
CONNECTED TRANSACTIONS

We have entered into a number of agreements to regulate our continuing business relationship with our connected persons. The following transactions will be regarded as our connected transactions within the meaning of the relevant rules and regulations:


CONNECTED TRANSACTION

Non-Competition Deed

China Resources Holdings, our controlling shareholder, has entered into a Non-Competition Deed in our favor dated September 2, 2009 to the effect that, for so long as China Resources Holdings and its associates are beneficially interested in, directly or indirectly, 30% or more of the issued ordinary share capital of our Company, neither China Resources Holdings nor any of its associates shall engage, invest, participate or be interested (economically or otherwise) in, among other things, the production, sale and distribution of clinker, cement and concrete products. For details, please see the section headed “Relationship with China Resources Holdings — Non-Competition Deed”.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Trademark License

We have entered into a Trademark Licensing Agreement with China Resources National Corporation on August 18, 2008. Pursuant to the Trademark Licensing Agreement, China Resources National Corporation has granted us a non-exclusive license to use the trademark of “華潤” (Huarun) on our cement products for nil consideration. China Resources National Corporation is the registered owner of the trademark registered under class 19 (including, without limitation, cement and concrete products) bearing registration no. 2019693 in the PRC. China Resources National Corporation has granted a non-exclusive license to our Company to use and to further sub-license such trademark to its subsidiaries in the PRC so as to enable us to use such trademark for a term of 2 years commencing on August 18, 2008 and such term is not subject to any early termination or renewal clauses. Before the expiration of the Trademark Licensing Agreement, we will decide either to renew the Trademark Licensing Agreement for the continued use of the “Huarun” trademark or develop other brands in marketing our products along with “Hongshuihe”. As we are well-established in the cement and concrete industry in China and our products are well-recognized by our customers, we do not expect any potential adverse impact on our business and financial results no matter our Group continues or stops to use the “Huarun” trademark. In addition, China Resources Holdings has granted us the right to use the following logo, which was registered in Hong Kong pursuant to a letter of authorization dated May 16, 2003: 

Our Directors consider that the term of the Trademark Licensing Agreement is in the interests of both our Company and China Resources National Corporation and are therefore on normal commercial terms.

2. Leasing of Office

CRC Investments, a subsidiary of our Company has leased from China Resources (Shenzhen) Company Limited, a subsidiary of China Resources Holdings, office premises in Shenzhen with a total area of approximately 872 square meters. The parties entered into a lease agreement on December 7, 2007 for a term of two years commencing on January 1, 2008. The annual rent is RMB1,778,880 and was determined with reference to market rent.

For the year ended December 31, 2008 and the six months ended June 30, 2009, the rental, building management fee and air-conditioning charges paid to China Resources (Shenzhen) Company Limited amounted to approximately HK\$2.4 million and HK\$1.2 million, respectively.

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3. Entrustment Loans from China Resources SZITIC Trust Co. Ltd

Fuchuan Cement and Shangsi Cement, subsidiaries of our Company, each entered into an entrustment loan agreement dated May 31, 2009 with China Resources SZITIC Trust Co. Ltd. ("CR Trust"), a subsidiary of China Resources Holdings, and China Construction Bank Corporation Shenzhen Branch (中國建設銀行股份有限公司深圳市分行) ("CCBC"). Pursuant to the entrustment loan agreements, CR Trust provided a principal amount of RMB440.6 million and a principal amount of RMB406.9 million as loans to Fuchuan Cement and Shangsi Cement, respectively, for the purchase of cement production facilities, and CCBC agreed to act as trustee for CR Trust in respect of the entrustment loans. The interest payable by Fuchuan Cement and Shangsi Cement for the loans shall be 4.86% per annum respectively, adjusted annually after the first year in accordance with the adjustment to the PBOC benchmark rate for one to three years loans by commercial banks in the preceding year. Both loans are repayable on May 31, 2011 or earlier with the prior written consent of CR Trust. The handling fee charged by CCBC is 1.8% of the principal amount per annum for each loan.

Our Directors consider that the terms of each of the entrustment loan agreements are fair and reasonable, on normal commercial terms and are in the interests of our Company. No security over the assets of our Group is granted in respect of the entrustment loans.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Sale of Cement and Clinker to the CRH Group

We have entered into a Cement Supply Framework Agreement on January 1, 2008 with China Resources Holdings for the sale of cement products to certain subsidiaries of China Resources Holdings with a term of three years, and a supplemental agreement on August 1, 2009 to extend the term to December 31, 2011. The Cement Supply Framework Agreement has a term of three years commencing on the date of the agreement and may be terminated earlier by either party giving three months' prior written notice. Under the Cement Supply Framework Agreement, the prices charged by us for our cement products will be negotiated on an arm's length basis between the relevant parties with reference to the prevailing market prices.

For each year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our total amount of sales to the CRH Group was approximately HK\$6.8 million, HK\$6.0 million, HK\$7.0 million and HK\$4.4 million, respectively. During the Track Record Period, we supplied cement and clinker mainly to Redland Precast and certain subsidiaries of China Resources Power Holdings Limited ("CR Power Group").

Cement products sold by us to Redland Precast during the Track Record Period were for the manufacture of precast concrete products. The amount of sales fluctuated according to the construction and manufacturing activities of Redland Precast. For each year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the total amount of sales to Redland Precast was approximately HK\$6.8 million, HK\$6.0 million, HK\$2.0 million and HK\$3.2 million, respectively. The decrease in the total sales amount in 2007 and 2008 was, as our Directors understand, due to changes in the specifications of the construction projects undertaken by Redland Precast. Redland Precast mostly participates in projects using precast concrete with high cement content. However, in 2007 and 2008, our Directors understand that Redland Precast undertook projects which were of a different type than the ones it typically undertakes. These projects involved the construction of structures using mainly glass fiber, such as Wynn Macau and Residence Bel-Air. Our Directors understand that Redland Precast has resumed the production of precast products with higher cement content in 2009 and on the basis of their usage of cement in the second quarter of 2009, it is estimated that cement with a sales value of approximately HK\$8.0 million will be delivered in 2009. Our Directors understand, given that the Hong Kong Government plans to invest in various infrastructure projects in the next few years, including the Hong Kong section of the Guangzhou-Shenzhen Hong Kong Express Rail Link transport infrastructure project (which works are expected to start by the end of 2009), the West Kowloon Cultural District strategic project (which works are expected to

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start in 2011) and the construction of the Hong Kong-Zhuhai-Macao Bridge (which works are expected to start by the end of 2009) and Redland Precast's strong position in the Hong Kong precast industry, Redland Precast expects to receive more new orders. Our Directors understand that the suspension of development projects including four major hotels in the Cotai Strip resort district in Macau would not affect our sales of cement to Redland Precast as hotel projects in Macau use mainly glassfibre reinforced concrete. Assuming that it will continue to participate in the construction of mainly high cement content structures, our Directors expect that our annual amount of sales to Redland Precast for the years ending December 31, 2009, 2010 and 2011 will be approximately HK\$8.0 million, HK\$9.0 million and HK\$10.0 million, respectively, with an expected increase of 12 to 13% per annum due to price inflation and natural growth.

Cement supplied by us to the CR Power Group during the Track Record Period was used for the construction of power plants. For each year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the total amount of sales to the CR Power Group was approximately nil, nil, HK\$5.0 million and HK\$1.2 million, respectively. Our Directors expect that the annual amount of sales to the CR Power Group will be approximately HK\$5.0 million, HK\$5.5 million and HK\$6.1 million for each year ending December 31, 2009, 2010 and 2011. The proposed annual cap for 2009 has been determined with reference to the sales amount of HK\$5.0 million in 2008.

Based on the above, our Directors expect that the annual caps for the sale of cement and clinker to the CRH Group should be set at HK\$13.0 million, HK\$14.5 million and HK\$16.1 million for the years ending December 31, 2009, 2010 and 2011, respectively.

2. Purchase of Fuel, Diesel and Lubricant Oil

We have entered into a Fuel, Diesel and Lubricant Oil Supply Agreement dated January 1, 2008 with China Resources Holdings for the purchase of fuel, diesel and lubricant oil from subsidiaries of China Resources Holdings, including Jiangmen Xinhui Jingneng Petroleum Limited (江門市新會經能石油有限公司), Shenzhen China Resources Petroleum Company Limited and CRC Special Oil Company Limited with a term of three years, and a supplemental agreement dated August 1, 2009 with the same party to extend the term to December 31, 2011. The Fuel, Diesel and Lubricant Oil Supply Agreement may be terminated earlier by either party giving three months' prior notice. The fuel, diesel and lubricant oil purchased by us are for electricity generation, operation and maintenance of our concrete mixer trucks and equipment. The prices payable by us for the fuel, diesel and lubricant oil will be negotiated on an arm's length basis between the relevant parties with reference to the prevailing market prices.

For each year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the total amount of purchases was approximately HK\$17.9 million, HK\$3.7 million, HK\$3.4 million and HK\$1.7 million, respectively. There was a significant decrease in our purchases in 2007 because Dongguan Cement ceased to use its own electricity generators in 2007.

We are in the process of constructing additional cement and clinker production lines as well as concrete plants. Some of our new production lines are expected to commence production by the end of 2009. As a result, it is expected that there will be a significant increase in our demand for fuel, diesel and lubricant oil. Our Directors expect that the annual amount of purchases for each of the years ending December 31, 2009, 2010 and 2011 will not exceed HK\$5.0 million, HK\$5.5 million and HK\$6.1 million, respectively and consider that the annual caps for 2009, 2010 and 2011 should be set at such amounts. The annual cap for 2009 has been set by reference to the historical amounts and our increasing demand for fuel, diesel and lubricant oil, with an increase of 10% per annum for subsequent years due to inflation.

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3. Sale of Concrete to the CRH Group

We have entered into a Concrete Supply Framework Agreement dated January 1, 2009 with China Resources Holdings for the sale of ready mixed concrete to the CRH Group. The agreement has a term commencing on the date of the agreement and ending on December 31, 2009 and may be terminated earlier by either party giving three months' prior written notice. Under the agreement, the prices charged by us for our concrete products will be negotiated on an arm's length basis between the relevant parties with reference to the prevailing market prices.

Save as disclosed under this section, our Group did not sell any concrete products to the CRH Group for each year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009.

Our Directors understand that the CRH Group has successfully won a bid for a major construction contract in the PRC for the construction of a real estate project in Nanning, Guangxi (the "Nanning Project"). Assuming that the contract will commence construction in the last quarter of 2009, our Directors expect that the annual amount of sales of concrete products to the CRH Group for the years ending December 31, 2009, 2010 and 2011 will be approximately HK\$14.8 million, HK\$45.4 million and HK\$45.4 million, respectively. The proposed annual cap for 2009 has been determined with reference to the expected demand of our concrete products from the CRH Group for the Nanning Project in the last quarter of 2009. Our Directors expect that the annual amount of sales to the CRH Group for 2010 and 2011 will increase significantly because we understand that CRH Group's demand for concrete products for the Nanning Project will peak in 2010 and 2011.

Based on the above, our Directors expect that the annual caps for the sale of concrete products to the CRH Group should be set at HK\$14.8 million, HK\$45.4 million and HK\$45.4 million for the years ending December 31, 2009, 2010 and 2011, respectively.

4. Sale of Concrete to China Resources Construction Company Limited

Redland Concrete has entered into an agreement dated January 1, 2009 for the sale of ready mixed concrete, to China Resources Construction Company Limited, a subsidiary of China Resources Holdings by the Redland Concrete Group. The agreement has a term commencing from the date of the agreement to December 31, 2011 and may be terminated earlier by either party giving three months' prior written notice. Under the agreement, the prices charged by the Redland Concrete Group will be negotiated on an arm's length basis between the parties with reference to the prevailing market prices.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the total amount of sales to China Resources Construction Company Limited was approximately HK\$16.5 million, HK\$15.2 million, HK\$3.2 million and HK\$0.2 million, respectively. There was a significant decrease in our sale to China Resources Construction Company Limited in 2008 because of the decrease in the number of construction projects undertaken by it in 2008.

Our Directors expect that the annual amount of sales to China Resources Construction Company Limited for the years ending December 31, 2009, 2010 and 2011 will not exceed HK\$7.4 million, HK\$44.5 million and HK\$53.9 million, respectively and consider that the annual caps for 2009, 2010 and 2011 should be set at such amounts. The proposed annual cap for 2009 has been determined with reference to the sales amount of HK\$3.2 million in 2008. Our Directors expect that the annual amount of sales to China Resources Construction Company Limited for 2010 and 2011 will increase significantly because they understand that China Resources Construction Company Limited expects to tender for major construction contracts in Hong Kong in those years, particularly in light of the Hong Kong Government's plan to invest in various infrastructure projects as discussed above.

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5. Sale of Concrete to Penta-Ocean-CRCC JV

Redland Concrete has entered into an agreement dated May 24, 2008 for the sale of ready mixed concrete by the Redland Concrete Group to Penta-Ocean-CRCC JV, a joint venture beneficially owned as to 65% by Penta-Ocean and 35% by China Resources Construction Company Limited. The agreement may be terminated earlier by either party giving three months' prior written notice. Under the agreement, the prices charged by the Redland Concrete Group will be negotiated on an arm's length basis between the parties with reference to the prevailing market prices.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the total amount of sales to Penta-Ocean-CRCC JV was approximately nil, nil HK\$22.9 million and HK\$17.1 million, respectively. Penta-Ocean-CRCC JV commenced operation in June 2008.

Our Directors expect that the annual amount of sales to Penta-Ocean-CRCC JV for the years ending December 31, 2009, 2010 and 2011 will not exceed HK\$23.0 million, HK\$5.0 million and nil, respectively. Such estimated amounts of sales for the year ending December 31, 2009 have been determined according to our delivery schedule. The Redland Concrete Group understands that Penta-Ocean-CRCC JV will complete a project undertaken by it in the second half of 2009, which is expected to result in a decrease in the estimated amount of sales in 2010 and 2011.

6. Testing Services

Quality Control Consultants Limited, a wholly-owned subsidiary of our Company, has entered into an agreement dated January 1, 2008 for the provision of testing services with a credit term of 30 days to a number of subsidiaries of China Resources Holdings, including Redland Precast, China Resources Construction Limited and Strong Progress Limited. The agreement has a term of three years commencing on the date of the agreement and ending on December 31, 2011 and may be terminated earlier by either party giving three months' prior written notice. The fees receivable by Quality Control Consultants Limited were determined with reference to the prevailing market prices. Market prices are determined during negotiations with our customers. Quality Control Consultants Limited understands that its customers would compare our quotation, which is determined by reference to our estimated costs for the provision of the required testing services and past experience with the relevant customers, with quotations provided by our competitors.

During the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the fees received by us from the aforesaid subsidiaries of China Resources Holdings for the provision of testing services were approximately HK\$3.0 million, HK\$2.7 million, HK\$2.0 million and HK\$0.7 million, respectively.

Our Directors expect that the annual cap for 2009, 2010 and 2011 should be set at HK\$3.0 million, HK\$3.3 million and HK\$3.6 million, respectively, with an increase of approximately 10% per annum for subsequent years due to inflation.

APPLICATION FOR WAIVERS

No Waiver Sought for Certain Transactions

For each of the transactions under the sections headed "Connected Transactions" and "Exempt Continuing Connected Transactions," the applicable percentage ratios on an annual basis falls below 0.1%. Accordingly, these transactions are not subject to the reporting, announcement and independent shareholders' approval requirements under the relevant rules and regulations.

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Scope of Waiver

For the non-exempt continuing connected transactions set out under the paragraphs headed "Sale of Cement and Clinker to the CRH Group," "Purchase of Fuel, Diesel and Lubricant Oil," "Sale of concrete to CRH Group," "Sale of Concrete to China Resources Construction Company Limited," "Sale of Concrete to Penta-Ocean-CRCC JV" and "Testing Services" above, we expect that the applicable percentage ratios on an annual basis will be less than 2.5%. These transactions are therefore exempt from the independent shareholders' approval requirements under the relevant rules and regulations, but would still be subject to the reporting and announcement requirements under the relevant rules and regulations.

We expect these non-exempt continuing connected transactions to be carried out on a continuing and recurring basis and to extend over a period of time. Our Directors (including independent non-executive Directors) confirm that each of the continuing connected transactions set out above has been and will be entered into in the ordinary and usual course of our business, on normal commercial terms (or better to us), and is fair and reasonable and in the interests of our Company and our Shareholders as a whole. Our Directors also confirm that each of the proposed annual caps set out herein is fair and reasonable. We have applied for and have been granted waivers from compliance with the announcement and/or independent shareholders' approval requirements relating to the non-exempt continuing connected transactions pursuant to the relevant rules and regulations.

Our Company will comply with the requirements under the relevant rules and regulations that are applicable to the non-exempt continuing connected transactions referred to in this section (including the annual caps). In the event of any future amendments to the relevant rules and regulations imposing more stringent requirements than those as at the date of this document on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements.