
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your shares in China Resources Enterprise, Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

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華潤創業有限公司 China Resources Enterprise, Limited *(incorporated in Hong Kong with limited liability)*

PROPOSAL FOR A GROUP REORGANISATION AND LISTING BY WAY OF INTRODUCTION OF



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

CONNECTED TRANSACTION AND ADOPTION OF SHARE OPTION SCHEME

Financial advisor to
China Resources Enterprise, Limited

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

Independent financial advisor to
the independent board committee of
China Resources Enterprise, Limited

 **SOMERLEY LIMITED**

A prospectus on China Resources Cement containing information on the proposed listing of the shares in China Resources Cement is enclosed with this circular if your address as recorded on the register of members of the company at the close of business on the business day immediately preceding the date of despatch of this circular is situated in Hong Kong. If your address is situated outside Hong Kong as at the said time, no prospectus is being despatched to you. However, you may collect a copy of the prospectus at Anglo Chinese Corporate Finance, Limited at 40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong from 26th June, 2003 until 15th July, 2003 during normal office hours.

A letter from the independent board committee of China Resources Enterprise containing its recommendations in respect of the acquisition is set out on page 25 of this circular.

A letter from Somerley Limited, the independent financial advisor to the independent board committee of China Resources Enterprise, containing its recommendations in respect of the acquisition to the independent board committee is set out on pages 26 to 46 of this circular.

A notice convening an extraordinary general meeting of China Resources Enterprise to be held at 10:00 a.m. on 15th July, 2003 at 50th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, is set out on pages 70 to 71 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed. Whether or not you are able to attend and vote at the meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the company's registrars, 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 or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from subsequently attending and voting in person at the extraordinary general meeting or any adjourned meeting should you so wish.

26th June, 2003

EXPECTED TIMETABLE

2003

Despatch of this circular to the China Resources Enterprise shareholders	26th June
Last day of dealings in the China Resources Enterprise shares on a cum entitlement basis	9th July
First day of dealings in the China Resources Enterprise shares on an ex rights basis	10th July
Latest time for lodging transfers of the China Resources Enterprise shares cum entitlement to the China Resources Cement shares pursuant to the distribution	4:00 p.m. on 11th July
Register of members of China Resources Enterprise closes from	12th July
Extraordinary general meeting of China Resources Enterprise	10:00 a.m. on 15th July
Record date	15th July
Register of members of China Resources Enterprise reopens on	16th July

Subject to the satisfaction of all the conditions to the acquisition on 15th July, 2003:

Declaration of a special interim dividend by China Resources Enterprise to be satisfied by way of distribution in specie of the China Resources Cement shares on or around 15th July	
Completion of the acquisition	22nd July
Share certificates of China Resources Cement to be despatched on or about	24th July
Dealings in the China Resources Cement shares on the Stock Exchange to commence on	29th July
Designated broker to stand in the market to purchase and sell odd lots of the China Resources Cement shares	29th July
Last day for designated broker to stand in the market to purchase and sell odd lots of the China Resources Cement shares	12th August

Note:

1. All times refer to Hong Kong local time.

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context indicates otherwise:

“acquisition”	the proposed acquisition by China Resources Cement of a 100% interest in each of Guangxi CR Cement Holding, Dongguan Cement Holding, Dongguan Concrete Holding and Shenzhen Concrete Holding and related shareholders’ loans in the aggregate principal amount of HK\$208,704,951 due from Dongguan Cement Holding to China Resources Holdings
“acquired companies”	the companies to be acquired under the acquisition, namely Guangxi CR Cement Holding, Dongguan Cement Holding, Dongguan Concrete Holding and Shenzhen Concrete Holding
“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a deemed licensed corporation under the SFO permitted to engage in types 1, 4, 6 and 9 of the regulated activities as defined in SFO
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“board”	the board of directors of China Resources Enterprise
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“cement operations”	the Guangxi CR Cement Holding group and the Dongguan Cement Holding group
“China Resources Cement”	China Resources Cement Holdings Limited, a company incorporated in the Cayman Islands with limited liability on 13th March, 2003 under the Companies Law (2002 Revision) of the Cayman Islands
“China Resources Cement group”	China Resources Cement and the Redland group
“China Resources Cement share(s)”	share(s) of HK\$0.10 each in the issued share capital of China Resources Cement
“China Resources Cement shareholders”	holders of shares in China Resources Cement
“China Resources Enterprise” or “company”	China Resources Enterprise, Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board
“China Resources Enterprise director(s)” or “directors(s)”	the director(s) of China Resources Enterprise
“China Resources Enterprise group” or “group”	China Resources Enterprise and its subsidiaries

DEFINITIONS

“China Resources Enterprise independent shareholders”	holders of China Resources Enterprise shares, other than China Resources Holdings and its associates
“China Resources Enterprise share(s)” or “share(s)”	share(s) of HK\$1.0 each in the issued share capital of China Resources Enterprise
“China Resources Enterprise shareholders”	holders of China Resources Enterprise shares
“China Resources Holdings”	China Resources (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability and the controlling shareholder of China Resources Enterprise
“China Resources Holdings group”	China Resources Holdings and its subsidiaries
“clinker”	a major semi finished product in the cement production process
“Companies Law”	the Companies Law (2003 Revision) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended
“CR Cement Company”	China Resources Cement Company Limited, a company incorporated in Hong Kong with limited liability on 25th January, 1994, which is held as to 70% by Dongguan Cement Holding; 12.5% by UBE Industries, Ltd.; 10% by Sumitomo Corporation; 2.5% by Sumitomo Corporation (Hong Kong) Ltd. and 5% by Dongguan Metals and Minerals. On 3rd June, 2003, Dongguan Cement Holding entered into an agreement with Dongguan Metals and Minerals for the acquisition of its 5% interest in CR Cement Company and Dongguan Cement, such acquisition is expected to be completed on or before the introduction in July 2003, whereupon Dongguan Cement Holding will hold a 75% interest in CR Cement Company. CR Cement Company will cease operation upon listing. However, Dongguan Cement Holding is also currently considering the restructuring of Dongguan Cement as a wholly owned subsidiary of CR Cement Company
“CR Metals & Minerals”	China Resources Metals & Minerals Company Limited (華潤五金礦產有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of China Resources Holdings
“distribution”	the payment of a special interim dividend by China Resources Enterprise to China Resources Enterprise shareholders whose names appear in the register of members of China Resources Enterprise at the close of business on the record date which is to be satisfied by way of a distribution in specie of the China Resources Cement shares then in issue, on the basis of one China Resources Cement share for every ten China Resources Enterprise shares held, rounded down to the nearest whole number

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“Dongguan Cement”	Dongguan Huarun Cement Manufactory Co., Ltd (東莞華潤水泥廠有限公司), a sino foreign equity joint venture established on 23rd May, 1994 in accordance with the laws of the PRC, which is held as to 70% by Dongguan Cement Holding; 12.5% by UBE Industries, Ltd.; 10% by Sumitomo Corporation and 2.5% by Sumitomo Corporation (Hong Kong) Ltd. and 5% by Dongguan Metals and Minerals. On 3rd June, 2003, Dongguan Cement Holding entered into an agreement with Dongguan Metals and Minerals for the acquisition of its 5% interest in CR Cement Company and Dongguan Cement, such acquisition is expected to be completed on or before the introduction in July 2003, whereupon Dongguan Cement Holding will hold a 75% interest in Dongguan Cement
“Dongguan Cement Holding”	Clear Bright Investments Limited, a company incorporated in the British Virgin Islands with limited liability, currently a wholly owned subsidiary of China Resources Holdings and, upon completion of the acquisition, will be a wholly owned subsidiary of China Resources Cement. It holds a 70% interest in CR Cement Company and Dongguan Cement. On 3rd June, 2003, Dongguan Cement Holding entered into an agreement with Dongguan Metals and Minerals for the acquisition of its 5% interest in CR Cement Company and Dongguan Cement, such acquisition is expected to be completed on or before the introduction in July 2003, whereupon Dongguan Cement Holding will hold a 75% interest in Dongguan Cement and CR Cement Company
“Dongguan Cement Holding group”	Dongguan Cement Holding and its subsidiaries
“Dongguan Concrete”	Dongguan China Resources Concrete Co., Ltd (東莞華潤混凝土有限公司), a wholly foreign owned enterprise established on 24th June, 2002 in accordance with the laws of the PRC, and a wholly owned subsidiary of Dongguan Concrete Holding
“Dongguan Concrete Holding”	Full Sincere Limited, a company incorporated in the British Virgin Islands with limited liability, currently a wholly owned subsidiary of China Resources Holdings and, upon completion of the acquisition, will be a wholly owned subsidiary of China Resources Cement. It holds a 100% interest in Dongguan Concrete
“Dongguan Concrete Holding group”	Dongguan Concrete Holding and its subsidiaries
“Dongguan Metals and Minerals”	Guangdong Dongguan Metals and Minerals Import and Export Ltd. (廣東五金礦產進出口有限公司), previously named as Guangdong Metals and Minerals Import and Export Corporation (廣東五金礦產進出口公司), an independent third party
“enlarged China Resources Cement group”	China Resources Cement, the Redland group, the acquired companies and their respective subsidiaries following completion of the proposal
“extraordinary general meeting”	the extraordinary general meeting of China Resources Enterprise to be held at 10:00 a.m. on 15th July, 2003 at 50th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong

DEFINITIONS

“group reorganisation”	the reorganisation of the China Resources Holdings group in preparation for the listing of the China Resources Cement shares on the Main Board, details of which are set out in the section headed “Group reorganisation” in the “Letter from the board” in this circular
“Guangxi CR Cement”	Guangxi China Resources Hongshuihe Cement Co., Ltd (廣西華潤紅水河水泥有限公司), a sino foreign equity joint venture established on 24th December, 2001 in accordance with the laws of the PRC, which is held as to 70% by Guangxi CR Cement Holding and 30% by Guangxi Hongshuihe Cement
“Guangxi CR Cement Holding”	Flavour Glory Limited, a company incorporated in the British Virgin Islands with limited liability, currently a wholly owned subsidiary of China Resources Holdings and, upon completion of the acquisition, will be a wholly owned subsidiary of China Resources Cement
“Guangxi CR Cement Holding group”	Guangxi CR Cement Holding and its subsidiaries
“Guangxi Hongshuihe Cement”	Guangxi Hongshuihe Cement Joint Stock Company Limited (廣西紅水河水泥股份有限公司), a joint stock company incorporated in the PRC
“Guangxi ZAR”	Guangxi Zhuang Self Autonomous Region
“HIBOR”	Hong Kong Interbank Offer Rate
“high grade cement”	PRC standard, as set by the State Bureau of Building Materials Industry, grade #425 or higher cement
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“HKSCC”	Hong Kong Securities Clearing Company Limited
“independent board committee”	an independent committee of the board, comprising the independent non executive directors of China Resources Enterprise, namely Dr. Chan Po Fun, Peter, Mr. Houang Tai Ninh and Dr. the Hon Li Ka Cheung, Eric
“Innovative Market”	Innovative Market Limited, a company incorporated in the British Virgin Islands with limited liability on 8th May, 1997, the holding company of the Redland group and, following the group reorganisation, a wholly owned subsidiary of China Resources Cement
“introduction”	the proposed listing of the China Resources Cement shares in issue or to be issued pursuant to the bonus issue and completion of the acquisition, on the Main Board by way of an introduction pursuant to the Listing Rules
“latest practicable date”	19th June, 2003, being the latest practicable date for the purposes of ascertaining certain information contained herein prior to the printing of this circular
“Listing Committee”	the listing committee of the Stock Exchange

DEFINITIONS

“listing date”	the date when the China Resources Cement shares are first listed on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	Main Board of the Stock Exchange
“Mainland China” or “PRC” or “China”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Minmetals Holdings”	China Resources Machinery and Minmetals (Holdings) Co., Limited (華潤機械五礦(集團)有限公司), a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of China Resources Holdings
“overseas shareholders”	China Resources Enterprise shareholders whose addresses as shown on the register of members of the company at the close of business on the business day immediately preceding the date of despatch of this circular are outside Hong Kong
“PRC concrete operations”	the Dongguan Concrete Holding group and the Shenzhen Concrete Holding group
“proposal”	the group reorganisation and the acquisition
“proposed option scheme”	the share option scheme conditionally adopted by China Resources Cement. A summary of the principal terms of the scheme is set out in appendix II to this circular
“prospectus”	the prospectus of China Resources Cement in relation to the introduction and dated the same date of this circular
“record date”	15th July, 2003, being the record date for determining the entitlement of China Resources Enterprise shareholders to the distribution
“Redland group”	Innovative Market and its subsidiaries
“Redland Holdings”	Redland Holdings Limited, a company incorporated in the British Virgin Islands on 29th April, 1997, a wholly owned subsidiary of Innovative Market and the holding company of Redland Concrete Limited and its subsidiaries and associated companies
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“share option scheme”	the share option scheme adopted by China Resources Enterprise on 31st January, 2002
“share registrar”	Standard Registrars Limited, the share registrar of China Resources Enterprise

DEFINITIONS

“Shenzhen Concrete”	Shenzhen China Resources Tiejian Concrete Co., Ltd (深圳市華潤鐵建混凝土有限公司), a limited liability company established on 26th March, 2002 in accordance with the laws of the PRC, which is beneficially held as to 70% by Shenzhen Concrete Holding and 30% by 中鐵建廠工程局深圳實業公司 (Zhong Tie Jian Chang Construction Department Shenzhen Industrial Company)
“Shenzhen Concrete Holding”	Goodsales Investments Limited, a company incorporated in the British Virgin Islands with limited liability. It holds a 70% beneficial interest in Shenzhen Concrete
“Shenzhen Concrete Holding group”	Shenzhen Concrete Holding and its subsidiaries
“Somerley”	Somerley Limited, a licensed corporation under the SFO and the independent financial advisor to the independent board committee
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended from time to time
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“RMB” or “Renminbi”	the lawful currency of the PRC
“sq.ft.”	square feet
“sq.m.”	square metres
“tonne(s)”	metric tonne(s)
“US\$”	the lawful currency of the United States of America
“%”	per cent.

Unless otherwise specified in this document, amounts denominated in Renminbi and United States dollars have been translated, for the purpose of illustration only, into Hong Kong dollars using the following exchange rates:

$$HK\$1.00 = RMB1.0609$$

$$HK\$7.80 = US\$1.00$$

No representation is made that any amounts in Renminbi and United States dollars could have been or could be converted at the above rates or at any other rates.

LETTER FROM THE BOARD



華潤創業有限公司

China Resources Enterprise, Limited

(incorporated in Hong Kong with limited liability)

Executive directors

Ning Gaoning (*Chairman*)
Song Lin (*Deputy Chairman and Managing Director*)
Chen Shulin (*Deputy Managing Director*)
Qiao Shibo (*Deputy Managing Director*)
Yan Biao (*Deputy Managing Director*)
Keung Chi Wang, Ralph (*Deputy Managing Director*)
Lau Pak Shing
Wang Qun
Zhong Yi
Kwong Man Him

Registered Office and Head Office:

39th floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Non executive directors

Jiang Wei
Xie Shengxi

Independent non executive directors

Chan Po Fun, Peter
Houang Tai Ninh
Li Ka Cheung, Eric

26th June, 2003

*To the shareholders and, for information only,
the holders of share options of China Resources Enterprise*

Dear Sir or Madam,

**PROPOSAL FOR A GROUP REORGANISATION AND
LISTING BY WAY OF INTRODUCTION OF
CHINA RESOURCES CEMENT HOLDINGS LIMITED
CONNECTED TRANSACTION
AND
ADOPTION OF SHARE OPTION SCHEME**

INTRODUCTION

On 25th March, 2003, the board proposed a group reorganisation which, if implemented, will result in China Resources Enterprise shareholders receiving a special dividend through a distribution in specie of China Resources Enterprise's existing interest in the Redland group under a new holding company, China Resources Cement, on the basis of one China Resources Cement share then in issue for every ten China Resources Enterprise shares held on the record date, rounded down to the nearest whole number. Following

LETTER FROM THE BOARD

the proposal, the enlarged China Resources Cement group will hold all of the concrete production activities of the China Resources Enterprise group, the PRC concrete operations and the cement operations presently owned by the China Resources Holdings group.

On 25th March, 2003, an application was submitted to the Stock Exchange for the listing of, and permission to deal in the China Resources Cement shares on the Main Board by way of introduction. China Resources Cement, presently a wholly owned subsidiary of China Resources Enterprise, is a company incorporated in the Cayman Islands which will become the holding company of the enlarged China Resources Cement group upon completion of the acquisition.

On 26th March, 2003, China Resources Cement entered into a conditional agreement with China Resources Holdings to acquire its effective 100% interests in each of Guangxi CR Cement Holding, Dongguan Cement Holding, Dongguan Concrete Holding and Shenzhen Concrete Holding and the related shareholders' loans in return for China Resources Cement shares to be issued to China Resources Holdings. The acquired companies hold respectively 70%, 70%, 100% and 70% interests in Guangxi CR Cement, Dongguan Cement and CR Cement Company, Dongguan Concrete, and Shenzhen Concrete, being three cement manufacturing businesses in the Guangxi ZAR and Guangdong province and two concrete production companies in Dongguan and Shenzhen.

Following completion of the proposal, China Resources Holdings and its associates are expected to hold approximately 74.5% of China Resources Cement and the remaining shareholding interest will be held by the China Resources Enterprise independent shareholders.

GROUP REORGANISATION

At present, the principal activities of the China Resources Enterprise group are retail, beverage, food processing and distribution and textile and petroleum distribution. The China Resources Enterprise directors consider that with the concentration of the China Resources Enterprise group on its retail led distribution strategy, the ready mixed concrete operation increasingly falls outside the current focus of the business of the China Resources Enterprise group. Further it was considered that the PRC based concrete and cement operations of the China Resources Holdings group would complement the ready mixed concrete operation, which already has an established market position in Hong Kong. A separate listing of China Resources Cement, which will hold all the concrete production activities of the China Resources Enterprise group, the PRC concrete operations and the cement operations presently owned by the China Resources Holdings group will allow the enlarged China Resources Cement group to focus its activities on ready mixed concrete and cement production and related products and services to the building and construction industry in Hong Kong and the PRC. This will give China Resources Cement a direct access to the equity capital market and a marketable security in its shares which the China Resources Enterprise directors believe will assist the enlarged China Resources Cement group's objective to expand its operations in the PRC and to establish a leading position in Hong Kong and the PRC. The group reorganisation will allow China Resources Enterprise to concentrate on its business strategy and, together with the acquisition, will provide all the China Resources Enterprise shareholders with the flexibility to participate in the future development of the ready mixed concrete and cement operations.

The group reorganisation, if implemented, will be effected by means of a distribution of a dividend in specie of shares in China Resources Cement. The dividend distribution will result in China Resources Enterprise shareholders receiving one China Resources Cement share then in issue for every ten China Resources Enterprise shares held, rounded down to the nearest whole number, and will be made to those China Resources Enterprise shareholders whose names appear on the register of members of China Resources Enterprise as at the record date.

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The group reorganisation is conditional upon:

- the approval by the China Resources Enterprise independent shareholders of the acquisition; and
- the registration of the prospectus with the Registrar of Companies of Hong Kong.

The China Resources Cement shares to be distributed to the China Resources Enterprise shareholders will be listed on the Main Board, subject to approval from the Stock Exchange.

As at the latest practicable date, all the conditions for completion of the group reorganisation have yet to be fulfilled.

CHINA RESOURCES CEMENT

China Resources Cement is a company incorporated in the Cayman Islands and will become the holding company of the China Resources Cement group upon the completion of group reorganisation. The current principal business of the China Resources Cement group is production, distribution and sale of ready mixed concrete and related products in Hong Kong. In anticipation of the possible listing of China Resources Cement and the capital expenditure plans of the enlarged China Resources Cement group for the remaining of 2003 following the completion of the proposal, China Resources Enterprise has made a cash injection of HK\$100 million into China Resources Cement as capital on 26th March, 2003.

TRADING RESULTS OF THE CHINA RESOURCES CEMENT GROUP

The following is an extract of the audited pro forma combined profit and loss accounts of the China Resources Cement group for the three years ended 31st December, 2002 prepared on the basis that the group reorganisation had been implemented with effect from 1st January, 2000 and the effect, if any, resulted from the acquisition, as part of the group reorganisation, has not been taken into consideration for the preparation of the pro forma combined profit and loss accounts:

	Year ended 31st December,		
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Turnover	853,395	666,355	391,479
Cost of sales	(460,696)	(360,182)	(246,851)
Gross profit	392,699	306,173	144,628
Other operating income	8,779	6,314	17,841
Selling and distribution expenses	(79,000)	(72,905)	(52,292)
General and administrative expenses	(81,682)	(76,881)	(48,281)
Profit from operations	240,796	162,701	61,896
Finance costs	(5,217)	(3,034)	(2,244)
Share of results of associates	10,912	8,562	3,962
Profit before taxation	246,491	168,229	63,614
Taxation	(45,713)	(27,390)	(10,308)
Net profit for the year	200,778	140,839	53,306

LETTER FROM THE BOARD

The audited pro forma combined net asset value of the China Resources Cement group as at 31st December, 2002 was approximately HK\$456.7 million and together with the net asset value of China Resources Cement as at 26th March, 2003 of HK\$100.0 million, the unaudited pro forma combined net asset value of the China Resources Cement group was approximately HK\$556.7 million, representing approximately 4.2% of the audited consolidated net asset value of China Resources Enterprise as at 31st December, 2002 of approximately HK\$13,286.7 million.

ACQUISITION

On 26th March, 2003, China Resources Cement entered into a conditional agreement with China Resources Holdings for the acquisition of 100% of China Resources Holdings' interests in Guangxi CR Cement Holding, Dongguan Cement Holding, Dongguan Concrete Holding, and Shenzhen Concrete Holding and related shareholders' loans for an aggregate consideration equivalent to the aggregated audited net asset values of the acquired companies as at 31st December, 2002 of approximately HK\$205.4 million, and the principal amounts of such related shareholders' loans of approximately HK\$208.7 million as at 25th March, 2003. Such consideration shall be satisfied by China Resources Cement by the issue of the China Resources Cement shares as represented in value the aggregate amount of the audited net asset values of the acquired companies as at 31st December, 2002, and the principal amounts of the shareholders' loans as at 25th March, 2003, on the basis of the pro forma combined net asset value, being the aggregate of the audited pro forma combined net asset value of the China Resources Cement group as at 31st December, 2002 and the net asset value of China Resources Cement as at 26th March, 2003, per China Resources Cement share. Taking into account of the interests charged on the related shareholders' loans of approximately HK\$4.3 million and the aggregate net profit of the acquired companies of approximately HK\$20.1 million for the year ended 31st December, 2002, the aggregate consideration of approximately HK\$414.1 million represents approximately 17.0 times the pro forma combined earnings of the acquired companies for the year ended 31st December, 2002.

Based on the audited pro forma combined net asset value of the China Resources Cement group as at 31st December, 2002 of approximately HK\$456.7 million and the net asset value of China Resources Cement of HK\$100.0 million as at 26th March, 2003 and approximately 208,040,521 of the China Resources Cement shares will be transferred to China Resources Enterprise shareholders pursuant to the distribution, calculated on the basis of 2,080,405,215 China Resources Enterprise shares in issue and the respective shareholdings of the China Resources Enterprise shareholders as per the register of members of the company as at the latest practicable date, the number of the China Resources Cement shares to be issued to China Resources Holdings for the settlement of the consideration payable in respect of the acquisition and the shareholding of China Resources Cement before and after the implementation of the acquisition will be as follows:

	Share consideration (HK\$' million)	Loan consideration (HK\$' million)	Total consideration/ value (HK\$' million)	China Resources Holdings and its associates (million China Resources Cement shares)	%	Other shareholders (million China Resources Cement shares)	%	Number of China Resources Cement shares issued (million China Resources Cement shares)
Group reorganisation			556.7 ⁽¹⁾	115.4	55.5	92.6 ⁽²⁾	45.5	208.0
The acquisition								
Guangxi CR Cement Holding	139.0	—	139.0	51.9	—	—	—	51.9
Dongguan Cement Holding	40.3	208.7	249.0	93.1	—	—	—	93.1
Dongguan Concrete Holding	4.9	—	4.9	1.9	—	—	—	1.9
Shenzhen Concrete Holding	21.2	—	21.2	7.9	—	—	—	7.9
Subtotal	205.4	208.7	414.1	154.8	—	—	—	154.8
Total	205.4	208.7	970.8	270.2	74.5	92.6 ⁽²⁾	25.5	362.8

LETTER FROM THE BOARD

Notes:

1. This represents the pro forma combined net assets of the China Resources Cement group as at 31st December, 2002 after taking into account (i) the capital injection of HK\$100.0 million into China Resources Cement by the company on 26th March, 2003; and (ii) the transfer of the interest of China Resources Enterprise in the Redland group to China Resources Cement pursuant to the group reorganisation.
2. Certain directors of China Resources Cement are expected to be interested or taken to be interested in 168,000 China Resources Cement shares, and approximately 92.5 million China Resources Cement shares are expected to be held by the public shareholders, with reference to their respective interests in the shares in issue as at the latest practicable date, without taking into account of any outstanding share options of the company in which the directors of China Resources Cement are interested or taken to be interested.

CONDITIONS PRECEDENT TO THE ACQUISITION

Completion of the acquisition is subject to the following conditions:

- the approval by the China Resources Enterprise independent shareholders at an extraordinary general meeting to be held for the acquisition; and
- the registration with the Registrar of Companies of Hong Kong of the prospectus.

Completion of the acquisition of each of the acquired companies shall be inter conditional.

Completion of the acquisition shall take place within ten business days after satisfaction of all the conditions. The long stop date for completion of the acquisition is 31st July, 2003. If any of the conditions set out above shall not have been fulfilled by this long stop date, the conditional agreement for the acquisition shall become null and void.

As at the latest practicable date, the conditions set out above have yet to be fulfilled.

ACQUIRED COMPANIES

Guangxi CR Cement Holding

Guangxi CR Cement Holding is an investment holding company incorporated on 2nd January, 2003 in the British Virgin Islands and its principal asset is a 70.0% interest in Guangxi CR Cement, the principal activity of which is the production and sale of cement and related products under the trademark “紅水河” (Hongshuihe). Its production plant in Guangxi ZAR has five wet process rotary kilns for the production of clinker and a grinding mill to process clinker into cement. It has an annual production capacity of approximately 1,200,000 tonnes of cement based on three shifts per day and 300 working days per annum. Guangxi CR Cement is a sino foreign equity joint venture established on 24th December, 2001 in the PRC with Guangxi Hongshuihe Cement holding the other 30.0% interest. It has an operation period of 50 years commencing from its date of establishment. The manufacturing plant of Guangxi CR Cement was operated by Guangxi Hongshuihe Cement for a period of approximately 17 years prior to it being transferred to Guangxi CR Cement as part of Guangxi Hongshuihe Cement’s capital contribution. Since the transfer to Guangxi CR Cement, the plant has turned around from its previous loss making position.

Guangxi CR Cement also embarked on a capital expenditure programme to upgrade its clinker production facilities with the aim to enhancing its production processes commencing in the third quarter of 2003.

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Guangxi CR Cement and Profit Pool Holdings Limited, an independent third party, entered into a joint venture agreement dated 12th February, 2003, as amended on 9th April, 2003, under which Guangxi CR Cement and Profit Pool Holdings Limited agreed to invest HK\$2,896,800 and HK\$2,783,200 for a 51.0% and 49.0% interest in Zhanjiang China Resources Hongshuihe Cement Company Limited (“Zhanjiang CR Cement”), respectively. Zhanjiang CR Cement was formed with the purpose of operating a cement manufacturing plant with an annual production capacity of 200,000 tonnes in Zhanjiang, the PRC. Zhanjiang CR Cement has commenced operation in April 2003.

The following is an extract of the audited combined profit and loss account of the Guangxi CR Cement Holding group for the period from 24th December, 2001 (date of establishment of Guangxi CR Cement, the principal subsidiary of Guangxi CR Cement Holding) to 31st December, 2002:

Combined profit and loss account

	For the period from 24th December, 2001 to 31st December, 2002	
	RMB'000	HK\$'000
Turnover	193,784	182,660
Cost of sales	<u>(153,638)</u>	<u>(144,819)</u>
Gross profit	40,146	37,841
Other operating income	4,993	4,706
Selling and distribution expenses	(7,381)	(6,958)
General and administrative expenses	<u>(20,857)</u>	<u>(19,660)</u>
Profit from operations	16,901	15,929
Interest on bank borrowings wholly repayable within five years	<u>(6,284)</u>	<u>(5,923)</u>
Profit before minority interests	10,617	10,006
Minority interests	<u>(3,185)</u>	<u>(3,002)</u>
Net profit for the period	<u><u>7,432</u></u>	<u><u>7,004</u></u>

The audited combined net asset value of the Guangxi CR Cement Holding group as at 31st December, 2002 was approximately RMB147.4 million, equivalent to approximately HK\$138.9 million.

Dongguan Cement Holding

Dongguan Cement Holding is an investment holding company incorporated on 8th January, 2003 in the British Virgin Islands which holds a 70.0% interest in CR Cement Company and Dongguan Cement, the principal activity of which is, respectively, the trading of cement and the production of cement in Dongguan at a plant which consists of two grinding mills with an installed annual capacity of approximately 1,000,000 tonnes of cement. The other 30.0% interests in each of Dongguan Cement and CR Cement Company are held by Sumitomo Corporation and its associate as to 12.5%, UBE Industries, Ltd. as to 12.5% and Dongguan Metals and Minerals as to 5.0%. As the production of Dongguan Cement reached full capacity in 2002, Dongguan Cement is considering to establish additional operating facilities to increase its production capacity. Dongguan Cement is a major cement supplier of the Redland group as its sales of cement to the Redland group accounted for approximately 50.0% of the total cement purchases of the Redland group in 2002.

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The following is an extract of the audited combined profit and loss accounts for the three years ended 31st December, 2002 of the Dongguan Cement Holding group:

Combined profit and loss accounts

	Year ended 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Turnover	209,589	329,909	324,142
Cost of sales	<u>(175,584)</u>	<u>(259,245)</u>	<u>(253,760)</u>
Gross profit	34,005	70,664	70,382
Other operating income	4,383	9,057	4,290
Selling and distribution expenses	(7,966)	(7,500)	(14,701)
General and administrative expenses	(14,482)	(19,045)	(21,133)
Impairment loss in respect of goodwill arising on acquisition of additional interests in subsidiaries	(3,236)	—	(557)
Negative goodwill arising on acquisition of additional interest in a subsidiary realised	<u>—</u>	<u>—</u>	<u>919</u>
Profit from operations	12,704	53,176	39,200
Finance costs	<u>(39,997)</u>	<u>(38,082)</u>	<u>(25,224)</u>
Profit (loss) before minority interests	(27,293)	15,094	13,976
Minority interests	<u>11,175</u>	<u>(4,981)</u>	<u>(3,993)</u>
Net profit (loss) for the year	<u><u>(16,118)</u></u>	<u><u>10,113</u></u>	<u><u>9,983</u></u>

The audited combined net asset value of the Dongguan Cement Holding group as at 31st December, 2002, including the transfer of shareholders' loans of approximately HK\$208.7 million, was approximately HK\$249.0 million.

On 3rd June, 2003, Dongguan Cement Holding entered into an agreement with Dongguan Metals and Minerals for the acquisition of its 5% interest in each of Dongguan Cement and CR Cement Company, such acquisition is expected to be completed on or before the introduction in July 2003, whereupon Dongguan Cement Holding will hold a 75% interest in Dongguan Cement and CR Cement Company.

Dongguan Concrete Holding

Dongguan Concrete Holding is an investment holding company incorporated on 2nd January, 2003 in the British Virgin Islands, which holds a 100% interest in Dongguan Concrete. The principal activity of Dongguan Concrete is the operation of a batching plant in Dongguan with an annual production capacity of approximately 300,000 cubic meters of ready mixed concrete. Dongguan Concrete commenced operation in March 2003.

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The following is an extract of the audited combined profit and loss account of the Dongguan Concrete Holding group for the period from 24th June, 2002, (date of establishment of Dongguan Concrete, the principal subsidiary of Dongguan Concrete Holding) to 31st December, 2002:

Combined profit and loss account

	For the period from 24th June, 2002 to 31st December, 2002	
	<i>RMB'000</i>	<i>HK\$'000</i>
Turnover	—	—
General and administrative expenses	<u>(1,141)</u>	<u>(1,076)</u>
Net loss for the period	<u>(1,141)</u>	<u>(1,076)</u>

The audited combined net asset value of the Dongguan Concrete Holding group as at 31st December, 2002 was approximately RMB5.2 million, equivalent to approximately HK\$4.9 million.

Shenzhen Concrete Holding

Shenzhen Concrete Holding is an investment holding company established on 2nd January, 2003 in the British Virgin Islands which effectively holds a 70% beneficial interest in Shenzhen Concrete, the principal activity of which is the production and sale of a ready mixed concrete in Shenzhen with an annual production capacity of approximately 300,000 cubic meters of concrete. The other 30% interest in Shenzhen Concrete is held by 中鐵建廠工程局深圳實業公司 (Zhang Tie Jian Chang Construction Department Shenzhen Industrial Company).

The following is an extract of the audited combined profit and loss account of the Shenzhen Concrete Holding group for the period from 26th March, 2002 (date of establishment of Shenzhen Concrete, the principal subsidiary of Shenzhen Concrete Holding) to 31st December, 2002:

Combined profit and loss account

	For the period from 26th March, 2002 to 31st December, 2002	
	<i>RMB'000</i>	<i>HK\$'000</i>
Turnover	66,371	62,561
Cost of sales	<u>(50,063)</u>	<u>(47,189)</u>
Gross profit	16,308	15,372
Other operating income	3,448	3,250
Selling and distribution expenses	(8,609)	(8,115)
General and administrative expenses	<u>(3,631)</u>	<u>(3,423)</u>
Profit before taxation	7,516	7,084
Taxation	<u>(1,128)</u>	<u>(1,063)</u>
Profit before minority interest	6,388	6,021
Minority interest	<u>(1,916)</u>	<u>(1,806)</u>
Net profit for the period	<u>4,472</u>	<u>4,215</u>

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The audited combined net asset value of the Shenzhen Concrete Holding group as at 31st December, 2002 was RMB22.5 million, equivalent to approximately HK\$21.2 million.

THE EFFECT OF THE PROPOSAL

The proposal will not have any adverse effect on the financial position of China Resources Enterprise. It is presently intended that following completion of the proposal:

- China Resources Enterprise will not hold any China Resources Cement shares;
- the principal activities of the China Resources Enterprise group will continue to be focused on retail, beverage, food processing and distribution, and textile and petroleum distribution; and
- the principal activities of the enlarged China Resources Cement group will be the production, distribution and sale of concrete and cement products in Hong Kong and the PRC.

Following the acquisition, the enlarged China Resources Cement group's objective is to expand the geographic coverage of its operations and to become the leading value added provider of cement and concrete and related products and services in the Hong Kong and the PRC markets. In addition to acquiring businesses in its existing and new markets as a measure of the enlarged China Resources Cement group to reduce its substantial reliance on the construction industry in Hong Kong, the enlarged China Resources Cement group plans to implement a strategy aimed at increasing revenue and market share through horizontal expansion, achieving cost efficiencies and enhancing profitability through vertical integration.

For the three years ended 31st December, 2002, sales of approximately HK\$65.2 million, HK\$80.4 million and HK\$48.5 million of the Dongguan Cement Holding group were generated from businesses effectively conducted with the China Resources Cement group which represented approximately 14.2%, 22.3% and 19.6% of the China Resources Cement group's total cost of sales for each of the three years ended 31st December, 2002, respectively. Accordingly, following the acquisition, the enlarged China Resources Cement group will be able to secure stable supply of quality cement from its fellow subsidiaries. The acquisition will also result in a much greater degree of vertical integration of the business operations of the enlarged China Resources Cement group with Guangxi CR Cement supplying clinker for the operations of Dongguan Cement, which together with Guangxi CR Cement will supply a substantial portion of the cement used in the ready mixed concrete operation of the enlarged China Resources Cement group. Such vertical integration of the enlarged China Resources Cement group's operation is expected to reduce costs and improve competitiveness.

In terms of horizontal expansion, in contrast to Redland group which has been in operation for many years, both Dongguan Concrete and Shenzhen Concrete were established recently. Following completion of the acquisition, the management of Dongguan Concrete, Shenzhen Concrete and the Redland group will consolidate so that the management expertise of the Redland group will be made available to Dongguan Concrete and Shenzhen Concrete. In addition, a concrete distribution network for the enlarged China Resources Cement group covering Hong Kong, Shenzhen and Dongguan, will enable the enlarged China Resources Cement group to better serve customers nationwide with the operations being situated in different locations.

Unlike the concrete operations of the Redland group, the cement industry is capital intensive. Therefore, following the acquisition, the significant costs involved, and the need to comply with stringent regulatory requirements when building new cement plants also mean future acquisitions are expected to be a major element of its growth strategy which include a planned capital expenditure of approximately HK\$294.7 million for the second half 2003 and the first half of 2004. In view of anticipated capital

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expenditure programme, although it is the intention of China Resources Cement to adopt a long term dividend payout ratio of approximately 20% to 25%, the directors of China Resources Cement do not intend to recommend the declaration of any interim or final dividend for the year ending 31st December, 2003.

FINANCIAL INFORMATION OF THE ENLARGED CHINA RESOURCES CEMENT GROUP

The information set out below is for information purposes only.

The enlarged China Resources Cement group will be formed after completion of the group reorganisation and acquisition, details of which are set out in sections headed “Group reorganisation” and “Acquisition” in this letter, and comprises China Resources Cement, the Redland group, the acquired companies and their respective subsidiaries, and the results of the enlarged China Resources Cement group will be accounted for under acquisition accounting in its first set of financial statements prepared immediately after completion of the proposal as the respective effective shareholding interests in the China Resources Cement of its ultimate shareholders will be different after the group reorganisation and the acquisition.

To provide additional financial information, the pro forma combined profit and loss account of the enlarged China Resources Cement group for each of the three years ended 31st December, 2002 have been prepared based on the historical audited profit and loss accounts of the China Resources Cement group and the acquired companies for each of the three years ended 31st December, 2002, as if the acquired companies had been held by the China Resources Cement since 1st January, 2000, or their respective dates of incorporation or establishment, whichever is later, and after taking into account of the pro forma adjustments in respect of (i) elimination of intercompanies sales and purchases; (ii) elimination of finance costs in connection with the shareholders’ loan of HK\$208,705,000 which was subsequently transferred from China Resources Holdings to China Resources Cement pursuant to the acquisition.

The pro forma combined profit and loss account of the enlarged China Resources Cement group presented below do not purport to present what the result would actually have been if the acquired companies had been held by the enlarged China Resources Cement group since 1st January, 2000, or to project the result for any future period and are included for information purposes only.

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The pro forma combined profit and loss accounts of the enlarged China Resources Cement group for each of the three years ended 31st December, 2002 are as follows:

	For the year ended 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Turnover	996,920	915,392	899,450
Cost of sales	<u>(571,037)</u>	<u>(539,019)</u>	<u>(631,686)</u>
Gross profit	425,883	376,373	267,764
Other operating income	13,162	15,371	30,087
Selling and distribution expenses	(86,145)	(79,941)	(81,607)
General and administrative expenses	(96,164)	(95,926)	(93,572)
Impairment loss in respect of goodwill arising on acquisition of additional interests in subsidiaries	(3,236)	—	(557)
Negative goodwill arising on acquisition of additional interest in a subsidiary realised	<u>—</u>	<u>—</u>	<u>919</u>
Profit from operations	253,500	215,877	123,034
Finance costs	(29,307)	(31,722)	(29,081)
Share of results of associates	<u>10,912</u>	<u>8,562</u>	<u>3,962</u>
Profit before taxation	235,105	192,717	97,915
Taxation	<u>(45,713)</u>	<u>(27,390)</u>	<u>(11,371)</u>
Profit before minority interests	189,392	165,327	86,544
Minority interests	<u>11,175</u>	<u>(4,981)</u>	<u>(8,801)</u>
Net profit for the year	<u><u>200,567</u></u>	<u><u>160,346</u></u>	<u><u>77,743</u></u>

Taking into account of the audited pro forma combined net asset value of the China Resources Cement group as at 31st December, 2002 of approximately HK\$456.7 million, the net asset value of China Resources Cement as at 26th March, 2003 of HK\$100.0 million and following the completion of the acquisition, the unaudited pro forma combined net asset value of the enlarged China Resources Cement group was approximately HK\$970.8 million as at 31st December, 2002, on the basis that China Resources Cement was the holding company of the enlarged China Resources Cement group as at 31st December, 2002.

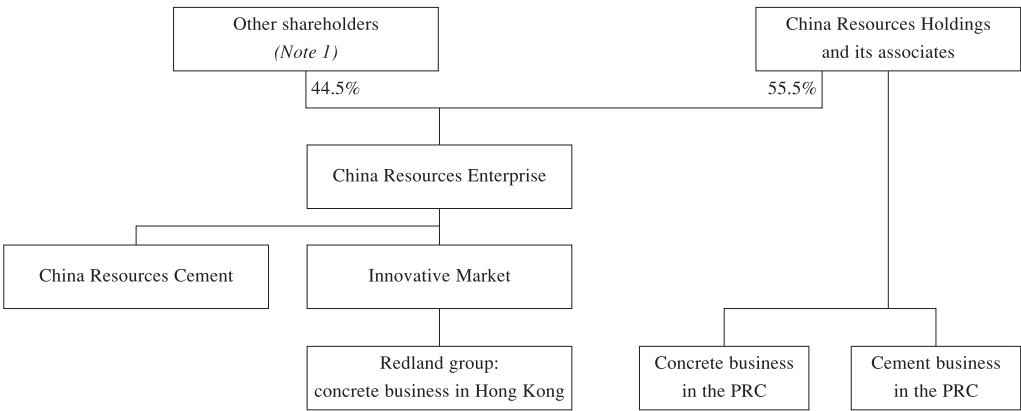
The revaluation deficit of the enlarged China Resources Cement group's properties as at 31st March, 2003 of approximately HK\$106.3 million, comprising of a revaluation deficit of the Redland group's properties of approximately HK\$129.8 million and a revaluation surplus of the properties of the acquired companies of approximately HK\$23.5 million, will not be incorporated in the consolidated financial statements of the enlarged China Resources Cement group for the year ending 31st December, 2003.

Please refer to appendix I of this circular for the unaudited pro forma combined results of China Resources Enterprise, assuming the proposal was completed, with effect from 1st January, 2002 and the unaudited pro forma combined net assets of China Resources Enterprise, assuming the proposal was completed, as at 31st December, 2002.

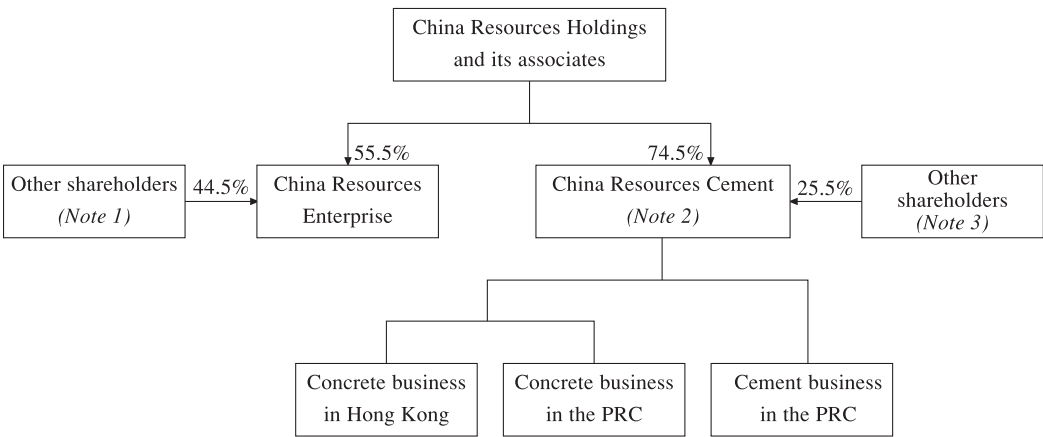
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EXISTING GROUP AND SHAREHOLDING STRUCTURE OF CHINA RESOURCES ENTERPRISE

The chart below shows the corporate and shareholding structure of China Resources Enterprise and the enlarged China Resources Cement group before completion of the proposal:



The chart below shows the corporate and shareholding structure of China Resources Enterprise and the enlarged China Resources Cement group after completion of the proposal:



Notes:

1. This includes approximately 3.3 million shares held or deemed to be held by certain of the directors of the company and approximately 923.3 million shares held by public shareholders as at the latest practicable date.
2. To be listed on the Main Board.
3. Certain directors of China Resources Cement are expected to be interested or taken to be interested in 168,000 China Resources Cement shares, and approximately 92.5 million China Resources Cement shares are expected to be held by the public shareholders, with reference to their respective interests in the shares in issue as at the latest practicable date, without taking into account of any outstanding share options of the company in which the directors of China Resources Cement are interested or taken to be interested.

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RELATIONSHIP BETWEEN CHINA RESOURCES ENTERPRISE, CHINA RESOURCES CEMENT AND CHINA RESOURCES HOLDINGS FOLLOWING COMPLETION OF THE GROUP REORGANISATION AND THE ACQUISITION

Following completion of the group reorganisation and the acquisition, China Resources Holdings, which currently holds approximately 55.5% of the company, will be the controlling shareholder of the enlarged China Resources Cement holding approximately 74.5% of its enlarged issued share capital. The company, currently the holding company of China Resources Cement will, on completion of the group reorganisation, cease to have any shareholding interest in China Resources Cement and the company's principal activities will continue to be focused on retail, beverage, food processing and distribution, and textile and petroleum distribution.

The enlarged China Resources Cement group will be engaged in the production, distribution and sale of concrete and cement products. Under the conditional agreement for the acquisition, China Resources Holdings has granted a right of first refusal (the "right of first refusal") to China Resources Cement in respect of any future investment and business opportunity identified or offered to China Resources Holdings and its subsidiaries which are in competition with the existing businesses of the enlarged China Resources Cement group for so long as China Resources Holdings and, or, its associates hold a 30.0% or more interest in China Resources Cement. It is intended that, so far as China Resources Holdings and its subsidiaries are concerned, all their concrete and cement activities in any region will be conducted through China Resources Cement.

Minmetals Holdings, a wholly owned subsidiary of China Resources Holdings, entered into a memorandum of understanding with Guangxi Yu Feng Group Company Limited (廣西魚峰集團有限公司) (together with its subsidiaries, "Yu Feng") on 28th April, 2003, for a possible acquisition from Yu Feng of a 70.0% equity interest in Guangxi Ping Nan Yu Feng Cement Company Limited (廣西平南魚峰水泥有限公司), a company established on 20th May, 2002, for the purpose of engaging in cement production in Ping Nan, Guangxi ZAR (the "Ping Nan Joint Venture"). The remaining 30.0% interest in the Ping Nan Joint Venture shall continue to be held by Yu Feng. According to information provided by Yu Feng, the current registered capital of the Ping Nan Joint Venture is RMB217.7 million, equivalent to approximately HK\$205.2 million. The Ping Nan Joint Venture has not yet commenced business.

Upon listing of the China Resources Cement shares, the primary focus of the enlarged China Resources Cement group is to integrate the newly acquired concrete and cement operations in the PRC with the operation of the Redland group and formalise a long term development plan for the enlarged China Resources Cement group. As Minmetals Holdings has only signed a letter of intent with Yu Feng, there is no guarantee that the investment opportunity in Ping Nan Joint Venture will materialise. It is also not certain at this stage whether such investment will fit into the eventual strategic development plan of the enlarged China Resources Cement group. Accordingly, China Resources Cement has decided, pursuant to a resolution passed by two independent non executive directors at a board meeting of China Resources Cement held on 20th June, 2003, not to exercise the first right of refusal with respect to participation in this investment opportunity. However, the option detailed below will allow the enlarged China Resources Cement group additional time to evaluate this investment opportunity and its implications on the overall strategic plan of the enlarged China Resources Cement group.

China Resources Cement entered into an option deed with China Resources Holdings on 20th June, 2003, pursuant to which a call option has been granted to China Resources Cement by China Resources Holdings which provides China Resources Cement with the right to call for the transfer to it or its nominees, all or any part of the 70.0% interest in the Ping Nan Joint Venture if such interest are being acquired by China Resources Holdings or its nominees, at the original investment costs of China Resources Holdings or

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its nominees plus interest at 0.5% above HIBOR accruing from the period commencing on the respective dates of payment of such investment (whether in the form of capital contribution or shareholders' loans) up to the date of such transfer, such option being exercisable for a period of twelve months from the commencement of commercial production of the Ping Nan Joint Venture which is currently expected to be in the first half of 2005 based on the information provided by Yu Feng. Where China Resources Cement decides not to exercise the option within the said option period, such decision to be made pursuant to a board resolution passed by the independent non executive directors of China Resources Cement, China Resources Cement shall have a first right of refusal at any time when China Resources Holdings or its nominees wishes to dispose of all or any part of the 70% interest in the Ping Nan Joint Venture.

In the event that China Resources Holdings or its nominees decides to participate in the Ping Nan Joint Venture and China Resources Cement decides not to exercise its call option, China Resources Holdings will be engaged in similar business which will compete or is likely to compete, directly or indirectly, with the business of the enlarged China Resources Cement group. If China Resources Cement decides to exercise its call option, it will satisfy all the then relevant requirements under the Listing Rules. The directors of China Resources Cement consider that the exercise or non exercise of the option and any related financial arrangements will depend on, amongst other things, the financial position of China Resources Cement and the condition of the capital market at the time, accordingly, the directors of China Resources Cement currently do not have a decision on the matter. If China Resources Cement does not exercise the option, China Resources Cement will publish an announcement to explain the reasons for such decision and the opinion of the independent non executive directors of China Resources Cement.

China Resources Holdings has executed a deed of indemnity dated 20th June, 2003 in favour of China Resources Cement to indemnify the relevant members of the enlarged China Resources Cement group in full in respect of losses, damages, obligation or liabilities arise out of or in corresponding with, amongst others, titles defects of certain properties interest of the cement operations and PRC concrete operations, as stated below and, to the extent applicable, compliance with the domestic and export sales ratios of a member of the enlarged China Resources Cement group.

The concrete batching plants of Dongguan Concrete and Shenzhen Concrete are respectively constructed on properties leased from independent third parties. The land where the production facilities of Dongguan Concrete are located is collectively owned (集體所有). The land where the production facilities of Shenzhen Concrete are located is allocated to the landlord for commercial use and is subject to resumption by the local government. These properties have to be converted to granted land (出讓地) before they can lawfully be leased for their respective current use. In the event of the failure of the respective landlords to convert the land, they may be ordered by the relevant government authorities to terminate the respective leases, and Dongguan Concrete or Shenzhen Concrete may have to surrender the use of the current sites. Other than that, no penalties or fines will be imposed on the enlarged China Resources Cement group.

The piece of land at which the production facilities of the newly established Zhanjiang CR Cement are located is also leased from an independent third party which comprises an area of approximately 6,318.8 sq.m., equivalent to approximately 68,015 sq.ft.. Part of the land use rights of the property of an area of approximately 903.0 sq.m., equivalent to approximately 9,720 sq.ft., is administratively allocated to the landlord. The landlord is not allowed to dispose of or lease such area unless and until an approval from the relevant PRC government authority is obtained or such area is converted to granted land. No such approval has been obtained nor has conversion been completed by the landlord. Zhanjiang CR Cement may be ordered by the relevant government authority to move out of the relevant area. As the area concerned is now being used for production and it is not feasible to move the production facilities to other areas of the site, Zhanjiang CR Cement may have to move out of the entire site if it is not allowed to operate on the area concerned.

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In relation to the aforesaid, the enlarged China Resources Cement group may suffer relocation costs, loss of profit and business and such other losses and damages as a result of removal of production facilities.

Dongguan Cement is subject to a prescribed annual export sales percentage of 80.0% which it has not met since its establishment in 1994. Such prescribed export sales percentage was adopted in its supplemental joint venture agreement of 1995 prior to the change in the sino foreign equity joint venture law of the PRC in 2001 pursuant to which a sino foreign equity joint venture is no longer required by law to provide in its joint venture agreement or articles of association a domestic and export sales ratio. Following such change in the laws, a sino foreign equity joint venture established prior to the change is allowed to apply to the relevant PRC government authority for amending its joint venture agreement to delete the prescribed domestic and export sales ratio. Dongguan Cement has yet to apply for the removal of this requirement in its constitutional documents and Dongguan Cement is still deemed to be in breach of the requirement. As advised by the PRC legal advisors to China Resources Cement, such technical breach would not give rise to any material consequences to Dongguan Cement. However, there is no assurance that Dongguan Cement will not be sanctioned by the relevant PRC government authorities for the breach. It is intended that Dongguan Cement will apply for the amendment of its constitutional documents for removal of the domestic and export sales ratio as soon as practicable.

The company provided a corporate guarantee to the Redland group in respect of short term banking facilities granted to the Redland group. China Resources Cement has discussed with the financial institution about the possible release of this guarantee and the financial institution has confirmed its agreement in principle to release and replace this guarantee with a guarantee by China Resources Cement upon listing of the China Resources Cement shares on the Stock Exchange.

ONGOING CONNECTED TRANSACTIONS

There are certain connected transactions between the China Resources Enterprise group and certain of the subsidiaries of the acquired companies. These transactions will continue to be connected transactions after the completion of the group reorganisation and the acquisition, details of which are set out as follows.

Dongguan Cement, a member of the enlarged China Resources Cement group, purchases fuel from 深圳市華潤石油有限公司 (Shenzhen China Resources Petroleum Company Limited), which only became a subsidiary of the company in 2000. The aggregate consideration paid for purchases by this subsidiary of China Resources Cement for the three years ended 31st December, 2002 were approximately HK\$1.8 million, HK\$2.3 million and HK\$3.6 million, respectively. The directors confirm that the prices and terms of the said purchases are on normal commercial terms and are comparable to the prevailing market rates or practices.

Shenzhen Concrete, another member of the enlarged China Resources Cement group, purchases diesel and lubricant oil from 深圳華潤特種油劑有限公司 (CRC Special Oil Company Limited), which only became a subsidiary of the company in 2000. The aggregate consideration paid for purchases from CRC Special Oil Company Limited for the period from 26th March, 2002, being the date of establishment of Shenzhen Concrete, to 31st December, 2002 was approximately RMB39,000, equivalent to approximately HK\$37,000. The directors confirm that the prices and terms of the said purchases are normal commercial terms and are comparable to the prevailing market rates or practices.

Pursuant to rule 14.24(5) of the Listing Rules, these connected transactions of the company have not been subject to any disclosure and shareholders' approval requirements under the Listing Rules as the consideration in respect of the respective transactions for each of the three years ended 31st December, 2002 has been less than 0.03% of the respective consolidated net tangible asset value of the company in each of

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the relevant financial year. These connected transactions are included herein for information only and will continue to be carried out on normal commercial terms in the ordinary course of business of the China Resources Enterprise group in accordance with the Listing Rules.

LISTING AND DEALINGS

The China Resources Enterprise shares will continue to be listed on the Stock Exchange.

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the China Resources Cement shares. Dealings in the China Resources Cement shares are expected to commence on 29th July, 2003. Subject to the granting of the listing of, and permission to deal in, the China Resources Cement shares on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the China Resources Cement shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date on which dealings in the China Resources Cement shares commence on the Stock Exchange or such other date as shall be determined by HKSCC.

A copy of the prospectus is enclosed with this circular to shareholders of the company whose addresses as recorded on the register of members of the company at the close of business on the business day immediately preceding the date of despatch of this circular are situated in Hong Kong. No prospectus is being despatched to the overseas shareholders, but they may collect a copy of the prospectus at Anglo Chinese Corporate Finance, Limited at 40th Floor, Exchange Square Two, 8 Connaught Place, Central, Hong Kong during normal office hours from 26th June, 2003 to 15th July, 2003.

ODD LOTS

Pursuant to the group reorganisation, the China Resources Enterprises shareholders will receive one China Resources Cement share for every ten China Resources Enterprise shares held on the record date rounded down to the nearest whole number. This distribution will result in a significant increase in the number of odd lot shareholdings in China Resources Cement. In order to facilitate the trading of odd lots, DBS Vickers (Hong Kong) Limited has been appointed as an agent to arrange for the sale and purchase of odd lots on behalf of the China Resources Cement shareholders, during the period from 29th July, 2003 to 12th August, 2003 both dates inclusive. Holders of the China Resources Cement shares who wish to take advantage of this facility either to dispose of their odd lots or to top them up to a full board lot may contact Mr. Leung Yut Chiu as follows:

Contact person	Address	Telephone number
Mr. Leung Yut Chiu	18th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong	(852) 2820 4911

Holders of the China Resources Cement shares can either trade their odd lots of the China Resources Cement shares through their own registered dealers or take advantage of this facility either to dispose of their odd lots or to top up their odd lots to full board lots through the appointed broker. Holders of the China Resources Cement shares in odd lots should note that the matching of odd lots is not guaranteed.

Shareholders who are in any doubt as to what action to take are advised to consult professional advisors before dealing in the China Resources Cement shares during its initial period of trading.

LETTER FROM THE BOARD

PROPOSED OPTION SCHEME

China Resources Cement has conditionally adopted the proposed option scheme, which complies in full with the requirements under Chapter 17 of the Listing Rules, to provide, amongst others, the directors, consultants and full time employees of China Resources Cement and its subsidiaries with the opportunity to acquire proprietary interests in China Resources Cement after the introduction, which will encourage the grantees of any options under the proposed option scheme to work towards enhancing the value of China Resources Cement for the benefit of China Resources Cement and its shareholders as a whole.

A summary of the principal terms of the proposed option scheme is set out in appendix II to this circular.

The proposed option scheme is conditional upon:

- the China Resources Enterprise shareholders passing resolution numbered 2 set out in the notice of the extraordinary general meeting contained in this circular; and
- the Listing Committee granting listing of, and permission to deal in, the shares in China Resources Cement in issue and to be issued as mentioned herein, including any shares to be issued pursuant to the proposed option scheme.

GENERAL

Under the Listing Rules, the group reorganisation does not require the approval of the China Resources Enterprise shareholders as the pro rata distribution of securities is exempted from the approval requirements of connected transaction. The acquisition, on the other hand, constitutes a connected transaction of the company under the Listing Rules as China Resources Holdings, the other party to the agreement for the acquisition, is a substantial shareholder of the company interested in approximately 56.59% of the total issued share capital of the company as at the latest practicable date. Accordingly, an extraordinary general meeting is required to be convened in connection with the acquisition.

The Stock Exchange regards the proposal as a spin off which has met with the requirements of Practice Note 15 of the Listing Rules.

EXTRAORDINARY GENERAL MEETING

Approvals of the China Resources Enterprise shareholders for the acquisition and the proposed option scheme will be sought at the extraordinary general meeting. A notice of the extraordinary general meeting is set out on pages 70 to 71 of this circular.

Save for China Resources Holdings and its associates who will abstain from voting in respect of the resolution numbered 1 regarding the acquisition, all China Resources Enterprise shareholders are allowed vote for the resolution numbered 2 as set out in the notice of the extraordinary general meeting.

A form of proxy for use at the extraordinary general meeting is enclosed with this circular. Whether or not you are able to attend this meeting in person, you are requested to complete and return the relevant form of proxy in accordance with the instructions printed thereon and deposit to the company's share registrars, Standard Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not later than forty eight hours before the time

LETTER FROM THE BOARD

appointed for the holding of extraordinary general meeting or any adjournment thereof. Completion of the relevant form of proxy will not preclude shareholders from attending and voting in person at the extraordinary general meeting or any adjournment thereof should they so wish.

RECOMMENDATIONS

The board believes that the resolutions to be proposed at the extraordinary general meeting are in the interests of China Resources Enterprise and its shareholders as a whole and recommends all the China Resources Enterprise shareholders or the China Resources Enterprise independent shareholders, as the case may be, to vote in favour of the resolutions as set out in the notice of the extraordinary general meeting.

In addition, your attention is drawn to the letter from the independent board committee as set out on page 25 of this circular which contains its recommendations to the China Resources Enterprise independent shareholders, based on the advice from Somerley, in respect of the acquisition, the letter from Somerley set out on pages 26 to 46 of this circular which contains its recommendations to the independent board committee and the principal factors and reasons taken into consideration.

ADDITIONAL INFORMATION

The proposal may or may not proceed. The listing of, and permission to deal in, China Resources Cement shares are subject to approval from the Stock Exchange and there is no assurance that listing approval will be granted. Accordingly, shareholders should exercise caution when dealing in China Resources Enterprise shares.

Your attention is drawn to the further information contained in the appendices to this circular, the notice of extraordinary general meeting and the prospectus enclosed with this circular.

Your faithfully,
By order of the board
China Resources Enterprise, Limited
Ning Gaoning
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



華潤創業有限公司

China Resources Enterprise, Limited

(incorporated in Hong Kong with limited liability)

26th June, 2003

To the China Resources Enterprise independent shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

We refer to the circular (the “circular”) dated 26th June, 2003 issued by China Resources Enterprise to its shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the circular shall have the same meanings when used in this letter.

The independent board committee has been appointed to make recommendation to the China Resources Enterprise independent shareholders in respect of the acquisition. In addition, Somerley has been appointed as the independent financial advisor to advise the independent board committee in respect of the same.

Your attention is drawn to the letter from the board set out on pages 7 to 24 of the circular, which sets out information relating to, and the reasons for, the acquisition.

As the independent non executive directors of China Resources Enterprise, we have discussed with the management of China Resources Enterprise the reasons for the acquisition and the basis upon which its terms have been determined. We have also considered the principal factors taken into account by Somerley in arriving at its opinion regarding the acquisition as set out in its letter on pages 26 to 46 of the circular. We concur with the views of Somerley that the acquisition is in the interests of China Resources Enterprise and the China Resources Enterprise shareholders as a whole, and the terms thereof are fair and reasonable. Therefore, we recommend the China Resources Enterprise independent shareholders to vote in favour of the ordinary resolution numbered 1 to be proposed at the extraordinary general meeting to approve the acquisition as set out on pages 70 and 71 of the circular.

As at the latest practicable date, Dr. Chan Po Fun, Peter was beneficially interested in 506,000 China Resources Enterprise shares, representing approximately 0.024% of the issued share capital of China Resources Enterprise, and Dr. Chan Po Fun, Peter has indicated that he will vote in favour of the aforesaid resolution numbered 1 regarding the acquisition. The other members of the independent board committee do not hold any China Resources Enterprise shares.

Chan Po Fun, Peter

Yours faithfully,
Houang Tai Ninh
Independent board committee

Li Ka Cheung, Eric

LETTER FROM SOMERLEY

Set out below is the text of a letter from Somerley to the independent board committee prepared for inclusion in this circular:



Somerley Limited
Suite 3108, One Exchange Square
8 Connaught Place
Central
Hong Kong

26th June, 2003

The independent board committee
China Resources Enterprise, Limited
Room 3908
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

**CONNECTED TRANSACTION
PROPOSED PRE-FLOTATION ACQUISITION
OF CEMENT AND CONCRETE OPERATIONS IN THE PRC
BY CHINA RESOURCES CEMENT HOLDINGS LIMITED
(A SUBSIDIARY OF CHINA RESOURCES ENTERPRISE, LIMITED)**

INTRODUCTION

We refer to our appointment to advise the independent board committee in connection with the proposed acquisition by China Resources Cement of the acquired companies. Details of the acquisition are contained in the circular to the shareholders dated 26th June, 2003 (the “circular”) of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the circular.

The acquisition forms part of the proposal for the group reorganisation of China Resources Enterprise which involves the establishment and spin-off of China Resources Cement. Under the Listing Rules, the group reorganisation as a whole does not require the approval of China Resources Enterprise shareholders, and a pro rata distribution of securities is exempt from the approval requirements of connected transactions under the Listing Rules. The group reorganisation is, however, subject to the completion of the acquisition which is a connected transaction of China Resources Enterprise and subject to the approval of the China Resources Enterprise independent shareholders. Accordingly, the extraordinary general meeting is being convened to consider and, if thought fit, approve the acquisition.

The independent board committee, comprising the independent non executive directors, namely Dr. Chan Po Fun, Peter, Mr. Houang Tai Ninh and Dr. the Hon Li Ka Cheung, Eric, has been constituted to make a recommendation to the China Resources Enterprise independent shareholders as regards the acquisition.

LETTER FROM SOMERLEY

Pursuant to the group reorganisation, China Resources Enterprise shareholders will receive shares in China Resources Cement by way of a distribution in specie and the shares of China Resources Cement will be listed on the Stock Exchange by way of introduction. It is not within our terms of engagement to make any recommendation regarding the separate listing of China Resources Cement (“spin-off”) and the distribution. If in doubt, China Resources Enterprise independent shareholders are recommended to consult their own professional advisor and refer to the information set out in the prospectus. We have not considered the tax consequences of the spin-off and the distribution on the China Resources Enterprise independent shareholders since these are particular to their individual circumstances. In particular, China Resources Enterprise independent shareholders who are resident overseas or subject to overseas taxation on securities dealings should consider their own tax position with regard to the distribution and the spin-off and, if in doubt, should consult their own professional advisors.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the China Resources Enterprise directors, which we have assumed to be true, accurate and complete. We have reviewed financial information on the holding company for China Resources Enterprise’s existing concrete business, Innovative Market, and on the acquired companies, including their audited financial statements up to 31st December, 2002, and their respective unaudited management accounts up to 31st March, 2003. We have also reviewed the cash flow projections of each of the Redland group and the acquired companies up to 30th June, 2004. We have discussed with the directors the current performance and prospects of the businesses of Innovative Market and the acquired companies and have visited the principal facilities of the acquired companies in the PRC.

We have sought and received confirmation from the directors that no material facts have been omitted from the information supplied and opinions expressed by them to us regarding the acquisition. We consider that the information which we have received is sufficient for us to reach the opinion and recommendation as set out in this letter and to justify our relying on such information. We have no reason to doubt the truth and accuracy of the information provided to us or that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of Innovative Market and the acquired companies. We have assumed that all representations contained or referred to in the circular and made by the directors were true at the date of the circular and will continue to be true up to the date of the extraordinary general meeting.

TERMS OF THE GROUP REORGANISATION AND THE ACQUISITION

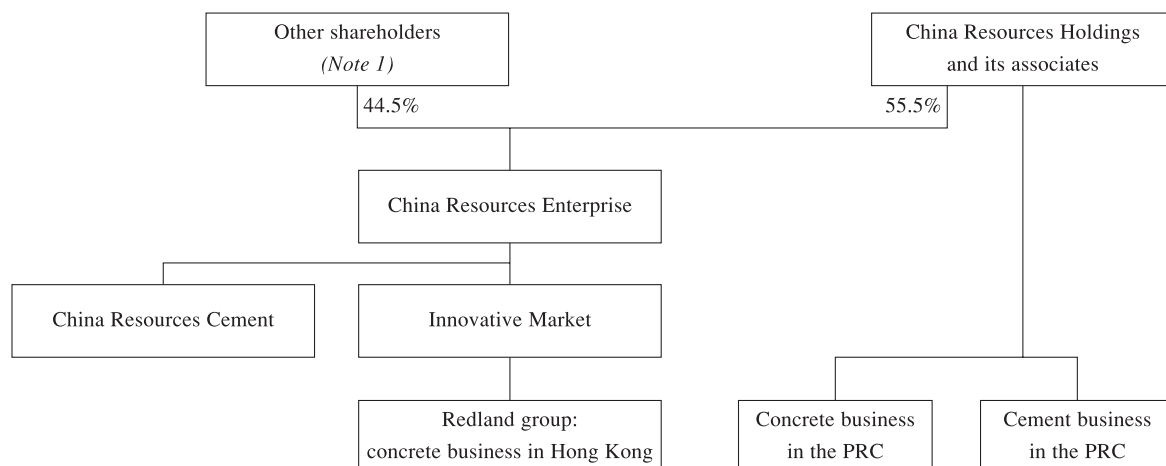
In summary, the group reorganisation and the acquisition involve the following principal steps:

- (i) China Resources Cement will acquire all the interests in Innovative Market and issue China Resources Cement shares to China Resources Enterprise;
- (ii) China Resources Enterprise will distribute its entire interest in China Resources Cement to its shareholders by way of a special dividend on the basis of one China Resources Cement share for every ten shares held in China Resources Enterprise;
- (iii) Pursuant to the acquisition, China Resources Cement will acquire the equity interests in, and shareholders loans to, the acquired companies from China Resources Holdings and issue China Resources Cement shares to China Resources Holdings as consideration; and
- (iv) China Resources Cement Shares will be listed on the Stock Exchange by way of introduction.

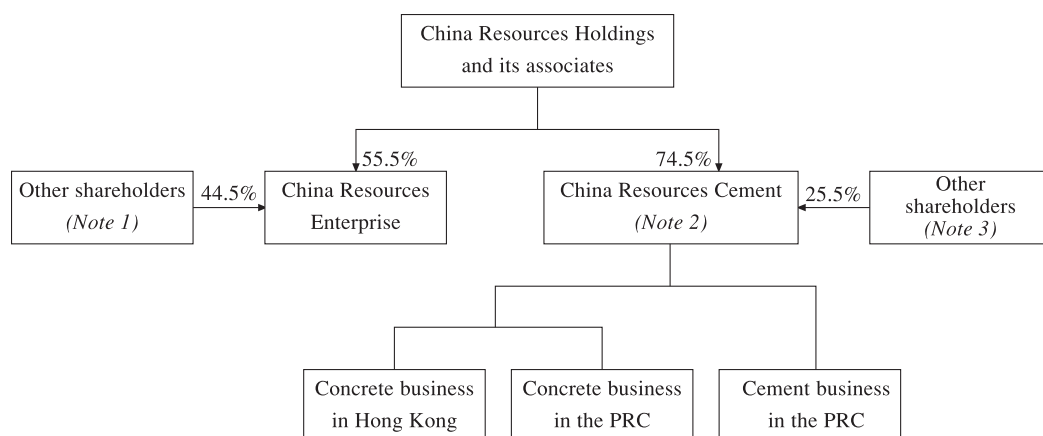
LETTER FROM SOMERLEY

A chart of the group structure of the concrete and cement businesses of China Resources Enterprise and China Resources Holdings before and after the group reorganisation and the acquisition is set out below:

Before:



After:



Notes:

1. These interests include 3.3 million shares held or deemed to be held by certain directors, and approximately 923.3 million shares held by the public shareholders as at the latest practicable date.
2. Pursuant to the introduction, China Resources Cement will be listed on the Main Board. China Resources Cement is presently a wholly owned subsidiary of China Resources Enterprise with shareholders' funds of HK\$100.0 million. Its share capital will be increased in due course as it issues shares to China Resources Enterprise in consideration for the transfer of Innovative Market, pursuant to a bonus issue, and to China Resources Holdings for the acquisition of its cement and concrete business in the PRC. China Resources Enterprise will hold no shares in China Resources Cement after the group reorganisation because it will distribute all such shares to its own shareholders, including China Resources Holdings. China Resources Holdings will hold a greater percentage in China Resources Cement than it does in China Resources Enterprise, because it will receive shares from the sale of its concrete and cement businesses to China Resources Cement as well as through the distribution.

LETTER FROM SOMERLEY

3. Certain directors of China Resources Cement are expected to be interested or taken to be interested in 168,000 China Resources Cement shares, and approximately 92.5 million China Resources Cement shares are expected to be held by the public shareholders, with reference to their respective interests in the shares in issue as at the latest practicable date, without taking into account of any outstanding share options of the company in which the directors of China Resources Cement are interested or taken to be interested.

Full details of the terms and conditions of the group reorganisation and the acquisition are set out in the letter from the board in the circular and in the prospectus.

The group reorganisation is conditional on (a) the approval by the China Resources Enterprise independent shareholders of the acquisition and, to the extent applicable, any future connected transactions between the China Resources Enterprise group and the enlarged China Resources Cement group; and (b) the registration of the prospectus with the Registrar of Companies of Hong Kong.

PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE ACQUISITION

In arriving at our recommendation with regard to the acquisition, which is a connected transaction for China Resources Enterprise, we have taken into account the following principal factors and reasons:

1. Reasons for the acquisition

The principal activities of the China Resources Enterprise group are retail, beverage, food processing and distribution, and textile and petroleum distribution. With the increasing concentration on the retail-led distribution strategy, the concrete operations increasingly fall outside the current focus of the business of the China Resources Enterprise group. In addition, the net asset value of the ready mixed concrete operations as at 31st December, 2002 was approximately HK\$456.7 million, representing approximately 3.4% of the net asset value of the China Resources Enterprise group at the same date of approximately HK\$13,286.7 million. Consequently, the ready mixed concrete operations are becoming an increasingly insignificant part of the China Resources Enterprise group. It therefore makes good commercial sense, in our opinion, to separate out the ready-mixed concrete division. However, as profits are declining, its attractions as a stand-alone business may be limited.

The directors of China Resources Cement consider that the PRC based concrete and cement operations of the China Resources Holdings group would complement China Resources Enterprise's concrete operations, increase its prospects for growth and facilitate the separate listing of China Resources Cement. The ability to issue marketable securities should assist the China Resources Cement group to achieve its objective to expand its operations in the PRC and to establish a leadership position in the market. The group reorganisation (including the distribution), coupled with the acquisition, will also provide all China Resources Enterprise shareholders a means, without cash cost to themselves, to become shareholders in a separate listed entity dedicated to the future development of the ready mixed concrete and cement operations in Hong Kong and the PRC.

It is the strategy of China Resources Cement to become a leading value added provider of cement, concrete and related products and services to the building and construction industry in the major markets in Hong Kong and the PRC. The significant costs involved and the need to comply with stringent regulatory requirements to build new cement plants also mean acquisitions are a major element of its growth strategy. In this regard, in addition to the acquisition, on 3rd June, 2003, Dongguan Cement Holding entered into an agreement with Dongguan Metals and Minerals for the acquisition of an additional 5% interest in CR Cement Company and Dongguan Cement. Such acquisition is expected to be completed on or before the introduction in July 2003, whereupon Dongguan Cement Holding will hold a 75% interest in Dongguan Cement and CR Cement Company.

LETTER FROM SOMERLEY

In addition to acquiring businesses in its existing and new markets, the enlarged China Resources Cement group plans to implement a strategy aimed at increasing revenue growth and market share through horizontal expansion, achieving cost efficiencies and enhancing profitability through vertical integration of production.

For the year ended 31st December, 2002, an aggregate of 19.6% of China Resources Cement group's total cost of sales represented purchases of cement from Dongguan Cement. The acquisition will secure for the Redland group a stable supply of quality cement. The vertical integration of the business operations of the China Resources Cement group with Guangxi CR Cement and Dongguan Cement is anticipated to reduce costs and improve the competitiveness of the enlarged China Resources Cement group. In terms of horizontal expansion, the consolidation of the operations will enable the management of the newly established Dongguan Concrete and Shenzhen Concrete to benefit from the management expertise of the established Redland group.

We consider that the acquisition is in line with the growth strategy of the China Resources Cement group. The acquisition is also consistent with the objective of expansion geographically into the PRC market through the acquired companies' sales and distribution network and strategic location of production and transport facilities.

2. Business, results and prospects of the Redland group

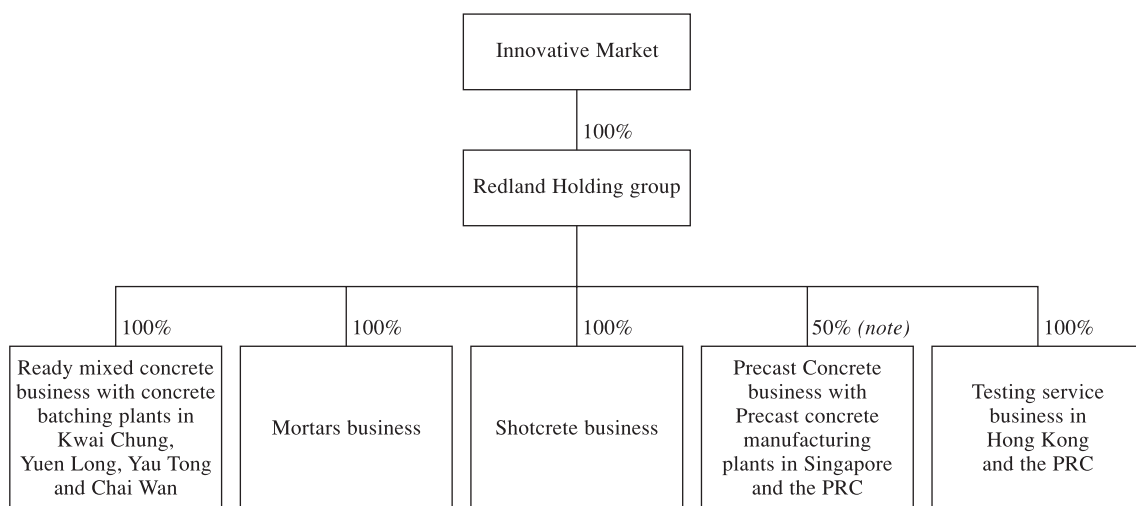
At present, China Resources Enterprise's concrete operations are undertaken through the Redland group. The Redland group is principally engaged in the production and sale of ready mixed concrete, ready mixed mortars and ready mixed shotcrete and may be regarded as the leading independent ready mixed concrete group in Hong Kong.

The Redland group has a long history. Its operations started in 1986 when Redland Concrete was established by China Resources Holdings in partnership with its senior executives. Over the years, various divisions were established by way of joint venture and acquisitions and the scope of operations expanded to quarrying and trading of aggregate, ready mixed mortars and ready mixed shotcrete. China Resources Enterprise (through Innovative Market) acquired 80% of Redland Concrete from China Resources Holdings in 1997 and the remaining 20% interest in 1999.

Sales of ready mixed concrete account for substantially the bulk (for the year ended 31st December, 2002, approximately 82%) of the Redland group's revenue. At present, the Redland group operates four ready mixed concrete batching plants in Hong Kong, down from a peak of nine.

LETTER FROM SOMERLEY

The following diagram sets out the corporate structure and the principal operating businesses of the Redland group:



Note: The remaining 50% interest is held by a private company controlled by Mr. Howard Chan, one of the original founders of the Redland group.

The following is the audited combined profit and loss accounts of Innovative Market, the holding company of the Redland group, for the three years ended 31st December, 2002 (“track record period”), with a comparison with the China Resources Enterprise group:

	Year ended 31st December,		
	2000	2001	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover:	<u>853,395</u>	<u>666,355</u>	<u>391,479</u>
Operating profit	240,796	162,701	61,896
Finance costs	(5,217)	(3,034)	(2,244)
Share of results of associates	<u>10,912</u>	<u>8,562</u>	<u>3,962</u>
Profit before taxation	246,491	168,229	63,614
Taxation	<u>(45,713)</u>	<u>(27,390)</u>	<u>(10,308)</u>
Profit after taxation	<u><u>200,778</u></u>	<u><u>140,839</u></u>	<u><u>53,306</u></u>
Profit after tax of China Resources Enterprise group	1,656,733	1,204,807	1,402,945
Percentage of profit after tax of Innovative Market as compared to that of the China Resources Enterprise group	12.1%	11.7%	3.8%

LETTER FROM SOMERLEY

During the track record period, turnover dropped from HK\$853.4 million in 2000 to HK\$666.4 million in 2001 and further to HK\$391.5 million in 2002, an accumulated decrease of approximately 54%. Overall, gross profit margin also dropped from approximately 46% in 2000 and 2001 to 37% in 2002. The principal reason for the decline, in the opinion of the directors of China Resources Cement, is the fall in product prices driven by intense competition. For example, average market selling prices of concrete fell from HK\$645 per cubic metre in 2000 to HK\$485 per cubic metre in 2001 and further to HK\$345 per cubic metre in 2002. The operations of the Redland group have been downsized from a peak of 9 batching plants in 1997 to the 4 batching plants currently in operation. The Redland group's contribution of profit to the China Resources Enterprise group has been declining from 12.1% in 2000 to 3.8% in 2002. For the four months ended 30th April, 2003, turnover dropped by 28% and unaudited net profits dropped by 71% compared to the same period in 2002.

The directors of China Resources Cement consider the concrete industry in Hong Kong a cyclical industry. Since 1998, the concrete industry has seen contraction due to poor economic conditions in Hong Kong. The future prospects of the building and construction industry in Hong Kong will depend primarily upon the launching of new major construction projects, especially infrastructure projects and on the performance of the Hong Kong economy as a whole. A recovery of the Hong Kong economy would increase the level of construction activity and revive the demand for concrete products of the Redland group.

The management of the Redland group has expended significant efforts on stringent cost control, including factory overheads, intense negotiations with raw material suppliers to reduce purchase price, subcontracting delivery and distribution functions, reduction of staff salaries and rationalisation of production facilities. Despite such efforts, the negative market conditions have taken their toll on the profitability of the Redland group and the contribution of the Redland group to the profit of China Resources Enterprise has declined from 12.1% in 2000 to 3.8% in 2002. With the continuing negative market sentiment, there may be little further that the Redland group can do by itself to remedy this situation until demand from customers improves. It is therefore an opportune time, in our opinion, for the management of Redland and of China Resources Enterprise to consider diversifying Redland's operations to include related activities, such as cement production, and widening their geographical scope.

3. Business, results and prospects of the acquired companies

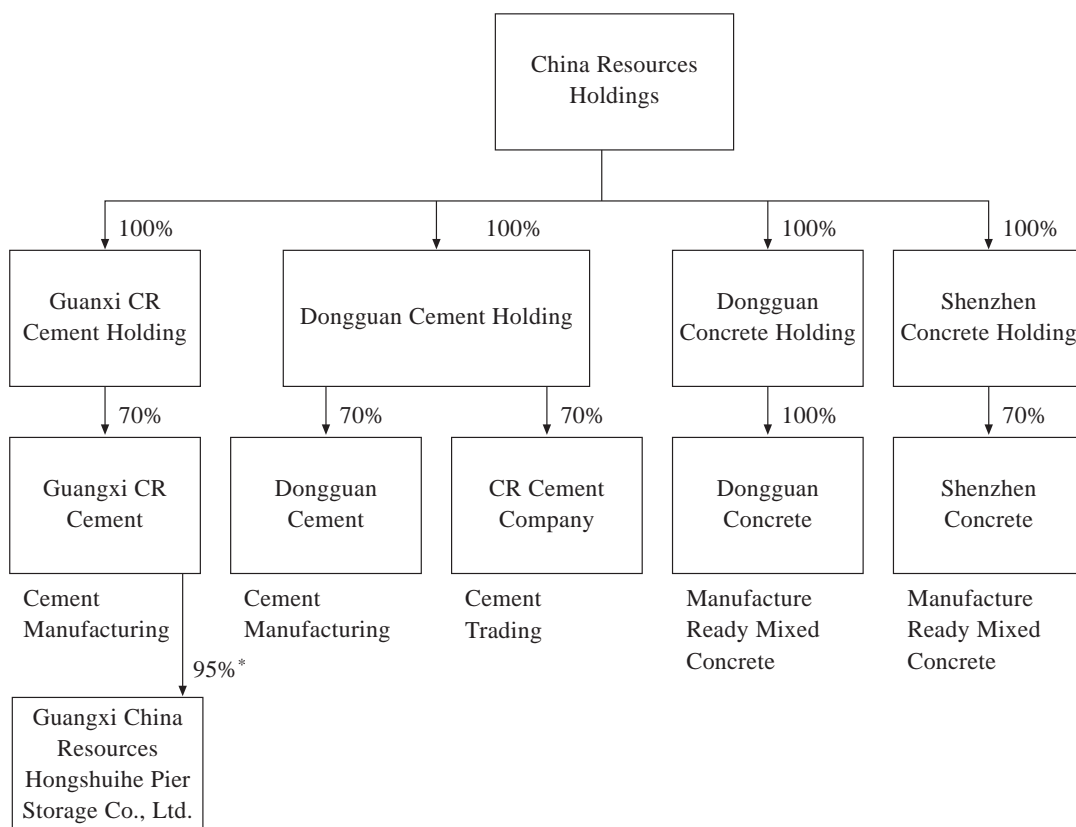
The acquired companies and their principal activities are:

- Guangxi CR Cement Holding: production and sale of cement and related products under the trademark “紅水河” (Hongshuihe), comprising grades #425 and #325 ordinary Portland cement, Portland cement, Portland blast furnace slag cement and composite Portland cement, mostly used in high rise buildings and infrastructure projects.
- Dongguan Cement Holding: trading of cement in Hong Kong and production and sale of cement products including #325 composite Portland cement, #425 ordinary Portland cement and #525 Portland cement sold under the trademark “東潤水泥” (Dongrun Shuini) in the PRC and “華潤水泥” (CRC Cement) and “潤豐水泥” (Runfeng Shuini) in Hong Kong.
- Dongguan Concrete Holding: production and sale of ready mixed concrete.
- Shenzhen Concrete Holding: production and sale of ready mixed concrete.

LETTER FROM SOMERLEY

In general, production and sale of cement is the dominant activity of the acquired companies, accounting for approximately 91% of turnover of such companies in 2002.

The following is the shareholding structure of the acquired companies:



* the remaining 5% interest is held by Guangxi Qinzhou Harbour Pier Storage Company Limited

(i) *Products and markets*

The acquired companies are engaged in the production and sale of a range of cement products as well as ready mixed concrete products in the PRC and Hong Kong. Cement acts as a bonding material which, when mixed with water, sand, aggregate and air, forms concrete, and represents the principal raw material in concrete. For the year ended 31st December, 2002, an aggregate of 19.6% of China Resources Cement group's total cost of sales represented purchases of cement from Dongguan Cement. Dongguan Cement also act as a primary supplier to Dongguan Concrete.

Guangxi CR Cement markets its products under the brandname of “紅水河” (Hongshuihe). Products are principally sold in the PRC market and for use in high rise buildings and infrastructure projects. Guangxi CR Cement's products achieved a gross profit margin of approximately 20.7% for the period ended 31st December, 2002. Guangxi CR Cements' products principally target concrete plants in the Southern China Region, in particular the Pearl River Delta region of Guangdong Province and Hainan Province.

LETTER FROM SOMERLEY

Dongguan Cement markets its products principally under the brandname of “東潤水泥” (Dongrun Shuini) for local sales in the PRC and “華潤水泥” (CRC Cement) and “潤豐水泥” (Runfeng Shuini) for export sales to Hong Kong. Customers of Dongguan Cement are mainly building and construction contractors and the cement produced by Dongguan Cement is mainly used in construction works of high rise buildings, roads and highways. Dongguan Cement’s products achieved a gross profit margin of approximately 21.7% in 2002 and are distributed to customers in Guangdong Province. CR Cement Company is engaged in trading of cement in Hong Kong.

Dongguan Concrete has only recently commenced operations in the production and sale of ready mixed concrete. Its batching plant is located in Dongguan near Guangzhou and its products are expected to be mainly used for property development projects within a short distance of the batching plant.

Shenzhen Concrete is engaged in the production and sale of ready mixed concrete from its batching plant located in Futian District, Shenzhen. Its products are mainly used for property development projects in Shenzhen and its neighbouring area with construction sites located within approximately 20 kilometres from the batching plant.

(ii) *Operations and capacity*

Guangxi CR Cement’s cement plant has a production capacity of 1,200,000 tonnes of cement per year, making it one of the leading producers in the Guangxi ZAR. Guangxi CR Cement plans to construct a dry process vertical kiln production line to increase the annual clinker production capacity by 750,000 tonnes. Guangxi CR Cement has recently formed a joint venture to operate a new cement manufacturing plant to increase its capacity by 200,000 tonnes in Zhanjiang. Guangxi CR Cement has mining rights to adjacent limestone and sandstone quarries which produce its principal raw materials.

Dongguan Cement’s plant, located in Dongguan City, Guangdong Province, has an annual production capacity of around 1,000,000 tonnes of cement. Dongguan Cement is considering the construction of a new production line to increase annual cement production capacity by 500,000 tonnes.

Dongguan Concrete’s batching plant located in Dongguan has recently commenced commercial production of ready mixed concrete. Dongguan Concrete’s batching plant has an estimated annual production capacity of approximately 300,000 cubic metres of different types of concrete products. The batching plant is strategically located with convenient access to the Guangshen Expressway for sourcing materials and serving customers in the region.

Shenzhen Concrete’s batching plant in Shenzhen has an annual production capacity of approximately 500,000 cubic metres of different types of concrete products. The batching plant is strategically located with convenient access to the Meiguan Expressway for sourcing materials and serving customers in the region.

Plans have been laid out for China Resources Cement to further increase its production capacity in the PRC. As detailed in the prospectus, China Resources Holdings has entered into a memorandum of understanding with Yu Feng Group in relation to the Ping Nan Joint Venture to invest in a new production plant in Guangxi ZAR for cement products. The operation is expected to commence production on or around the first quarter of 2005. The China Resources Cement

LETTER FROM SOMERLEY

Group has been granted a call option to purchase China Resources Holdings' interest in the joint venture. The option is exercisable for a period of 12 months from the commencement of production.

(iii) *Past results of the acquired companies*

	Year ended 31st December		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Turnover	209,589	329,909	557,383
Operating profits	15,940	53,176	60,776
Profit/(loss) before taxation	(11,386)	24,488	34,301
Taxation	<u>0</u>	<u>0</u>	<u>(1,063)</u>
Profit/(loss) after taxation	(11,386)	24,488	33,238
Minority interests	<u>11,175</u>	<u>(4,981)</u>	<u>(8,801)</u>
Profit/(loss) attributable to shareholders	<u>(211)</u>	<u>19,507</u>	<u>24,437</u>

Guangxi CR Cement was established as a joint venture in December 2001. Prior to its establishment, the operations of Guangxi CR Cement were conducted as Guangxi Hongshuihe Cement which commenced in 1982. Accordingly, the financial results of Guangxi CR Cement in its current structure are only available from December 2001. During such period, Guangxi CR Cement recorded turnover of approximately RMB193.8 million and a net profit for the period of approximately RMB7.4 million.

The Dongguan Cement Holding group has recorded a turnover of HK\$209.6 million, HK\$329.9 million and HK\$324.1 million for the three years ended 31st December, 2002. The results have improved from a loss in the year ended 31st December, 2000 of HK\$16.1 million to a profit of HK\$10.1 million and HK\$10.0 million for the years ended 31st December, 2001 and 2002, respectively. A significant amount of the profit from operations has been absorbed by finance costs, partially relating to the shareholders' loans. As the acquisition involves acquisition of the benefit of the shareholders' loan of HK\$208.7 million and the capitalisation of such loan, after deducting the interest relating thereto, the adjusted net profit of Dongguan Cement Holding for the year ended 31st December, 2002 would have been HK\$14.3 million, assuming that such loan had been capitalised throughout the year.

As Dongguan Concrete only recently commenced operations, up to 31st December, 2002, Dongguan Concrete Holding has not recorded any turnover. It incurred a loss after taxation for that year of HK\$1.1 million.

Shenzhen Concrete was established in March 2002. Prior to its establishment, the operations of Shenzhen Concrete were conducted as a state owned enterprise which commenced production in 1999. Accordingly, the financial results have been prepared from 26th March, 2002 up to 31st December, 2002, with a turnover of HK\$62.6 million and profit after taxation of HK\$4.2 million.

LETTER FROM SOMERLEY

(iv) *Prospects of the acquired companies*

The acquired companies offer an opportunity for the China Resources Cement group to enter the cement production business and to a lesser extent the concrete business, in the PRC. Without the acquisition, its operations would be limited to the production and distribution of concrete products in Hong Kong.

The cement market tends to be localised and trade in cement internationally is relatively low, owing to the bulky nature (relative to value) and limited shelf life of the product. Growth in cement production in the PRC has been high compared to the rest of the world. As illustrated in the prospectus, approximately 40% of the PRC's cement is used for basic infrastructure construction, 25% is used for maintenance and 33% is used in rural areas. As illustrated from the chart contained in the prospectus on the construction component of the gross domestic product of the PRC, the PRC market has experienced continuous growth in the period from 1991 to 2001. Consumption is linked to economic growth and demand and supply of cement varies by region according to differing development trends. As stated in the prospectus, cement manufacturing is capital intensive (as compared to concrete production) and the cost of opening a new plant is equivalent to the first 3 years' turnover. The average industry earnings before taxation and interest are approximately 10% of turnover. Such high capital requirement and average return set high barriers to entry for potential competitors.

The principal provinces which the acquired companies serve in supplying cement, being Guangdong, Fujian and Hainan, have cement deficits, i.e. market demand for cement exceeds the supply of cement by manufacturers and the deficit has to be fulfilled by supplies from manufacturers from other provinces.

In terms of concrete mixing in the PRC, the PRC central government has imposed policies with a view to eliminate inferior quality concrete and on-site mixing of concrete in urban areas (which creates significant amount of dust) for environmental reasons. The result has been consolidation of smaller scale producers of concrete and increasing demand for ready mixed concrete. Restrictions on granting land for concrete batching plants in Guangdong Province represent a major barrier for potential new entrants to the Guangdong market.

Through the acquired companies, China Resources Cement can enter certain high growth markets of the PRC. Such opportunity may otherwise not be available for the China Resources Cement group by way of organic growth due to the environmental and financial restrictions mentioned above. We are of the view that such opportunity is the result of China Resources Enterprise's close association with China Resources Holdings which is in China Resources Cement's interest.

The operations of the acquired companies have either recently commenced production or secured arrangements to increase their production capacity significantly. Such increasing production capacity should form the basis of continued growth of the acquired companies.

Taking into account the performance of the acquired companies in the track record period, the numerous barriers to entry to the concrete and cement industries in the PRC, the demand growth for concrete and cement products in the PRC, the increasing production capacity of the acquired companies and the consistency of the strategy of China Resources Cement with the relevant regulatory requirements, we consider the prospects of the acquired companies to be positive.

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In view of the significant capital expenditure programme in aggregate of approximately HK\$300 million in 2003 and 2004 and the short period as a listed company for the 2003 financial year, it is China Resources Cement's board's intention that it will not declare any interim or final dividend for the year ending 31st December, 2003. However, China Resources Cement is expected to make dividend payments in future financial years on the basis of the long term dividend policy of a payout ratio of approximately 20% to 25%.

(v) *Risks involved in the acquired companies*

As illustrated above, the operations of the acquired companies differ from that of the Redland group in respect of the range of products, markets serviced, production process and supplies of raw materials. Accordingly, the acquisition involves risks to which the Redland group is not currently exposed.

As pointed out in the prospectus, a number of risk factors are relevant to the acquired companies, including:

- the risk relating to the completion of the acquisition and successful integration of the acquired companies;
- the risks relating to the PRC concrete operations: possible removal of the production facilities, competition, environmental protection and risks of losing preferential tax treatment;
- risks relating to the cement operations concerning export requirements, leasing of production facilities, volatility of prices of coal, clinker or electricity, infringement of trademarks, risks of losing preferential tax treatment and the capital intensive nature of cement production;
- risks relating to the cement industry in the PRC on environmental protection and fierce competition;
- risks relating to legal, political, the currency and economic considerations in the PRC.

In particular, certain concrete plants of the acquired companies were constructed on properties in the PRC leased from independent third parties. As a result of the regulatory requirements governing the use of such properties, there is a risk that the acquired companies may have to surrender the use of such sites. In this event, the operations of the relevant acquired companies may be disrupted and relocation costs will be involved.

In addition, Dongguan Cement is subject to prescribed export sales restrictions which have not been fully complied with. There is no assurance that Dongguan Cement will not be sanctioned by the relevant PRC government authorities for the breach.

In this regard, China Resources Holdings has executed a deed of indemnity dated 20th June, 2003 in favour of China Resources Cement to indemnify it or the relevant members of the enlarged China Resources Cement group in full in respect of losses, damages, obligations or liabilities arising out of or in connection with, among others, title defects of certain property interests (including the above), and, to the extent applicable, compliance with the domestic and export sales ratio of members, of the enlarged China Resources Cement group.

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We do not consider these risk factors a material disadvantage to the acquisition. As a major purchaser of cement, the Redland group may benefit from an assured source of supply and the China Resources Enterprise group and its major shareholder are already very experienced in doing business and owning investments in the PRC.

4. Basis of the consideration for the acquisition

Pursuant to the acquisition, China Resources Cement will acquire from China Resources Holdings its effective 100% interest in Guangxi CR Cement Holding, Dongguan Cement Holding, Dongguan Concrete Holding and Shenzhen Concrete Holding and related shareholders' loans.

The table below shows the elements of the consideration of the acquisition:

	Share consideration <i>HK\$ million</i>	Loan consideration <i>HK\$ million</i>	Total consideration <i>HK\$ million</i>
Guangxi CR Cement Holding	139.0	—	139.0
Dongguan Cement Holding	40.3	208.7	249.0
Dongguan Concrete Holding	4.9	—	4.9
Shenzhen Concrete Holding	<u>21.2</u>	<u>—</u>	<u>21.2</u>
Total	<u>205.4</u>	<u>208.7</u>	<u>414.1</u>

The aggregate consideration for the acquisition is approximately HK\$414.1 million. The consideration payable in respect of the acquisition of 100% of the share capitals of the acquired companies of approximately HK\$205.4 million has been agreed as equivalent to the aggregated audited combined net asset value of each of the acquired companies as at 31st December, 2002 and the consideration for the shareholder's loan represents the principal amounts of the shareholders loans as at 25th March, 2003 of HK\$208.7 million.

In this regard, the Dongguan Cement Holding has entered into an agreement on 3rd June, 2003 to purchase from Dongguan Metals and Minerals, an independent third party a further 5% interest in Dongguan Cement and CR Cement Company for a consideration of HK\$4.8 million. Such consideration represents a premium of approximately 138% to the attributable audited net asset value of Dongguan Cement Holding. Such consideration suggests that China Resources Cement may be acquiring the acquired companies from China Resources Holdings at a discount to the price which would be required had the interest been held by independent third parties.

We consider the above basis for determining the consideration to be a broadly appropriate one in circumstances where certain acquired companies have a short operating history and results record. It has the merit of ensuring that neither side suffers a dilution in net assets. Companies in the construction and construction materials sector may also be evaluated by reference to a multiple of the earnings or cash flows of such companies. Where companies have only a short period of results available, assessing their value based on profitability or cash flow can become speculative. We comment further on these aspects below.

Shareholders should note that the independent valuation of the property interests of the enlarged China Resources Cement group as at 31st March, 2003 set out in the prospectus shows a revaluation deficit of the Redland group's properties of approximately HK\$129.8 million and a revaluation surplus of the properties of the acquired companies of approximately HK\$23.6 million. Such deficit

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and surplus will not however be incorporated in the consolidated financial statements of the enlarged China Resources Cement group for the year ending 31st December, 2003 and have not been taken into account in determining the consideration for the acquisition.

The following is an illustration of the notional effect of the revaluation deficit and surplus on the acquisition:

	Audited net asset value/ consideration <i>HK\$ million</i>	Number of China Resources Cement shares issued	Audited net asset value/ consideration per share <i>HK\$</i>	Revaluation Surplus/ (Deficit) <i>HK\$ million</i>	Adjusted net asset value per share <i>HK\$</i>
Acquired Companies	414.1	154.8 million	2.67	23.6	2.83
Innovative Market	556.7	208 million	2.67	(129.8)	2.05

If such deficit and surplus had been taken into account, the notional issue price of China Resources Cement shares to China Resources Holdings would be HK\$2.83 and to China Resources Enterprise would be HK\$2.05. The notionally adjusted issue price of China Resources Cement shares to China Resources Holdings for the acquisition represents a premium of 38% of the issue price for China Resources Enterprise, which in our view is favourable to China Resources Enterprise and its shareholders.

5. Price earnings ratio

The aggregate consideration of approximately HK\$414.1 million and the pro forma combined profits of the acquired companies of approximately HK\$24.4 million represent a price earnings multiple of approximately 17.0 times.

The following are the price earnings multiples of certain comparable listed companies in Hong Kong and the PRC engaged in the manufacturing and distribution of cement and concrete:

Hong Kong listed companies	Location of principal business	Share price as at the latest practicable date <i>HK\$</i>	Profit per share as per latest available audited financial statements <i>HK\$</i>	Price earnings multiple
Anhui Conch Cement Company Ltd (H Share)	PRC	4.525	0.2133*	21.2
K. Wah Construction Materials Ltd	Hong Kong/ PRC	0.47	0.0507	9.3
Luks Industrial (Group) Limited	Vietnam	1.05	0.171	6.1

* converted from RMB to HK\$ at the exchange rate of RMB1.00 = HK\$1.06

As suggested by the above comparison, companies whose principal business is located in the PRC may enjoy a higher rating than those confined to Hong Kong or other countries. Anhui Conch Cement Company Ltd (“Anhui”) is the company with the most similar location of principal business to the acquired companies and is traded at a higher price earnings ratio than that implied by the aggregate consideration of the acquired companies. It should also be noted from the table below that Anhui has A shares listed in the PRC which are traded at a significantly higher price earnings multiple than its H shares listed in Hong Kong.

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PRC listed companies	Location of principal business	Price earnings multiple
Range for 20 PRC listed cement/concrete manufacturers	PRC	8 to 549
Median	PRC	70
Anhui Conch Cement Company Ltd (A Share)	PRC	29

Source: Bloomberg

We have selected all 20 companies operating and listed in the PRC in the cement and concrete segment for comparison. Based on the closing prices of their shares on the latest practicable date and latest published results, it can be seen that such shares traded at substantially higher price earnings multiples than similar Hong Kong listed companies, with a median of 70 times. This may be principally due to the special circumstances of the PRC securities market but may also reflect the good prospects of the construction materials sector in the PRC.

By participating in the PRC markets and orientating its future growth to the PRC markets, the China Resources Cement group is likely to be assessed by reference to the market potential of the PRC rather than relying on the Hong Kong market. This may give the China Resources Cement group a higher rating, and therefore market valuation, than would be the case for the Redland group, which is entirely dependent on Hong Kong.

Whilst we are of the view that the use of the audited net asset value of the acquired companies as the basis of determining the consideration for the acquisition to be appropriate, we consider that the earnings capability of the acquired companies is also relevant in evaluating the pricing of the acquisition. We have compared the pricing of the acquisition of the acquired companies with the price earnings multiple of comparable companies listed in Hong Kong and the PRC to obtain an indication of the market value of the acquired companies. Although, the acquired companies are not on their own listed companies either in Hong Kong or in the PRC, we are of the view that such statistics form a useful basis of reference for the assessment of the pricing of the acquisition. On the basis of the comparable companies with an exposure and operations in the PRC, we consider that the pricing of the acquisition on the basis of price earnings multiple of 17.0 times is an acceptable one.

6. Settlement of consideration by issue of China Resources Cement shares

We consider that the method of settlement of the consideration of the acquisition is appropriate as the acquisition represents a substantial transaction forming part of the long term corporate strategy of the China Resources Cement group. The issue of permanent equity capital of China Resources Cement will conserve the liquid financial resources of China Resources Cement and avoid the financial gearing which would be created by the use of debt capital to satisfy such consideration. Alternatively, China Resources Cement might raise the cash funding for the consideration by way of placing of new shares to independent third parties on the market or by a rights issue to the China Resources Enterprise shareholders. However, in view of the magnitude of the consideration for the acquisition relative to the size of China Resources Cement and the prevailing conditions in the equity capital markets, a large discount to the issue price of approximately HK\$2.67 per share would probably be required to attract sufficient investors to subscribe to such an issue and underwriting on a commercial basis would, in our opinion, be difficult to obtain. Therefore, settlement of the consideration by issue of China Resources Cement shares is in our opinion the most appropriate solution.

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The issue price of the China Resources Cement shares as consideration represents approximately HK\$2.67 per share. On the basis of an earnings per share of approximately HK\$0.256 per China Resources Cement share (before taking into account the contribution from the acquired companies), the issue price represents a price earnings multiple of approximately 10.4 times. Comparing with the market price of comparable companies operating in Hong Kong listed in section 5 above of between 6.1 times and 9.3 times, we consider such price earnings multiple represents a premium to the rating on which Innovative Market's shares would be valued if it was listed in Hong Kong.

As the listing of China Resources Cement will be effected by way of introduction and does not involve the issue or sale of shares for cash, we are not able to assess the pricing of the consideration for the acquisition by reference to a market price of the China Resources Cement shares prior to listing. Depending on the value of the China Resources Cement shares upon the listing, the market price of the China Resources Cement shares may be above or below its net asset value backing or the price earnings multiple of 10.4 times noted above.

7. Relative contributions of the Redland group and the acquired companies

The aggregate consideration will be satisfied by issuing such number of the China Resources Cement shares as represent in value the aggregate amount of the audited combined net asset values of the acquired companies as at 31st December, 2002, and the principal amounts of the shareholders' loans as at 25th March, 2003, on the basis of the pro forma combined net asset value (being the aggregate of the audited consolidated net asset value of Innovative Market as at 31st December, 2002 and the net asset value of China Resources Cement of HK\$100.0 million as at 26th March, 2003) per China Resources Cement share. In other words, both the purchase price of the acquired companies and the issue price of the China Resources Cement shares as consideration for the acquisition will be determined by the audited combined/consolidated net assets of the acquired companies and that of Innovative Market (being the holding company of the Redland group). In this regard, the method of determining the consideration guarantees that there is no dilution in net assets for China Resources Enterprise shareholders.

In cases of combining two groups, a commonly accepted way of assessing the terms is to compare the proportions of the equity of the combined entity allocated to each partner with their respective contributions to such factors as turnover, earnings, cash flow and assets.

The following table sets out the proportions of turnover, earnings and cash flow contributed by Innovative Market and the acquired companies for the year ended 31st December, 2002 respectively, compared to the proportion of the net asset contribution and the equity of China Resources Cement allocated to China Resources Enterprise and China Resources Holdings (pursuant to the acquisition), respectively:

	Innovative Market		Acquired companies	
	HK\$' million		HK\$' million	
Turnover	391.5	41.3%	557.4	58.7%
Earnings	53.3	68.6%	24.4	31.4%
Operating cash flow (<i>Note</i>)	83.4	43.2%	109.6	56.8%
NAV	556.7	57.3%	414.1	42.7%
Share capital (million China Resources Cement shares)	208.0	57.3%	154.8	42.7%

(*Note*): representing operating cashflows before movements in working capital, being principally the profits after taxation, adjusted for depreciation and amortisation expenses, interest income and expenses and results of associates, but before taking into account financing and investing activities and movement in working capital.

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The proportion of turnover contributed by the acquired companies is 58.7% but this is offset by the lower gross margin achieved by the acquired companies. Consequently, the proportion of earnings contributed by the acquired companies, at 31.4%, is lower than the 42.7% proportion of the shares of China Resources Cement to be issued to China Resources Holdings. Consequently the terms of the acquisition involve a degree of dilution in attributable earnings for China Resources Enterprise shareholders as a whole.

Shareholders should bear in mind that the above figures are based on the 2002 results of the relevant companies. In this regard, the relative prospects of the Hong Kong market for Innovative Market and the PRC market for the acquired companies may well differ. It is apparent that the profitability of Innovative Market has been declining in recent years and there is no evidence that any material improvement can be expected in the near future. On the other hand, the acquired companies operate in fast growing markets and a number of their operations have either recently increased production capacity or have formulated definite plans to increase their production capacity to facilitate continued growth.

Both the Innovative Market group and the acquired companies recorded strong operating cashflows for the year ended 31st December, 2002. However, it should be noted that while the Redland group does not have substantial investment projects under consideration, the acquired companies have in hand major capital expenditure projects which will increase production capacity and also absorb cash.

On the above basis, there is some dilution in the earnings for China Resources Enterprise independent shareholders, in that the Redland group contributes 68.6% of 2002 earnings while being allocated 57.3% of the enlarged equity. Bearing in mind however the better growth prospects for the cement and concrete industry in the PRC and the relative contribution of the acquired companies and Innovative Market to turnover and operating cash flow, we consider the degree of earnings dilution acceptable.

8. Pro forma combined figures of China Resources Cement Group

Set out below is the pro forma combined turnover, earnings and adjusted net tangible asset value of China Resources Cement assuming that the group reorganisation (including the acquisition) had been implemented for the year ended 31st December, 2002, as extracted from the prospectus.

China Resources Cement as at 31st December, 2002	
<i>HK\$ million</i>	
Turnover	899.5
Earnings	77.7
NAV	847.2
NAV per China Resources Cement share	HK\$2.34
	<i>(Note)</i>

Note: the pro forma adjusted net tangible asset value of China Resources Cement has been calculated taking into account, among others, the estimated expenses for the new listing, the unaudited pro forma results of the enlarged China Resources Cement group for the four months ended 30th April, 2003 and the net revaluation deficits on property interests.

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Based on the above figures, we consider that China Resources Cement should be able to establish a credible standing among investors compared to similar companies in its sector as referred to in section 5 above.

9. Listing of China Resources Cement

Effect on market capitalisation

Shareholders will receive shares in China Resources Cement by way of a distribution in specie and the shares of China Resources Cement will be listed on the Stock Exchange by way of introduction. Arrangements have been put in place to facilitate trading of odd lots of China Resources Cement shares upon listing. Under the Listing Rules, the group reorganisation does not require the approval of the shareholders and the pro rata distribution of securities is exempted from the approval requirements of connected transactions. The completion of the group reorganisation is, however, subject to the completion of the acquisition which in turn is subject to the approval of the independent shareholders as the acquisition constitutes a connected transaction of China Resources Enterprise.

Set out below is a table of the effect of recent spin-offs on the market capitalisation of the two companies listed in Hong Kong:

Transaction:	Last day of cum entitlement market capitalisation of parent <i>HK\$ millions</i>	First day of ex- entitlement market capitalisation of parent <i>HK\$ millions</i>	First day market capitalisation of newly listed subsidiary <i>HK\$ millions</i>	Total aggregate market capitalization of parent and subsidiary after spin-off <i>HK\$ millions</i>
Lee & Man Handbags* International Limited (Lee & Man)	783.8	383.6	437.3	820.9
Hanison Construction# Holdings Limited (Hanison)	2,640.2	2,430.5	238.3	2,668.8

* *Lee & Man Handbags International Limited was spun-off from Lee and Man Holdings Limited*

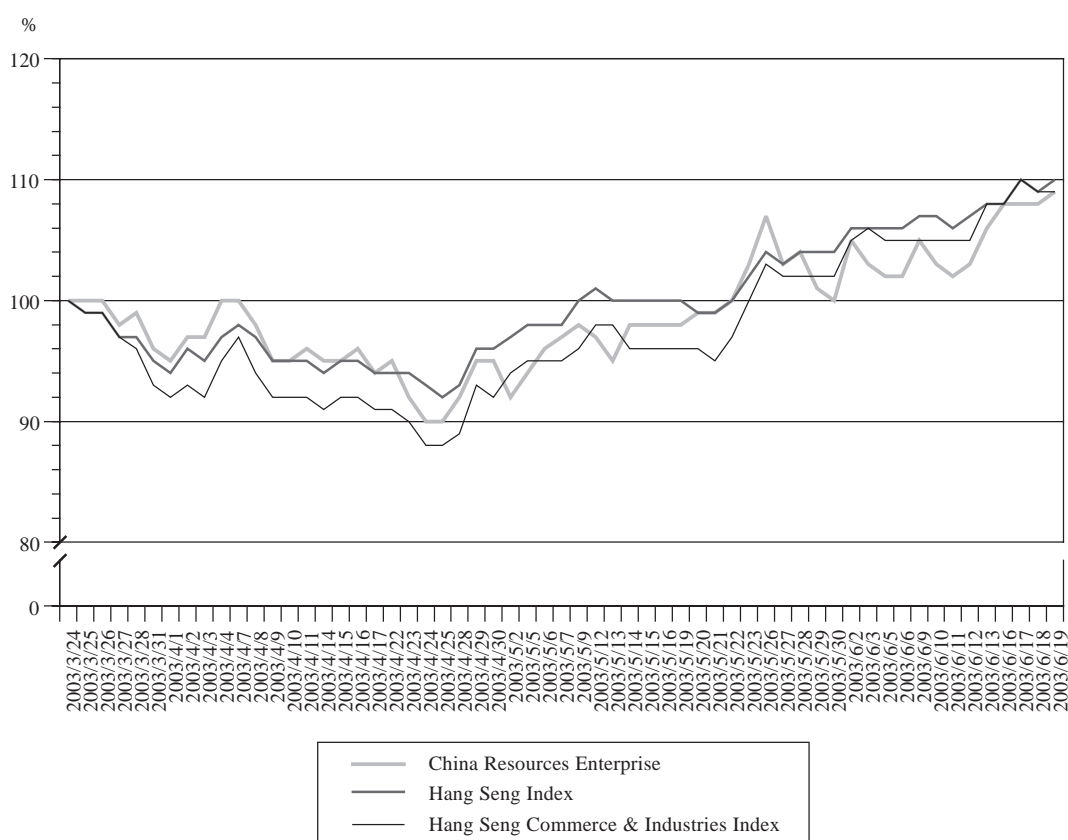
Hanison Construction Holdings Limited was spun-off from HKR International Limited

As set out above, in both cases the total market capitalisation of the parent and subsidiary after the spin-off exceeded the market capitalisation of the parent prior to the separate listing. On this basis, the parent's shareholders benefited from the distribution by holding securities of increased market value. In analysing the fluctuations in the market values of the above companies, it is difficult to identify and attribute accurately movement in share prices to particular events. However, in the above analysis, we have attempted to identify general trends of movements that may be relevant. We have considered announcements of the relevant companies and the movement of the general stock market over the relevant periods and there were no significant events or trends likely to explain the increment mentioned, apart from the separate listings.

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Under certain financial theories, the value of the China Resources Enterprise shares ex the distribution should decline to offset the value of the China Resources Cement shares being distributed. However, if the market considers there are advantages in running the businesses of China Resources Cement (with the inclusion of a higher growth PRC element) and China Resources Enterprise separately, this decline may not occur in practice.

We have reviewed the movements of share price of China Resources Enterprise from the 24th March, 2003 (being the day before China Resources Enterprise announced the proposed spin-off) up to the latest practicable date and set out below the comparison of such movement against the movement of Hang Seng Index and Hang Seng Commerce and Industries Index, of which indices China Resources Enterprise is a constituent stock.



As shown in the chart, the share price of China Resources Enterprise moved largely in line with the movements of both Hang Seng Index and Hang Seng Commerce & Industries Index. No obvious sign of any impact of the proposed spin-off is apparent. Consequently, we believe the share price of China Resources Enterprise will be relatively stable subject to market movements.

Based on the above observations and the precedents of Lee and Man and Hanison discussed above, the aggregate market capitalization of China Resources Enterprise ex-entitlement and of China Resources Cement when it starts trading (expected to be on 29th July, 2003) may well as a practical matter be higher than the share price of China Resources Enterprise on its last day of trading cum-entitlement. In the event that a similar trading pattern

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prevails for the shares and the shares of China Resources Cement, we are of the view that China Resources Enterprise shareholders will benefit from an increased market value of their investments in the shares.

Effect on liquidity of the China Resources Cement shares

The shares in China Resources Cement to be distributed to China Resources Enterprise independent shareholders are not subject to any lock-up or restriction on trading after listing. In addition, as the shares in China Resources Cement will be distributed in specie to all existing shareholders of China Resources Enterprise, China Resources Cement will have a broad shareholder base similar in the first instance to China Resources Enterprise, and should therefore benefit from a reasonable level of liquidity.

DISCUSSION AND CONCLUSIONS

China Resources Enterprise's present ready mixed concrete operations, conducted through the Redland group, form an established business generating substantial profits and cash flows. However, over the last three years ended 31st December, 2002, Redland has experienced significant declines in turnover and profitability due principally, we believe, to the declining levels of activity of its customers in sectors of the Hong Kong construction industry. There seems little the Redland group can do by itself to remedy this situation until demand from its customers improves. Consequently, in our opinion, it makes sound commercial sense for the Redland group to be combined with a related business in the PRC where construction activity is growing strongly.

Since the assets of the Redland Group only represent 3.4% of the total assets of the China Resources Enterprise group and 3.8% of its 2002 profits, we do not consider that the spin-off will have a material adverse impact on the share price or growth of China Resources Enterprise. On the other hand, Redland, when merged with the acquired companies, makes a coherent and substantial group which should be able to establish its own following of investors in the stock market.

China Resources Holdings has under its control a suitable business which consists of four companies, the larger two of which specialise in cement products, and the remaining two in ready-mixed concrete. They are in aggregate approximately equal in size to the Redland group as measured by net assets but have had somewhat lower profitability to date. The acquisition price of HK\$414.1 million represents a multiple of 17 times 2002 earnings, which compares with a price earnings multiples of 21.2 times for Anhui Conch (H shares), which we consider the most similar Hong Kong listed company.

The terms of the acquisition are equivalent to the contribution of each of the groups to the combined pro forma net assets of China Resources Cement. In addition, it is relevant to compare the contribution of each side to turnover, earnings and cash flow. These contributions in respect of the financial year 2002 have been summarised in section 7 above. On the basis of 2002 figures, Innovative Market contributes 69% of earnings, while China Resources Enterprise shareholders will receive 57% of the equity of China Resources Cement. However, the acquired companies contribute approximately 59% of turnover and 57% of cash flow, greater than the equity share of China Resources Holdings (before the distribution in specie) of 43% overall. We consider the terms of the acquisition a fair balance between the relative contributions of the two groups.

As well as the above percentages (based on the year 2002), we have had regard to the prospects for the two groups as shown in certain projections up to 2004 provided to us. Based on our review, the growth prospects for the acquired companies in the PRC are better than those of Innovative Market in Hong Kong over this period. This may also be reflected in the higher rating which appears to be accorded to listed PRC groups over similar Hong Kong listed groups.

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We have also borne in the mind that the acquisition facilitates the spin-off, through which shareholders will receive, free of charge, a further listed share and so will be able to trade in China Resources Cement shares separately. There will be no restriction on trading of China Resources Cement Shares to be received by China Resources Enterprise independent shareholders and as discussed above, we consider the liquidity of such shares should be reasonable. In financial theory, the value of the China Resources Enterprise shares ex the distribution should decline to offset the value of the China Resources Cement shares. However, this may not be the case in practice, particularly as China Resources Cement will include higher growth PRC companies and possibly command a higher market multiple.

Overall, we have concluded that the better growth prospects of the acquired companies in the PRC and the diversification offered by the acquisition provide a sound rationale for the acquisition, the terms of which have been determined on the basis of net assets. Taking into account, among others, the growth prospects and relative contribution of Innovative Market and the acquired companies, the method of payment and method of determination of the consideration, we consider the consideration for the acquisition to be fair and reasonable as far as the shareholders are concerned. A degree of dilution in earnings will be suffered by China Resources Enterprise independent shareholders on the basis of the 2002 results, but we consider this is acceptable bearing in mind, inter alia, the growth prospects of the acquired companies and the higher rating of similar PRC listed groups.

RECOMMENDATION

On the above basis, we consider the terms of the acquisition are fair and reasonable and recommend the independent board committee to advise the China Resources Enterprise independent shareholders to vote in favour of the resolution to be proposed at the extraordinary general meeting.

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

APPENDIX I

FINANCIAL INFORMATION ON CHINA RESOURCES ENTERPRISE

Unaudited pro forma combined results of China Resources Enterprise, assuming the proposal was completed, with effect on 1st January, 2002.

The following is a summary of the unaudited pro forma combined profit and loss account of the group (excluding the China Resources Cement group), based on the audited consolidated profit and loss account of the group for the year ended 31st December, 2002 and the audited pro forma combined profit and loss account of the China Resources Cement group for the year ended 31st December, 2002.

	Audited consolidated profit and loss account of the group for the year ended 31st December, 2002	Audited pro forma combined profit and loss account of the China Resources Cement group for the year ended 31st December, 2002	Pro forma combined profit and loss account of the group (excluding the China Resources Cement group) for the year ended 31st December, 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	28,822,019	391,479	28,430,540
Cost of sales	<u>(23,114,000)</u>	<u>(246,851)</u>	<u>(22,867,149)</u>
Gross profit	5,708,019	144,628	5,563,391
Other revenue (note)	440,728	17,841	422,887
Selling and distribution expenses	(2,759,151)	(52,292)	(2,706,859)
General and administrative expenses	<u>(1,589,223)</u>	<u>(48,281)</u>	<u>(1,540,942)</u>
Profit from operations	1,800,373	61,896	1,738,477
Finance costs	(312,246)	(2,244)	(310,002)
Share of results of associates	<u>449,930</u>	<u>3,962</u>	<u>445,968</u>
Profit before taxation	1,938,057	63,614	1,874,443
Taxation	<u>(310,187)</u>	<u>(10,308)</u>	<u>(299,879)</u>
Profit after taxation	1,627,870	53,306	1,574,564
Minority interests	<u>(224,925)</u>	<u>—</u>	<u>(224,925)</u>
Profit attributable to shareholders	<u>1,402,945</u>	<u>53,306</u>	<u>1,349,639</u>

Note: Interest generated from the HK\$100 million injected by China Resources Enterprise into China Resources Cement on 26th March, 2003 is not included.

APPENDIX I

FINANCIAL INFORMATION ON CHINA RESOURCES ENTERPRISE

Unaudited pro forma combined net assets of China Resources Enterprise, assuming the proposal was completed, as at 31st December, 2002

The following is a summary of the unaudited pro forma combined net assets of the group (excluding the China Resources Cement group), based on the audited consolidated balance sheet of the group as at 31st December, 2002 and the audited pro forma combined balance sheet of the China Resources Cement group as at 31st December, 2002.

	Audited consolidated balance sheet of the group as at 31st December, 2002 HK\$'000	Audited pro forma combined balance sheet of the China Resources Cement group as at 31st December, 2002 HK\$'000	Pro forma adjustment on settlement of inter-company balance (note 1) HK\$'000	Pro forma adjustment to exclude fund to be injected by China Resources Enterprise (note 2) HK\$'000	Pro forma combined balance sheet of the group (excluding the China Resources Cement group) as at 31st December, 2002 HK\$'000
Non current assets					
Fixed assets	13,420,082	288,502			13,131,580
Intangible assets	1,207,095	—			1,207,095
Interest in associates	2,132,461	47,669			2,084,792
Other investments	179,140	2,331			176,809
Prepayments	367,200	—			367,200
	<u>17,305,978</u>	<u>338,502</u>			<u>16,967,476</u>
Current assets					
Stocks	3,386,797	2,590			3,384,207
Trade and other receivables	3,502,561	165,057	(117,992)		3,455,496
Taxation recoverable	23,981	274			23,707
Pledged bank deposits	33,648	—			33,648
Cash and bank balances	3,912,404	7,365	117,992	100,000	3,687,047
	<u>10,859,391</u>	<u>175,286</u>			<u>10,584,105</u>
Current liabilities					
Trade and other payables	(6,034,606)	(46,400)			(5,988,206)
Short term loans	(2,278,454)	—			(2,278,454)
Taxation payable	(115,107)	(3,096)			(112,011)
	<u>(8,428,167)</u>	<u>(49,496)</u>			<u>(8,378,671)</u>
Net current assets	<u>2,431,224</u>	<u>125,790</u>			<u>2,205,434</u>
Total assets less current liabilities	19,737,202	464,292			19,172,910
Non-current liabilities					
Long term liabilities	(3,150,507)	—			(3,150,507)
Deferred taxation	(36,706)	(7,562)			(29,144)
	<u>16,549,989</u>	<u>456,730</u>			<u>15,993,259</u>
Minority interests	<u>(3,263,256)</u>	<u>—</u>			<u>(3,263,256)</u>
Net assets	<u><u>13,286,733</u></u>	<u><u>456,730</u></u>			<u><u>12,730,003</u></u>

Notes:

1. An amount due from fellow subsidiary, Purple Finance Company Limited, amounting to approximately HK\$117,992,000 was settled in cash by this fellow subsidiary to Innovative Market on 5th May, 2003.
2. On 26th March, 2003, China Resources Enterprise injected HK\$100 million into China Resources Cement as capital.

SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED OPTION SCHEME

The following is a summary of the principal terms of the proposed option scheme to be approved by ordinary resolution of the shareholders of the company. The proposed option scheme has been conditionally adopted by China Resources Cement and shall be effective on the first day of dealings of China Resources Cement shares on the Stock Exchange subject to satisfaction of the conditions set out in sub-paragraph (2) below. For the purpose of this appendix, the term “chief executive”, “substantial shareholder” and “associate” shall have the same meaning ascribed thereto respectively under the Listing Rules.

(1) Summary of the terms*(a) Purpose of the scheme*

The purpose of the proposed option scheme is to provide participants with the opportunity to acquire proprietary interests in China Resources Cement and to encourage participants to work towards enhancing the value of China Resources Cement and China Resources Cement shares (for the purpose of this appendix “Shares”) for the benefit of China Resources Cement and China Resources Cement shareholders (for the purpose of this appendix “Shareholders”) as a whole.

(b) Who may join

The scheme is to be administered by the board of directors of China Resources Cement (for the purpose of this appendix the “Board”), and the decisions of the Board shall be final and binding on all parties. The Board shall have the power to delegate its powers to any committee established by the Board from time to time to grant options to participants (other than the directors, chief executive, substantial shareholders of China Resources Cement and their respective associates) and to determine the subscription price and other terms (if any) of such grant.

The participants of the scheme include:

- (i) any executive or non executive directors of the enlarged China Resources Cement group (or person(s) proposed to be appointed as such provided that the offer to such proposed appointee(s) shall be conditional upon the proposed appointment taking effect);
- (ii) discretionary object of a discretionary trust established by any employee, executive or non executive director of the enlarged China Resources Cement group;
- (iii) any executives and employees of the enlarged China Resources Cement group, substantial shareholders of China Resources Cement or associates of substantial shareholders of China Resources Cement (together the “companies concerned”);
- (iv) consultants, professional and other advisors to the enlarged China Resources Cement group (or person(s) proposed to be appointed as such provided that the offer to such proposed appointee(s) shall be conditional upon the proposed appointment taking effect);
- (v) chief executive of China Resources Cement;

- (vi) substantial shareholders of China Resources Cement;
- (vii) associated companies of the enlarged China Resources Cement group; and
- (viii) associates of the directors, chief executive and substantial shareholder of China Resources Cement,

as absolutely determined by the Board.

(c) *Period of grant of options*

The Board is entitled at any time within ten years after the adoption date to make an offer to any participant in its absolute discretion to take up an option, pursuant to which such participant may subscribe for such number of Shares as the Board may determine at the subscription price.

(d) *Grant of an option to connected persons*

Each grant of options to any director, chief executive or substantial shareholder of China Resources Cement or their respective associates shall be approved by the independent non executive directors of China Resources Cement (excluding any independent non executive director who is the proposed grantee of the options). Where any grant of options to a substantial shareholder or an independent non executive director of China Resources Cement, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of such grant, in excess of HK\$5 million,

such further grant of options must be approved by the shareholders of China Resources Cement. All connected persons (as defined in the Listing Rules) of China Resources Cement must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the shareholders of China Resources Cement for the relevant resolution. Any vote taken at the meeting to approve the grant of such option must be taken on a poll. The circular for the purpose of convening such general meeting shall contain all information required under the Listing Rules including, but not limited to, the number and terms of options to be granted and a recommendation from the independent non executive directors (excluding any independent non executive director who is the proposed grantee of options in question) on whether or not to vote in favour of the proposed grant.

(e) *Restrictions of grant of options*

The proposed option scheme prohibits the making of any offer or the granting of any option at a time when the participant would or might be prohibited from dealing in the Shares by the Listing Rules or by any applicable rules, regulations or law. No option can be granted after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in the newspaper. In particular, during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with paragraph 12 of the listing agreement, as defined in the Listing Rules) for the approval of China Resources Cement's interim or annual results; and
- (ii) the deadline for China Resources Cement to publish its interim or annual results announcement under the listing agreement,

and ending on the date of the results announcement, no option may be granted.

(f) *Maximum of number of Shares*

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the scheme and other share option schemes of China Resources Cement must not exceed 30% of the Shares in issue from time to time ("Scheme Limit"). No options will be granted under the scheme or any other share option schemes of China Resources Cement at any time if such grant will result in the Scheme Limit being exceeded. In determining the Scheme Limit, the following Shares are to be excluded:

- (i) Shares issued pursuant to the share option scheme and any other share option schemes; and
- (ii) any pro rata entitlements to subscribe for further Shares pursuant to the issue of Shares mentioned in (i) above.

The Shares which may be issued upon exercise of all options to be granted under the scheme and all other share option schemes of China Resources Cement shall not exceed 10% of the Shares in issue on the adoption date (the "Scheme Mandate Limit"), subject to renewal of the Scheme Mandate Limit as referred to below. Options lapsed in accordance with the terms of the scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

China Resources Cement may renew the Scheme Mandate Limit at any time subject to prior Shareholders' approval. However, the Scheme Mandate Limit as renewed must not exceed 10% of the Shares in issue as at the date of the aforesaid Shareholders' approval. Options previously granted under the scheme and other share option schemes (including those outstanding, cancelled or lapsed in accordance with the scheme or other schemes or exercised) will not be counted for the purpose of calculating the limit as renewed. A circular with relevant information as required under the Listing Rules must be sent to Shareholders in connection with the meeting at which their approval will be sought.

China Resources Cement may seek separate Shareholders' approval in general meeting for granting options beyond the Scheme Mandate Limit to participants specifically identified by China Resources Cement. A circular with relevant information as required under the Listing

Rules must be sent to Shareholders containing, amongst others, a generic description of the identified participants, the number and terms of the options to be granted, the purpose of granting options to the identified participants, and how these options serve such purpose.

(g) *Maximum entitlement of each participant*

The total number of Shares issued and to be issued upon exercise of the options granted to any participant (including both exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue (the “Individual Limit”). Any further grant of options in excess of the Individual Limit must be subject to Shareholders’ approval with such participant and his associates abstaining from voting. A circular with relevant information as required under the Listing Rules must be sent to the Shareholders disclosing, amongst others, the identity of the grantee and the number and terms of the options granted and proposed to be granted. The number and terms, including the subscription price, of options to be granted to such grantee must be fixed before Shareholders’ approval is sought and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(h) *Time of exercise of options*

The option period (the “Option Period”) of the scheme is the period during which an option can be exercised, such period to be notified by the Board to each grantee at the time of making an offer, and in any event such period of time shall not expire later than ten years from the date of grant.

(i) *Conditions of grant*

On and subject to the terms of the scheme, the Board shall be entitled at any time within ten years from the adoption date to make an offer to any participant, as the Board may in its absolute discretion select, to take up an option pursuant to which such participant may, during the Option Period, subscribe for such number of Shares as the Board may determine, at the subscription price. The offer shall specify the terms on which the option is to be granted. Such terms may include (i) minimum periods (if any) for which an option must be held; and/or (ii) minimum performance targets (if any) that must be reached before the option can be exercised in whole or in part; and/or (iii) such other terms as may be imposed at the discretion of the Board either on a case-by-case basis or generally. A date of grant shall be a business day.

(j) *Amount payable upon acceptance of the options*

An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee with the number of Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favour of China Resources Cement of HK\$1.00 by way of consideration for the grant thereof, is received by China Resources Cement. Such remittance shall not be refundable in any circumstances.

(k) *Price of Shares*

The subscription price shall be such price determined by the Board in its absolute discretion and notified to the participant in the offer and shall be no less than the higher of:

- (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day; and
- (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share on the date of grant.

Apart from the discretion to determine the subscription price, the directors of China Resources Cement will have absolute discretion to impose performance targets on the participants before any option can be exercised.

(l) *Ranking of Shares*

The Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the memorandum and articles of association of China Resources Cement for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date the name of the grantee is registered on the register of members of China Resources Cement. Prior to the grantee being registered on the register of members of China Resources Cement the grantee shall not have any voting rights, or rights to participate in any dividends or distributions of China Resources Cement, or any rights arising on a liquidation of China Resources Cement, or any rights as to transfer, in respect of the Shares to be issued upon the exercise of the option.

(m) *Period of the scheme*

Subject to the provisions of the scheme, the scheme shall be valid and effective for a period of ten years commencing on the adoption date, which will be the date on which the Shares first commence dealings on the Stock Exchange. After the expiry of the ten-year period, no further options shall be offered or granted but in all other respects the provisions of the scheme shall remain in full force and effect. Options complying with the provisions of Chapter 17 of the Listing Rules which are granted during the life of the scheme shall continue to be exercisable in accordance with their terms of issue after the end of the ten-year period.

(n) *Rights on ceasing to be a participant*

In the event a grantee is an employee of any of the companies concerned ceases to be an employee of any of the companies concerned for any reason other than on his/her death or the termination of his/her employment on one or more of the grounds specified in paragraph (s)(vi), the option shall lapse on the expiration of three months following the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the option shall be exercisable to the extent and within such period as the Board may determine. The date of cessation of employment shall be the last actual working day on which the grantee was physically at work with such company concerned, whether salary is paid in lieu of notice or not.

In the event the grantee is an employee of any of the companies concerned dies before exercising the option in full and none of the events which would be a ground for termination of his or her employment under paragraph (s)(vi) then exists, the personal representative(s) of the grantee shall be entitled within a period of 12 months from the date of death to exercise the option up to the entitlement of such grantee as at the date of death.

(o) *Effect of takeover*

If a general offer by way of takeover (other than by way of scheme of arrangement pursuant to paragraph (p) below) is made to all the holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, China Resources Cement shall forthwith give notice thereof to the grantee and the grantee shall be entitled to exercise the option either to its full extent or to the extent notified by China Resources Cement at any time within such period as shall be notified by China Resources Cement.

(p) *Effect of scheme of arrangement*

If a general offer by way of scheme of arrangement is made to all the holders of Shares and has been approved by the necessary number of holders of Shares at the requisite meetings, China Resources Cement shall forthwith give notice thereof to the grantee and the grantee may at any time thereafter (but before such time as shall be notified by China Resources Cement) exercise the option either to its full extent or to the extent notified by China Resources Cement.

(q) *Effect on winding-up*

In the event a notice is given by China Resources Cement to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the company, China Resources Cement shall forthwith give notice thereof to the grantee of an option and the grantee may at any time thereafter (but before such time as shall be notified by China Resources Cement) exercise the option either to its full extent or to the extent notified by China Resources Cement, and China Resources Cement shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders' meeting, allot, issue and register in the name of the grantee such number of fully paid Shares which fall to be issued on exercise of such option.

(r) *Effect on reconstruction*

In the event of a compromise or arrangement, other than a scheme of arrangement contemplated in paragraph (p) above, between China Resources Cement and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of China Resources Cement, China Resources Cement shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme, compromise or arrangement and the grantee may at any time thereafter but before such time as shall be notified by China Resources Cement exercise the option either to its full extent or to the extent notified by China Resources Cement in accordance with the scheme, and China Resources Cement shall as soon as possible and in any event no later than three days prior to the date of the proposed meeting, allot, issue and register in the name of the grantee such number of fully paid Shares which fall to be issued on exercise of such option.

(s) *Lapse of options*

Subject to the provisions of the scheme, an option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of the periods for exercising the option as referred to in paragraph (m), (n), (o) and (r);
- (iii) subject to the scheme of arrangement (referred to in paragraph (p)) becoming effective, the expiry of the period for exercising the option as referred to in paragraph (p);
- (iv) subject to paragraph (q), the date of the commencement of the winding-up of China Resources Cement;
- (v) the date on which the grantee commits a breach of paragraph (w);
- (vi) the date on which the grantee, if an employee, ceases to be an employee of any of the companies concerned by reason of the termination of his or her employment on the grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his or her debts or has become bankrupt or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment summarily; and
- (vii) subject to paragraph (n), the date the grantee, if an employee of any of the companies concerned, ceases to be an employee of any of the companies concerned by any other reason.

(t) *Effect of alteration of capital*

In the event of any alteration in the capital structure of China Resources Cement and such event arises from a capitalisation issue, rights issue, consolidation, sub-division, or reduction of the share capital of China Resources Cement, other than any alteration in the capital structure of China Resources Cement as a result of an issue of Shares as consideration in a transaction to which China Resources Cement is a party, such corresponding alterations (if any) shall be made to:

- (i) the number or nominal amount of Shares subject to the options so far as unexercised; and, or
- (ii) the subscription price,

or any combination thereof, as the auditors shall, at the request of China Resources Cement, certify in writing, either generally or as regards any particular grantee, to be in their opinion fair and reasonable, provided that any such adjustments give a grantee the same proportion of the equity capital of China Resources Cement as that to which that grantee was previously entitled, but so that no such adjustments shall be made to the extent that a Share would be issued at less

than its nominal value. For any such adjustments, other than those made on a capitalisation issue, an independent financial advisor or the auditors of China Resources Cement must confirm to the directors of China Resources Cement in writing that the adjustments satisfy the relevant requirements set out in the Listing Rules. The capacity of the auditors acting in accordance with the provisions described in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on China Resources Cement and the grantees. The costs of the auditors shall be borne by China Resources Cement.

(u) *Cancellation of options granted*

Any options granted but not exercised may be cancelled if the grantee so agrees and new options may be granted to the grantee under a share option scheme with available unissued options (excluding the cancelled options) provided such new options fall within the limits prescribed by paragraph (f) and otherwise comply with the terms of the scheme.

(v) *Termination of the scheme*

China Resources Cement by ordinary resolution in general meeting or the Board may at any time terminate the operation of the scheme and in such event no further options will be offered or granted but in all other respects the provisions of the scheme shall remain in full force and effect. Options complying with the provisions of Chapter 17 of the Listing Rules which are granted during the life of the scheme and remain unexpired immediately prior to the termination of the operation of the scheme shall continue to be exercisable in accordance with their terms of issue after the termination of the scheme.

(w) *Rights are personal to the option holder*

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any option. Any breach of the foregoing shall entitle China Resources Cement to cancel any outstanding option or part thereof granted to such grantee without incurring any liability on the part of China Resources Cement.

(x) *Alteration of the scheme*

Those specific provisions of the scheme which relate to the matters set out in Rule 17.03 of the Listing Rules, cannot be altered to the advantage of the participants and no changes to the authority of the directors of China Resources Cement or administrator of the scheme in relation to any alteration of the terms of the scheme shall be made, without the prior approval of Shareholders in general meeting. Any alterations to the terms and conditions of the scheme which are of a material nature, or any change to the terms of options granted, must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the scheme. The scheme so altered must comply with Chapter 17 of the Listing Rules.

(2) Present status of the proposed option scheme

The proposed option scheme is conditional on (a) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this circular (including any Shares to be issued pursuant to the scheme which shall not exceed 10% of the total number of issued Shares as at the listing date); and (b) the ordinary resolution numbered 2 as set

out in the notice of extraordinary general meeting of the company contained in this circular having been passed by the shareholders of the company. The proposed option scheme shall become effective on the first day of dealings in China Resources Cement shares on the Stock Exchange.

As at the date of this circular, no option has been granted or agreed to be granted under the proposed option scheme.

An application has been made to the Listing Committee for the approval of the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of the options granted under the proposed option scheme.

RESPONSIBILITY STATEMENT

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

DISCLOSURE OF INTERESTS**Directors**

As at the latest practicable date, the interests and short positions of the directors of the company in the shares, underlying shares and debentures of the company and its associated corporations, within the meaning of Part XV of the SFO, which have been 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 of the company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) contained in the Listing Rules, were as follows:

Interests in issued ordinary shares of the company

Name of directors	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares	Approximate percentage of interest (%)
Mr. Ning Gaoning	1,630,000	—	—	—	1,630,000	0.078
Mr. Song Lin	—	200,000	—	—	200,000	0.010
Mr. Yan Biao	900,000	—	—	—	900,000	0.043
Mr. Wang Qun	40,000	—	—	—	40,000	0.002
Dr. Chan Po Fun, Peter	506,000	—	—	*70,000	576,000	0.028

* Dr. Chan Po Fun, Peter held as judicial trustee 70,000 ordinary shares in the company

Interests in options/underlying shares granted by the company and its associated corporations

- (a) *Options outstanding under the share option schemes of the company to subscribe for ordinary shares*

Name of directors	Date of grant	Exercise price (HK\$)	Number of share options outstanding
Ning Gaoning	20th June, 2000	7.190	3,300,000
	7th February, 2002	7.170	1,200,000
Song Lin	20th June, 2000	7.190	200,000
	7th February, 2002	7.170	2,000,000 (Note 3)
Chen Shulin	21st November, 2000	7.080	1,186,000
	7th February, 2002	7.170	1,326,000
Qiao Shibo	7th February, 2002	7.170	1,800,000
Yan Biao	20th June, 2000	7.190	3,000,000
	7th February, 2002	7.170	1,000,000
Keung Chi Wang, Ralph	20th June, 2000	7.190	1,400,000
	7th February, 2002	7.170	500,000
Lau Pak Shing	20th June, 2000	7.190	1,000,000
	7th February, 2002	7.170	500,000
Wang Qun	20th June, 2000	7.190	400,000
	7th February, 2002	7.170	400,000
Zhong Yi	20th June, 2000	7.190	1,500,000
Kwong Man Him	7th February, 2002	7.170	2,000,000
Jiang Wei	8th March, 2002	7.500	600,000
Xie Shengxi	8th March, 2002	7.500	380,000

Notes:

1. All options referred to in the above table are exercisable within a period of ten years from the date of grant of the relevant options, unless otherwise specified.
2. Consideration for each of the grants mentioned above is HK\$1.00.
3. By virtue of section 344 of the SFO, Mr. Song Lin is deemed to be interested in the share options for 200,000 ordinary shares granted by the company to his wife.

- (b) *Options outstanding under the share option schemes of an associated corporation, China Resources Land Limited, for subscription of ordinary shares in such associated corporation*

Name of directors	Date of grant (Note)	Exercise price (HK\$)	Number of share options outstanding
Ning Gaoning	27th June, 1997	4.592	2,500,000
	20th July, 2000	0.990	2,500,000
Yan Biao	27th June, 1997	4.592	2,300,000
	20th July, 2000	0.990	2,400,000
Keung Chi Wang, Ralph	27th June, 1997	4.592	2,000,000
	20th July, 2000	0.990	1,300,000
Zhong Yi	20th July, 2000	0.990	2,000,000
Jiang Wei	4th March, 2002	1.590	720,000
Xie Shengxi	4th March, 2002	1.590	460,000

Notes:

1. Except for options granted by China Resources Land Limited on 4th March, 2002 which are exercisable within a period of 10 years from the date of grant, the expiry date for all other share options mentioned above is 27th May, 2007.
 2. Consideration for each of the grants mentioned above is HK\$1.00.
- (c) *Options outstanding under the share option schemes of an associated corporation, China Resources Logic Limited, for subscription of ordinary shares in such associated corporation*

Name of directors	Date of grant (Note)	Exercise price (HK\$)	Number of share options outstanding
Ning Gaoning	2nd October, 2002	0.570	2,000,000
	9th April, 2003	0.479	1,000,000
Song Lin	21st September, 2000	0.590	8,000,000
	2nd October, 2002	0.570	1,500,000
	9th April, 2003	0.479	1,000,000
Yan Biao	4th December, 2001	0.790	6,000,000
Jiang Wei	9th April, 2002	0.820	720,000
Xie Shengxi	9th April, 2002	0.820	450,000

Notes:

1. All options referred to in the above table are exercisable within a period of ten years from the date of grant of the relevant options, unless otherwise specified.
2. Consideration for each of the grants mentioned above is HK\$1.00.

Save as disclosed above, to the knowledge of the company and its directors, as at the latest practicable date, none of the directors of the company or their respective associates had any interests or short positions 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 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 they are taken or deemed to have under such provisions of the SFO, or which are required to be recorded in and as recorded in the register kept by the company under section 352 of the SFO or which are required to be notified to the company and the Stock Exchange pursuant to the Model Code.

Shareholders with notifiable interests

As at the latest practicable date, so far as is known to the directors, the following persons had interests or short positions in the shares and underlying shares of the company 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, were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the company:

Name of interested party	Number of shares in which the interested party is deemed to have interests or short positions	Percentage of shareholding
China Resources National Corporation (“CRNC”)	1,177,305,875 (<i>Note 1</i>)	56.59
華潤股份有限公司 (China Resources Co., Limited) (<i>Note 2</i>)	1,177,305,875	56.59
CRC Bluesky Limited (<i>Note 2</i>)	1,177,305,875	56.59
China Resources Holdings (<i>Note 2</i>)	1,177,305,875	56.59
Commonwealth Bank of Australia (<i>Note 3</i>)	137,144,667	6.59
Colonial Ltd (<i>Note 3</i>)	137,144,667	6.59
Colonial Holding Company Pty Ltd (<i>Note 3</i>)	137,144,667	6.59
Colonial Holding Company (No. 2) Pty Limited (<i>Note 3</i>)	137,144,667	6.59
The Colonial Mutual Life Assurance Society Ltd (<i>Note 3</i>)	137,144,667	6.59
Colonial First State Group Ltd (<i>Note 3</i>)	137,144,667	6.59

Notes:

1. This includes up to a total of 23,529,400 shares, representing approximately 1.13% of the total issued share capital of the company as at the latest practicable date, which China Resources Holdings, a wholly owned subsidiary of CRNC, has an obligation to take up pursuant to the terms of a financial instrument.
2. China Resources Holdings is interested in 1,177,305,875 shares in the company. As at the latest practicable date, the China Resources group was undergoing a group reorganisation (different from the one referred to in this circular). Following such reorganisation, China Resources Holdings will remain as the immediate holding company of the company.

and 華潤股份有限公司 (China Resources Co., Limited) and CRC Bluesky Limited, both to be ultimately owned by CRNC as to more than 99%, will become the intermediate holding companies of China Resources Holdings. Each of CRNC, 華潤股份有限公司 (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 or short positions in the shares and underlying shares as those of China Resources Holdings.

3. Commonwealth Bank of Australia is deemed to have the same interests or short positions in the shares and underlying shares as those of Colonial Ltd, Colonial Holding Company Pty Ltd, Colonial Holding Company (No. 2) Pty Limited, The Colonial Mutual Life Assurance Society Ltd and Colonial First State Group Ltd pursuant to section 316 of the SFO.

As at the latest practicable date, so far as is known to the directors, the following persons were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of other members of the group:

Members of the group	Name of substantial shareholder(s) (Note)	Percentage of shareholding (%)
Senica International Limited	(1) Cheung Kong Investment Company Limited	22.5
	(2) Crownmax Limited	22.5
China International Fisheries Corp 中國國際漁業公司 (trade name)	CNFC International Fisheries Corp. 中國水產總公司	49
Chinese Wine Trading Company Limited 中國酒業貿易有限公司	Au Young Yik Fung 歐陽亦芄	10
Chung Kong Luen Livestock Company Limited 中港聯合生豬有限公司	(1) China Live Pigs Trading Limited 中國生豬貿易有限公司	15.59
	(2) Hong Kong Live Pigs Trading Limited 香港生豬貿易有限公司	15.59
	(3) Jointforce Trading Company Limited 聯能貿易有限公司	17.82
杭州五豐嘉興冷食有限公司 (Hangzhou NF Jiaying Refrigerated Food Co., Ltd.)	杭州冷氣製品廠 (Hangzhou Refrigerated Food Factory)	40
杭州五豐冷食有限公司 (Hangzhou NF Refrigerated Food Co., Ltd.)	杭州冷氣製品廠 (Hangzhou Refrigerated Food Factory)	40
湖北五豐肉類食品有限公司 (Hubei Ng Fung Meat & Food Products Co., Ltd.)	湖北省公安縣肉聯廠 (Hubei Sheng Gong An Xian Rou Lian Chang)	49
湖州五豐冷食有限公司 (Huzhou NF Refrigerated Food Co., Ltd.)	杭州冷氣製品廠 (Hangzhou Refrigerated Food Factory)	40

Members of the group	Name of substantial shareholder(s) (Note)	Percentage of shareholding (%)
江西五豐腊味食品有限公司 (Jiangxi Ng Fung Preserved Food Co., Ltd.)	江西省糧油食品進出口公司 (Jiangxi Cereals, Oils & Foodstuff Import & Export Corp.)	49
江西五豐食品有限公司 (Jiangxi Ng Fung Foodstuffs Co., Ltd.)	會昌縣精製米食公司 (Hui Chang Country Refined Rice Products Company)	42
江西五豐牧業有限公司 (Jiangxi Wufeng Stock-Raising Co., Ltd.)	江西省糧油食品進出口公司 (Jiangxi Cereals, Oils & Foodstuffs Import & Export Corp.)	49
Kowloon Live Cattle Trading Limited 九龍生牛貿易有限公司	(1) Ip Moon Tong 葉滿堂	20
	(2) Keensky Company Limited 建天有限公司	20
Lian You Enterprise Company, Limited 聯友企業有限公司	四川新天地糧油食品進出口有限責任公司 (Sichuan NSL Cereals, Oils & Foodstuffs I/E Co., Ltd.)	49
Man Luen Hong Motor Company Limited 香港文聯運輸有限公司	中糧深圳糧油食品進出口公司 (Ceroilfood Shenzhen Cereals, Oils & Foodstuff Import & Export Company)	20
Ng Fung Slaughterhouse (Hong Kong) Company Limited 五豐屠房(香港)有限公司	Richgold Enterprises Limited 富高企業有限公司	30
上海五豐畜禽食品有限公司 (Shanghai Ng Fung Livestock Poultry & Foodstuff Co., Ltd.)	上海市食品進出口公司 (Shanghai Foodstuff Import & Export Corp)	49
江西五豐畜牧科技有限公司 (Jiangxi Wu Feng Science & Technology of Livestock Raising Co., Ltd.)	江西省糧油食品進出口公司 (Jiangxi Cereals, Oils & Foodstuffs Import & Export Corp.)	49
上海五豐上食食品有限公司 (Shanghai Ng Fung Shangshi Food Co., Ltd.)	(1) 上海新亞(集團)有限公司 (Shanghai Xin Ya (Ji Tuan) You Xian Gong Si)	24.01%
	(2) 上海豐滙私營經濟區服務中心 (Shanghai Feng Hui Si Ying Jing Ji Qu Fu Wu Zhong Xin)	24.99%
華潤萬佳有限公司 (China Resources Vanguard Co. Ltd.)	中國華潤總公司 (China Resources National Corporation)	35

Members of the group	Name of substantial shareholder(s) (Note)	Percentage of shareholding (%)
深圳華潤萬佳超級市場有限公司 (Shenzhen China Resources Vanguard Supermarket Co. Ltd.)	中國華潤總公司 (China Resources National Corporation)	35
深圳市萬佳超級市場有限公司 (Shenzhen Vanguard Supermarket Co. Ltd.)	中國華潤總公司 (China Resources National Corporation)	31.5
Flying Strength Limited	中國華潤總公司 (China Resources National Corporation)	35
Rainbow Asset Holdings Inc.	中國華潤總公司 (China Resources National Corporation)	35
廣東華潤超級市場有限公司 (Guangdong China Resources Supermarket Co., Ltd.)	中山市城鄉消費合作社 (Zhong Shan Shi Cheng Xiang Xiao Fei He Zuo She)	15
上海華潤超級市場有限公司 (正進行清盤) (Shanghai China Resources Supermarket Co. Ltd (in winding up))	上海豫園(集團)有限公司 (Shanghai Yu Yuan (Ji Tuan) You Xian Gong Si)	40
東莞市華潤超級市場有限公司 (Dong Guan China Resources Supermarket Co., Ltd.)	東莞市光大經濟貿易有限公司 (Dong Guan Shi Guang Da Jing Ji Mao Yi You Xian Gong Si)	10
山東華潤厚木尼龍有限公司 (Shandong CRC Atsugi Nylon Co., Ltd.)	Atsugi Co., Ltd. 日本厚木株式會社	40
煙台華潤木製品有限公司 (Yantai China Resources Wooden Products Co., Ltd.)	煙台市聚氨酯製品工業公司 (Yantai Shi Ju An Zhi Zhi Pin Gong Ye Gong Si)	45
河北正定華潤紡織有限公司 (Hebei Zhengding China Resources Textiles Co., Ltd.)	正定縣工業經濟開發中心 (Zheng Ding Xian Gong Ye Jing Ji Kai Fa Zhong Xin)	10
濟南華豐紡織有限公司 (Jinan Hua Feng Textile Co., Ltd.)	(1) 山東海川集團控股公司 (Shandong Hai Chuan Ji Tuan Kong Gu Gong Si)	20
	(2) 濟南仁豐紡織有限公司 (Jinan Renfeng Fangzhi You Xian Gong Si)	16

Members of the group	Name of substantial shareholder(s) (Note)	Percentage of shareholding (%)
Upmarket Enterprises Limited	Splendid Approach Group Limited	45
Tactical Solutions Incorporated	Esprit China Distribution Limited	49
南京華潤東方投資管理有限責任公司 (Nanjing China Resources Dong Fong Tou Zi Guan Li You Xian Ze Ren Gong Si)	南京東方商城有限責任公司 (Nanjing Dong Fong Shang Cheng You Xian Ze Ren Gong Si)	10
China Resources Breweries Limited (華潤啤酒有限公司)	South African Breweries International (Asia) Limited 南非釀酒集團(亞洲)有限公司	49
鞍山華潤啤酒有限公司 (China Resources (Anshan) Brewery Co., Ltd.)	鞍山啤酒廠 (Anshan Pi Jiu Chang)	10
長春華潤啤酒有限公司 (China Resources (Chang Chun) Brewery Co., Ltd.)	長春威士龍啤酒有限公司 (Chang Chun Wei Shi Long Brewery Co., Ltd.)	15
哈爾濱華潤啤酒有限公司 (China Resources (Harbin) Brewery Co., Ltd.)	黑龍江新三星集團股份有限公司 (Heilongjian Xin San Xing Ji Tuan Gu Fen You Xian Gong Si)	30
遼陽華潤美月啤酒有限公司 (China Resources (Liaoyang) Meiyue Brewery Co., Ltd.)	遼陽美月啤酒股份有限公司 (Liaoyang Meiyue Pi Jiu Gu Fen You Xian Gong Si)	40
瀋陽華潤啤酒有限公司 (China Resources (Shenyang) Brewery Co., Ltd.)	瀋陽市釀酒廠 (Shenyang Shi Niang Jiu Chang)	10
武漢華潤啤酒有限公司 (China Resources (Wuhan) Breweries Company Limited)	武漢東西湖啤酒(集團)股份 有限公司東啤廠 (Wuhan Dong Xi Hu Pi Jiu (Ji Tuan) Gu Fen You Xian Gong Si Dong Pi Chang)	40
武漢華潤東西湖啤酒有限公司 (China Resources (Wuhan) Dongxihu Breweries Company Limited)	武漢東西湖啤酒(集團)股份 有限公司東啤新廠 (Wuhan Dong Xi Hu Pi Jiu (Ji Tuan) Gu Fen You Xian Gong Si Dong Pi Xin Chang)	40

Members of the group	Name of substantial shareholder(s) (Note)	Percentage of shareholding (%)
武漢華潤行吟閣啤酒有限公司 (China Resources (Wuhan) Xing Yin Ge Breweries Company Limited)	武漢東西湖啤酒(集團)股份 有限公司東啤二廠 (Wuhan Dong Xi Hu Pi Jiu (Ji Tuan) Gu Fen You Xian Gong Si Dong Pi Er Chang)	40
華潤藍劍(成都)啤酒有限責任公司 (China Resources Blue Sword (Chengdu) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Ji Tuan) You Xian Ze Ren Gong Si)	38
華潤藍劍(達州)啤酒有限公司 (China Resources Blue Sword (Dazhou) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Ji Tuan) You Xian Ze Ren Gong Si)	38
華潤藍劍(廣安)啤酒有限責任公司 (China Resources Blue Sword (Guang An) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Ji Tuan) You Xian Ze Ren Gong Si)	38
華潤藍劍(樂山)啤酒有限責任公司 (China Resources Blue Sword (Le Shan) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Ji Tuan) You Xian Ze Ren Gong Si)	38
華潤藍劍(綿陽)啤酒有限責任公司 (China Resources Blue Sword (Mianyang) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Ji Tuan) You Xian Ze Ren Gong Si)	38
華潤藍劍(綿竹)啤酒有限責任公司 (China Resources Blue Sword (Mianzhu) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Ji Tuan) You Xian Ze Ren Gong Si)	38
華潤藍劍(南充)啤酒有限公司 (China Resources Blue Sword (Nanchong) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Ji Tuan) You Xian Ze Ren Gong Si)	38
華潤藍劍(內江)啤酒有限責任公司 (China Resources Blue Sword (Neijiang) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Ji Tuan) You Xian Ze Ren Gong Si)	38
華潤藍劍(邛崃)啤酒有限責任公司 (China Resources Blue Sword (Qionglai) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Ji Tuan) You Xian Ze Ren Gong Si)	38
華潤藍劍(什邡)啤酒有限責任公司 (China Resources Blue Sword (Shifang) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Ji Tuan) You Xian Ze Ren Gong Si)	38

Members of the group	Name of substantial shareholder(s) (Note)	Percentage of shareholding (%)
四川華潤藍劍啤酒有限責任公司 (China Resources (Si Chuan) Blue Sword Breweries Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Ji Tuan) You Xian Ze Ren Gong Si)	38
華潤藍劍(自貢)啤酒有限責任公司 (China Resources Blue Sword (Zigong) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Ji Tuan) You Xian Ze Ren Gong Si)	38
瀋陽華潤創業釀酒有限公司 (Shenyang Huarunchuangye Beer Co., Ltd.)	瀋陽望花啤酒廠 (Shenyang Wang Hua Pi Jiu Chang)	20
盤錦華潤啤酒有限公司 (China Resources (Pan Jin) Brewery Co., Ltd.)	盤錦遼河啤酒有限公司 (Pan Jin Liao He Pi Jiu You Xian Gong Si)	30
大連華潤棒棰島啤酒有限公司 (China Resources (Dalian) Bangchuidao Brewery Co., Ltd.)	大連棒棰島啤酒股份有限公司 (Dalian Bangchuidao Pi Jiu Gu Fen You Xian Gong Si)	20
北京華潤啤酒有限公司 (China Resources (Beijing) Brewery Co., Ltd.)	北京市麗都啤酒廠 (Beijing Shi Li Du Pi Jiu Chang)	30
常熟華潤石油化工有限公司 (Changshu Huarun Petroleum & Chemicals Co., Ltd.)	常熟市沿江經濟開發集團 (Changshu Shi Yan Jiang Jing Ji Kai Fa Ji Tuan)	10
東莞華潤石油化工有限公司 (Dongguan China Resources Petroleum & Chemicals Co., Ltd.)	廣東省東莞市石油公司 (Guangdong Sheng Dong Guan Shi Shi You Gong Si)	49
南京華潤石油氣有限公司 (Nan Jing Hua Run Shi You Qi You Xian Gong Si)	(1) 南京公用控股(集團)有限公司 (Nan Jing Gong Yong Kong Gu (Ji Tuan) You Xian Gong Si)	25
	(2) 南京中北(集團)股份有限公司 (Nan Jing Zhong Bei (Ji Tuan) Gu Fen You Xian Gong Si)	14
	(3) 南京市公共交通總公司 (Nan Jing Shi Gong Gong Jiao Tong Zong Gong Si)	10
珠海經濟特區機動車器材供應有限公司 (Zhuhai Jing Ji Te Qu Ji Dong Che Qi Cai Gong Ying You Xian Gong Si)	廣東省拱北汽車運輸有限責任公司 (Guangdong Sheng Gong Bei Qi Che Yun Chu You Xian Ze Run Gong Si)	20

Members of the group	Name of substantial shareholder(s) (Note)	Percentage of shareholding (%)
中山市華虹石化有限公司 (Zhongshan Shi Hua Hong Shi Hua You Xian Gong Si)	中山市長虹石油貿易有限公司 (Zhongshan Shi Chang Hong Shi You Mao Yi You Xian Gong Si)	30
博興華潤油脂化學有限公司 (China Resources (Boxing) Oleochemicals Co., Ltd.)	福旦投資有限公司 (Sunstate Investments Limited)	15
山東華潤油脂化學有限公司 (Shandong Hua Run You Zhi Hua Xue You Xian Gong Si)	福旦投資有限公司 (Sunstate Investments Limited)	15
China Resources Petrochems (Macau) Company Limited 華潤石化(澳門)有限公司	Kwong Tai Hong Petroleum Co. Ltd. 光大行石油有限公司	30

Note: The Chinese names of substantial shareholders of the group's members are translated into English, if applicable.

Save as disclosed above, so far as is known to the directors, as at the latest practicable date, no other persons had interests or short positions in the shares and underlying shares of the company 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, 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.

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.

LITIGATION

So far as is known to the directors, there is no litigation nor any claim of material importance pending or threatened against any member of the group.

EXPERT AND CONSENT

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

Name	Qualifications
Somerley	A licensed corporation under 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 it appears.

As at the latest practicable date, Somerley was not interested beneficially or otherwise in any shares in 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 in the company or any of its subsidiaries or associated corporations nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements 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

- None of the directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, the company or any of its subsidiaries since 31st December, 2002, the date to which the latest published audited financial statements of the group were made up.
- There is no contract or arrangement entered into by any member of the group in which any directors are materially interested and which is significant in relation to the business of the group.
- The directors are not aware of any material adverse change in the financial or trading position of the group since 31st December, 2002, being the date to which the latest published audited financial statements of the group were made up.
- The secretary of the company is Lee Yip Wah, Peter, who is a practising solicitor.
- The share registrars of the company are Standard Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the registered office of the company from the date of this circular up to and including the date of the extraordinary general meeting:

- a copy of the conditional agreement dated 26th March, 2003 between China Resources Cement and China Resources Holdings;
- letter of the independent board committee dated 26th June, 2003, the text of which is set out on page 25 of this circular;
- the letter of advice from Somerley dated 26th June, 2003, the text of which is set out on pages 26 to 46 of this circular;
- a copy of the proposed option scheme; and
- the letter of consent referred to in paragraph headed “Expert and consent” in this appendix.

NOTICE OF THE EXTRAORDINARY GENERAL MEETING



華潤創業有限公司

China Resources Enterprise, Limited

(incorporated in Hong Kong with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Resources Enterprise, Limited (the “company”) will be held at 10:00 a.m. on 15th July, 2003 at 50th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modification, the following ordinary resolutions:

ORDINARY RESOLUTIONS

“THAT

1. a conditional acquisition agreement dated 26th March, 2003 (the “acquisition agreement”) signed by China Resources Cement Holdings Limited (“China Resources Cement”) and China Resources (Holdings) Company Limited (“CRH”), a copy of which marked “A” is produced to the meeting and signed by the chairman for the purpose of identification, and whereby subject to the terms and conditions specified therein, China Resources Cement will effectively acquire from CRH its 100 per cent. interest in each of Flavour Glory Limited, Clear Bright Investments Limited, Full Sincere Limited and Goodsales Investments Limited, and related shareholders’ loans at the aggregate consideration of HK\$414.1 million, to be satisfied by the issue of such number of China Resources Cement shares as referred to in the acquisition agreement, credited as fully paid and ranking pari passu in all respects with all other then existing shares of HK\$0.10 each in the share capital of China Resources Cement, be and are hereby approved and further the directors of China Resources Cement (or any one of them) be and are hereby authorised to implement and take all steps and do any act or things as may be necessary desirable or expedient for the purpose of or in connection with the implementation and completion of the acquisition agreement;
2. conditional on resolution numbered 1 being approved by the shareholders at the extraordinary general meeting, the proposed option scheme of China Resources Cement, a copy of such scheme marked “B” is produced to the meeting and signed by the chairman for the purpose of identification and as defined and summarised in a circular dated 26th June, 2003 of the company, be and is hereby approved and upon the taking effect of the proposed option scheme on the first day of dealings of the shares of China Resources Cement on The Stock Exchange of Hong Kong Limited, the board of directors of China Resources Cement be and are hereby authorised to exercise all powers of China Resources Cement to make or grant options under the proposed option scheme and to allot and issue shares in China Resources Cement in accordance with the terms thereof.”

By order of the board
Lee Yip Wah, Peter
Company Secretary

Hong Kong, 26th June, 2003

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Notes:

1. Every member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the company.
2. In order to be valid, a form of proxy together with any power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be returned to the company's share registrars, 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 extraordinary general meeting.