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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).

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

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

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

**(Stock Codes: 712 and 2512)**

## CONTINUING CONNECTED TRANSACTIONS

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



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



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A letter from the independent board committee of China Resources Cement Holdings Limited is set out on page 22 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 23 to 38 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 Wednesday, 4 January 2006 is set out on pages 54 to 57 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 Hong Kong 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.

15 December 2005

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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:*

“Agreements”	the Cement Supply Agreement, the Concrete Supply Agreements, the Steel Purchase Agreement and the Fuel, Diesel and Lubricant Oil Purchase Agreements
“Approval Date”	the date on which approval will be obtained from the Independent Shareholders for the relevant Agreements, Continuing Connected Transactions and New Caps at the EGM
“associate(s)”	shall have the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Bond(s)”	the zero coupon convertible bond(s), due 2010 in the aggregate principal amount of HK\$800.0 million convertible into Share(s) at the initial conversion price of HK\$2.00 per Share issued by China Resources Cement Finance Limited, a wholly owned subsidiary of the Company, on 13 January 2005 and guaranteed by the Company
“Cement Supply Agreement”	the supply agreement entered into between Zhanjiang CR Cement and Huadeli, an associate of Profit Pool, on 21 November 2005, for the supply of cement products by the Group
“Cement Transactions”	sale of cement products by Zhanjiang CR Cement to Huadeli
“China Resources Cement”	China Resources Cement Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“China Resources Cement Group”	China Resources Cement and its subsidiaries
“China Resources Concrete”	China Resources Concrete Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company

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## DEFINITIONS

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“China Resources Concrete Group”	China Resources Concrete and its subsidiaries
“China Resources Holdings”	China Resources (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability and the controlling shareholder of both CRE and the Company
“Company”	China Resources Cement Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
“Concrete Supply Agreements”	the supply agreement entered into between Redland Concrete and CR Construction Company on 21 November 2005 and the supply agreement entered into between China Resources Concrete and CR Construction Corp. on 21 November 2005 regarding the supply of concrete by the Group
“Concrete Transactions”	sale of concrete by the Group to the CR Construction Company Group and the CR Construction Corp. Group
“connected person(s)”	shall have the meaning ascribed thereto under the Listing Rules
“Continuing Connected Transactions”	the Cement Transactions, the Concrete Transactions, the Steel Products Transactions and the Oil Products Transactions
“controlling shareholder”	shall have the meaning ascribed thereto under the Listing Rules
“Conversion Share(s)”	Share(s) to be allotted and issued by the Company upon conversion of the Bond(s)
“CR Construction Company”	China Resources Construction Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of China Resources Holdings
“CR Construction Company Group”	CR Construction Company and its subsidiaries

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## DEFINITIONS

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“CR Construction Corp.”	華潤建築有限公司 (China Resources Construction Corp.), a limited liability company established in PRC and a subsidiary of CRNC
“CR Construction Corp. Group”	CR Construction Corp. and its subsidiaries
“CR Land”	China Resources Land Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
“CR Logic”	China Resources Logic Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
“CR Petrochems”	China Resources Petrochems (Group) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of CRE
“CR Petrochems Group”	CR Petrochems and its subsidiaries
“CR Power”	China Resources Power Holdings Company Limited, a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
“CRE”	China Resources Enterprise, Limited, a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
“CRNC”	China Resources National Corporation, a state-owned enterprise in PRC
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at 4:00 p.m. on Wednesday, 4 January 2006 at 50th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong (or at any adjournment thereof) to consider and, if thought fit, approve the Agreements, the Continuing Connected Transactions and the New Caps

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## DEFINITIONS

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“Existing Waivers”	the IPO Waiver and the 2003 Waiver
“Fuel, Diesel and Lubricant Oil Purchase Agreements”	the purchase agreement entered into between China Resources Cement and CR Petrochems on 21 November 2005 and the purchase agreement entered into between China Resources Concrete and CR Petrochems on 21 November 2005 regarding the purchase of fuel, diesel and lubricant oil by the Group
“Group”	the Company and its subsidiaries
“Guangxi CR Cement”	Guangxi China Resources Hongshuihe Cement Co., Ltd., a sino foreign joint venture established in PRC with limited liability and beneficially owned as to 90.4% by the Company
“HK\$”	Hong Kong dollars, being the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administration Region of PRC
“Huadeli”	華德力集團湛江建龍混凝土有限公司 (Huadeli Zhanjiang Jianlong Concrete Limited), a limited liability company established in PRC and an associate of Profit Pool
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors to consider and advise the Independent Shareholders with regard to the relevant Agreements, Continuing Connected Transactions and New Caps
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM
“IPO Waiver”	the waiver granted by the Stock Exchange on 26 June 2003 to the Company waiving the Company’s obligation from strict compliance with provisions of Chapter 14 of the Listing Rules in force prior to 31 March 2004, subject to certain conditions in respect of, among other things, the Cement Transactions, the Concrete Transactions and the Oil Products Transactions

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## DEFINITIONS

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“Latest Practicable Date”	9 December 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”	Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules
“New Caps”	the maximum aggregate annual values of the Continuing Connected Transactions as set out in the section headed “New Caps” in the letter from the Board contained in this circular
“Oil Products Transactions”	purchases of fuel, diesel and lubricant oil by the Group from CR Petrochems Group
“PRC”	The People’s Republic of China
“Profit Pool”	Profit Pool Holdings Limited, a company incorporated in Hong Kong with limited liability which holds 30% of the registered capital in Zhanjiang CR Cement
“Redland Concrete”	Redland Concrete Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly owned subsidiary of the Company
“Redland Concrete Group”	Redland Concrete and its subsidiaries
“Redland Precast”	Redland Precast Concrete Products Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly owned subsidiary of the Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)

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## DEFINITIONS

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“Somerley”	Somerley Limited, a licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as set out in the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Steel Products Transactions”	purchases of steel products from Strong Progress by the Group
“Steel Purchase Agreement”	the purchase agreement entered into between Redland Precast and Strong Progress on 21 November 2005 regarding the purchase of steel products by the Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strong Progress”	Strong Progress Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of China Resources Holdings
“Zhanjiang CR Cement”	Zhanjiang China Resources Hongshuihe Cement Co., Ltd., a sino foreign joint venture company established in PRC with limited liability, which is beneficially held as to 30% by Profit Pool and 70% by Guangxi CR Cement which is in turn beneficially owned as to 90.4% by the Company
“2003 Waiver”	the waiver granted by the Stock Exchange on 11 November 2003 to the Company waiving the Company’s obligation from strict compliance with provisions of Chapter 14 of the Listing Rules in force prior to 31 March 2004 subject to certain conditions in respect of the Steel Products Transactions
“2004 Shareholders’ Approval”	the approval obtained at the extraordinary general meeting of the Company held on 20 October 2004 from (i) the then Shareholders in respect of, among other things, the Cement Transactions and the relevant caps for the two years ending 31 December 2005; and (ii) the then independent Shareholders in respect of the Oil Products Transactions and the relevant caps for the two years ending 31 December 2005
“%”	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 Codes: 712 and 2512)**

*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 309GT  
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

15 December 2005

*To the Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

The Company announced on 23 November 2005 that the Group entered into the Agreements in respect of the Continuing Connected Transactions. Further information on the Continuing Connected Transactions is set out below.

The purpose of this circular is to provide you with, among other things, (i) particulars of the Agreements; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) the letter from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders regarding the relevant Agreements, Continuing Connected Transactions and New Caps; and (iv) the notice for convening the EGM.

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## LETTER FROM THE BOARD

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### BACKGROUND

Reference is made to the prospectus of the Company dated 26 June 2003 and the circulars of the Company dated 27 October 2003 and 4 October 2004 regarding the continuing connected transactions. The Company has previously obtained the Existing Waivers from the Stock Exchange in respect of, among other things, the continuing connected transactions. The Existing Waivers will expire on 31 December 2005. On 8 September 2004, the Company announced that the Group had entered into various agreements in respect of, among other things, the Cement Transactions and the Oil Products Transactions and proposed to revise the caps for the relevant transactions. On 20 October 2004, the Company obtained the 2004 Shareholders' Approval for the relevant transactions and caps for the period up to 31 December 2005.

As the Group intends to continue carrying out the Continuing Connected Transactions in its ordinary and usual course of business and on normal commercial terms, it entered into the Cement Supply Agreement, the Concrete Supply Agreements, the Steel Purchase Agreement and the Fuel, Diesel and Lubricant Oil Purchase Agreements with connected persons in respect of the Continuing Connected Transactions. The Agreements are conditional upon approval being obtained from the Independent Shareholders at the EGM.

### THE AGREEMENTS

#### (1) Cement Supply Agreement

*Date*

21 November 2005

*Parties*

Zhanjiang CR Cement as supplier

Huadeli, an associate of Profit Pool, as purchaser

*Term*

The Cement Supply Agreement is for the period from the Approval Date (being the date on which approval will be obtained from the Independent Shareholders at the EGM which is to be held on 4 January 2006) to 31 December 2008 and is subject to the approval from the Independent Shareholders at the EGM.

*Subject*

Zhanjiang CR Cement has agreed to sell and Huadeli has agreed to purchase such quantities of cement products as may be ordered by Huadeli from time to time.

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## LETTER FROM THE BOARD

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### *Prices*

The prices will be negotiated on an arm's length basis between Huadeli and Zhanjiang CR Cement with reference to the prevailing market prices.

### **(2) Concrete Supply Agreements**

The Group entered into two supply agreements in respect of the Concrete Transactions.

### *Date*

21 November 2005

### *Parties*

- (i) Redland Concrete (or its subsidiaries) as supplier  
CR Construction Company (or its subsidiaries) as purchaser
- (ii) China Resources Concrete (or its subsidiaries) as supplier  
CR Construction Corp. (or its subsidiaries) as purchaser

### *Term*

Each of the Concrete Supply Agreements is for the period from the Approval Date (being the date on which approval will be obtained from the Independent Shareholders at the EGM which is to be held on 4 January 2006) to 31 December 2008 and is subject to the approval from the Independent Shareholders at the EGM.

### *Subject*

- (i) The Redland Concrete Group has agreed to sell and CR Construction Company Group has agreed to purchase such quantities of concrete as may be ordered by CR Construction Company Group from time to time.
- (ii) The China Resources Concrete Group has agreed to sell and CR Construction Corp. Group has agreed to purchase such quantities of concrete as may be ordered by CR Construction Corp. Group from time to time.

### *Prices*

The prices will be negotiated on an arm's length basis between the relevant parties involved with reference to the prevailing market prices.

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## LETTER FROM THE BOARD

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### (3) Steel Purchase Agreement

#### *Date*

21 November 2005

#### *Parties*

Strong Progress as supplier

Redland Precast as purchaser

#### *Term*

The Steel Purchase Agreement is for the period from the Approval Date (being the date on which approval will be obtained from the Independent Shareholders at the EGM which is to be held on 4 January 2006) to 31 December 2008 and is subject to the approval from the Independent Shareholders at the EGM.

#### *Subject*

Strong Progress has agreed to sell and Redland Precast has agreed to purchase such quantities of steel products as may be ordered by Redland Precast from time to time.

#### *Prices*

The prices will be negotiated on an arm's length basis between Strong Progress and Redland Precast with reference to the prevailing market prices. Pursuant to the Steel Purchase Agreement, the terms of the orders would be no less favourable to Redland Precast than those Strong Progress would offer to independent third parties.

### (4) Fuel, Diesel and Lubricant Oil Purchase Agreements

The Group entered into two purchase agreements in respect of the Oil Products Transactions.

#### *Date*

21 November 2005

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## LETTER FROM THE BOARD

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### *Parties*

- (i) CR Petrochems (or its subsidiaries) as supplier  
China Resources Cement (or its subsidiaries) as purchaser
- (ii) CR Petrochems (or its subsidiaries) as supplier  
China Resources Concrete (or its subsidiaries) as purchaser

### *Term*

Each of the Fuel, Diesel and Lubricant Oil Purchase Agreements is for the period from the Approval Date (being the date on which approval will be obtained from the Independent Shareholders at the EGM which is to be held on 4 January 2006) to 31 December 2008 and is subject to the approval from the Independent Shareholders at the EGM.

### *Subject*

The CR Petrochems Group has agreed to sell and the China Resources Cement Group or the China Resources Concrete Group (as the case may be) has agreed to purchase such quantities of fuel, diesel and lubricant oil as may be ordered by the Group from time to time.

### *Prices*

The prices will be negotiated on an arm's length basis between the CR Petrochems Group and the China Resources Cement Group or the China Resources Concrete Group (as the case may be) with reference to the prevailing market prices. Pursuant to each of the agreements, if, under special circumstances, the relevant parties could not or should not determine the prices with reference to market prices, then the relevant parties shall determine the prices on a fair and reasonable basis. The executive Directors understand that, under the aforesaid special circumstances (which are unforeseen), the relevant parties would still consider the counter party as an independent third party. The executive Directors confirm that the prices of the purchases under the Fuel, Diesel and Lubricant Oil Purchase Agreements will be on normal commercial terms and no less favourable than those available to the Group from independent third parties.

In 2004, the Group entered into various purchase agreements in respect of the Oil Products Transactions with 深圳市華潤石油有限公司 (Shenzhen China Resources Petroleum Company Limited) and with 深圳華潤特種油劑有限公司 (CRC Special Oil Company Limited), both being subsidiaries of CR Petrochems, pursuant to which each of the suppliers undertook that the price would not be higher than the prevailing market price at the time the

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## LETTER FROM THE BOARD

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purchase order was placed by the Group. No similar undertaking was included in the Fuel, Diesel and Lubricant Oil Purchase Agreements as a result of negotiation between the Group and CR Petrochems. As the executive Directors confirm that the prices of the purchases under the Fuel, Diesel and Lubricant Oil Purchase Agreements will be on normal commercial terms and no less favourable than those available to the Group from independent third parties, they consider that the Fuel, Diesel and Lubricant Oil Purchase Agreements are still fair and reasonable without a clause similar to the aforesaid undertaking.

### **REASONS FOR, AND BENEFITS OF, THE CONTINUING CONNECTED TRANSACTIONS**

The business of the Group includes production, distribution and sale of cement, concrete, mortars and shotcrete in Hong Kong and PRC. The Group intends to continue carrying out the Continuing Connected Transactions in its ordinary and usual course of business and on normal commercial terms.

The Directors believe that:

- (1) the Cement Transactions will generate revenue to the Group from the sale of cement products;
- (2) the Concrete Transactions will generate revenue to the Group from the sale of concrete;
- (3) the Steel Products Transactions will ensure reliable delivery of steel products with quality that meets with the Group's requirements at prices comparable to those offered by other suppliers; and
- (4) the Oil Products Transactions will ensure (i) a steady supply of fuel, diesel and lubricant oil for the production of cement and concrete; and (ii) timely delivery of fuel, diesel and lubricant oil to the Group.

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## LETTER FROM THE BOARD

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### VALUE OF THE CONTINUING CONNECTED TRANSACTIONS

#### (1) Value of the Cement Transactions

The cap amount under the IPO Waiver for the year ended 31 December 2003 and the cap amounts under the 2004 Shareholders' Approval for each of the two years ending 31 December 2005 relating to the Cement Transactions and the actual amounts of the Cement Transactions for each of the two years ended 31 December 2004 and the unaudited amount for the nine months ended 30 September 2005 are set out below:

	Year ended/ending 31 December		
	2003	2004	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cap amount	10.0	22.0	25.0
Actual amount of sales	8.9	13.2	7.7 <i>(note)</i>

*note:* This amount is the unaudited figure for the nine months ended 30 September 2005 and is for reference only.

The cap amounts in respect of the Cement Transactions under the IPO Waiver/2004 Shareholders' Approval have not been exceeded for any of the two years ended 31 December 2004 or up to the Latest Practicable Date.

The Group intends to continue carrying out the Cement Transactions in its ordinary and usual course of business and on normal commercial terms. Based on (i) the historical sale of cement products by Zhanjiang CR Cement to Huadeli, an associate of Profit Pool, for the year ended 31 December 2004 and the nine months ended 30 September 2005; (ii) the estimated demand for cement products by Huadeli for the three financial years ending 31 December 2008 as a result of increasing demand for high quality ready mixed concrete for construction projects in Zhanjiang, PRC in compliance with stricter regulatory standards imposed by the Chinese Government; and (iii) a buffer in value of approximately 5% per annum to meet the possible increase in prices of cement products, the Directors estimate that the total amount of the Cement Transactions will not exceed the limit of HK\$18.0 million, HK\$20.0 million and HK\$22.0 million respectively for the three financial years ending 31 December 2008.

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## LETTER FROM THE BOARD

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### (2) Value of the Concrete Transactions

The cap amounts under the IPO Waiver relating to the Concrete Transactions for each of the three years ending 31 December 2005 and the actual amounts of the Concrete Transactions for each of the two years ended 31 December 2004 and the unaudited amount for the nine months ended 30 September 2005 are set out below:

	<b>Year ended/ending 31 December</b>		
	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cap amount	5% of the total sales of the Group <i>(note 1)</i>	5% of the total sales of the Group <i>(note 2)</i>	5% of the total sales of the Group <i>(note 3)</i>
Actual amount of sales	29.9	19.2	15.0 <i>(note 4)</i>
% to the sales of the Group	2.8% <i>(note 1)</i>	1.3%	Not applicable <i>(note 5)</i>

*notes:*

1. The total sales of the Group for the year ended 31 December 2003 were approximately HK\$1,070 million on the assumption that the Group was formed on 1 January 2003.
2. The total sales of the Group for the year ended 31 December 2004 were approximately HK\$1,438 million.
3. The total sales of the Group for the year ending 31 December 2005 cannot be confirmed as the financial year has not ended yet.
4. This amount is the unaudited figure for the nine months ended 30 September 2005 and is for reference only.
5. This amount cannot be confirmed as the financial year has not ended yet.

The cap amounts in respect of the Concrete Transactions under the IPO Waiver have not been exceeded for any of the two years ended 31 December 2004 or up to the Latest Practicable Date.



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## LETTER FROM THE BOARD

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The Group intends to continue carrying out the Concrete Transactions in its ordinary and usual course of business and on normal commercial terms. Based on (i) the historical sale of concrete by the Group to CR Construction Company and CR Construction Corp. for the two years ended 31 December 2004 and the nine months ended 30 September 2005; (ii) the estimated demand for concrete products by CR Construction Company and CR Construction Corp. for the three financial years ending 31 December 2008 as a result of their potential construction projects; and (iii) a buffer in value of approximately 5% for the financial year ending 31 December 2006 to meet the possible increase in prices of concrete products, the Directors estimate that the total amount of the Concrete Transactions will not exceed the limit of HK\$50.0 million for each of the three financial years ending 31 December 2008.

### (3) Value of the Steel Products Transactions

The cap amounts under the 2003 Waiver relating to the Steel Products Transactions for each of the three years ending 31 December 2005 and the actual amounts of the Steel Products Transactions for each of the two years ended 31 December 2004 and the unaudited amount for the nine months ended 30 September 2005 are set out below:

	<b>Year ended/ending 31 December</b>		
	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cap amount	10.0	10% of total cost of sales of the Group <i>(note 1)</i>	10% of total cost of sales of the Group <i>(note 2)</i>
Actual amount of purchases	4.1	41.0	64.6 <i>(note 3)</i>
% to total cost of sales of the Group	Not applicable <i>(note 4)</i>	3.9%	Not applicable <i>(note 5)</i>

*notes:*

1. The total cost of sales of the Group for the year ended 31 December 2004 was approximately HK\$1,064 million.
2. The total cost of sales of the Group for the year ending 31 December 2005 cannot be confirmed as the financial year has not ended yet.
3. This amount is the unaudited figure for the nine months ended 30 September 2005 and is for reference only.

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## LETTER FROM THE BOARD

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4. The cap amount was expressed in terms of monetary value rather than as a percentage of the total cost of sales of the Group as that for each of the two years ending 31 December 2005.
5. This amount cannot be confirmed as the financial year has not ended yet.

The cap amounts in respect of the Steel Products Transactions under the 2003 Waiver have not been exceeded for any of the two years ended 31 December 2004 or up to the Latest Practicable Date.

The Group intends to continue carrying out the Steel Products Transactions in its ordinary and usual course of business and on normal commercial terms. Based on (i) the historical purchases of steel products from Strong Progress for the two years ended 31 December 2004 and the nine months ended 30 September 2005; (ii) the estimated demand for steel products by the Group for the three financial years ending 31 December 2008 as a result of the future expansion plan of the Group; and (iii) a buffer in value of approximately 5% per annum to meet the possible increase in prices of steel products, the Directors estimate that the total amount of the Steel Products Transactions will not exceed the limit of HK\$90.0 million, HK\$100.0 million and HK\$110.0 million respectively for the three financial years ending 31 December 2008.

#### (4) Value of the Oil Products Transactions

The cap amount under the IPO Waiver for the year ended 31 December 2003 and the cap amounts under the 2004 Shareholders' Approval for each of the two years ending 31 December 2005 relating to the Oil Products Transactions and the actual amounts of the Oil Products Transactions for each of the two years ended 31 December 2004 and the unaudited amount for the nine months ended 30 September 2005 are set out below:

	Year ended/ending 31 December		
	2003	2004	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cap amount	10.0	22.0	25.0
Actual amount of purchases	9.6	14.3	12.5
			<i>(note)</i>

*note:* This amount is the unaudited figure for the nine months ended 30 September 2005 and is for reference only.

The cap amounts in respect of the Oil Products Transactions under the IPO Waiver/2004 Shareholders' Approval have not been exceeded for any of the two years ended 31 December 2004 or up to the Latest Practicable Date.

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## LETTER FROM THE BOARD

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The Group intends to continue carrying out the Oil Products Transactions in its ordinary and usual course of business and on normal commercial terms. Based on (i) the historical purchases of fuel, diesel and lubricant oil from CR Petrochems Group for the two years ended 31 December 2004 and the nine months ended 30 September 2005; (ii) the estimated demand for fuel, diesel and lubricant oil by the Group for the three financial years ending 31 December 2008 as a result of the future expansion plan of the Group; and (iii) a buffer in value of approximately 8% per annum to meet the possible increase in the prices of fuel, diesel and lubricant oil, the Directors estimate that the total amount of the Oil Products Transactions will not exceed the limit of HK\$21.0 million, HK\$23.0 million and HK\$25.0 million respectively for the three financial years ending 31 December 2008.

### NEW CAPS

The Directors estimate that the aggregate annual values of the Continuing Connected Transactions for each of the three financial years ending 31 December 2008 will not exceed the limits set out below:

	<b>New Caps</b>		
	<b>for the year ending 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cement Transactions	18.0	20.0	22.0
Concrete Transactions	50.0	50.0	50.0
Steel Products Transactions	90.0	100.0	110.0
Oil Products Transactions	21.0	23.0	25.0

### OPINION OF THE DIRECTORS

The Board considers that the terms of the Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole and have been negotiated on an arm's length basis in the ordinary and usual course of business, on normal commercial terms and on terms no less favourable than those available to the Group from independent third parties.

### CONNECTION BETWEEN THE PARTIES

Huadeli is an associate of Profit Pool which holds 30% of the registered capital in Zhanjiang CR Cement. Huadeli is therefore a connected person of the Company under the Listing Rules.

China Resources Holdings is the controlling shareholder of the Company, holding beneficial interests of approximately 70.7% of the issued share capital of the Company. CR Construction Company and Strong Progress are both subsidiaries of China Resources Holdings and are accordingly connected persons of the Company under the Listing Rules.

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## LETTER FROM THE BOARD

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CR Construction Corp. is a subsidiary of CRNC which is the ultimate holding company of China Resources Holdings. CR Construction Corp. is therefore a connected person of the Company under the Listing Rules.

CR Petrochems is a subsidiary of CRE which is in turn a subsidiary of China Resources Holdings. Accordingly, CR Petrochems is a connected person of the Company under the Listing Rules.

In view of the above, the Continuing Connected Transactions between the Group and the relevant connected persons will constitute connected transactions of the Company under the Listing Rules.

### INFORMATION ABOUT THE CONNECTED PERSONS

#### **Huadeli**

Huadeli is a company established in PRC and an associate of Profit Pool. It is principally engaged in the production of ready mixed concrete in PRC.

#### **Profit Pool**

Profit Pool is a company incorporated in Hong Kong and holds 30% of the registered capital in Zhanjiang CR Cement. It is an investment holding company.

#### **CR Construction Company**

CR Construction Company is a company incorporated in Hong Kong and a subsidiary of China Resources Holdings. It is principally engaged in the business of building construction.

#### **CR Construction Corp.**

CR Construction Corp. is a company established in PRC and a subsidiary of CRNC, the ultimate holding company of the Company. It is principally engaged in the business of building construction.

#### **Strong Progress**

Strong Progress is a company incorporated in Hong Kong and a subsidiary of China Resources Holdings. It is principally engaged in distribution of steel products.

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## LETTER FROM THE BOARD

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### **CR Petrochems**

CR Petrochems is a company incorporated in Hong Kong and a subsidiary of CRE. It is principally engaged in the distribution of fuel and oil products.

### **China Resources Holdings**

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

### **CRNC**

CRNC is a state owned enterprise in PRC. It is an investment holding company.

### **CRE**

CRE is a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange. The company has a diversified portfolio of businesses in both Hong Kong and PRC including retail, beverage, food processing and distribution, textile, petroleum and chemical distribution, property and other investments.

### **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.

### **COMPLIANCE WITH LISTING RULES**

For each of the Continuing Connected Transactions, as the Board anticipates that the relevant percentage ratios (other than the profit ratio) on an annual basis will not be less than 2.5% and the annual consideration is expected to be higher than HK\$10 million, the Company has to comply with the announcement, reporting and shareholders' approval requirements under Rule 14A.35 of the Listing Rules in respect of the Continuing Connected Transactions.

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## LETTER FROM THE BOARD

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Huadeli is an associate of Profit Pool which holds 30% of the registered capital in Zhanjiang CR Cement. Accordingly, Huadeli is a connected person of the Company under the Listing Rules. As Huadeli is a party to the Cement Supply Agreement, Profit Pool and its associates will, to the extent they hold any Shares, abstain from voting at the EGM to approve the Cement Supply Agreement, the Cement Transactions and the relevant New Caps. To the best knowledge and belief of the Board and having made all reasonable enquiries, Profit Pool and its associates do not hold any Share as at the Latest Practicable Date.

China Resources Holdings is the controlling shareholder of the Company, holding beneficial interests of approximately 70.7% of the issued share capital of the Company as at the Latest Practicable Date. So far as the Board is aware, having made all reasonable enquiries, China Resources Holdings and its associates control or are entitled to control the voting rights attaching to their 70.7% interest in the Company. China Resources Holdings and its associates will, to the extent they hold any Shares, abstain from voting at the EGM to approve the Concrete Supply Agreements, the Steel Purchase Agreement, the Fuel, Diesel and Lubricant Oil Purchase Agreements, the Concrete Transactions, the Steel Products Transactions, the Oil Products Transactions and the relevant New Caps at the EGM.

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the resolutions to approve the Agreements, the Continuing Connected Transactions and the New Caps. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Agreements, the Continuing Connected Transactions and the New Caps.

The Company will convene the EGM to consider and, if thought fit, to approve the Agreements, the Continuing Connected Transactions and the New Caps. Voting will be by poll.

The Company will comply with the continuing obligations under Rules 14A.37-40 of the Listing Rules.

### **EGM**

A notice of EGM to be held at 4:00 p.m. on Wednesday, 4 January 2006 at 50th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, for the purpose of considering and, if thought fit, approving the Agreements, the Continuing Connected Transactions and the New Caps is set out on pages 54 to 57 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 Hong Kong share registrar and transfer office of the Company, Standard Registrars Limited, at

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## LETTER FROM THE BOARD

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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.

### RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 22 of this circular which contains its recommendation to the Independent Shareholders regarding the relevant Agreements, Continuing Connected Transactions and New Caps; and (ii) the letter from Somerley set out on page on pages 23 to 38 of this circular which contains their advice to the Independent Board Committee and the Independent Shareholders in relation to the relevant Agreements, Continuing Connected Transactions and New Caps and the principal factors and reasons considered by them in formulating their advice.

### ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendix to this circular and the notice of EGM set out in 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 Codes: 712 and 2512)**

15 December 2005

*To the Independent Shareholders*

Dear Sir and Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

We have been appointed as members of the Independent Board Committee to advise you in connection with the Agreements, the Continuing Connected Transactions and the New Caps, details of which are set out in the Letter from the Board contained in the circular of the Company dated 15 December 2005 (the “Circular”). Capitalised terms used in the Circular shall have the same meanings as those defined in the Circular unless the context herein otherwise requires.

Having taken into account the advice and recommendation of Somerley as set out on pages 23 to 38 of the Circular, we are of the opinion that the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and on normal commercial terms and the terms of the Agreements and the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreements, the Continuing Connected Transactions and the New Caps.

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 the purpose of inclusion in this circular.*



**SOMERLEY LIMITED**

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

15 December 2005

*To the Independent Board Committee  
and the Independent Shareholders*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders as regards the non-exempt continuing connected transactions relating to (i) sale of cement products by Zhanjiang CR Cement to Huadeli (the “Cement Transactions”); (ii) sale of concrete by the Group to the CR Construction Company Group and the CR Construction Corp. Group (the “Concrete Transactions”); (iii) purchases of steel products from Strong Progress by the Group (the “Steel Products Transactions”); and (iv) purchases of fuel, diesel and lubricant oil by the Group from the CR Petrochems Group (the “Oil Products Transactions”). Details of the Agreements, the Cement Transactions, the Concrete Transactions, the Steel Products Transactions and the Oil Products Transactions (the “Continuing Connected Transactions”) and their respective New Caps are set out in the circular of the Company dated 15 December 2005 (the “Circular”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

China Resources Holdings and its associates have an interest in the Concrete Transactions, the Steel Products Transactions and the Oil Products Transactions and will abstain from voting on the relevant resolutions to be proposed at the EGM. 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 Continuing Connected Transactions are in the ordinary and usual course of business of the Group and on normal commercial terms and whether the terms of the Agreements and the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Based on their opinions on the above matters, the Independent Board Committee will make a recommendation to the Independent Shareholders on how to vote on the relevant resolutions to be proposed at the EGM. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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## LETTER FROM SOMERLEY

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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. We have been provided with and have reviewed copies of the Cement Supply Agreement, the Concrete Supply Agreements, the Steel Purchase Agreement, the Fuel, Diesel and Lubricant Oil Purchase Agreements and financial information of the Group, Zhanjiang CR Cement, the Redland Concrete Group, the China Resources Concrete Group, Redland Precast and the China Resources Cement Group. We have 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 relied on such information and consider that we have been provided with sufficient information to reach our advice and recommendation as set out in this letter. We have taken reasonable steps in compliance with Rule 13.80 of the Listing Rules to justify our reliance on such information and we have no reason to believe that any material information has been withheld, or to doubt the truth or accuracy of the information provided. We have not, however, conducted an independent investigation into the affairs of the Group or of the parties to the Continuing Connected Transactions. We have also assumed that the statements and representations made or referred to in the Circular were accurate at the time they are made and will continue to be accurate up to the time of the EGM.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion on the terms of the Agreements, the Continuing Connected Transactions and their respective New Caps, we have taken into account the principal factors and reasons set out below.

#### **1. The Cement Transactions**

##### ***Background***

Zhanjiang CR Cement, in its ordinary and usual course of business, supplies cement products to Huadeli, which is one of the three batching plants in Zhanjiang, PRC. Huadeli is an associate of Profit Pool, a substantial shareholder of a Company's subsidiary. Under the Listing Rules, Huadeli is a connected person of the Company and accordingly, the Cement Transactions constitute continuing connected transactions for the Company.

The Company applied to and was granted by the Stock Exchange on 26 June 2003 the IPO Waiver in respect of, among other things, the Cement Transactions. Details of the IPO Waiver are set out in the prospectus of the Company dated 26 June 2003. On 8 September 2004, the Company announced that the Group had entered into various agreements in respect of, among other things, the Cement Transactions and proposed to revise the caps. On 20 October 2004, the Company obtained the 2004 Shareholders' Approval from the then independent Shareholders for the Cement Transactions and the revised caps for the period up to 31 December 2005.

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## LETTER FROM SOMERLEY

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As the Group intends to continue carrying out the Cement Transactions in its ordinary and usual course of business and on normal commercial terms, it has entered into the Cement Supply Agreement, which is subject to approval from the Independent Shareholders at the EGM.

### *Cement Supply Agreement*

On 21 November 2005, Zhanjiang CR Cement entered into the Cement Supply Agreement with Huadeli, pursuant to which Zhanjiang CR Cement agreed to supply cement products to Huadeli as ordered by Huadeli from time to time for the period commencing from the Approval Date up to and including 31 December 2008. Pricing for the cement will be negotiated on an arm's length basis between the parties with reference to the prevailing market prices of cement at the time the purchase order is placed by Huadeli. Payment for the cement will be settled within a fixed period from the end of each month.

We have reviewed and compared the terms, other than pricing, under the Cement Supply Agreement with the supply agreements entered into between Zhanjiang CR Cement and independent third parties. We have also reviewed and compared the sales invoices for sales of cement by Zhanjiang CR Cement to Huadeli and independent third parties. We consider that the material terms, including payment terms, of the Cement Supply Agreement are similar to those offered by Zhanjiang CR Cement to independent third parties.

Given the pricing of the cement will be agreed with reference to the prevailing market prices at the time when the purchase order is placed and the major terms of the Cement Supply Agreement are similar to those offered by Zhanjiang CR Cement to independent third parties, we are satisfied that the terms of the Cement Supply Agreement are no less favourable to Zhanjiang CR Cement than terms governing supply to independent third parties.

### *Reasons for the Cement Transactions*

Given the sale of the cement to Huadeli will continue contributing to the Group's profit and the terms of the Cement Supply Agreement are no less favourable to the Group than those between the Group and independent third parties, we consider it is justified for Zhanjiang CR Cement to continue supply cement to Huadeli.

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## LETTER FROM SOMERLEY

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### *Cap amounts*

The cap amounts proposed by the Directors for the Cement Transactions are HK\$18.0 million, HK\$20.0 million and HK\$22.0 million respectively for each of the three financial years ending 31 December 2008.

The cap amounts for the Cement Transactions are determined by the Directors based on (i) the historical sale of cement products by Zhanjiang CR Cement to Huadeli for the year ended 31 December 2004 and the nine months ended to 30 September 2005; (ii) the estimated demand for cement products by Huadeli for the three financial years ending 31 December 2008 as a result of increasing demand for high quality ready mixed concrete for construction projects in Zhanjiang in compliance with stricter regulatory standards imposed by PRC Government; and (iii) a buffer in value of approximately 5% per annum to meet the possible increase in prices of cement products. To assess whether the basis of the cap amounts is fair and reasonable, we have reviewed the following factors:

- (i) *Increased future investments in infrastructure and major industrial projects in Zhanjiang, PRC, and stricter regulatory standards*

The Guangdong Provincial Government has announced in November 2005 plans to accelerate investments in certain areas of the Guangdong Province including investments of approximately RMB210 billion in infrastructure and major industrial projects in Zhanjiang in the coming five years. Based on various government statistics in respect of the relationship between amount of investment and cement consumption, the management of the Company estimates the investments will generate demand for cement of more than 40 million tonnes over the 5-year period or approximately 8 million tonnes per year, which exceeds the current estimated annual market consumption of approximately 2.5 million tonnes.

Furthermore, due to PRC central government's growing concern for environmental protection, Zhanjiang Municipal Government has prohibited the use of cement produced by vertical kilns in major infrastructure and landmark projects. As advised by the management of the Company, Zhanjiang CR Cement is the only plant in Zhanjiang area producing cement from rotary kilns as encouraged by the PRC Government. Zhanjiang CR Cement therefore has a competitive advantage over its counterparts in becoming the preferred cement

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## LETTER FROM SOMERLEY

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supplier for government infrastructure and industrial projects in the region. Huadeli anticipates its demand for cement will increase to not more than 68,000 tonnes in 2006, which represents approximately 9% increase in quantity from 2005. Huadeli is unable to provide their estimated demand in 2007 and 2008 but the management of the Company understands from Huadeli that it would pursue more government projects in 2007 and 2008.

*(ii) Commencement of operation of additional production line*

Zhanjiang CR Cement is currently building a new production line with 320,000 tonnes annual production capacity, which is expected to be operational in 2006. Given the increase in demand for cement as described in the above paragraph and the likelihood of Huadeli's further participation in government projects in 2007 and 2008, the management of the Company has built in a buffer of approximately 5% for the quantity that may be required by Huadeli for 2007 and 2008. As Huadeli is unable to accurately predict its demand for cement for 2007 and 2008 and in view of the anticipated demand for cement in the region in 2007 and 2008, we consider a 5% buffer in quantity provides the Group with flexibility and is appropriate.

*(iii) Historical fluctuation of cement price*

Based on the information provided by the Company, the average price of the cement products purchased by Huadeli from Zhanjiang CR Cement increased by approximately 9.7% in the first nine months of 2005. As the management of the Company expects the average price of cement may fluctuate, a 5% buffer in price will also provide Zhanjiang CR Cement with flexibility to continue supplying cement to Huadeli in the event of higher than expected increases in market price of cement products demanded by Huadeli.

In view of the above, we consider the basis and factors that the Directors have taken into account in determining the cap amounts are relevant and justifiable and we consider the cap amounts for the Cement Transactions are fair and reasonable.

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## LETTER FROM SOMERLEY

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### 2. The Concrete Transactions

#### *Background*

The Redland Concrete Group and the China Resources Concrete Group (the “Concrete Suppliers”), in their ordinary and usual course of businesses, supply concrete to the CR Construction Company Group and the CR Construction Corp. Group (the “Concrete Purchasers”) respectively. CR Construction Company is a subsidiary of China Resources Holdings and CR Construction Corp. is a subsidiary of CRNC. China Resources Holdings is the controlling Shareholder and CRNC is the ultimate holding company of China Resources Holdings. Under the Listing Rules, CR Construction Company and CR Construction Corp. are connected persons of the Company and accordingly, the Concrete Transactions constitute continuing connected transactions for the Company.

The Company applied to and was granted by the Stock Exchange on 26 June 2003 the IPO Waiver in respect of, among other things, the Concrete Transactions. Details of the IPO Waiver are set out in the prospectus of the Company dated 26 June 2003. The Existing Waiver will expire on 31 December 2005.

As the Group intends to continue carrying out the Concrete Transactions in its ordinary and usual course of business and on normal commercial terms, it has entered into the Concrete Supply Agreements, which are subject to approval from the Independent Shareholders at the EGM.

#### *Concrete Supply Agreements*

On 21 November 2005, Redland Concrete entered into a concrete supply agreement with CR Construction Company. On the same date, China Resources Concrete also entered into a concrete supply agreement with CR Construction Corp.. Pursuant to the Concrete Supply Agreements, the Redland Concrete Group and the China Resources Concrete Group agreed to supply concrete to the CR Construction Company Group and the CR Construction Corp. Group respectively as ordered by the Concrete Purchasers from time to time for the period commencing from the Approval Date up to and including to 31 December 2008. Pricing of the concrete will be negotiated on an arm’s length basis between the relevant parties with reference to the prevailing market prices at the time the purchase order is placed by the Concrete Purchasers with the Concrete Suppliers. Payment terms for the concrete will be determined by the relevant parties to the Concrete Supply Agreements.

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## LETTER FROM SOMERLEY

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We have reviewed and compared the terms, other than pricing, under the Concrete Supply Agreements and the supply agreements entered into between the Concrete Suppliers and the independent third parties. We have also reviewed and compared the sales invoices for sales of concrete by the Concrete Suppliers to the Concrete Purchasers and independent third parties. We consider that the material terms, including payment terms, of the Concrete Supply Agreements are similar to those offered by the Concrete Suppliers to independent third parties.

Given the pricing of the concrete products will be agreed with reference to the prevailing market prices at the time when the purchase order is placed and the major terms of the Concrete Supply Agreement are similar to those offered by the Concrete Suppliers to independent third parties, we are satisfied that the material terms of the Concrete Supply Agreements are no less favourable to the Concrete Suppliers than terms governing supply to independent third parties.

### *Reasons for the Concrete Transactions*

The Concrete Transactions have been contributing to the Group's profit. Given the terms of the Concrete Supply Agreements are no less favourable to the Group than those between the Group and independent third parties, we consider it is justified for the Concrete Suppliers to continue to supply concrete to the Concrete Purchasers.

### *Cap amounts*

The cap amounts proposed by the Directors for the Concrete Transactions are HK\$50.0 million for each of the three financial years ending 31 December 2008.

The cap amounts for the Concrete Transactions are determined by the Directors based on (i) the historical sale of concrete by the Group to the Concrete Purchasers for the two years ended 31 December 2004 and the nine months ended to 30 September 2005; (ii) the estimated demand for concrete products by the Concrete Purchasers for the three financial years ending 31 December 2008 as a result of their potential construction projects; and (iii) a buffer in value of approximately 5% for the financial

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## LETTER FROM SOMERLEY

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year ending 31 December 2006 to meet the possible increase in prices of concrete products. To assess whether the basis of the cap amounts is fair and reasonable, we have reviewed the following factors:

(i) *Demand for concrete products*

As advised by the management of the Company, in addition to the general supply of concrete, the Company intends to supply concrete to the Concrete Purchasers for a major project in Shenzhen, PRC. This major project would involve development of hotel, residential, commercial facilities and basement parking facilities, with an estimated total gross floor area of approximately 175,000 square metres, which is similar to the size of The MIXc Phase I (萬象城第一期), a shopping mall located in Shenzhen. Given the Concrete Purchasers' successful involvement in The MIXc Phase I, the management of the Company considers the Concrete Suppliers are likely to be contracted to supply concrete to this project.

With reference to the size of development of The MIXc Phase I and assuming the percentage of the concrete supplied by the Concrete Suppliers will be the same as The MIXc Phase I, the Directors estimate the concrete sold by the Concrete Suppliers to the Concrete Purchasers may increase by as much as 67,000 cubic metres, which is about 1.8 times the quantity of concrete sold to the Concrete Purchasers in 2005.

As advised by the management of the Company, the commencement date of the construction work of the project has not yet been confirmed. In order to accommodate this situation, the cap amounts for each of the years ending 31 December 2008 are equal to allow the Concrete Suppliers to supply concrete for the project should the construction work commence in any of these three years.

(ii) *Historical fluctuation of concrete price*

Based on the information provided by the Company, the average price of the concrete products purchased by the Concrete Purchasers from the Concrete Suppliers increased by approximately 61% in the first nine months of 2005, primarily as a result of significant increases in average price of concrete products in Hong Kong. As the management of the Company expects the average price of concrete will continue to increase (although it is unable to accurately project



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## LETTER FROM SOMERLEY

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its magnitude), a buffer of 5% is included in the cap amount for the year ending 31 December 2006 to provide the Concrete Suppliers with flexibility to continue supplying concrete products to the Concrete Purchasers in the event of higher than expected increases in the market price of concrete products sold by the Concrete Suppliers.

In view of the above, we consider the basis and factors that the Directors have taken into account in determining the cap amounts are relevant and justifiable and we consider the cap amounts for the Concrete Transactions are fair and reasonable.

### **3. The Steel Products Transactions**

#### *Background*

Redland Precast, in its ordinary and usual course of business, purchases steel products from Strong Progress. Strong Progress is a subsidiary of China Resources Holdings. Under the Listing Rules, Strong Progress is a connected person of the Company and accordingly, the Steel Products Transactions constitute continuing connected transactions for the Company.

The Company applied to and was granted by the Stock Exchange on 11 November 2003 the 2003 Waiver in respect of the Steel Products Transactions which were subject to, among other things, the then independent Shareholders' approval. Details of the 2003 Waiver are set out in the circular of the Company dated 27 October 2003. On 12 November 2003, the Company obtained the approval from the then independent Shareholders for the Steel Products Transactions and caps for the period up to 31 December 2005.

As the Group intends to continue carrying out the Steel Products Transactions in its ordinary and usual course of business and on normal commercial terms, it has entered into the Steel Purchase Agreement, which is subject to approval from the Independent Shareholders at the EGM.

#### *Steel Purchase Agreement*

On 21 November 2005, Redland Precast entered into the Steel Purchase Agreement with Strong Progress, pursuant to which Redland Precast agreed to purchase steel products from Strong Progress as ordered by Redland Precast from time to time for the period commencing from the Approval Date up to and including 31 December

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## LETTER FROM SOMERLEY

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2008. Pricing of the steel products will be negotiated on an arm's length basis between the parties with reference to the prevailing market prices at the time the purchase order is placed by Redland Precast. Pursuant to the Steel Purchase Agreement, the terms of the orders would be no less favourable to Redland Precast than those Strong Progress offers to independent third parties. Payment terms for the steel products will be agreed by Redland Precast and Strong Progress for each order.

We have reviewed the terms, other than pricing, under the Steel Purchase Agreement. We have also reviewed and compared the invoices for the purchase of steel products by Redland Precast from Strong Progress and independent third parties. We consider that the material terms, including payment terms, of the Steel Purchase Agreement are similar to those offered to Redland Precast by independent third parties.

Given the pricing of the steel products will be agreed with reference to the prevailing market prices at the time the purchase order is placed and the major terms of the Steel Purchase Agreement are similar to those offered to Redland Precast by independent third parties, we are satisfied that the material terms of the Steel Purchase Agreement, including the pricing, are no less favourable to Redland Precast than terms available from independent third parties.

### *Reasons for the Steel Products Transactions*

Redland Precast regularly purchases steel products from Strong Progress. For each of the two years ended 31 December 2004 and nine months ended 30 September 2005, the purchase of steel products by the Group from Strong Progress amounted to approximately HK\$4.1 million, HK\$41.0 million and HK\$64.6 million respectively. As Strong Progress has agreed to supply steel products to the Group at a price with reference to prevailing market prices and has a track record of timely delivery of steel products in the past few years, we consider it is commercially sound for Redland Precast to continue purchase steel products from Strong Progress.

### *Cap amounts*

The cap amounts for the Steel Products Transactions proposed by the Directors are HK\$90.0 million, HK\$100.0 million and HK\$110.0 million for each of the three financial years ending 31 December 2008 respectively.

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## LETTER FROM SOMERLEY

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The cap amounts are determined by the Directors based on (i) the historical purchase of steel products from Strong Progress for the two years ended 31 December 2004 and nine months ended 30 September 2005; (ii) the estimated demand for steel products by the Group for the three financial years ending 31 December 2008 as a result of the future expansion plan of the Group; and (iii) a buffer in value of approximately 5% per annum to meet the possible increase in the prices of steel products. To assess whether the basis of the cap amounts is fair and reasonable, we have reviewed the following factors:

(i) *Current construction projects on hand*

Redland Precast secured a number of hotel and office construction projects in Hong Kong and Macau for 2006. These projects mainly involve supplying concrete products for facades and balconies and precast concrete segments and glass fibre concrete segments for hotels, office buildings and ancillary facilities. Based on the current projects on hand of Redland Precast and an assessment of the potential projects to be awarded for 2006, the Directors estimate the quantity of steel purchase in 2006 will be approximately 25,000 tonnes, representing an approximately 1% decrease from 2005.

(ii) *Expected recovery of the construction sector in Hong Kong*

Based on the data from the Census and Statistics Department of Hong Kong Government, the value of construction work in Hong Kong has been decreasing at an average rate of 6.5% annually since 2001. Such trend bottomed out in the fourth quarter of 2004. In a study by Asian Development Bank in this year, Hong Kong's fixed investment is forecast to grow in the range of 7% to 9% in medium term (about 2 to 3 years). In particular, construction activity is likely to revive as property market is recovering and certain major infrastructure projects such as the bridges to Macau and Zhuhai and a new ocean liner terminal are underway.

Redland Precast is unable to indicate its demand for steel products in 2007 and 2008. Given the expected recovery of the construction sector in Hong Kong, the management of the Company has built in a buffer of 5% growth in the purchase of steel in quantity by Redland Precast to cater for the possible increase in 2007 and 2008. We consider the 5% buffer in quantity provides the Group with flexibility and is appropriate.

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## LETTER FROM SOMERLEY

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(iii) *Historical fluctuation of steel price*

Based on the information provided by the Company, the average price of the steel products purchased by Redland Precast from Strong Progress increased by approximately 46% in the first nine months of 2005. As the management of the Company expects the price of steel will continue to fluctuate but is not able to accurately project the change, a buffer of 5% in price will also provide Redland Precast with flexibility to continue purchasing steel products from Strong Progress in the event of higher than expected increases in the market price of steel products purchased by Redland Precast.

In view of the above, we consider the basis and factors that the Directors have taken into account in determining the cap amounts are relevant and justifiable and we consider that cap amounts for the Steel Products Transactions are fair and reasonable.

#### **4. The Oil Products Transactions**

***Background***

The China Resources Cement Group and the China Resources Concrete Group (the “Oil Products Purchasers”), in their ordinary and usual course of business, purchase fuel, diesel and lubricant oil from the CR Petrochems Group. CR Petrochems is a subsidiary of CRE. China Resources Holdings is the controlling shareholder of both CRE and the Company. Under the Listing Rules, CR Petrochems is a connected person of the Company and, accordingly, the Oil Products Transactions constitute continuing connected transactions for the Company.

The Company applied to and was granted by the Stock Exchange on 26 June 2003 the IPO Waiver in respect of, among other things, the Oil Products Transactions. Details of the IPO Waiver are set out in the prospectus of the Company dated 26 June 2003. On 8 September 2004, the Company announced that the Group had entered into various agreements in respect of, among other things, the Oil Products Transactions and proposed to revise the caps. On 20 October 2004, the Company obtained the 2004 Shareholders’ Approval from the then independent Shareholders for the Oil Products Transactions and the revised caps for the period up to 31 December 2005.

As the Group intends to continue carrying out the Oil Products Transactions in its ordinary and usual course of business and on normal commercial terms, it has entered into the Fuel, Diesel and Lubricant Oil Purchase Agreements, which are subject to approval from the Independent Shareholders at the EGM.

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## LETTER FROM SOMERLEY

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### *Fuel, Diesel and Lubricant Oil Purchase Agreements*

On 21 November 2005, each of the Oil Products Purchasers entered into a purchase agreement with the CR Petrochems Group, pursuant to which the Oil Products Purchasers will purchase fuel, diesel and lubricant oil from the CR Petrochems Group as ordered by the Oil Products Purchasers from time to time for the period commencing from the Approval Date up to and including 31 December 2008. Pricing of the oil products will be negotiated on an arm's length basis between the Oil Products Purchasers and the CR Petrochems Group with reference to the prevailing market prices. Pursuant to each of the Fuel, Diesel and Lubricant Oil Purchase Agreements, if the relevant parties cannot determine the prices with reference to market, the relevant parties shall determine the prices on a fair and reasonable basis treating the counter party as an independent third party. Payment terms for the oil products will be negotiated on an arm's length basis between the Oil Products Purchasers and the CR Petrochems Group with reference to the prevailing market norm and relevant regulations.

Under the Fuel, Diesel and Lubricant Oil Purchase Agreements, each of the relevant members of the Oil Products Purchasers will place its orders with the CR Petrochems Group based on its own production needs. Upon receipt of the purchase orders, the CR Petrochems Group will provide a price quotation for the oil products to the relevant Oil Products Purchasers. Purchases will only be made upon acceptance of the quotation by the relevant Oil Products Purchasers.

We have reviewed and compared the terms, other than pricing, under the Fuel, Diesel and Lubricant Oil Purchase Agreements with purchase agreements entered into between the Oil Products Purchasers and the independent third parties. We have also reviewed and compared the invoices for the purchase of oil products by the Oil Products Purchasers from the CR Petrochems Group with those from independent third parties. We consider that the material terms, including payment terms, of the Fuel, Diesel and Lubricant Oil Purchase Agreements are similar to those offer to the Oil Products Purchasers by independent third parties.

Given the pricing of the oil products will be agreed with reference to the prevailing market prices at the time when the purchase order is placed and the major terms of the Fuel, Diesel and Lubricant Oil Purchase Agreement are similar to those offered to the Oil Products Purchasers by independent third parties, we are satisfied that the terms of the Fuel, Diesel and Lubricant Oil Purchase Agreements, including pricing, are no less favourable to the Oil Products Purchasers than those offered by independent third parties.

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## LETTER FROM SOMERLEY

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### *Reasons for the Oil Products Transactions*

The Oil Products Purchasers regularly purchase fuel, diesel and lubricant oil products from the CR Petrochems Group for operating their production plants in PRC. For each of the two years ended 31 December 2004 and nine months ended 30 September 2005, the purchases of fuel, diesel and lubricant oil by the Oil Products Purchasers from the CR Petrochems Group amounted to approximately HK\$9.6 million, HK\$14.3 million and HK\$12.5 million respectively. As the CR Petrochems Group has agreed to supply oil products to the Group at a price set by reference to prevailing market prices and in view of its track record of timely delivery of oil products in the past few years, we consider it is commercially sound for the Oil Products Purchasers to continue to purchase oil products from the CR Petrochems Group.

### *Cap amounts*

The cap amounts for the Oil Products Transactions proposed by the Directors are HK\$21.0 million, HK\$23.0 million and HK\$25.0 million respectively for the three financial years ending 31 December 2008.

The cap amounts are determined by the Directors based on (i) the historical purchase of fuel, diesel and lubricant oil from the CR Petrochems Group for the two years ended in 31 December 2004 and nine months ended 30 September 2005; (ii) the Group's estimated demand for fuel, diesel and lubricant oil for the three financial years ending 31 December 2008 as a result of its future expansions; and (iii) a buffer in value of approximately 8% per annum to meet the possible increase in the prices of fuel, diesel and lubricant oil. To assess whether the basis of the cap is fair and reasonable, we have reviewed the following factors:

(i) *Commencement of operations of new concrete batching plants*

The China Resources Concrete Group currently have five concrete batching plants located in Guangdong Province, PRC, for which they purchase oil products from the CR Petrochems Group. Based on the consumption of oil products by these plants for the nine months ended 30 September 2005, each plant purchases approximately 380,000 litres of oil products from the CR Petrochems Group annually. The management of the Company advised that they intend to build additional concrete batching plants in Guangdong Province in 2006 and also the following two years. Accordingly, there will be a corresponding increase in demand for oil products by the Oil Products Purchasers.

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## LETTER FROM SOMERLEY

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With reference to the total purchase of oil products by the Oil Products Purchasers from the CR Petrochems Group of approximately 3.6 million litres for the nine months ended 30 September 2005 and assuming the additional concrete batching plants will start operations from the middle of 2006, the quantity of oil products purchased by the Oil Products Purchasers will increase by approximately 9% in 2006.

*(ii) Increased utilisation of the existing concrete production facilities*

As advised by the management of the Company, the utilisation rates of the majority of the Company's existing concrete production facilities are generally around 40% to 60%. Given the expected growth of fixed asset investment market in PRC and particularly in Guangdong Province and the Company's expansion plan, it is anticipated that there will be additional output of concrete and consumption of oil products by the concrete batching plants.

Given the above and the expected improvement in utilisation of the existing concrete production facilities, the management of the Company has built in a buffer of 2% growth in quantity of oil products purchased by the Oil Products Purchasers to cater for possible growth in 2007 and 2008. We consider the 2% buffer in quantity provides the Group with flexibility and is appropriate.

*(iii) Historical fluctuation of oil products price*

The buffer of 8% for the cap amounts principally caters for the possible increase in price of the fuel and diesel. Fuel and diesel have been the major oil products purchased by the Oil Products Purchasers. The prices of fuel and diesel are regulated in Guangdong Province by the Guangdong Provincial Government, which recently announced increases in the prices of various types of fuel and diesel with effect from 23 July 2005 in response to the surge of world crude oil prices. The average retail selling prices of fuel and diesel have increased by 15% and 14% respectively as compared to the prices in August 2004. The management of the Company expects the prices of oil products, which are highly correlated to the crude oil prices, will continue to be volatile in the coming years. On this basis, the management of the Company has built in a buffer of 8% annual increase in price of the oil products for each of the coming three years. Given volatility of the crude oil prices in the past years, we consider an 8% buffer for the price of the oil products is appropriate.

In view of the above, we consider the basis and factors that the Directors have taken into account in determining the cap amounts are relevant and justifiable and we consider that cap amounts for the Oil Products Transactions are fair and reasonable.

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## LETTER FROM SOMERLEY

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### ADVICE

Having taken into account the above factors and reasons, we consider that the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and on normal commercial terms and the terms of the Agreements and the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### OPINION

We advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders should vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreements, the Continuing Connected Transactions and the New Caps.

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 collectively and individually 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, there are no other facts 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 or 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 to be entered in the register referred to therein pursuant to section 352 of the SFO; or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code 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	0.995
Shi Shanbo	Beneficial owner	–	3,100,000	3,100,000	0.812
Zhou Junqing	Beneficial owner	–	2,800,000	2,800,000	0.733
Zhou Longshan	Beneficial owner	–	2,800,000	2,800,000	0.733
Sun Mingquan	Beneficial owner	–	2,600,000	2,600,000	0.681
Zheng Yi	Beneficial owner	–	2,600,000	2,600,000	0.681
Keung Chi Wang, Ralph	Beneficial owner	–	800,000	800,000	0.209
Chan Mo Po, Paul	Beneficial owner	–	200,000	200,000	0.052
Lin Zongshou	Beneficial owner	–	200,000	200,000	0.052
Lui Pui Kee, Francis	Beneficial owner	–	200,000	200,000	0.052

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	0.995
	16 December 2004	15 December 2014	1.660	800,000	
Shi Shanbo	5 December 2003	4 December 2013	2.325	2,300,000	0.812
	16 December 2004	15 December 2014	1.660	800,000	
Zhou Junqing	5 December 2003	4 December 2013	2.325	2,000,000	0.733
	16 December 2004	15 December 2014	1.660	800,000	
Zhou Longshan	5 December 2003	4 December 2013	2.325	2,000,000	0.733
	16 December 2004	15 December 2014	1.660	800,000	
Sun Mingquan	5 December 2003	4 December 2013	2.325	1,800,000	0.681
	16 December 2004	15 December 2014	1.660	800,000	
Zheng Yi	5 December 2003	4 December 2013	2.325	1,800,000	0.681
	16 December 2004	15 December 2014	1.660	800,000	
Keung Chi Wang, Ralph	5 December 2003	4 December 2013	2.325	800,000	0.209
Chan Mo Po, Paul	5 December 2003	4 December 2013	2.325	200,000	0.052
Lin Zongshou	5 December 2003	4 December 2013	2.325	200,000	0.052
Lui Pui Kee, Francis	5 December 2003	4 December 2013	2.325	200,000	0.052

notes:

1. Based on 381,863,461 Shares in issue as at the Latest Practicable Date.
2. The above options granted on 5 December 2003 are vested in five tranches of 20% each on each anniversary of the date of grant commencing from the first anniversary of the date of grant.
3. The above options granted on 16 December 2004 are vested in four tranches of 25% each on each anniversary of the date of grant commencing from the first anniversary of the date of grant.
4. Consideration for each of the above grants is HK\$1.00.

*(b) 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	0.170
Shi Shanbo	Beneficial owner	–	100,000	100,000	0.004
Zhou Junqing	Beneficial owner	100,000	–	100,000	0.004
Zhou Longshan	Beneficial owner	220,000	188,000	408,000	0.021
	Interest of spouse	–	50,000	50,000	
Sun Mingquan	Beneficial owner	–	60,000	60,000	0.024
	Interest of spouse	–	484,000	484,000	
Zheng Yi	Beneficial owner	–	60,000	60,000	0.003
Jiang Wei	Beneficial owner	–	600,000	600,000	0.027
Keung Chi Wang, Ralph	Beneficial owner	–	2,966,000	2,966,000	0.133

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 and amended on 20 August 2004) 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 position in underlying shares to issued share capital of CRE (note 1) %
Qiao Shibo	7 February 2002	6 February 2012	7.17	1,800,000	0.170
	14 January 2004	13 January 2014	9.72	2,000,000	
Shi Shanbo	5 March 2002	4 March 2012	7.35	100,000	0.004
Zhou Longshan	5 March 2002	4 March 2012	7.35	110,000	0.011 (note 2)
	14 April 2003	13 April 2013	6.29	128,000	
Sun Mingquan	7 February 2002	6 February 2012	7.17	150,000	0.024 (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	0.027
Keung Chi Wang, Ralph	20 June 2000	19 June 2010	7.19	1,400,000	0.133
	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 2,229,549,120 shares of CRE in issue as at 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 484,000 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. All the options granted as mentioned above will expire on the date falling ten years from the date of grant. Options are generally either fully vested and exercisable immediately after the date of grant or vested in four tranches over a period of three years from date of grant.
5. Consideration for each of the above grants is HK\$1.00.

## (c) 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	0.008
	Interest of spouse	100,000	60,000	160,000	
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 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
Jiang Wei	9 April 2002	8 April 2012	0.820	720,000	0.027

notes:

1. Based on 2,664,866,071 shares of CR Logic in issue 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. The exercisable period is from the date of grant to the date of expiry.
4. Consideration for each of the above grants is HK\$1.00.

*(d) 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> %
Qiao Shibo	Beneficial owner	–	700,000	700,000	0.046
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	0.009
	Interest of spouse	–	60,000	60,000	
Sun Mingquan	Beneficial owner	–	80,000	80,000	0.005
Zheng Yi	Beneficial owner	–	80,000	80,000	0.005
Jiang Wei	Beneficial owner	–	1,420,000	1,420,000	0.094
Keung Chi Wang, Ralph	Beneficial owner	–	3,300,000	3,300,000	0.217

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 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) %
Qiao Shibo	1 June 2005	31 May 2015	1.230	700,000	0.046
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	0.094
	1 June 2005	31 May 2015	1.230	700,000	
Keung Chi Wang, Ralph	27 June 1997	27 May 2007	4.592	2,000,000	0.217
	20 July 2000	27 May 2007	0.990	1,300,000	

notes:

1. Based on 1,518,064,428 shares of CR Land in issue 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 and 1 June 2005 which are exercisable within a period of ten years from the date of grant, the expiry date for all share options is 27 May 2007.
4. Consideration for each of the above grants is HK\$1.00.



*(e) 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 <i>(note 1)</i> %
Qiao Shibo	Beneficial owner	–	1,100,000	1,100,000	0.030
	Interest of spouse	–	30,000	30,000	
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	0.004
	Interest of spouse	–	30,000	30,000	
Sun Mingquan	Beneficial owner	–	90,000	90,000	0.005
	Interest of spouse	–	100,000	100,000	
Zheng Yi	Beneficial owner	–	90,000	90,000	0.002
Jiang Wei	Beneficial owner	–	1,600,000	1,600,000	0.042

Underlying shares represented by share options outstanding under the pre-IPO share option scheme of CR Power (being 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	0.030 (note 2)
	18 March 2005	17 March 2015	3.99	500,000	
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	0.042
	18 March 2005	17 March 2015	3.99	600,000	

notes:

- Based on 3,809,828,000 shares of CR Power in issue at the Latest Practicable Date.
- 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.
- 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.
- 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.
- The exercisable period of the options which were granted on 12 November 2003 is divided into five tranches exercisable during the periods from 6 October 2004, 2005, 2006, 2007 and 2008 to 5 October 2013. The exercisable period of the options which were granted on 18 March 2005 is divided into five tranches exercisable during the periods from 18 March 2006, 2007, 2008, 2009 and 2010 to 17 March 2015.
- Consideration for each of the above grants is HK\$1.00.

Mr. Qiao Shibo and Mr. Jiang Wei, being Directors, are also directors of China Resources Holdings; Mr. Qiao 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 any other member of the Group:

##### (a) 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)	Aggregate long position in Shares and underlying Shares to the existing issued share capital of the Company %
CRNC	270,132,647	70.7	742,872,000	371,436,000	168.0
China Resources Co., Limited	270,132,647	70.7	742,872,000	371,436,000	168.0
CRC Bluesky Limited	270,132,647	70.7	742,872,000	371,436,000	168.0
China Resources Holdings	270,132,647	70.7	742,872,000	371,436,000	168.0
Firstsuccess Investments Limited	-	-	742,872,000	371,436,000	97.3

*note:* Firstsuccess Investments Limited is a wholly owned subsidiary of China Resources Holdings. China Resources Holdings is deemed by virtue of Section 316 of Part XV of the SFO to have the same interests in Shares as those of Firstsuccess Investments Limited. 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. 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.

**(b) Other members of the Group**

Name of company	Name of substantial shareholder	Approximate shareholding interests held %
Guangxi Hongshuihe Cement Joint Stock Company Limited	China National Building Material Group Corporation	12.2
Zhanjiang CR Cement	Profit Pool	30.0

Save as disclosed above, so far as is known to the Directors or chief executives of the Company, as at the Latest Practicable Date, no persons (other than Directors or chief executive of the Company) 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.

**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 2004, being the date to which the latest published audited financial statements of the Company 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 Latest Practicable Date and is significant in relation to the business of the Group.

**PROCEDURES FOR DEMANDING A POLL**

Pursuant 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 Company's articles of association also provide that a resolution shall first be put to vote by show of hands. The above-mentioned Shareholders 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.

**MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading position of the Company since 31 December 2004, being the date to which the latest published audited financial statements of the Company were made up.

**EXPERT AND CONSENT**

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

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

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name in the form and context in which 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 31 December 2004 (being the date to which the latest audited accounts of the Company were made up), 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**

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 and including the date of the EGM.

- (a) the memorandum and articles of association of the Company;
- (b) the annual report of the Company for the financial year ended 31 December 2004;
- (c) the interim report of the Company for the six months ended 30 June 2005;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 22 of this circular;
- (e) the letter from Somerley dated 15 December 2005, the text of which is set out on pages 23 to 38 of this circular;
- (f) the consent letter from Somerley referred to in the section headed "Expert and consent" in this appendix; and
- (g) the Cement Supply Agreement, the Concrete Supply Agreements, the Steel Purchase Agreement and the Fuel, Diesel and Lubricant Oil Purchase Agreements.

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## NOTICE OF EGM

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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 Codes: 712 and 2512)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

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 Wednesday, 4 January 2006 at 50th 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:

- (i) the Cement Transactions (as defined and described in the circular of the Company dated 15 December 2005 and despatched to the shareholders of the Company (the “Circular”), a copy of which has been produced to this meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) and the relevant caps be and are hereby generally and unconditionally approved, ratified and confirmed;
- (ii) the Cement Supply Agreement (as defined and described in the Circular), a copy of which has been produced to this meeting marked “B” and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby generally and unconditionally approved, ratified and confirmed; and
- (iii) any one director of the Company be and is hereby authorised on behalf of the Company to sign, execute, perfect and deliver any documents or deeds and to do all such acts, matters and things as he/she may in his/her discretion consider necessary or desirable for the implementation of and/or the purpose of giving effect to the Cement Transactions, the implementation or the exercise or enforcement of any of the rights and performance of obligations under the Cement Supply Agreement and the transactions contemplated thereunder and to make and agree such variations in the terms of the Cement Supply Agreement as he/she may in his/her discretion consider to be desirable and in the interests of the Company.”



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## NOTICE OF EGM

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2. **“THAT:**

- (i) the Concrete Transactions (as defined and described in the Circular) and the relevant caps be and are hereby generally and unconditionally approved, ratified and confirmed;
- (ii) the Concrete Supply Agreements (as defined and described in the Circular), copies of which have been produced to this meeting marked “C” and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby generally and unconditionally approved, ratified and confirmed; and
- (iii) any one director of the Company be and is hereby authorised on behalf of the Company to sign, execute, perfect and deliver any documents or deeds and to do all such acts, matters and things as he/she may in his/her discretion consider necessary or desirable for the implementation of and/or the purpose of giving effect to the Concrete Transactions, the implementation or the exercise or enforcement of any of the rights and performance of obligations under the Concrete Supply Agreements and the transactions contemplated thereunder and to make and agree such variations in the terms of the Concrete Supply Agreements as he/she may in his/her discretion consider to be desirable and in the interests of the Company.”

3. **“THAT:**

- (i) the Steel Products Transactions (as defined and described in the Circular) and the relevant caps be and are hereby generally and unconditionally approved, ratified and confirmed;
- (ii) the Steel Purchase Agreement (as defined and described in the Circular), a copy of which has been produced to this meeting marked “D” and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby generally and unconditionally approved, ratified and confirmed; and
- (iii) any one director of the Company be and is hereby authorised on behalf of the Company to sign, execute, perfect and deliver any documents or deeds and to do all such acts, matters and things as he/she may in his/her discretion consider necessary or desirable for the implementation of and/or the purpose of giving effect to the Steel Products Transactions, the implementation or the exercise or enforcement of any of the rights and performance of obligations under the Steel Purchase Agreement and the transactions contemplated thereunder and to make and agree such variations in the terms of the Steel Purchase Agreement as he/she may in his/her discretion consider to be desirable and in the interests of the Company.”

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## NOTICE OF EGM

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4. “**THAT:**

- (i) the Oil Products Transactions (as defined and described in the Circular) and the relevant caps be and are hereby generally and unconditionally approved, ratified and confirmed;
- (ii) the Fuel, Diesel and Lubricant Oil Purchase Agreements (as defined and described in the Circular), copies of which have been produced to this meeting marked “E” and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby generally and unconditionally approved, ratified and confirmed; and
- (iii) any one director of the Company be and is hereby authorised on behalf of the Company to sign, execute, perfect and deliver any documents or deeds and to do all such acts, matters and things as he/she may in his/her discretion consider necessary or desirable for the implementation of and/or the purpose of giving effect to the Oil Products Transactions, the implementation or the exercise or enforcement of any of the rights and performance of obligations under the Fuel, Diesel and Lubricant Oil Purchase Agreements and the transactions contemplated thereunder and to make and agree such variations in the terms of the Fuel, Diesel and Lubricant Oil Purchase Agreements as he/she may in his/her discretion consider to be desirable and in the interests of the Company.”

By Order of the Board  
**Lee Yip Wah, Peter**  
*Company Secretary*

Hong Kong, 15 December 2005

*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

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## NOTICE OF EGM

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*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 Hong Kong 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 appointed for holding the meeting or any 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.