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## RELATIONSHIP WITH CHINA RESOURCES HOLDINGS

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### Overview

China Resources Holdings is a major PRC state-owned conglomerate based in Hong Kong, with its members engaging in a wide variety of businesses including retail, food and beverages, medicine, textiles, chemical products, real estate development, infrastructure, energy and semiconductors. Five of its members, namely, China Resources Enterprise, Limited (stock code 291), China Resources Power Holdings Company Limited (stock code 836), China Resources Land Limited (stock code 1109), China Resources Gas Group Limited (stock code 1193), and China Resources Microelectronics Limited (stock code 597) are listed on the Hong Kong Stock Exchange.

The table below sets forth the business scope of China Resources Holdings' listed subsidiaries and its shareholding interest in each of these companies:

<u>Name</u>	<u>Business Scope</u>	<u>Shareholding Interest of CRH as at June 30, 2009</u>
China Resources Enterprise, Limited	Retail, beverage, food processing and distribution, textile and property investment business	51.59%
China Resources Power Holdings Company Limited	Investment, development, operation and management of power plants	64.81%
China Resources Land Limited	Property investment, development and management	63.16%
China Resources Gas Group Limited	Distribution of natural gas and petroleum gas, operation of compressed natural gas filling stations and distribution of bottled liquefied petroleum gas	74.94%
China Resources Microelectronics Limited	Management, development and operation of semiconductor business	60.65%

Pursuant to the Reorganization, China Resources Holdings transferred to us substantially all of its cement and concrete operations, except for a 100.0% equity interest in Redland Precast.

### Redland Precast

Redland Precast is principally engaged in the production and sale of precast concrete products in Hong Kong and Macau. Redland Precast produces precast products for a wide range of building structures such as viaduct segments, bridge decks, roof decks, parapets, retaining structures, precast and prestressed railway sleepers, low vibration transmission blocks and floating slab tracks for railways, cable troughs, precast building structures such as beams, columns and floor slabs, prestressed double tee beams, culverts, tunnel linings, curbs, external wall slabs and stairs. In addition, Redland Precast produces architectural products such as façade units, decorative elements, landscape and street furniture. It has one operating plant in Dongguan.

Redland Precast supplies its precast concrete products directly to end users. Its customers include the Government of Hong Kong, quasi government organizations, property developers and construction contractors. Our Directors understand that there is no common customer between our Group and Redland Precast. Although alternative sources are available, Redland Precast currently sources all of the cement used in its production from Dongguan Cement because of the high quality of its products and stable supply.

The management of Redland Precast is independent of the management of our Company.

Please see note 43 of the Accountants' Report of the Company set forth in Appendix I to this document for financial information on Redland Precast.

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Our Directors believe that there is unlikely to be competition between our Group and Redland Precast for the following reasons:

- The product mix of Redland Precast is different from those of our Group.

Redland Precast primarily supplies precast concrete products to customers in Hong Kong and Macau, while we focus on sales of ready mixed concrete to customers in Hong Kong and Macau, as well as Southern China.

- Redland Precast produces precast concrete products, which are different from the ready mixed concrete that we produce.

Redland Precast produces precast concrete units which are manufactured in custom made moulds and in a controlled environment. Production of precast concrete units requires relatively long period of time for production design, production and delivery. Ready mixed concrete produced by us, on the other hand, is mixed in batching plants and then transported to the construction sites by mixer trucks in semi-liquid form within a short delivery time of no longer than two hours. It is then blended with other materials to be ready for use in construction. Redland Precast and our Group have different groups of customers as precast concrete units produced by Redland Precast are for use in projects which require building units with high degree of regularity and repetition in their structural form and shape, whereas ready mixed concrete produced by us is in the form of a semi-fluid mixture and is used for the construction of structures such as roads, bridges and buildings.

The table below sets out the business scope of the subsidiaries of Redland Precast:

<u>Name</u>	<u>Business scope</u>
Dongguan Redland Precast Concrete Products Limited	Manufacture and sale of precast products
Redland Concrete (China) Limited	Holding of barge
Redland-GRC Joint Venture Limited	Inactive
Redland Precast Concrete Products (Macau) Limited	Manufacture and sale of precast concrete products
Redland Precast Concrete Products Limited	Manufacture and sale of precast concrete products
Redland Precast Concrete Products Pte Limited	Inactive
Redland Quarries Limited	Holding of tug boat
Sinoking Logistics Limited	Holding of barge
Sinoking Shipping Limited	Holding of barge

### **Redland Concrete**

Pursuant to the group reorganization in preparation for our listing in 2003, China Resources Enterprise, Limited transferred the entire issued share capital of the holding company of Redland Concrete to our Company. Upon completion of the transfer, Redland Concrete became a wholly-owned subsidiary of our Company. The geographical market of Redland Concrete's business is Hong Kong. Since our Company's previous listing in 2003, our Group has developed and expanded its cement and concrete business, which was focused on Southern China given the business opportunities presented by that region. In early 2008, we disposed of our interest in Redland Concrete to CR Gas. The disposal was driven by our intention to focus our resources and efforts on our business and operations in Southern China given the growth trend of our Group and in light of the growth potential available to our Group in that region.

In October 2008, the CR Gas Group expanded its business activities into the distribution of gas in a number of cities in China. Its gas distribution contributes the substantial proportion of the CR Gas Group's

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business activities in terms of both turnover and gross assets employed. The CR Gas Group decided to dispose of the Redland Concrete Group and, as we understand, direct greater resources toward its gas distribution business. On December 1, 2008, CR Gas and China Resources Holdings entered into a conditional sale and purchase agreement pursuant to which China Resources Holdings agreed that it or any of its subsidiaries nominated by it will acquire from CR Gas the entire issued share capital of Rich Team, the holding company of Redland Concrete, together with a shareholder's loan due to CR Gas with a face value of approximately HK\$217.7 million, for a cash consideration equal to the face value of such loan plus the unaudited consolidated net asset value of Rich Team as at October 31, 2008 aggregated to approximately HK\$293.8 million. The consideration was adjusted to approximately HK\$304.7 million based on any profit or loss after taxation attributable to its shareholders between November 1, 2008 and December 31, 2008, the date of completion. We acquired from CR Gas the entire issued share capital of Rich Team Resources Limited on December 31, 2008 as nominated by China Resources Holdings. On December 31, 2008, we re-acquired the Redland Concrete Group from CR Gas.

In 2008, the Hong Kong Government announced its plans to invest in various major infrastructure projects in the next few years, including the Hong Kong section of the Guangzhou-Shenzhen Hong Kong Express Rail Link transport infrastructure project (construction of which is expected to start by the end of 2009), the West Kowloon Cultural District strategic project (construction of which is expected to start in 2011) and the construction of the Hong Kong-Zhuhai-Macao Bridge (construction of which is expected to start by the end of 2009). Accordingly, we believe that the long term outlook for the Hong Kong construction industry is promising and that the concrete business of the Redland Concrete Group has significant growth potential. Further, historical financial results show that the Redland Concrete Group has been a profitable company and is expected to contribute to the overall profitability of our Group. Although it remains our strategy to focus on our cement and concrete businesses in Southern China, we decided to acquire Redland Concrete as our Directors believe that the acquisition could provide opportunities for our Group to develop the business of Redland Concrete. Further, our Directors believe that the acquisition of the Redland Concrete Group has the following benefits to our Group through increase recognition and access to finance:

- (i) it will enable us to obtain Redland Concrete's concrete business in Hong Kong, which generated strongly positive cash flows from its operations and was debt free;
- (ii) the resulting business synergies expected to be derived from the combination of our ready mixed concrete businesses with that of Redland Concrete. Our Directors believe that this will help us to combine our sales, marketing and brand promotion efforts and achieve economies of scale from sourcing, production, administration and distribution; and
- (iii) our Directors expect that Redland Concrete, as one of the leading concrete producers in Hong Kong, will benefit from the infrastructure projects planned by the Hong Kong government, which are expected to improve the long term outlook for the construction industry in Hong Kong.

### **Non-Competition Deed**

China Resources Holdings has entered into a Non-Competition Deed in our favor of China Resources Cement Holdings Limited. Pursuant to the Non-Competition Deed, China Resources Holdings has undertaken not to compete with our businesses.

China Resources Holdings has undertaken that it shall not, and shall use its best endeavors to procure that any associates (as defined in the relevant rules and regulations but for the purpose of the Non-Competition Deed excluding any member of our Group, any subsidiary of China Resources Holdings whose shares are listed on the Hong Kong Stock Exchange and its subsidiaries) (*Relevant Companies*) shall not engage, invest, participate (as defined below) or be interested (economically or otherwise) in any of the following businesses in China and Hong Kong (*Restricted Business*):

- (a) the production, sale and distribution of clinker, cement and concrete products;

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- (b) any business or investment activities that may compete, directly or indirectly, with any business carried on from time to time by any members of our Group;
- (c) acquiring, holding, transferring, disposing or otherwise dealing in any option, right or interest over any of the matters set out in paragraphs (a) or (b) above; and
- (d) acquiring, holding, transferring, disposing or otherwise dealing in, directly or indirectly, any interest in (including shares of) any company, joint venture, corporation or entity of any nature, whether or not incorporated, with any interest in the matters set out in paragraphs (a) to (c) above,

during the period commencing on [●] and ending on the earlier of:

- (a) the date when China Resources Holdings and any of the Relevant Companies cease to hold, or otherwise be interested in, beneficially in aggregate, whether, directly or indirectly, 30% or more of the issued ordinary share capital of our Company; and

- (b) [●]

("Non-Competition Period") (whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person) except:

- (a) through its interests in our Group from time to time; or
- (b) through acquiring or holding any investment or interest in units or shares of any company, investment trust, joint venture, partnership or other entity in whatever form which engages in any of the Restricted Business ("Competing Entity") where such investment or interest does not exceed 5% of the outstanding voting shares of such Competing Entity provided such investment or interest does not grant, nor does the relevant party and/or the Relevant Companies otherwise hold any right to control the composition of the board of directors or managers of such Competing Entity nor any right to participate (as defined below), directly or indirectly, in such Competing Entity ("Passive Investments").

For purposes of the Non-Competition Deed, a person is deemed to "participate" in a Restricted Business in situations, including but not limited to, where (i) such person provides to that Restricted Business any service which may be provided by a manager, a consultant, an adviser, an employee or an agent of that Restricted Business, whether such service is paid or unpaid; or (ii) such person permits, either expressly or implicitly, the use of any of our Company's name, images, photographs, or any of the patents, copyrights, trademarks, domain names and other intellectual property rights either registered or in application for registration, to be associated with our Company or with that Restricted Business.

China Resources Holdings has also undertaken to procure that any business investment or other business or commercial opportunity relating to any Restricted Business or invention or discovery of products or technologies which could be applied to any Restricted Business that it or any of the Relevant Companies identifies or proposes or that is offered or presented to it or any of the Relevant Companies by a third party ("New Opportunity") must be first referred to our Company in accordance with the Non-Competition Deed.

China Resources Holdings ("Offeror") shall as soon as reasonably practicable following it becoming aware of the New Opportunity give written notice to our Company of the New Opportunity identifying the target

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company (if relevant) and the nature of the New Opportunity and detailing all information reasonably necessary for our independent non-executive Directors to consider whether to pursue the New Opportunity (including details of any investment or acquisition costs and the contact details of the third party offering, proposing or presenting the New Opportunity to the Offeror) ("Offer Notice"). Our Company shall as soon as practicable and in any case within 25 business days from the receipt of the Offer Notice ("Relevant Period") notify the Offeror in writing of any decision taken to pursue or decline the New Opportunity. The Relevant Period may be extended upon request by our independent non-executive directors. The Offeror will be entitled to pursue the New Opportunity if: (i) the Offeror has received a notice from our Company declining the New Opportunity; or (ii) the Offeror has not received any written notice of our Company of its decision to pursue or decline the New Opportunity within the Relevant Period.

In deciding whether to pursue a particular New Opportunity, our Company will seek approval from its board or board committee, in either case, comprising independent non-executive directors who do not have a material interest in the matter. Our independent non-executive directors will consider whether it is in our interest and that of our shareholders as a whole to pursue the New Opportunity, taking into account the valuation of such New Opportunity as may be determined by an independent third party valuer appointed by us, where necessary. Our Company will disclose in its annual report: (i) any decision by the independent non-executive directors to decline the New Opportunity and the basis thereof; or (ii) its failure to notify the Offeror our independent non-executive directors' decision to pursue or decline the New Opportunity within the Relevant Period.

Our independent non-executive directors shall be entitled to engage professional advisors for advices on matters relating to the Non-Competition Deed or any New Opportunity referred to our Company by China Resources Holdings at our Company's costs.

China Resources Holdings has further undertaken that, during the Non-Competition Period, it:

- (a) will provide all information necessary for (i) the annual review by the independent board committee of our Company for the enforcement of the undertakings under the Non-Competition Deed and the compliance of the Non-Competition Deed by China Resources Holdings; and (ii) disclosure of decisions made by such committee on matters reviewed by it relating to the compliance and enforcement of the Non-Competition Deed in our Company's annual report or public announcement and will give consent to such disclosures;
- (b) make an annual declaration on compliance with the undertakings under the Non-Competition Deed for disclosure in the annual reports of our Company; and
- (c) in the event of any disagreement between the parties as to whether or not any activity or proposed activity of China Resources Holdings constitutes a Restricted Business or a breach of the Non-Competition Deed, the matter shall be determined by the independent board committee of our Company whose majority decision shall be final and binding.

Our independent non-executive directors will review China Resources Holdings' compliance with the Non-Competition Deed on an annual basis. We will disclose decisions on matters reviewed by our independent non-executive directors relating to the compliance and enforcement of the Non-Competition Deed either through our annual reports or by way of announcements to the public. We will also disclose China Resources Holdings' annual declaration on compliance with the Non-Competition Deed in our annual reports.

## OUR INDEPENDENCE FROM CHINA RESOURCES HOLDINGS

Our Directors are satisfied that we are able to conduct our businesses independently from China Resources Holdings.

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### Independence of Business Operations

We have sufficient capital, equipment and employees to operate our businesses independently. We have direct access to our suppliers and customers, and do not rely on the suppliers and customer base of China Resources Holdings and its subsidiaries (excluding our Group). We make our business decisions independently. We do not share any operational facilities with China Resources Holdings. We supply cement to certain subsidiaries of China Resources Holdings. However, our business does not depend on the generation of turnover from such sales. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our total sales to the CRH Group was approximately HK\$23.4 million, HK\$21.3 million, HK\$10.2 million and HK\$4.6 million, respectively, which only represented 1.1%, 0.6%, 0.2% and 0.2% of our turnover from continuing operations, respectively. For the years ending December 31, 2009, 2010 and 2011, it is expected that our total sales to CRH Group will be approximately HK\$20.4 million, HK\$59.0 million, HK\$70.0 million, respectively, and will not account for a significant amount of our turnover. Our Directors therefore believe that we are operationally independent from China Resources Holdings.

### Financial Independence

All non-trade balances with, and guarantees from or to China Resources Holdings and its associates have been fully repaid and released prior to [the Latest Practicable Date]. We have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payments, and independent access to third party financing. Although we received entrustment loans amounting to RMB847.5 million from China Resources SZITIC Trust Co. Ltd., a subsidiary of China Resources Holdings, such amount represented less than 10% of the total amount of bank loans of our Group as of 30 June 2009. We are able to obtain adequate financing and/or refinance the banking facilities without the support of the Controlling Shareholder, as shown by our strong record in obtaining bank finances during the Track Record Period. Further, in view of the large amount of unutilized banking facility of HK\$2,273.8 million as of 30 June 2009, in the event that our Controlling Shareholder is not able or not willing to provide the entrustment loans, we would have sufficient resources to replace such loans with external banking facilities. For details of the entrusted loans, please refer to section headed "Connected Transactions." As such, our Directors believe that we are financially independent from China Resources Holdings.

### Management Independence

Our Board currently comprises three executive directors, three non-executive directors and three independent non-executive directors. None of our Directors holds any directorship in China Resources Holdings. Our daily operations are managed by our senior management team which comprises Madam ZHOU Junqing, Mr. ZHOU Longshan, Mr. LAU Chung Kwok Robert, Madam SUN Mingquan, Mr. PAN Yonghong, Mr. DONG Bin, Mr. YU Zhongliang, Mr. JI Youhong, Mr. ZENG Fanrong, Mr. WANG Junxiang, Mr. DING Yuankui and Mr. NG Chong. All members of our senior management team are independent from China Resources Holdings and there is no over-lapping of directorship with China Resources Holdings. Further details of our senior management team are set out in the section headed "Directors, Senior Management and Employees."

Our three non-executive directors, Mr. LI Fuzuo, Mr. DU Wenmin and Mr. WEI Bin also serve as heads of the Finance Department, Internal Audit and Supervision Department and Strategy Management Department<sup>(1)</sup>, respectively, of China Resources Holdings. Mr. LI is responsible for analyzing and assessing the financial performance of China Resources Holdings. Mr. DU is responsible for the internal audit of China Resources

<sup>(1)</sup> The Strategic Management Department is responsible for reviewing and analyzing the management accounts and preparation of budget of China Resources Holdings. The Internal Audit Department is responsible for conducting internal audits on the management accounts of China Resources Holdings. The Finance Department is responsible for preparation of the management accounts of China Resources Holdings.

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Holdings. Mr. Wei is responsible for conducting financial management of China Resources Holdings' non-listed subsidiaries. Our Company is of the view that their positions in China Resources Holdings will not affect the management independence of our Company in any material manner because they are not directors of China Resources Holdings and do not have the power to make important decisions regarding the strategies and policies of China Resources Holdings. Such decisions are made by the board of China Resources Holdings. During the Track Record Period, no remuneration was received by our non-executive directors from our Company. For the remuneration to be paid to our non-executive directors, please refer to the section headed "Directors, Senior Management and Employees." While our non-executive directors will be on the payroll of China Resources Holdings and our Company, we consider that there will not be any concern on their duties of care and loyalty owed to our Group as (i) they owe fiduciary duties to our Company to act honestly and in good faith in the interest of our Company and its shareholders as a whole and to avoid conflicts of interest and duty; (ii) it is intended that they will play a supervisory role in the management of our Company and will not be involved in the day-to-day management of the business and operations of our Group; and (iii) pursuant to the Articles of Association, a Director would not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Board in respect of any contract or arrangement or any other proposal whatsoever in which he or any of his associates has any material interest. Further, none of our non-executive directors is a member of our Remuneration Committee and accordingly, they will not be involved in determining their own remuneration packages or those of the other Directors and senior management of the Company.

In selecting our non-executive directors, we consider that it is important for them to possess appropriate experience and sufficient knowledge of our Group to perform their duties. We decided to appoint Mr. LI Fuzuo, Mr. DU Wenmin and Mr. WEI Bin as our non-executive directors because (i) they have extensive operational, managerial and financial experience in the industry; (ii) they have an intimate understanding of the corporate culture of the China Resources Group; and (iii) they have demonstrated that they are qualified for their managerial duties.

The decision-making mechanism of our Board of Directors set out in our Articles of Association also includes provisions to avoid conflicts of interest by providing, among other things, that a Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Board in respect of any contract or arrangement or any other proposal in which he or she or any of his or her associates has any material interest.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team is able to manage our Group independently.