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## IMPORTANT

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

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

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

This circular is for information purpose only and is not an offer to sell or a solicitation of an offer to purchase any shares in China Resources Cement Holdings Limited.

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

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

**(Stock Code: 712)**

## DISCLOSEABLE AND CONNECTED TRANSACTION

### ACQUISITION OF 25% EQUITY INTEREST IN CHINA RESOURCES DONGGUAN CEMENT

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

**ANGLO CHINESE**  
CORPORATE FINANCE, LIMITED

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

 **SOMERLEY LIMITED**

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A letter from the independent board committee of China Resources Cement Holdings Limited is set out on pages 13 to 14 of this circular.

A letter from Somerley Limited, the independent financial adviser, containing its advice to the independent board committee and the shareholders of China Resources Cement Holdings Limited is set out on pages 15 to 26 of this circular.

7 February 2005

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## CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	4
Introduction .....	4
The Share Swap Agreement dated 12 January 2005 .....	5
Basis of determination of the Consideration .....	6
Memorandum of Strategic Alliance .....	7
Shareholding before and after the issue of Consideration Shares and Conversion Shares .....	8
Reasons for the Acquisition .....	9
Information about China Resources Dongguan Cement .....	9
Information about the Company .....	10
Information about the Vendors .....	10
Financial effect of the Acquisition on the Company .....	11
Implication of the Listing Rules .....	11
General .....	12
<b>Letter from the Independent Board Committee</b> .....	13
<b>Letter from Somerley</b> .....	15
<b>Appendix – General information</b> .....	27

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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 25% equity interest in China Resources Dongguan Cement pursuant to the Share Swap Agreement
“Announcement”	announcement of the Company dated 14 January 2005
“Associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	board of Directors
“Bonds”	the zero coupon guaranteed convertible bonds due 2010 in the aggregate principal amount of HK\$800.0 million
“China Resources Dongguan Cement”	China Resources Dongguan Cement Manufactory Holdings Limited, a company incorporated in Hong Kong with limited liability
“China Resources Holdings”	China Resources (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability
“Clawback Offer”	the conditional offer of Bonds of an aggregate principal amount of HK\$200.0 million to the Qualifying Shareholders by Firstsuccess Investments Limited, a wholly owned subsidiary of China Resources Holdings
“Company”	China Resources Cement Holdings Limited, a company incorporated in the Cayman Islands with limited liability and its shares are listed on the Stock Exchange
“Consideration”	an aggregate value of HK\$38.0 million payable by the Company to the Vendors on completion of the Share Swap Agreement which will be satisfied by the issue and allotment of the Consideration Shares at the Issue Price
“Consideration Shares”	19,000,000 Shares, credited as fully paid
“Conversion Shares”	400,000,000 Shares, subject to adjustment, to be allotted and issued by the Company upon conversion of the Bonds

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## DEFINITIONS

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“CRNC”	China Resources National Corporation, a state-owned enterprise in PRC
“Directors”	the directors of the Company
“Dongguan Cement”	Dongguan Huarun Cement Manufactory Co., Ltd., a wholly owned foreign enterprise established in PRC with a registered capital of HK\$149.0 million and a wholly owned subsidiary of China Resources Dongguan Cement
“General Mandate”	the General Mandate approved by the Shareholders on 21 May 2004
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Independent Board Committee”	an independent committee of the Board comprising Mr. Chan Mo Po, Paul, Mr. Lin Zongshou and Mr. Lui Pui Kee, Francis, all being independent non-executive Directors, which has been established to advise the Shareholders as regards the Acquisition
“Issue Price”	the issue price of HK\$2.00 per Consideration Share as agreed between the Company and the Vendors
“Latest Practicable Date”	3 February 2005, 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
“Memorandum of Strategic Alliance”	a memorandum of strategic alliance to be entered into between the Company and the Vendors pursuant to the terms of the Share Swap Agreement
“PRC”	The People’s Republic of China

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## DEFINITIONS

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“Qualifying Shareholders”	Shareholders qualifying for the Clawback Offer
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Swap Agreement”	a share swap agreement dated 12 January 2005 entered into between the Company and the Vendors as referred to in this circular
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Sommerley”	Sommerley Limited, a deemed licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities, the independent financial adviser to the Independent Board Committee
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sumitomo (Hong Kong)”	Sumitomo Corporation (Hong Kong) Limited, a subsidiary of Sumitomo Corporation and a company incorporated in Hong Kong
“Sumitomo Corporation”	Sumitomo Corporation, a company incorporated in Japan
“UBE Industries”	UBE Industries, Ltd., a company incorporated in Japan
“Vendors”	Sumitomo Corporation, Sumitomo (Hong Kong) and UBE Industries
“%”	Per cent

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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:*

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

7 February 2005

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

### **ACQUISITION OF 25% EQUITY INTEREST IN CHINA RESOURCES DONGGUAN CEMENT**

#### **INTRODUCTION**

The Board announced on 14 January 2005 that the Company entered into a Share Swap Agreement with the Vendors on 12 January 2005 for the acquisition of 25% equity interest in China Resources Dongguan Cement.

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## LETTER FROM THE BOARD

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### THE SHARE SWAP AGREEMENT DATED 12 JANUARY 2005

Sellers: The Vendors

Buyer: The Company

Assets to be acquired: 25% equity interest in China Resources Dongguan Cement.

China Resources Dongguan Cement is a company incorporated in Hong Kong with limited liability on 25 January 1994. It is an investment holding company and its principal asset is 100% equity interest in Dongguan Cement which is engaged in the manufacture and trading of cement products in PRC. The Company has owned 75% equity interest in China Resources Dongguan Cement since its listing on 29 July 2003.

Consideration: The consideration of HK\$38.0 million will be satisfied by the issue and allotment of a total of 19,000,000 Consideration Shares at the issue price of HK\$2.00 per Consideration Share by the Company to the Vendors or their respective nominees on a pro rata basis to their respective shareholdings.

The original costs of investments devoted by UBE Industries, Sumitomo Corporation and Sumitomo (Hong Kong) to China Resources Dongguan Cement as at 31 December 2004 were approximately HK\$18.8 million, approximately HK\$15.0 million and approximately HK\$3.8 million respectively.

Conditions: Completion of the Share Swap Agreement shall be conditional upon satisfaction of all of the following conditions by not later than the long stop date of 28 February 2005 or such later date as may be mutually agreed by the Company and the Vendors:

1. the approval by the Shareholders in respect of the transactions contemplated by the Share Swap Agreement in accordance with the requirements of the Listing Rules; and
2. the Listing Committee of the Stock Exchange granting or agreeing to grant approval for the listing of and permission to deal in the Consideration Shares.

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## LETTER FROM THE BOARD

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The parties shall use reasonable endeavours to ensure that the conditions are satisfied by no later than the long stop date. If for any reason any of the conditions shall not have been fulfilled by the Company by the long stop date, the Share Swap Agreement shall automatically be terminated and be null. The Company and the Vendors acknowledge that the above conditions 1 and 2 are requirements under the Listing Rules, which cannot be waived.

Pursuant to the Share Swap Agreement, the Company and the Vendors will enter into, among other things, a Memorandum of Strategic Alliance in connection with the cement manufacturing business upon completion of the Acquisition.

**Completion:** It is expected that the Acquisition will be completed on or before 28 February 2005.

**Undertaking:** The Consideration Shares will, upon allotment, be subject to lock-up undertakings from the Vendors for a period of twelve months from the date of the Memorandum of Strategic Alliance to be entered into on completion of the Share Swap Agreement.

### **BASIS OF DETERMINATION OF THE CONSIDERATION**

The Consideration and the terms of the Share Swap Agreement have been arrived at after arm's length negotiations between the Company and the Vendors with reference to the audited consolidated net asset value of China Resources Dongguan Cement as at 31 December 2003, amounted to approximately HK\$131.5 million.

The Consideration Shares have a total market value of approximately HK\$34.4 million, based on the closing price of HK\$1.81 per Share on 12 January 2005, being the last trading day prior to the release of the Announcement.

The Consideration Shares represent approximately 5.2% of the existing issued share capital of the Company and approximately 5.0% of the enlarged issued share capital of the Company following the issue of the Consideration Shares. The Consideration Shares represent approximately 2.4% of the enlarged issued share capital of the Company following the issue of the Consideration Shares and the Conversion Shares.

The Consideration Shares are issued under the General Mandate under which the Company can issue up to 72,561,492 Shares.



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## LETTER FROM THE BOARD

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The Issue Price represents:

- a premium of approximately 10.5% to the closing price of HK\$1.81 per Share on 12 January 2005, being the last trading day prior to the release of the Announcement;
- a premium of approximately 15.5% to the average closing price of HK\$1.732 per Share over the last 10 trading days up to and including 12 January 2005, being the last trading day prior to the release of the Announcement;
- a premium of approximately 11.7% over the closing price of HK\$1.79 per Share on the Latest Practicable Date; and
- a discount of approximately 29.6% to the unaudited net asset value of the Company of HK\$2.84 per Share as at 30 June 2004.

### MEMORANDUM OF STRATEGIC ALLIANCE

The Company and the Vendors desire to strengthen their alliance by cooperating in the (i) supply of clinker by Sumitomo Corporation; (ii) supply of granulated blast furnace slag by Sumitomo Corporation; and (iii) assistance to be rendered by secondees of the Vendors for the development of the cement manufacturing business of the Group. Under the Memorandum of Strategic Alliance, the Company will enter into a material supply agreement and an agreement for secondment with the Vendors. The term of the Memorandum of Strategic Alliance is five years from the date on which it comes into effect, unless terminated otherwise.

#### **(i) Material supply agreement**

The Company will agree to purchase and Sumitomo Corporation will agree to supply an annual total volume of not less than 600,000 tonnes of clinker at mutually acceptable price for ten years with retrospective effect from 1 January 2005. The pricing shall be determined annually and each transaction is subject to the signing of a separate sale and purchase contract.

#### **(ii) Agreement for secondment**

The Vendors will second two persons as approved by the Company to China Resources Dongguan Cement to assist the Group in the development of its cement manufacturing business. The principal responsibilities of the secondees include (a) rendering technical assistance to the cement factories of the Group; (b) giving advice on how to enhance efficiency in production, and sales planning and coordination, including export matters, of the Group; and (c) assisting in feasibility study of new projects in cement manufacturing and related businesses. The Company will pay annual management fees of HK\$300,000 to each of Sumitomo Corporation and UBE Industries during the term of the agreement which runs concurrently with the Memorandum of Strategic Alliance.

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## LETTER FROM THE BOARD

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### SHAREHOLDING BEFORE AND AFTER THE ISSUE OF CONSIDERATION SHARES AND CONVERSION SHARES

Reference is made to the circular of the Company dated 24 December 2004 in relation to, amongst other things, the subscription agreement for the Bonds and the announcement of the Company dated 10 January 2005 regarding the results of the extraordinary general meeting held on even date. The subscription agreement has been completed and the Bonds of an aggregate principal amount of HK\$800.0 million have been issued by China Resources Cement Finance Limited to Firstsuccess Investments Limited, a wholly owned subsidiary of China Resources Holdings. The prospectus of the Clawback Offer has been despatched to the Shareholders on 31 January 2005.

Under the terms of the amended and restated instrument dated 27 January 2005 constituting the Bonds, the allotment and issue of the Consideration Shares on completion of the Acquisition will not trigger an adjustment to the initial conversion price of the Bonds of HK\$2.00 per Conversion Share.

The table below shows the shareholdings before and after the issue of the Consideration Shares and the Conversion Shares:

Shareholders	Before the issue of the Consideration Shares		After the issue of the Consideration Shares		After the issue of the Consideration Shares and the Conversion Shares (assume Qualifying Shareholders take up all the Bonds under the Clawback Offer)		After the issue of the Consideration Shares and the Conversion Shares (assume no Qualifying Shareholders take up the Bonds under the Clawback Offer)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
China Resources Holdings	270,132,647	74.5%	270,132,647	70.8%	570,132,647	72.9%	670,132,647	85.7%
Public								
Sumitomo Corporation	-	0.0	7,600,000	2.0%	7,600,000	1.0%	7,600,000	1.0%
Sumitomo (Hong Kong)	-	0.0	1,900,000	0.5%	1,900,000	0.2%	1,900,000	0.2%
UBE Industries	-	0.0	9,500,000	2.5%	9,500,000	1.2%	9,500,000	1.2%
Other shareholders	92,674,814	25.5%	92,674,814	24.2%	192,674,814	24.7%	92,674,814	11.9%
	<u>362,807,461</u>	<u>100.0%</u>	<u>381,807,461</u>	<u>100.0%</u>	<u>781,807,461</u>	<u>100.0%</u>	<u>781,807,461</u>	<u>100.0%</u>

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## LETTER FROM THE BOARD

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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. Accordingly, the last two columns of the above table is for illustrative purpose only.

The Consideration Shares and the Conversion Shares when fully paid and issued will rank pari passu in all respects with the existing Shares then in issue.

Applications have been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares, and an approval has been received from the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

### **REASONS FOR THE ACQUISITION**

The Company will acquire an additional interest of 25% equity interest of China Resources Dongguan Cement through the Acquisition. Upon the completion of the Acquisition, China Resources Dongguan Cement will become a wholly owned subsidiary of the Company. The Acquisition will enable the Company to centralise the management and operation of China Resources Dongguan Cement and effectively integrate the operation of China Resources Dongguan Cement with other cement plants of the Group. The Acquisition will not only enable the Company to implement its development strategy through China Resources Dongguan Cement but also lead the restructuring of the cement industry in the Guangdong Province.

The executive Directors consider that the Share Swap Agreement was entered into on normal commercial terms and the Consideration for the Acquisition is fair and reasonable as far as the Shareholders are concerned and the Share Swap Agreement is in the interest of the Company and its Shareholders as a whole.

### **INFORMATION ABOUT CHINA RESOURCES DONGGUAN CEMENT**

China Resources Dongguan Cement is a company incorporated in Hong Kong with limited liability. It is beneficially held as to 25% by the Vendors and 75% by the Company. It is principally engaged in investment holding of Dongguan Cement and trading of cement products.

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## LETTER FROM THE BOARD

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Dongguan Cement is engaged in the manufacture and trading of cement products in PRC. Dongguan Cement's cement plant is located at Dongguan city, Guangdong Province, PRC. The cement plant currently consists of two grinding mills to process clinker into cement. It has a total annual production capacity of approximately 1,000,000 tonnes of cement. A slag vertical mill with annual production capacity of about 500,000 tonnes of slag powder or cement is under construction and is expected to be put into commercial operations in May 2005.

China Resources Dongguan Cement acquired Dongguan Cement on 10 September 2003. According to the audited consolidated financial statements for the year ended 31 December 2003 of China Resources Dongguan Cement which accounted for the full year result of China Resources Dongguan Cement and about three and a half months result of Dongguan Cement, the audited consolidated profit before taxation and minority interests and consolidated net profit after taxation and minority interests of China Resources Dongguan Cement for the year ended 31 December 2003 were approximately HK\$0.8 million and approximately HK\$0.2 million respectively and the audited loss before taxation and minority interests and net loss after taxation and minority interests for the year ended 31 December 2002 (which represented the result of China Resources Dongguan Cement only) were approximately HK\$7.1 million and approximately HK\$6.0 million respectively.

### INFORMATION ABOUT THE COMPANY

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

### INFORMATION ABOUT THE VENDORS

Both Sumitomo Corporation and Sumitomo (Hong Kong) are principally engaged in trading, investing and financing. UBE Industries is principally engaged in manufacturing and selling of cement and clinker.

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## LETTER FROM THE BOARD

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### FINANCIAL EFFECT OF THE ACQUISITION ON THE COMPANY

#### *Earnings*

With the Acquisition of 25% equity interest of China Resources Dongguan Cement, it will become a wholly owned subsidiary of the Company and no minority interest will have to be deducted.

According to the audited consolidated financial statements for the year ended 31 December 2003 of China Resources Dongguan Cement which accounted for the full year result of China Resources Dongguan Cement and about three and a half months result of Dongguan Cement, the audited consolidated net profit after taxation and minority interests of China Resources Dongguan Cement for the year ended 31 December 2003 was approximately HK\$0.2 million.

#### *Assets and liabilities*

As the aggregate consideration of HK\$38.0 million will be fully satisfied by the issue of the Consideration Shares, the net assets of the Group will therefore increase by the same amount as a result of such issue.

### IMPLICATION OF THE LISTING RULES

Sumitomo (Hong Kong) is an Associate of Sumitomo Corporation and both UBE Industries and Sumitomo Corporation are substantial shareholders of China Resources Dongguan Cement. Accordingly, the Vendors are connected persons of the Company as defined under the Listing Rules. Prior to the completion of the Acquisition, Sumitomo Corporation, Sumitomo (Hong Kong) and UBE Industries and their respective Associates have no shareholding interest in the Company. Other than being the substantial shareholders of China Resources Dongguan Cement, suppliers and customers of the Group, the Vendors do not have any other connection with the Company. Upon the completion of the Acquisition, the Vendors will cease to be connected persons of the Company.

As the applicable percentage ratios exceed 5% but are below 25% and the Vendors are connected persons of the Company, the Share Swap Agreement constitutes a discloseable and connected transaction of the Company under the Listing Rules.

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## LETTER FROM THE BOARD

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

### GENERAL

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

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

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

**(Stock Code: 712)**

7 February 2005

*To the Shareholders*

Dear Sir or Madam,

### **ACQUISITION OF 25% EQUITY INTEREST IN CHINA RESOURCES DONGGUAN CEMENT**

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

We understand that the Share Swap Agreement is conditional upon the approval of the Shareholders. However, China Resources Holdings together with its Associates hold approximately 74.5% of the issued share capital of the Company and are not interested in the Share Swap Agreement except through their interests in the Company. Accordingly, China Resources Holdings and its Associates are not required to abstain from voting in respect of the Share Swap Agreement under the Listing Rules. No Shareholder is required to abstain from voting if the Company is to convene a general meeting for approval of the Share Swap Agreement. Written approval of the Share Swap Agreement has been obtained from China Resources Holdings. In view of the aforesaid and to avoid the unnecessary expenses of convening shareholders’ meeting, shareholders’ approval by way of a resolution passed at an extraordinary general meeting would not be in the interest of the Company and its Shareholders as a whole. The Company has made an application to the Stock Exchange for a waiver from strict compliance with the Listing Rules regarding the holding of a physical shareholders’ meeting for the approval of the Share Swap Agreement pursuant to rule 14A.43 of the Listing Rules.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the advice and recommendation of Somerley as set out on pages 15 to 26 of the Circular, we are of the opinion that the Share Swap Agreement is on normal commercial terms and in the ordinary and usual course of business of the Company. We also consider that the terms of the Share Swap Agreement including, among other things, the consideration (including the basis of determining the consideration) and the payment method for the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Yours faithfully,

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

*Independent Board Committee*



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## LETTER FROM SOMERLEY

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



**SOMERLEY LIMITED**

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

7 February 2005

*To the Independent Board Committee and  
the Shareholders*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF 25.0% EQUITY INTEREST IN  
CHINA RESOURCES DONGGUAN CEMENT**

We refer to our appointment to advise the Independent Board Committee and the Shareholders as regards the terms of the acquisition of a 25.0% equity interest in China Resources Dongguan Cement, details of which are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 7 February 2005 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular.

The Group owns 75.0% of China Resources Dongguan Cement. The remaining 25.0% is owned as to 12.5% by Sumitomo Corporation and its Associate, Sumitomo (Hong Kong), and as to 12.5% by UBE Industries. Sumitomo Corporation together with its Associate and UBE Industries are substantial shareholders of China Resources Dongguan Cement and therefore are connected persons of the Company as defined under the Listing Rules. The Acquisition therefore constitutes a connected transaction of the Company under the Listing Rules.

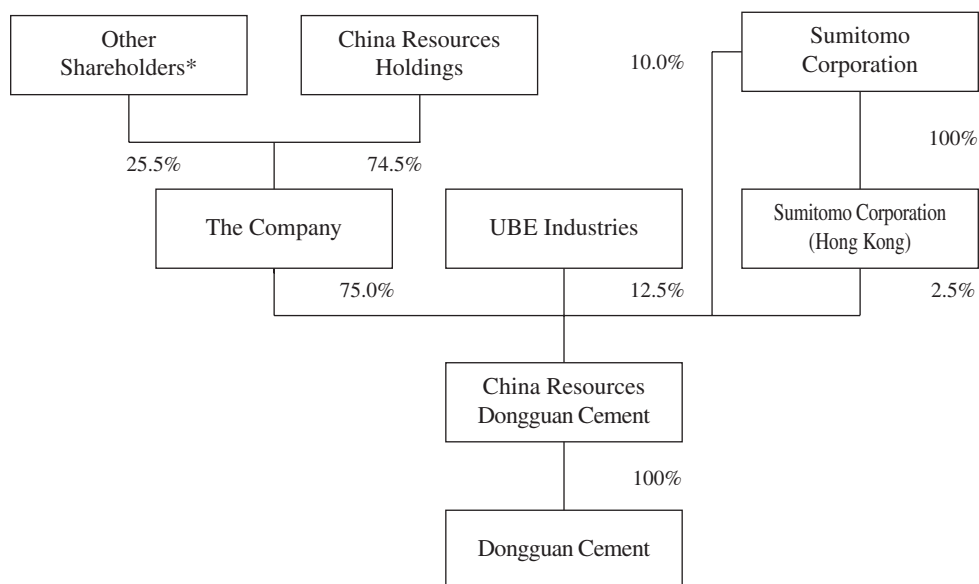
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## LETTER FROM SOMERLEY

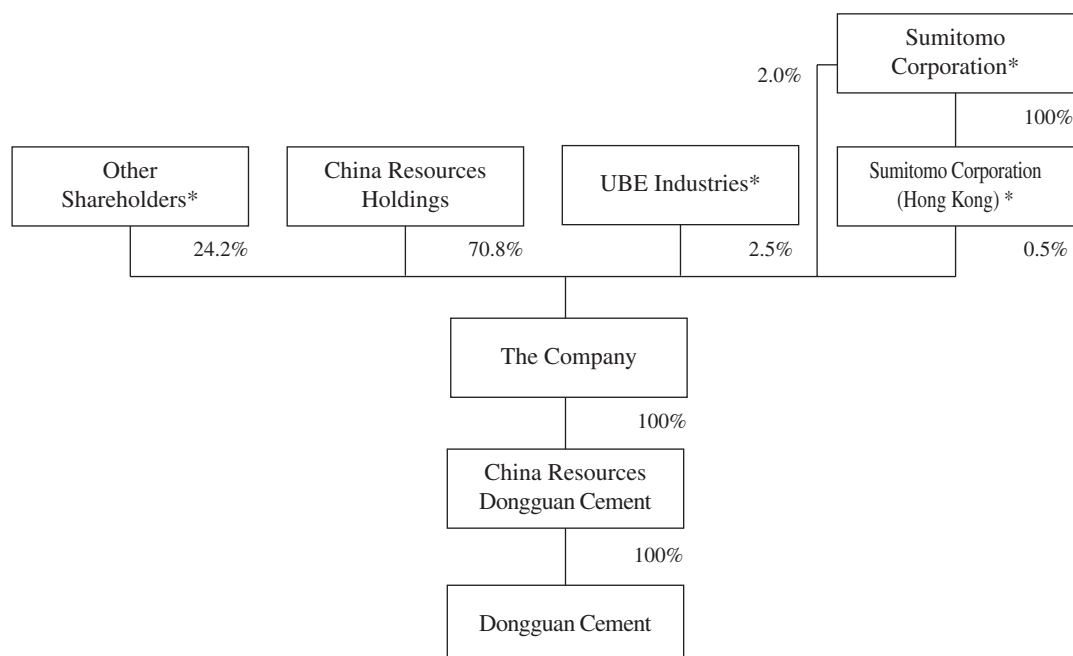
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Set out below is a simplified version of the shareholding structure of China Resources Dongguan Cement before and after the Acquisition:

### *Before the Acquisition*



### *After the Acquisition*



\* *Public Shareholders*

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## LETTER FROM SOMERLEY

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

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

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and staff of the Company and have assumed that the information, facts and opinions provided to us are true and accurate. We have also sought and received confirmation from the Directors that no material factors have been omitted from the information supplied and opinions expressed. We have not, however, conducted an independent investigation into the business, operations or financial condition of the Group or of China Resources Dongguan Cement and its subsidiary. We have also assumed that the statements and representations made or referred to in the Circular were accurate at the time they were made and continue to be accurate at the date of the Circular.

### **PRINCIPAL FACTORS TAKEN INTO ACCOUNT**

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

#### **I. Background of and reasons for the Share Swap Agreement**

China Resources Dongguan Cement is owned as to 75.0% by a wholly-owned subsidiary of the Company, 12.5% by Sumitomo Corporation and its Associate and 12.5% by UBE Industries. The principal asset of China Resources Dongguan Cement is its 100.0% equity interest in Dongguan Cement. Dongguan Cement is principally engaged in the manufacture and sale of cement in PRC.

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## LETTER FROM SOMERLEY

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Dongguan Cement manages and operates a cement plant (the “Dongguan Plant”) in Dongguan City, Guangdong Province, PRC. Dongguan City is located at the centre of the Pearl River Delta, the primary market for the Group’s cement products. Dongguan Plant is the Group’s only cement plant in the Pearl River Delta region and is strategically important to the Group’s sales, marketing and business development in this region. In particular, the Group intends to strengthen its market share and expand the Group’s geographical presence in Guangdong Province by establishing the Dongguan Plant, which commands a strategic location in the Pearl River Delta, as the Group’s base for future penetration into other cities of Guangdong Province. The map below shows the location of the Dongguan Plant:



The Dongguan Plant currently consists of two grinding mills to process clinker into cement. It has a total annual production capacity of approximately 1,000,000 tonnes of cement based on three shifts per day and 300 working days per annum. A slag vertical mill with annual production capacity of approximately 500,000 tonnes of slag powder or cement is under construction and is expected to be put into commercial operation in May 2005. The construction of the slag vertical mill is financed by the Group’s internal resources and bank borrowings. Upon completion of the slag vertical mill, the Dongguan Plant’s total annual cement production capacity will represent approximately 28.8% of the Group’s existing annual cement production capacity of 5,200,000 tonnes.

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## LETTER FROM SOMERLEY

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China Resources Dongguan Cement recorded a turnover of approximately HK\$221.9 million for the six months ended 30 June 2004, representing approximately 33.1% of the total turnover of the Group of approximately HK\$671.3 million during the same period. China Resources Dongguan Cement also contributed approximately HK\$9.6 million net profit to the Group for the six months ended 30 June 2004, representing approximately 21.2% of the Group's unaudited consolidated net profit of HK\$45.2 million during the same period.

Although the Group already controls 75.0% equity interest in China Resources Dongguan Cement and effectively 75.0% equity interest in Dongguan Cement, the Vendors can still exert significant influence on the policy and daily management of Dongguan Cement with their 25.0% equity interest in China Resources Dongguan Cement. Through the Acquisition, the Group will obtain absolute control over the management, operations and cashflow of China Resources Dongguan Cement and Dongguan Cement, which enables the Group to implement its strategies and coordinate its production, sales and marketing plan and business development more efficiently and effectively in the future.

Given the importance of China Resources Dongguan Cement and in particular, its strategic value to the Group's business development in the Pearl River Delta region as described above, we concur with the Board's decision to consolidate control over China Resources Dongguan Cement through the Acquisition.

## **II. Business, financial position and historical performance of China Resources Dongguan Cement**

### ***Business***

China Resources Dongguan Cement's principal asset is its 100.0% equity interest in Dongguan Cement, which operates and manages the Dongguan Plant. The Dongguan Plant produces #325, #425 and #525 Portland cement which are recognised by China Certification Committee for Quality Mark Certification Centre as high standard cement products. The Dongguan Plant is involved in the last stage of the normal cement production process, which includes grinding and blending of clinker. For the year ended 31 December 2002 and 2003, Dongguan Plant exceeded its installed annual production capacity of 1,000,000 tonnes and produced approximately 1,250,000 tonnes and 1,400,000 tonnes of cement respectively, representing approximately 57.7% and 48.3% of the total cement production of the Group in the corresponding year. Cement produced by the Dongguan Plant is mainly supplied to customers in Dongguan City and nearby areas for construction of high-rise buildings, roads and highways and the Group's concrete operations in Hong Kong.

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## LETTER FROM SOMERLEY

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### *Historical performance*

Set out below is a summary of the audited consolidated income statement of China Resources Dongguan Cement for the two years ended 31 December 2003 and the unaudited consolidated income statement of China Resources Dongguan Cement for the six months ended 30 June 2004:

	<b>Year ended</b>		<b>Six months</b>
	<b>31 December</b>	<b>2003</b>	<b>ended 30 June</b>
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
	(Audited)	(Audited)	(Unaudited)
Turnover			
Hong Kong	59.3	61.5	22.9
The PRC	177.1	261.1	199.0
	236.4	322.6	221.9
Cost of sales	(231.6)	(291.9)	(177.0)
Other income	3.6	2.8	0.3
Selling and distribution expenses	(4.9)	(9.8)	(7.0)
General and			
administrative expenses	(3.0)	(14.0)	(9.8)
Finance cost	(7.6)	(8.9)	(4.1)
Provision for bad debt	–	–	(4.0)
Taxation	1.1	(0.6)	(7.5)
	(6.0)	0.2	12.8
(Loss)/profit attributable to shareholders	(6.0)	0.2	12.8

In 2002, China Resources Dongguan Cement marketed and sold its cement products principally in Hong Kong and clinker to Dongguan Cement. Due to the economic downturn in Hong Kong, in particular in the construction sector, it recorded a loss of HK\$6.0 million in that year. In mid September 2003, China Resources Dongguan Cement acquired 100.0% equity interest in Dongguan Cement. The consolidated results of China Resources Dongguan Cement for 2003 therefore only included about three and a half months' results of Dongguan Cement. In that year, although China Resources Dongguan Cement's Hong Kong operation continued to be unprofitable, a small overall profit of HK\$0.2 million was achieved chiefly attributable to the results of Dongguan Cement.

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## LETTER FROM SOMERLEY

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For the six months ended 30 June 2004, China Resources Dongguan Cement recorded an unaudited consolidated turnover of approximately HK\$221.9 million and a profit attributable to shareholders of approximately HK\$12.8 million. After reviewing the consolidated management accounts of China Resources Dongguan Cement for the six months ended 30 June 2004 and discussing them with management, we believe such significant improvement was principally due to the consolidation of the results of Dongguan Cement for the whole six months' period. The Board is confident that good results are sustainable given the strong demand for cement products in the Pearl River Delta region expected in the future.

### *Net assets value*

The audited consolidated net assets value of China Resources Dongguan Cement as at 31 December 2003 was approximately HK\$131.5 million and the unaudited consolidated net assets value of China Resources Dongguan Cement as at 30 June 2004 was approximately HK\$144.3 million. Set out below is a summary of the consolidated balance sheet of China Resources Dongguan Cement as at 31 December 2003 and 30 June 2004:

	<b>31 December 2003</b>	<b>30 June 2004</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>
	(Audited)	(Unaudited)
Current assets		
Stocks	32.9	37.2
Trade and other receivables	102.1	129.7
Cash and bank balances	46.4	30.5
Non-current assets		
Fixed assets	452.9	447.2
Goodwill	48.6	47.4
Others	12.8	5.3
<b>Total assets</b>	<b>695.7</b>	<b>697.3</b>
Current liabilities	(349.3)	(441.7)*
Non-current liabilities	(214.9) #	(111.3)#
<b>Total liabilities</b>	<b>(564.2)</b>	<b>(553.0)</b>
<b>Net assets</b>	<b>131.5</b>	<b>144.3</b>
Vendors' share of net assets	32.9	36.1

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## LETTER FROM SOMERLEY

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# As at 31 December 2003, non-current liabilities included shareholders' loans of approximately HK\$86.8 million and HK\$28.9 million due to the Company and Sumitomo Corporation respectively. These shareholders' loans were classified as non-current liabilities as both the Company and Sumitomo Corporation agreed that neither party would demand repayment within 12 months from the reporting date. As at 30 June 2004, non-current liabilities included shareholders' loan of HK\$105.5 million due to the Company for which the Company would not demand repayment within 12 months from the reporting date.

\* As at 30 June 2004, current liabilities included shareholders' loans of approximately US\$1,766,000 and US\$2,796,653 (equivalent to approximately HK\$35.6 million in aggregate) due to Sumitomo Corporation which are repayable on 21 June 2005 and 24 June 2005 respectively.

### III. Principal terms of the Share Swap Agreement

#### *Consideration*

Pursuant to the Share Swap Agreement, the Group will acquire the 25.0% equity interest in China Resources Dongguan Cement from the Vendors for HK\$38.0 million. The Consideration was agreed between the Company and the Vendors after arm's length negotiations and with reference to the attributable net assets of HK\$36.1 million as at 30 June 2004 and the Vendors' aggregate investment costs of approximately HK\$37.5 million as at 30 June 2004 which has remained unchanged up to the date of the Circular.

We did not consider the historical 2003 price-earnings ratio implied by the Consideration because the audited consolidated net profit of China Resources Dongguan Cement for the year ended 31 December 2003 only included three and a half months' results of Dongguan Cement. Since Dongguan Cement is a major contributor to China Resources Dongguan Cement's profit, using the 2003 earnings figure in calculating the price-earnings ratio would substantially overstate the P/E ratio implied by the Consideration.

#### *Consideration Shares*

The Consideration will be satisfied by the issue of 19,000,000 Consideration Shares at HK\$2.00 each. The Consideration Shares will be subject to a lock-up period of twelve months from the date of completion of the Acquisition. The Issue Price represents:

- (i) a premium of approximately 10.5% over the closing price of the Share of HK\$1.81 as quoted on the Stock Exchange on 12 January 2005, being the last trading day of the Shares on the Stock Exchange prior to the release of the Announcement (the "Last Trading Day");



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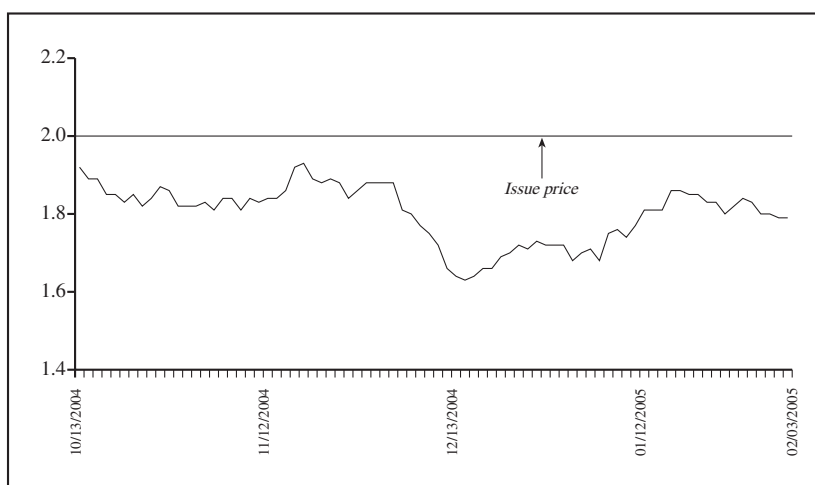
## LETTER FROM SOMERLEY

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- (ii) a premium of approximately 15.5% over the average closing price of the Share of HK\$1.732 of the last 10 trading days up to and including the Last Trading Day; and
- (iii) a premium of approximately 11.7% over the closing price of the Share of HK\$1.79 on the Latest Practicable Date.

### *Historical Share price as compared to the Issue Price*

The chart below shows the closing prices of the Shares traded on the Stock Exchange from 13 October 2004, being three months preceding the date of the Share Swap Agreement on 12 January 2005 up to and including the Latest Practicable Date.



Source: Bloomberg

During the period under review, the closing price of the Shares ranged from HK\$1.93 to HK\$1.63 per Share. On 2 December 2004, the Company announced an acquisition of a controlling stake in Guangxi Pingnan China Resources Yufeng Cement Company and the issue of a zero coupon convertible bond of nominal value of HK\$800 million. Upon release of such announcement, the Share price declined somewhat but subsequently stabilised in mid December 2004, since when it has been fluctuating between HK\$1.61 and HK\$1.90 per Share.

As at the Latest Practicable Date, the Share price closed at HK\$1.79 per Share.

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## LETTER FROM SOMERLEY

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### *Memorandum of Strategic Alliance*

As described in the Letter from the Board, the Vendors and the Company will enter into the Memorandum of Strategic Alliance (the “Memorandum”) upon completion of the Acquisition. The Memorandum will remain effective for five years commencing from the date of completion of the Acquisition. The principal terms of the Memorandum are set out below:

**(i) Material supply agreement**

The Company will enter into an agreement with Sumitomo Corporation pursuant to which the Company will agree to purchase from Sumitomo Corporation and Sumitomo Corporation will agree to supply to the Group (i) granulated blast furnace slag; and (ii) no less than 600,000 tonnes of clinker at a mutually acceptable price in the coming 10 years. The pricing of clinker and the relevant terms will be agreed between the Group and Sumitomo Corporation annually.

The Company has purchased clinker from Sumitomo Corporation in the past. For the year ended 31 December 2002 and 2003, China Resources Dongguan Cement purchased approximately 1,061,000 tonnes and 1,188,000 tonnes respectively of clinker from Sumitomo Corporation. The material supply agreement will ensure the Company will continue receiving steady raw material supplies from Sumitomo Corporation and will minimise the chance of disruption to the operation of the Dongguan Plant. We consider such arrangement is beneficial to the Group.

**(ii) Agreement for secondment**

The Group will pay an annual sum of HK\$300,000 to each of Sumitomo Corporation and UBE Industries to arrange secondees to the Company to assist the Group with the development of its cement manufacturing business. These secondees will be responsible for (i) providing technical assistance to the cement factories of the Group; (ii) advising the Group on production, sales planning and coordination; and (iii) assisting in feasibility studies of new projects in cement manufacturing and related businesses.

Sumitomo Corporation and UBE Industries have been participating in advising China Resources Dongguan Cement on the same matters since they became shareholders of China Resources Dongguan Cement. The secondment arrangement with Sumitomo Corporation and UBE Industries will promote the continuing improvement of the Group in the aforesaid areas which the Directors consider is advantageous to the Group.

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## LETTER FROM SOMERLEY

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### IV. Effects of the Share Swap Agreement

#### *Net assets value*

As the aggregate consideration of HK\$38.0 million will be fully satisfied by the issue of the Consideration Shares, the net assets of the Group will therefore increase by the same amount as a result of such issue.

#### *Earnings*

The Group currently owns 75.0% equity interest in China Resources Dongguan Cement and thus has been accounting for 75.0% of China Resources Dongguan Cement's profit or loss in its results. After completion of the Acquisition, the Group will account for an additional 25.0% of China Resources Dongguan Cement's profit or loss in its results.

#### *Gearing*

Given the Group already owns 75.0% equity interest in China Resources Dongguan Cement and all borrowings of China Resources Dongguan Cement have been consolidated into the Group's accounts, therefore the Acquisition will not increase the total borrowings of the Group. Given the total borrowings of the Group will remain unchanged and the net assets of the Group will increase as described above, gearing ratio of the Group will improve slightly as a result of the Acquisition.

#### *Cashflow*

The Group will repay Sumitomo Corporation shareholder's loans of approximately HK\$35.6 million in aggregate due from China Resources Dongguan Cement in June 2005. Given the Group's ample cash reserve, we consider the repayment would not have a significant adverse effect on the Group's cashflow position.

#### *Effect on the existing public Shareholders' percentage interest in the Company*

The Consideration will be settled by the issue of the Consideration Shares, which we believe is beneficial to the Company in terms of conserving cash reserves. The issue of the Consideration Shares will cause a slight dilution to the existing public Shareholders' percentage interest in the Company. On the basis set out in the Letter from the Board, the percentage shareholding of the existing public Shareholders will be diluted by about 5.1% from 25.5% to 24.2%.

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## LETTER FROM SOMERLEY

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### DISCUSSION

China Resources Dongguan Cement, through Dongguan Cement, manages and operates the Dongguan Plant in Dongguan City. The Dongguan Plant is the only cement plant of the Group in the Pearl River Delta region, the Group's primary market for its cement products, and thus it is strategically important for the Group's sales, marketing and business development in this region. China Resources Dongguan Cement accounts for approximately one third of the Group's existing cement production capacity and 21.2% of the Group's net profit for the six months ended 30 June 2004. Completion of the Share Swap Agreement will allow the Group to obtain absolute control over China Resources Dongguan Cement. This should enable the Company to implement its corporate strategies more efficiently and effectively in particular in the area of production, sales and marketing of cement products and the business development of the Group in the Pearl River Delta region.

The Consideration of HK\$38.0 million, which is determined with reference to the attributable net assets and the Vendors' aggregate investment costs, will be satisfied by the issue of 19.0 million Consideration Shares at HK\$2.00 each. The issue price of HK\$2.00 represents a premium over recent market prices and higher than the highest closing price of HK\$1.93 per Share as quoted on the Stock Exchange during the three months' period preceding the date of the Share Swap Agreement. The payment term is beneficial to the Group as it enables the Group to obtain complete control over one of its most important production facilities while avoiding any cash outlay in doing so.

The Acquisition will improve the net assets and gearing ratio of the Group in absolute terms. It however will cause a small degree of dilution in existing public Shareholders' percentage interest in the Company which is not material in our opinion and we consider this negative effect is outweighed by the prospective overall commercial and financial benefits of the Acquisition.

### OPINION

Having considered the above factors and reasons, we are of the opinion that the Share Swap Agreement is on normal commercial terms and in the ordinary and usual course of business of the Company. We also consider the terms of the Share Swap Agreement including, among other things, the Consideration (including the basis of determining the Consideration) and the payment method for the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

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

**RESPONSIBILITY STATEMENT**

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

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

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive of the Company are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO to be entered in the register referred to therein or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange 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) %
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
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\$	Aggregate long position in Number of underlying Shares to underlying issued share capital of the Company	
				Shares	(Note) %
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, 2005, 2006, 2007 and 2008 to 4 December 2013. The option granted on 16 December 2004 are exercisable in 4 tranches of 25% each from 16 December 2005, 2006, 2007 and 2008 to 15 December 2014.
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	0.178
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	150,000	634,000	784,000	0.037
Zheng Yi	Beneficial owner	–	60,000	60,000	0.003
Jiang Wei	Beneficial owner	–	600,000	600,000	0.028
Keung Chi Wang, Ralph	Beneficial owner	–	2,966,000	2,966,000	0.139

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	0.178
	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	300,000	0.033 (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
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	0.139
	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 2,134,683,215 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 634,000 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
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\$	Aggregate long position in	
				Number of underlying shares	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
Jiang Wei	9 April 2002	8 April 2012	0.820	720,000	0.027

*Notes:*

1. Based on 2,652,096,071 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 (Note 1) %
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
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\$	Aggregate long position in	
				Number of underlying shares	Number of 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
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
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 Number of 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
Jiang Wei	12 November 2003	5 October 2013	2.80	1,000,000	0.026

*Notes:*

1. Based on 3,808,140,000 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.

Mr. Qiao Shibo and Mr. Jiang Wei are also directors of China Resources Holdings. Mr. Qiao Shibo is also a director of CRNC.

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 held	Approximate shareholding %	Principal amount of Bonds held HK\$	Number of Conversion Shares (assuming a conversion price of HK\$2.00)	Percentage of the aggregate long position is Shares relative to the existing issued share capital of the Company %
CRNC	270,132,647	74.5	800,000,000	400,000,000	184.7
China Resources Co., Limited	270,132,647	74.5	800,000,000	400,000,000	184.7
CRC Bluesky Limited	270,132,647	74.5	800,000,000	400,000,000	184.7
China Resources Holdings Firstsuccess Investments Limited	270,132,647	74.5	800,000,000	400,000,000	184.7
Firstsuccess Investments Limited	–	–	800,000,000	400,000,000	110.3

*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. Firstsuccess Investments Limited is a wholly owned subsidiary of China Resources Holdings. 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 China Resources Holdings.

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

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) Limited	12.5
	(2) UBE Industries, Ltd.	12.5
Guangxi Hongshuihe Cement Joint Stock Company Limited	China National Building Materials Group Corporation	12.2
Zhanjiang China Resources Hongshuihe Cement Co., Ltd.	Profit Pool Holdings Limited	30.0

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.

## SHARE CAPITAL

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>1,000,000,000</u>	Shares	<u>100,000,000.00</u>
<i>Shares issued and to be issued, fully paid or credited as fully paid:</i>		
362,807,461	Shares in issue	36,280,746.10
19,000,000	Shares to be issued pursuant to the Share Swap Agreement	1,900,000.00
<u>381,807,461</u>	Total shares issued and to be issued	<u>38,180,746.10</u>



**SERVICE CONTRACTS**

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

**MATERIAL ADVERSE CHANGE**

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

**LITIGATION**

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

**DIRECTORS' INTEREST IN COMPETING BUSINESS**

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

**OTHER INTERESTS OF THE DIRECTORS**

As at the Latest Practicable Date:

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

**EXPERT AND CONSENT**

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

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

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

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

**MISCELLANEOUS**

- (a) The Company's 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 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 23 February 2005.

- (a) the memorandum and articles of association of the Company;
- (b) the annual report of the Company for the financial year ended 31 December 2003;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 13 to 14 of this circular;
- (d) the letter from Somerley dated 7 February 2005, the text of which is set out on pages 15 to 26 of this circular;
- (e) the consent letter from Somerley referred to in the section headed "Expert and consent" in this appendix; and
- (f) the Share Swap Agreement.