguan Concrete Holding, Guangxi CR Cement Holding and Shenzhen Concrete Holding and the related shareholders’ loans in the total principal amount of HK\$208,704,951.00 in consideration of the allotment and issue of shares of the Company, credited as fully paid, to China Resources Holdings;
- a supplemental agreement in Chinese dated 9 April 2003 between Guangxi CR Cement and Profit Pool in relation to the joint venture contract of Zhanjiang CR Cement dated 12 February 2003. Such agreement was signed in relation to the amendment to the respective method of capital contribution of the parties;
- a supplemental agreement in Chinese dated 9 April 2003 between Guangxi CR Cement and Profit Pool in relation to the articles of association of Zhanjiang CR Cement dated 12 February 2003. Such agreement was signed pursuant to the supplemental agreement between the parties as mentioned above;

- an agreement in Chinese dated 3 June 2003 between Dongguan Metals and Minerals and Dongguan Cement Holding in relation to the transfer of a 5% interest in each of Dongguan Cement and CR Cement Company from Dongguan Metals and Minerals to Dongguan Cement Holding for a total consideration of HK\$4,800,000.00;
- a deed of option dated 20 June 2003 between China Resources Holdings and the Company in relation to the Pingnan Joint Venture, under which, amongst other things, China Resources Holdings granted to the Company at the consideration of HK\$1.00 an option to acquire its interests (if any) in the Pingnan Joint Venture;
- a deed of indemnity dated 20 June 2003 signed by China Resources Holdings in favour of the Company, pursuant to which China Resources Holdings has undertaken to indemnify the Company or the relevant members of the Enlarged Group in full in respect of losses, damages, obligations or liabilities arising out of or in connection with, among other things, title defects of certain property interests of the Enlarged Group;
- an instrument of transfer and a set of bought and sold notes all dated 15 July 2003 regarding the transfer of two ordinary shares of HK\$0.10 each in Innovative Markets Limited from China Resources Enterprise, Limited to the Company at the consideration of HK\$456,730,258.00;
- four sets of instrument of transfer and four sets of bought and sold notes all dated 22 July 2003 regarding the transfer of the entire interest in each of the following companies namely, Clear Bright Investments Limited, Goodsales Investments Limited, Flavour Glory Limited and Full Sincere Limited at the total consideration of HK\$205,413,108.00; and the deed of assignment of shareholders' loans of HK\$208,704,951.00. The total consideration of HK\$414,118,059.00 was settled by the issue of 154,755,000 ordinary share of HK\$0.10 in the capital of the Company;
- a share purchase agreement dated 30 July 2003 regarding the acquisition of 4,000,000 shares of HK\$1.00 each in the issued share capital of Redland Precast Concrete Products Limited at the consideration of HK\$23,179,500.00;
- a share transfer agreement in Chinese dated 19 December 2003 regarding the acquisition of 100% shareholding interest in 深圳市文偉混凝土有限公司 (Shenzhen Wenwei Concrete Limited) by China Resources Concrete Limited (“CR Concrete”) at the consideration of RMB20.0 million;
- a share transfer agreement in Chinese dated 19 December 2003 regarding the acquisition of 100% shareholding interest in 深圳市生成混凝土有限公司 (“Shenzhen Shengcheng Concrete Limited”) by CR Concrete at the consideration of RMB10.98 million;

- a share transfer agreement in Chinese dated 19 July 2004 regarding the acquisition of the remaining 30% interest in Shenzhen Concrete at the consideration of RMB15.0 million;
- a share transfer agreement in Chinese dated 23 September 2004 regarding the acquisition of 30% shareholding interest in Foshan Shunan Concrete Co. Ltd. by CR Concrete from Charmfine International Limited at the consideration of RMB5.94 million;
- a share transfer agreement in Chinese dated 23 September 2004 regarding the acquisition of 70% shareholding interest in Foshan Shunan Concrete Co. Ltd. by CR Concrete from 佛山市順德區樂從鎮宏佳建材有限公司 (“Foshan Shunde Lecong Hongjia Building Materials Co. Ltd.”) at the consideration of RMB13.86 million;
- a transfer agreement in Chinese dated 27 September 2004 regarding the acquisition of the entire 67.86% equity shareholding in Guangxi Hongshuihe Cement held by 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”) at zero consideration and the assumption of certain liabilities of Guangxi Hongshuihe Cement, estimated to approximately RMB61.5 million;
- an undertaking by China Resources Cement Limited in Chinese dated 27 September 2004 in relation to the assumption of certain liabilities of Guangxi Hongshuihe Cement as mentioned in the preceding paragraph;
- the Facility Agreement;
- the Acquisition Agreement; and
- the Subscription Agreement.

## **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 experts who have provided their advices which are 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.
Deloitte Touche Tohmatsu	Certified Public Accountants

Somerley and Deloitte Touche Tohmatsu have given and have not withdrawn their written consent to the issue of this circular with the inclusion of their letters and the references to their names in the form and context in which they appear.

As at the Latest Practicable Date, Somerley and Deloitte Touche Tohmatsu were 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 they 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.

#### **PROCEDURES FOR DEMANDING A POLL**

In accordance with the Listing Rules, any vote taken at the EGM to approve the Acquisition Agreement, the Subscription Agreement and the provision of financial assistance to a substantial shareholder of the Pingnan Joint Venture must be taken by poll.

According to Article 76 of the articles of association of the Company, a poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least five members present in person or by proxy and entitled to vote at the meeting; or
- (iii) any member or members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all the members having the rights to attend and vote at the meeting; or
- (iv) any member or members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The above-mentioned persons may demand for a poll on or before the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll.

#### **MISCELLANEOUS**

- (a) The Company's 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 10 January 2005.

- the memorandum and articles of association of the Company;
- the annual report of the Company for the financial year ended 31 December 2003;
- the accountants' report of Tricot Limited for the period from 1 July 2003 (date of incorporation) to 31 December 2003 and the nine months ended 30 September 2004;
- the letter from Deloitte Touche Tohmatsu in relation to the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group;
- the letter from the Independent Board Committee, the text of which is set out on pages 26 to 27 of this circular;
- the letter from Somerley dated 24 December 2004, the text of which is set out on pages 28 to 45 of this circular;
- the consent letters from Somerley and Deloitte Touche Tohmatsu referred to in the section headed "Expert and consent" in this appendix;
- the material contracts referred to under the paragraph headed "Material Contracts" in appendix IV to this circular;
- the Subscription Agreement; and
- the Acquisition Agreement.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of China Resources Cement Holdings Limited (the “Company”) will be held at 4:00 p.m. on Monday, 10 January 2005 at 49th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

### ORDINARY RESOLUTIONS

1. “**THAT** conditional on passing resolution numbered 2 below, the execution of the conditional sale and purchase agreement dated 29 November 2004 (“Acquisition Agreement”) (a copy of which is produced to the meeting marked “A” and initialed by the Chairman of the meeting for the purpose of identification) made between China Resources (Holdings) Company Limited as vendor and the Company as purchaser for the acquisition of the entire issued share capital of Tricot Limited which in turn holds approximately 73.5% equity interest in Guangxi Pingnan China Resources Yufeng Cement Company Limited, and the related shareholder’s loan for a total consideration of approximately HK\$151.7 million, the terms and conditions of the Acquisition Agreement, the documents incidental to and the transactions contemplated under the Acquisition Agreement and the performance of the Company thereof be and are hereby confirmed, ratified and approved and that any one or more of the directors of the Company (“Director(s)”) be and are hereby authorised to sign, seal, execute, perfect and deliver such other documents or supplemental agreements and to all such acts, matters and things as he or she or they may consider necessary or desirable for the purposes of giving effect to the Acquisition Agreement and completing the transactions contemplated by the Acquisition Agreement with such changes as such Director(s) may consider necessary, desirable or expedient.”
  
2. (a) “**THAT** the execution of conditional subscription agreement dated 29 November 2004 (“Subscription Agreement”) (a copy of which is produced to the meeting marked “B” and initialed by the Chairman of the meeting for the purpose of identification), the terms and conditions of the Subscription Agreement, the documents incidental to and the transactions contemplated under the Subscription Agreement and the performance of the Company thereof be and are hereby confirm, ratified and approved and the issue

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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of zero coupon guaranteed convertible bonds (“Bonds”) due 2010 in the aggregate principal amount of HK\$800.0 million in the form and on the terms and conditions as set out in the Subscription Agreement to Firstsuccess Investments Limited, a wholly owned subsidiary of China Resources (Holdings) Company Limited, by China Resources Cement Finance Limited, a wholly owned subsidiary of the Company, and guaranteed by and convertible into shares of the Company, and the allotment and issue of new shares in the capital of the Company upon conversion of the Bonds (whether in whole or in part thereof), be and are hereby approved;

(b) subject to closing of the Bonds, the Directors be and are hereby authorised to allot and issue new shares of the Company, credited as fully paid and ranking *pari passu* in all respects with all the shares in the capital of the Company then in issue, upon exercise or deemed exercise of the conversion rights attaching to the Bonds (whether in whole or in part thereof) in accordance with the terms and conditions governing the Bonds; and

(c) the Directors be and are hereby authorised to do all such acts and things as they consider necessary or expedient in connection with the transactions or any of the matters contemplated in sub-paragraphs 2(a) and 2(b) above.” and

3. “**THAT** conditional on passing resolution numbered 1 above, the provision of financial assistance by way of guarantee and shareholder’s loan, as described in the circular of the Company dated 24 December 2004 and despatched to shareholders of the Company (a copy of which is produced to the meeting marked “C” and initialed by the Chairman of the meeting for the purpose of identification), by the Company to a substantial shareholder of Guangxi Pingnan China Resources Yufeng Cement Company Limited upon completion of the acquisition under the Acquisition Agreement (as referred to in Resolution No.1) be and is hereby approved and the Directors be and are hereby authorised to take all steps necessary or expedient, in their opinion, to implement and/or give effect to the provision of such financial assistance.”

By Order of the Board

**Shi Shanbo**

*Director*

Hong Kong, 24 December 2004



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Registered office:*

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

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

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

*Notes:*

- (1) Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies (who must be an individual) to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- (2) Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.
- (3) A form of proxy for use at the meeting is enclosed.
- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof, must be lodged with the share registrar and transfer office of the Company, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjournment thereof. Completion and return of the form of proxy will not preclude members from subsequently attending and voting in person at the meeting or any adjourned meeting.