FINANCIAL INFORMATION ON THE GROUP

Trading record

A summary of the pro forma combined results of the group for each of the three years ended 31st December, 2002, which is extracted from the accountants' report in appendix I to this prospectus, is set out as follows:

		Year ended 31st December,		
	Notes	**2000**	**2001**	**2002**
		HK$'000	*HK$'000*	*HK$'000*
Turnover	1	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
Dividend	2	—	525,000	—
Earnings per share — basic (cents)	3	96.5	67.7	25.6

Notes:

1. Turnover represents the net amount of sales of concrete and related products.

2. During each of the three years ended 31st December, 2002, a subsidiary of the group declared and paid dividend to its then shareholders as follows:

	Year ended 31st December,		
	2000	**2001**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Dividend declared and paid by Innovative Market	—	525,000	—

The rate of dividend per share and the number of shares ranking for dividends are not presented as such information is not meaningful.

3. The calculation of basic earnings per share for each of the three years ended 31st December, 2002 is based on the pro forma combined net profit of the group for each of the three years ended 31st December, 2002 and on the assumption that approximately 208,040,521 shares, with reference to 2,080,405,215 China Resources Enterprise shares in issue as at the latest practicable date, were deemed to have been in issue and issuable during the three years ended 31st December, 2002. Two shares are in issue as at the latest practicable date.

There was no potential dilutive ordinary shares in issue during the three years ended 31st December, 2002 and, therefore, diluted earnings per share is not presented.

Turnover by principal activity

The following table sets out the breakdown of the group's combined turnover by principal activity for each of the three years ended 31st December, 2002:

	Year ended 31st December,					
	2000		2001		2002	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Sale of ready mixed concrete	753,224	88.2	594,166	89.2	321,376	82.1
Sale of mortars	63,765	7.5	43,613	6.5	45,748	11.7
Sale of shotcrete	18,697	2.2	11,183	1.7	3,302	0.8
Others	17,709	2.1	17,393	2.6	21,053	5.4
Total	853,395	100.0	666,355	100.0	391,479	100.0

During the three years ended 31st December, 2002, revenue generated from the sale of ready mixed concrete remained the major contributor to the group's turnover. Due to poor economic conditions and a deteriorating property market which led to a substantial slowdown in the building and construction industry in Hong Kong, overall sales of the group showed a continued decrease during the three years ended 31st December, 2002. Overall sales volume of the group dropped from approximately 1,293,000 cubic metres in year 2000 to approximately 1,068,000 cubic metres and 784,000 cubic metres in year 2001 and 2002, respectively.

During the three years ended 31st December, 2002, due to the completion of large scale projects such as the Tseung Kwan O Mass Transit Railway Extension, sales in ready mixed concrete showed a continued decrease. Volume of sales of ready mixed concrete dropped from approximately 1,167,000 cubic metres in year 2000 to approximately 980,000 cubic metres and 687,000 cubic metres in year 2001 and 2002, respectively. Intense competition also drove down the average selling prices of ready mixed concrete from approximately HK$646 per cubic metre in 2000 to approximately HK$606 per cubic metre and HK$468 per cubic metre in year 2001 and 2002, respectively.

Sales of mortars also showed a continued decrease with the exception of the year ended 31st December, 2002 when a number of projects were delayed from 2001 to the following year with the result that sales volume and sales amount of mortars increased by approximately 26.9% and 4.9% to approximately 91,000 cubic metres and HK$45.7 million, respectively in year 2002.

Sales of shotcrete began on or about 1998 and shotcrete produced by the group gradually gained acceptance in the market. However, due to poor market conditions, sales in shotcrete decreased from approximately HK$18.7 million for the year ended 31st December, 2000 to approximately HK$11.2 million and HK$3.3 million for the two years ended 31st December, 2002, respectively. In addition, average selling prices of shotcrete have dropped from approximately HK$773 per cubic metre in year 2000 to approximately HK$712 per cubic metre and HK$536 per cubic metre in year 2001 and 2002, respectively.

During the three years ended 31st December, 2002, Quality Control Consultants, the group's testing laboratory for construction materials, has performed relatively well despite poor market conditions. This was mainly attributable to the higher regulatory standards imposed by the Hong Kong government on the building and construction industry in general, which in turn led to a higher demand for quality control and testing services. Sales generated by Quality Control Consultants amounted to approximately HK$15.1 million, HK$13.0 million and HK$11.7 million during the three years ended 31st December, 2002, respectively and accounted for approximately 1.8%, 2.0% and 3.0% of the group's total turnover, respectively, during the same period.

The inventory turnover days for the group for each of the three years ended 31st December, 2002 were approximately 2.9 days, 2.9 days and 2.4 days, respectively. The inventory turnover days have remained low and stable during the three years ended 31st December, 2002 which reflected the fact that concrete has a short shelf life and the group only keeps a small amount of stock. The group only manufactures and delivers its products upon receiving orders from its customers and does not maintain a high level of stock.

The debtors' turnover days for the group for each of the three years ended 31st December, 2002 were approximately 45.7 days, 47.1 days and 32.1 days, respectively, and was in line with the group's policy to maintain its debtors' turnover days in the range of 30 to 60 days. Debtors' turnover days decreased from 47.1 days as at 31st December, 2001 to 32.1 days as at 31st December, 2002 which reflected faster collection of receivables from its debtors resulting from a more stringent credit policy in view of the deteriorating market.

The creditors' turnover days for the group for each of the three years ended 31st December, 2002 were approximately 19.0 days, 31.1 days and 20.3 days, respectively, and were in line with the payment terms granted by the group's suppliers which vary from approximately 15 to 45 days. The increase in creditors' turnover days from 19.1 days as at 31st December, 2000 to 31.1 days as at 31st December, 2001 was mainly the result of an increase in the purchase of raw materials to cater for a sudden increase in customers' orders near the end of 2001. The payment for the related purchase was subsequently settled at the beginning of 2002 and as a result, creditors' turnover days dropped from 31.1 days as at 31st December, 2001 to 20.3 days as at 31st December, 2002, which was in line with the credit terms granted by the group's suppliers.

Cost of sales and margins

The following table sets out the gross profit margin ("GP%") from sales by product group for each of the three years ended 31st December, 2002:

	Year ended 31st December,					
	2000		**2001**		**2002**	
	HK$'000	*GP%*	*HK$'000*	*GP%*	*HK$'000*	*GP%*
Ready mixed concrete						
Sales	753,224		594,166		321,376	
Cost of sales	(423,247)		(330,472)		(210,838)	
Gross profit	329,977	43.8%	263,694	44.4%	110,538	34.4%
Mortars						
Sales	63,765		43,613		45,748	
Cost of sales	(27,899)		(17,850)		(20,628)	
Gross profit	35,866	56.2%	25,763	59.1%	25,120	54.9%
Shotcrete						
Sales	18,697		11,183		3,302	
Cost of sales	(8,097)		(5,204)		(1,684)	
Gross profit	10,600	56.7%	5,979	53.5%	1,618	49.0%
Others						
Sales	17,709		17,393		21,053	
Cost of sales	(1,453)		(6,656)		(13,701)	
Gross profit	16,256	91.8%	10,737	61.7%	7,352	34.9%
Total						
Sales	853,395		666,355		391,479	
Cost of sales	(460,696)		(360,182)		(246,851)	
Gross profit	392,699	46.0%	306,173	45.9%	144,628	36.9%

The cost of sales of the group's products consists primarily of raw materials, labour costs, rent and rates and depreciation expenses. During the three years ended 31st December, 2002, there had been a continued decrease in the total costs of goods sold which was mainly due to the decrease in raw materials costs which was attributable to a reduction in purchase prices as a result of negotiation with the raw material suppliers by the group. During the same period, there was an overall improvement in factory overheads due to stringent cost control policies implemented by the group. Measures implemented by the group include negotiations with its raw material suppliers for a reduction in purchase prices, a reduction of rental expenses by closing down three batching plants located in Tseung Kwan O, Fanling and Sha Ling and a reduction in headcount and salaries.

The group's profit margins vary widely between different purchase orders. Typically, the group realised substantially higher profit margins on the sales of ready mixed concrete for infrastructure projects at a selling price of approximately HK$670 per cubic metre. For example, during the two years ended 31st December, 2001, the group's profit margin on the sales of ready mixed concrete for the Tseung Kwan O Mass Transit Railway Extension project was approximately 40.2% as compared to approximately 28.3% for the sales of ready mixed concrete for residential or office project. This is generally attributable to the fact that higher quality of ready mixed concrete products of a higher quality enjoy higher margin with the price range currently varying from approximately HK$320 per cubic metre to approximately HK$670 cubic metre. The selling prices and margins of ready mixed concrete are dependent on the strength of the concrete required by its customers. The selling prices of the group's ready mixed concrete are determined after considering its main competitors' selling price and market conditions. In the 2000 financial year, raw materials, direct labour costs, rent and rates and depreciation accounted for approximately 82.4%, 2.7%, 3.8% and 5.9% of the total costs of goods sold, respectively. The group recorded a gross profit margin of approximately 46.0% during the year.

In the 2001 financial year, despite a decrease in the overall selling prices of ready mixed concrete and the fact that the decrease in raw material costs was less than the corresponding decrease in selling prices, gross margin of the group remained stable at approximately 45.9% mainly as a result of a reduction in depreciation, rent and rates and maintenance expenses. During the 2001 financial year, raw materials, direct labour costs, rent and rates and depreciation accounted for approximately 85.4%, 3.5%, 3.8% and 3.3% of the total costs of goods sold, respectively.

During the 2002 financial year, gross profit for the year decreased by approximately 52.8% to approximately HK$144.6 million as compared to the previous year. In view of the increasingly difficult operating environment and a significant drop in the selling prices and sales volume of concrete, the group negotiated with its raw material suppliers for a reduction in purchase prices. Lower purchase prices together with reduced purchases, resulted in a decrease in raw materials costs by approximately HK$117.1 million in the financial year ended 31st December, 2002, or approximately 38.1% from the previous year. However, direct labour costs during the year ended 31st December, 2002 increased by approximately 21.6% to approximately HK$15.2 million as compared to the previous year. The increase was mainly due to reclassification of direct labour costs relating to Quality Control Consultants from general and administrative expenses to cost of sales starting from the year 2002. If direct labour costs of Quality Control Consultants were included as the group's cost of sales in 2001, direct labour costs would amount to approximately HK$21.6 million in 2001 and direct labour costs in 2002 would have decreased by approximately 29.6% from the previous year, which would be more in line with the decrease in sales of concrete during the year. There was also a material decrease of approximately 22.8% in the selling prices of ready mixed concrete to approximately HK$468 per cubic metre. The group recorded a product liability expense of approximately HK$2.5 million in 2002 with HK$2.0 million being provision and HK$0.5 million being expenses actually incurred. The product liability expenses represented a provision for a compensation claim related to the inappropriate application of dry mortar by a subcontractor in a residential development project during the year. As a result, gross margin for the 2002 financial year was negatively affected and dropped to approximately 36.9%.

Expenses

The following table shows a breakdown of the principal expenses incurred by the group for the three years ended 31st December, 2002:

	Year ended 31st December,		
	2000	**2001**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Selling and distribution expenses	79,000	72,905	52,292
General and administrative expenses	81,682	76,881	48,281
Total	160,682	149,786	100,573

The largest component of the group's expenses is haulage contractor charges and salaries and staff related costs such as staff welfare and staff provident funds contributions.

The largest component of selling and distribution expenses relates to haulage contractor charges which amounted to approximately HK$41.7 million, HK$42.9 million and HK$36.8 million, respectively during the three years ended 31st December, 2002, representing approximately 52.8%, 58.8% and 70.5%, respectively, of total selling and distribution expenses during the same period. Due to a continued decrease in sales of concrete during the three years ended 31st December, 2002, the group attempted to reduce selling and distribution expenses by replacing mixer truck drivers permanently employed by the group with part time mixer truck drivers employed on a contract basis. As at 31st December, 2002, the group engaged a total of 142 mixer trucks, of which 77 were owned by the mixer truck drivers as compared to a total of 152 mixer trucks as at 31st December, 2001, of which 88 were owned by the mixer truck drivers. As a result, salaries and staff provident fund were reduced by approximately 45.3% from approximately HK$11.7 million during the year 2001 to approximately HK$6.4 million in year 2002. Haulage contractor charges, being fees charged by part time truck drivers employed on a contract basis, only decreased by approximately 14.2% from approximately HK$42.9 million during the previous year to approximately HK$36.8 million. Other components of selling and distribution expenses include primarily salary, depreciation and concrete truck running expenses. Salary, depreciation and concrete truck running expenses amounted to approximately HK$36.0 million, HK$27.0 million and HK$14.6 million, respectively, during the three years ended 31st December, 2002, representing approximately 45.6%, 37.0% and 28.0%, respectively of total selling and distribution expenses during the same period.

The largest component of general and administrative expenses is salaries and staff related costs such as staff welfare and staff provident fund contributions which amounted to approximately HK$52.0 million, HK$48.3 million and HK$27.2 million, respectively during the three years ended 31st December, 2002, representing approximately 63.6%, 62.9% and 56.3%, respectively, of total general and administration expenses during the same period. Due to the difficult market conditions, the group implemented cost cutting measures including a reduction of salaries and staff in order to improve profitability. As a result, total number of staff decreased from 290 as at 31st December, 2000 to 214 as at 31st December, 2002. Other components of general and administrative expenses include depreciation expenses amounted to approximately HK$10.6 million, HK$10.9 million and HK$7.6 million, respectively during the three years ended 31st December, 2002, representing approximately 13.0%, 14.2% and 15.8%, respectively of total general and administrative expenses during the same period. Rent and rates amounted to approximately HK$3.6 million, HK$3.6 million and HK$3.3 million, respectively during the three years ended 31st December, 2002, representing approximately 4.4%, 4.7% and 6.9%, respectively of total general and administration expenses during the same period. The decrease in both depreciation expenses and rent and rates during the three years ended 31st December, 2002 was mainly attributable to the close down of three concrete plants at Sha Ling, Tseung Kwan O and Fanling.

Results of operation

Financial year ended 31st December, 2000

For the year ended 31st December, 2000, despite the fact that the overall sales of concrete in Hong Kong had dropped by approximately 8% due to poor weather conditions and a continued slow down in the Hong Kong property market during the year, the group recorded a total turnover of approximately HK$853.4 million. The group's sales in ready mixed concrete amounted to approximately HK$753.2 million, representing approximately 88.2% of the group's total sales during the year. Although there was a decrease in sales volume of ready mixed concrete by approximately

4.9% to approximately 1,167,000 cubic metres during the year, the ready mixed concrete division was able to achieve a gross profit margin of approximately 43.8% mainly due to an increase in sales of ready mixed concrete to higher margin projects such as the Tseung Kwan O Mass Transit Railway Extension. Contracts on hand of ready mixed concrete amounted to approximately 1,024,000 cubic metres as at 31st December, 2000.

For the year ended 31st December, 2000, the group's sales in mortars and shotcrete amounted to approximately HK$63.8 million and HK$18.7 million, respectively, representing approximately 7.5% and 2.2% of the group's total turnover, respectively. Contracts on hand for shotcrete as at 31st December, 2000 amounted to approximately 7,000 cubic metres. During the year, the group became the first company in Hong Kong to be awarded with the ISO9001 certification for its mortar and shotcrete divisions.

Although the average selling prices of concrete continued to drop due to intense competition in the market as more property developers began to engage in the production of concrete themselves, the group was able to achieve an overall gross profit margin of approximately 46.0% as a result of effective sales and marketing strategies and the implementation of cost control measures.

In November 2000, Redland Precast, an associated company in which the group holds a 50% interest, successfully relocated its production facility from Zhuhai, the PRC to an island adjacent to Dongguan, the PRC with over 250,000 sq.m., equivalent to approximately 2,690,978 sq.ft., in site area which enjoys deep water access. During the year, Redland Precast commenced its first project and also obtained its second contract to supply precast concrete tunnel segments to Singapore.

The group recorded other operating income of approximately HK$8.8 million, which includes the gain on disposals of fixed assets of approximately HK$5.1 million, interest income of approximately HK$1.1 million, management and rental income of approximately HK$2.2 million and other income of approximately HK$433,000.

Net profit for the year ended 31st December, 2000 amounted to approximately HK$200.8 million, representing a net profit margin of approximately 23.5%.

Financial year ended 31st December, 2001

Turnover for the year ended 31st December, 2001 decreased by approximately 21.9% to approximately HK$666.4 million, of which sales of ready mixed concrete decreased by approximately 21.1% from the previous year to approximately HK$594.2 million, representing approximately 89.2% of the group's total turnover. Contracts on hand for ready mixed concrete as at 31st December, 2001 amounted to approximately 630,000 cubic metres, representing a drop of approximately 38.5% as compared to the previous year. The decrease in sales of ready mixed concrete was mainly attributable to poor economic conditions in Hong Kong, the government's suspension of public housing projects and a slow down in the private sector housing projects due to an overall poor property market. Furthermore, the average selling prices of ready mixed concrete decreased by approximately 6.2% to approximately HK$606 per cubic metre as compared to the previous year due to increased market competition. However, despite a decrease in the overall selling prices of ready mixed concrete and the fact that the decrease in raw material costs was less than the corresponding decrease in selling prices, gross margin of the group remained stable at approximately 45.9% mainly as a result of a reduction in depreciation, rent and rates and maintenance expenses.

During the year ended 31st December, 2001, sales of mortar and shotcrete decreased by approximately 31.6% and 40.2% to approximately HK$43.6 million and HK$11.2 million, respectively mainly as a result of reduced sales volume and a decrease in their respective selling prices from HK$626 per cubic metre to HK$609 per cubic metre and HK$773 per cubic metre to HK$712 per cubic metre.

For the year ended 31st December, 2001, Redland Precast recorded an increase in turnover of approximately 14.6% to approximately HK$213.6 million principally as a result of the full commencement of the construction of the Western Railway project. As a result, Redland Precast achieved a net profit of approximately HK$13.0 million during the year, representing a net profit margin of approximately 6.1%. Profit attributable to the group amounted to approximately HK$6.5 million during the year.

Other operating income for the year decreased by approximately 28.1% to approximately HK$6.3 million, of which interest income amounted to approximately HK$1.4 million, gain on disposals of fixed assets amounted to approximately HK$1.3 million, bad debt provision written back of approximately HK$1.6 million, management and rental income of approximately HK$1.3 million and other income of approximately HK$0.7 million.

Finance costs for the year declined by approximately 41.8% to approximately HK$3.0 million mainly as a result of a decrease in interest rates.

Overall, the group recorded a net profit of approximately HK$140.8 million, representing a net margin of approximately 21.1%.

Financial year ended 31st December, 2002

The group's turnover decreased by approximately 41.3% to approximately HK$391.5 million during the year ended 31st December, 2002. While volume of sales of ready mixed concrete decreased by approximately 30.0% to approximately 687,000 cubic metres, the value of sales of ready mixed concrete declined substantially by approximately 45.9% to approximately HK$321.4 million as compared to the previous year. Furthermore, selling prices of ready mixed concrete fell sharply by approximately 22.8% from approximately HK$606 per cubic metre to approximately HK$468 per cubic metre. Facing intense competition from new entrants to the market and a continued drop in demand for ready mixed concrete in the Hong Kong market, the group reduced its cost structure in order to maintain its market share. The group successfully renegotiated the purchase price of raw materials and prices of major raw materials used in the production of ready mixed concrete were reduced by approximately 8%. In particular, purchase prices of cement and aggregate from certain suppliers were reduced by approximately HK$60 per tonne and HK$1 per tonne, respectively.

Sales in shotcrete decreased by approximately 70.5% to approximately HK$3.3 million. This was mainly attributable to a decline in production volume by approximately 60.7% to approximately 6,200 cubic metres which was exacerbated by a decrease in average selling prices by approximately 24.7% from approximately HK$712 per cubic metre in year 2001 to approximately HK$536 per cubic metre in year 2002. However, during the year ended 31st December, 2002, sales in mortars increased by approximately 4.9% to approximately HK$45.7 million.

During the year ended 31st December, 2002, turnover of Redland Precast amounted to approximately HK$174.2 million, representing a decrease by approximately 18.4% as compared to the previous year. Redland Precast successfully entered into a number of new contracts with an aggregate value of approximately HK$200.8 million during the year. These contracts included the KCRC East Rail

Extension, supply of facade and balcony to a private development in Sai Wan Ho and a retaining wall structural project on Castle Peak Road. Net profit during the year amounted to approximately HK$8.2 million, representing a net profit margin of approximately 4.7%. Profit attributable to the group amounted to approximately HK$4.1 million during the year.

Other operating income for the year increased by approximately 182.6% to approximately HK$17.8 million, of which interest income amounted to approximately HK$0.6 million, a provision for plant dismantling costs written back amounted to HK$3.1 million, bad debts provision written back amounted to approximately HK$11.7 million, a provision for contractor fee written back of approximately HK$0.2 million, management and rental income of approximately HK$1.3 million and other income amounted to approximately HK$0.9 million.

Selling and distribution expenses and general and administrative expenses decreased by approximately 28.3% and 37.2% to approximately HK$52.3 million and HK$48.3 million, respectively. The largest single contributor to the decrease in general and administrative expenses was a reduction in salary and staff related expenses by approximately 43.8% to approximately HK$27.2 million as compared to the previous year. In particular, salaries of all employees were reduced by approximately 7.0% and double pay and year-end bonus were cancelled. Due to a substantial drop in the production volume of concrete, the concrete batching plant at Sha Ling was closed down in early 2001. Concrete batching plants located at Tseung Kwan O and Fanling were also closed down in March and August 2002, respectively. Approximately 40 staff, accounting for approximately 18.7% of the group's total number of staff, were made redundant during the year ended 31st December, 2002. Due to a drop in the overall sales during the year, there was a corresponding decrease in selling and distribution expenses such as concrete truck running expenses, depreciation and salary. During the year ended 31st December, 2002, concrete truck running expenses, depreciation and salary in aggregate amounted to approximately HK$14.6 million, representing a decrease of approximately 45.7% as compared to the previous year.

After tax profit amounted to approximately HK$53.3 million, representing a drop of approximately 62.2% as compared to the year ended 31st December, 2001. Excluding the writeback of allowance for bad debts of approximately HK$11.7 million, after tax profit amounted to approximately HK$41.6 million, representing a decrease of approximately 70.4% as compared to the previous year. Overall, the group recorded a net profit margin of approximately 13.6% and a 11.7% return on shareholders' funds for the year ended 31st December, 2002. The group's poor performance during the year has reflected the difficult market situation in the overall concrete industry in Hong Kong.

Financial and operational review for 2003

For the four months ended 30th April, 2003, the group's unaudited turnover was approximately HK$113.4 million, representing a decrease of approximately 28.0% over the same period of last year and its unaudited net profit was approximately HK$7.6 million as compared to HK$26.1 million for the four months ended 30th April, 2002.

The directors believe that the performance of the group for the four months ended 30th April, 2003 was affected by the economic downturn and sluggish property market that still trouble Hong Kong. Demand for concrete was low due to a drop in infrastructure and construction projects of large size. However, concrete prices have shown signs of stabilising recently amidst competition. In an effort to ride out the difficult time, the group has taken austerity measures to tighten cost control and enhance productivity. This includes costs cutback and restructuring of its internal functions.

In view of the recent outbreak of Severe Acute Respiratory Syndrome (SARS) in Hong Kong and in the PRC, the local economic environment and, in particular, the restaurant business, tourism and related industries are facing a number of uncertainties and are becoming increasingly unstable although the impact of SARS on the financial performance of the group was not yet apparent. Due to the nature of the businesses of the group, SARS did not have any implication on the group for the first four months of the year. For the rest of the year, the impact of SARS on the group may start to surface given its effect on the general state of the Hong Kong and PRC economies as it may affect the progress of infrastructure projects and, or, the development of the properties markets. However, SARS has shown signs of stabilising recently and the withdrawal of a travel warning by the World Health Organisation against non essential travel to Hong Kong may alleviate SARS's possible adverse implications on the group.

While maintaining its base in Hong Kong, the group intends to expand its business and operations into the PRC markets through the acquisition which may reduce the group's reliance on the Hong Kong market.

FINANCIAL INFORMATION ON THE ENLARGED GROUP

The following is a summary of the financial information of the enlarged group extracted from the appendix VI of this prospectus.

Statement of pro forma combined adjusted net tangible assets of the enlarged group

The following statement of pro forma combined adjusted net tangible assets of the enlarged group is based on the pro forma combined net tangible assets of the group and the combined net assets of the acquired companies as at 31st December, 2002 as shown in the respective accountants' reports set out in appendices I to V to this prospectus, and adjusted as follows:

	HK$'000
Audited pro forma combined net tangible assets of the group as at 31st December, 2002	456,730
Audited combined net assets of the acquired companies as at 31st December, 2002	205,411
Issue of 1 ordinary share of HK$0.10 of the company for cash at HK$100,000,000 on 25th March, 2003 to China Resources Enterprise	100,000
Issue of ordinary shares of the company of HK$0.10 each, credited as fully paid, to China Resources Holdings for acquisition of the loans advanced to Dongguan Cement Holding, pursuant to the acquisition	208,705
Pro forma combined net assets of the enlarged group as at 31st December, 2002	970,846
Intangible assets of the acquired companies	(23,597)
Estimated new listing expenses	(7,000)
Unaudited pro forma combined net profit of the enlarged group for the four months ended 30th April, 2003 *(Note 1)*	14,972
Revaluation deficit of the enlarged group's properties as at 31st March, 2003 *(Note 2)*	(106,289)
Goodwill arising on acquisition of an additional 5% interest in members of the Dongguan Cement Holding group *(Note 3)*	(1,778)
Pro forma combined adjusted net tangible assets	847,154
Pro forma combined adjusted net tangible asset value per share *(Note 4)*	HK$2.34

Notes:

1. As a result of the earnings of the acquired companies and the Redland group in the four months ended 30th April, 2003, the respective net asset value of the acquired companies and the Redland group was increased by the same amount accordingly. As the consideration for the acquisition is based on the audited net asset value of the acquired companies as at 31st December, 2002 and the transfer of the entire issued share capital of Innovative Market to CR Cement, shortly before the completion of the group reorganisation, was on the basis of the consolidated net asset value of Innovative Market as at 31st December, 2002, without any adjustments for earnings made in 2003, such corresponding increases in the respective net asset values of the acquired companies and the Redland group by the amount of earnings in the four months ended 30th April, 2003 will, therefore, also be transferred to the enlarged group upon completion of the group reorganisation and the acquisition.

2. The revaluation deficit of the enlarged group's properties as at 31st March, 2003 will not be incorporated in the consolidated financial statements of the enlarged group for the year ending 31st December, 2003. According to the enlarged group's accounting policy, the revaluation deficit of the enlarged group's properties as at 31st March, 2003, which was calculated based on the valuations prepared on an open market value basis included in this prospectus, will not be incorporated in the enlarged group's consolidated financial statements for the year ending 31st December, 2003. Having considered the fact that revaluation deficit of the properties, is calculated based on the property valuation report set out in appendix VII to this prospectus using an open market value basis for the stand alone properties rather than on a continuing use basis together with other facilities in the same operating plants in use by the group as a whole, the directors are of the view that this revaluation deficit is not a relevant indicator for the assessment of impairment in value of the properties. The directors have assessed various relevant factors surrounding the business operation, including the group's asset usage conditions, future business projections as a whole and anticipated prospects of the construction industry. This assessment has been carried out by the directors in accordance with the enlarged group's accounting policy in respect of asset impairment and the directors are of the view that no asset impairment has resulted therefrom. Similar assessment will be carried out again by the directors in the preparation of the enlarged group's consolidated financial statements for the year ending 31st December, 2003.

3. For the purpose of this statement of pro forma combined adjusted net tangible assets of the enlarged group, goodwill arising from acquisition of an additional 5% interest in Dongguan Cement Holding is calculated on the assumption that the acquisition had been completed as at 30th April, 2003.

4. The pro forma combined adjusted net tangible asset value of the enlarged group per share is arrived at after making the adjustments referred to in this section and on the basis of a total of approximately 362,787,521 shares in issue immediately after the distribution and the issue of approximately 154,747,000 shares for the acquisition, with reference to 2,080,405,215 China Resources Enterprise shares in issue as at the latest practicable date. The calculation takes no account of any shares to be issued under the share option scheme of the company as it will only be effective upon listing of the shares nor any shares to be issued or purchased by the company pursuant to its general mandates.

Pro forma combined results of the enlarged group

To provide additional financial information, the pro forma combined results of the enlarged group for each of the three years ended 31st December, 2002 have been prepared based on the historical financial information of the group and the acquired companies for each of the three years ended 31st December, 2002, which have been extracted from the accountants' report of the group as set out in appendix I to this prospectus and the respective accountants' reports of the acquired companies as set out in appendices II, III, IV and V to this prospectus, after taking into account of the pro forma adjustments as described in the notes thereto as if the acquired companies had been held by the company since 1st January, 2000, or their respective dates of incorporation or establishment, whichever is later.

The pro forma combined results of operations of the enlarged group presented below do not purport to represent what the results of operations would actually have been if the acquired companies had been held by the company since 1st January, 2000, or their respective dates of incorporation or establishment, whichever is later, or to project the results of operations for any future period and are included for information purposes only.

The pro forma combined financial information should be read in conjunction with the historical financial information of the group, the acquired companies and other financial information included elsewhere in this prospectus.

	Notes	For the year ended 31st December, 2000 HK$'000	2001 HK$'000	2002 HK$'000
Turnover	1	996,920	915,392	899,450
Cost of sales		(571,037)	(539,019)	(631,686)
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		—	—	919
Profit from operations		253,500	215,877	123,034
Finance costs		(29,307)	(31,722)	(29,081)
Share of results of associates		10,912	8,562	3,962
Profit before taxation		235,105	192,717	97,915
Taxation		(45,713)	(27,390)	(11,371)
Profit before minority interests		189,392	165,327	86,544
Minority interests		11,175	(4,981)	(8,801)
Net profit for the year		200,567	160,346	77,743
Dividend	2	—	525,000	3,299
Earnings per share — basic (cents)	3	55.3	44.2	21.4

Notes:

1. Turnover represents the net amount of sales of cement, concrete and related products.

2. During each of the three years ended 31st December, 2002, the subsidiaries of the enlarged group declared dividend to its then shareholders as follows:

	Year ended 31st December, 2000 HK$'000	2001 HK$'000	2002 HK$'000
Dividend declared and paid by			
— Innovative Market	—	525,000	—
Dividend declared by			
— Guangxi CR Cement	—	—	3,299
	—	525,000	3,299

The rate of dividend per share and the number of shares ranking for dividends are not presented as such information is not meaningful.

3. The calculation of basic earnings per share for each of the three years ended 31st December, 2002 is based on the pro forma combined net profit of the enlarged group for each of the three years ended 31st December, 2002 and on the assumption of a total of approximately 362,787,521 shares in issue, immediately after the distribution and the issue of approximately 154,747,000 shares for the acquisition, with reference to 2,080,405,215 China Resources Enterprise shares in issue as at the latest practicable date. The calculation takes no account of any shares to be issued under the share option scheme of the company nor any shares to be issued or purchased by the company pursuant to its general mandates.

4. **The enlarged group will be formed after completion of the group reorganisation and the acquisition, details of which are set out in the sections headed "Group reorganisation" and "Acquisition" in this prospectus, and comprises the company, Innovative Market and its subsidiaries and the acquired companies and their subsidiaries, and the results of the enlarged group will be accounted for under acquisition accounting in its first set of financial statements prepared immediately after completion of the group reorganisation and the acquisition, as the respective effective shareholding interests of the ultimate shareholders in the company will be different after completion of the group reorganisation and the acquisition.**

Customers on an enlarged group basis

For the three years ended 31st December, 2002, total sales generated from the five largest customers in aggregate, accounted for approximately 25.7%, 29.8% and 18.0% respectively of the enlarged group's sales. For each of the three years ended 31st December, 2002, sales from the single largest customer of the enlarged group accounted for approximately 7.1%, 9.8% and 4.9% respectively, of the enlarged group's sales.

Assuming the distribution and the acquisition were completed as at the latest practicable date, none of the directors, their respective associates or, so far as is known to the directors, any of the shareholders of the company, who owns more than 5% of the issued share capital of the company, as at the latest practicable date, had any interest in any of the five largest customers of the enlarged group.

Suppliers on an enlarged group basis

For the three years ended 31st December, 2002, total purchases from the five largest suppliers in aggregate, accounted for approximately 45.5%, 43.6% and 38.6%, respectively of the enlarged group's cost of sales. Sumitomo Corporation and Wygetta Quarry were two of the five largest suppliers. The purchase of clinker from Sumitomo Corporation by the enlarged group amounted to approximately HK$47.2 million, HK$122.2 million and HK$126.3 million, representing approximately 8.3%, 22.7% and 20.0% of the enlarged group's cost of sales for the three years ended 31st December, 2002, respectively. The purchase of aggregates from Wygetta Quarry by the enlarged group amounted to approximately HK$64.0 million, HK$30.7 million and HK$9.2 million, representing approximately 11.2%, 5.7% and 1.5% of the enlarged group's cost of sales for the three years ended 31st December, 2002, respectively. For each of the three years ended 31st December, 2002, purchase from the single largest supplier of the enlarged group accounted for approximately 13.5%, 22.7% and 20.0%, respectively of the enlarged group's cost of sales.

Assuming the distribution and the acquisition were completed as at the latest practicable date, none of the directors, their respective associates or, so far as is known to the directors, any of the shareholders of the company, who owns more than 5% of the issued share capital of the company, as at the latest practicable date, had any interest in any of the five largest suppliers of the enlarged group.

Statement of pro forma combined assets and liabilities of the enlarged group after completion of the acquisition

Set out below is the unaudited statement of pro forma combined assets and liabilities of the enlarged group after the completion of the acquisition. The unaudited statement of pro forma combined assets and liabilities has been prepared based on the audited pro forma combined balance sheet of the group as at 31st December, 2002, the pro forma combined balance sheet of the acquired companies as at 31st December, 2002, based on the audited combined balance sheets of each of the acquired companies, and after making certain pro forma combination adjustments as set out below.

	The group as at 31st December, 2002	Combined acquired companies as at 31st December, 2002	Pro forma combination adjustments	*Notes*	The enlarged group as at 31st December, 2002
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
Non-current assets					
Fixed assets	288,502	800,357			1,088,859
Interests in associates	47,669	—			47,669
Intangible assets	—	23,706			23,706
Prepaid rentals	—	4,545			4,545
Other investments	2,331	—			2,331
	338,502	828,608	—		1,167,110
Current assets					
Stocks	2,590	76,302			78,892
Trade receivables	34,396	127,543			161,939
Trade receivables from minority interests	—	31,523			31,523
Trade receivables from fellow subsidiaries	2,833	2,518	10,602	(1)	15,953
Trade receivable from a holding company	—	10,602	(10,602)	(1)	—
Other receivables	7,404	9,822			17,226
Amounts due from fellow subsidiaries	117,992	—	(117,992)	(2)	—
Amounts due from associates	2,432	—			2,432
Taxation recoverable	274	—			274
Pledged bank deposits	—	2,281			2,281
Bank balances and cash	7,365	32,913	217,992	(2) & (3)	258,270
	175,286	293,504	100,000		568,790
Current liabilities					
Trade payables	(21,738)	(74,260)			(95,998)
Trade payable to minority interest	—	(18,367)			(18,367)
Trade payable to fellow subsidiaries	(8,672)	—			(8,672)
Other payables	(15,974)	(76,880)			(92,854)
Amount due to minority interests	—	(4,105)			(4,105)
Amounts due to fellow subsidiaries	—	(1,814)	(293)	(1)	(2,107)
Amount due to a holding company	—	(293)	293	(1)	—
Amount due to an associate	(16)	—			(16)
Taxation payable	(3,096)	(1,063)			(4,159)
Bank loans — amount due within one year	—	(326,009)	94,260	(4)	(231,749)
	(49,496)	(502,791)	94,260		(458,027)
Net current assets (liabilities)	125,790	(209,287)	194,260		110,763
Total assets less current liabilities	464,292	619,321	194,260		1,277,873

	The group as at 31st December, 2002 HK$'000	Combined acquired companies as at 31st December, 2002 HK$'000	Pro forma combination adjustments HK$'000	Notes	The enlarged group as at 31st December, 2002 HK$'000
Non-current liabilities					
Bank loans — amount due after one year	—	(39,805)	(94,260)	(4)	(134,065)
Loan from minority interest	—	(60,530)			(60,530)
Amount due to minority interest	—	(18,852)			(18,852)
Amounts due to holding companies	—	(208,705)	208,705	(5)	—
Deferred taxation	(7,562)	—			(7,562)
	(7,562)	(327,892)	114,445		(221,009)
Minority interests	—	(86,018)			(86,018)
Net assets	456,730	205,411	308,705		970,846

Notes:

(1) Reclassification of account balances for better presentation.

(2) An amount due from a fellow subsidiary, Purple Finance Company Limited, amounted to approximately HK$117,992,000 was settled in cash by this fellow subsidiary to the group on 5th May, 2003.

(3) To record the issue of 1 share of the company of HK$0.10, for cash at HK$100,000,000 to China Resources Enterprises on 25th March, 2003.

(4) To record the short term bank loan of RMB100,000,000, equivalent to approximately HK$94,260,000, into medium term bank loan pursuant to a new loan agreement dated 27th March, 2003.

(5) To record the issue of shares of the company of HK$0.10 each, credited as fully paid, as consideration for the acquisition of certain loans of HK$208,705,000 advanced to Dongguan Cement Holding by China Resources Holdings pursuant to the acquisition.

INDEBTEDNESS

Borrowings

As at the close of business on 30th April, 2003, being the latest practicable date for the indebtedness statement prior to the printing of this prospectus, the enlarged group had total bank loans of approximately HK$440.3 million, of which bank loans of approximately HK$162.9 million were secured by the enlarged group's certain fixed assets with the carrying value as at 30th April, 2003 of approximately HK$249.0 million. Of the bank loans of approximately HK$440.3 million, the amount of approximately HK$178.8 million, HK$58.0 million and HK$9.4 million respectively were guaranteed by China Resources Holdings, Sumitomo Corporation and 中鐵建工集團工程有限公司 (Zhong Tie Jian Gong Construction Holdings Co., Ltd), the affiliate of 中鐵建廠工程局深圳實業公司 (Zhong Tie Jian Chang Construction Department Shenzhen Industrial Company).

As at the latest practicable date, financial institutions providing bank loans of a total of approximately HK$178.8 million to the enlarged group have already agreed in principle to release the guarantees by China Resources Holdings upon listing of the company. Upon listing, the company shall replace China Resources Holdings in providing guarantees for these loans.

As at 30th April, 2003, the enlarged group also had amounts due to fellow subsidiaries of approximately HK$33.6 million, amount due to an associate of approximately HK$5,000, amount due to minority interest with short term and long term nature of approximately HK$2.7 million and HK$18.9 million respectively, and loan from minority interest of approximately HK$65.0 million. Of the amounts due to fellow subsidiaries which are unsecured, an amount of HK$0.3 million and HK$33.3 million are non interest bearing and interest bearing respectively. The amount due to an associate and amount due to minority interest are unsecured and interest free. Loan from minority interest are unsecured and interest bearing.

As at 30th April, 2003, there is an amount due to holding companies of approximately HK$208.7 million by a subsidiary of the enlarged group. Pursuant to the acquisition, the benefit of such shareholders loans will be transferred to the company in return for the issue of shares of the company of HK$0.10 each.

Foreign currency amounts for the purpose of the calculations in respect of the indebtedness have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30th April, 2003.

Contingent liabilities

As at 30th April, 2003, the enlarged group had contingent liabilities in respect of guarantees given to banks for bank facilities utilised by its associates and sub contractors amounted to approximately HK$6.4 million and HK$7.1 million, respectively.

Securities and guarantees

As at 30th April, 2003, the enlarged group had no debt securities issued or outstanding, authorised or otherwise created but unissued.

Save as disclosed in this prospectus, as at 30th April, 2003, the enlarged group had no outstanding guarantees.

Disclaimers

Save as disclosed herein and apart from intra group liabilities, the enlarged group did not have any outstanding loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 30th April, 2003.

Saved as disclosed herein, the directors have confirmed that there has not been any material change in the indebtedness, commitments and contingent liabilities of the enlarged group since 30th April, 2003.

PRACTICE NOTE 19 TO THE LISTING RULES

The directors have confirmed that, as at the latest practicable date, they were not aware of any circumstances that would give rise to a disclosure requirement under practice note 19 to the Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30th April, 2003, the enlarged group had net current assets of approximately HK$54.9 million. As at 30th April, 2003, the enlarged group's total current assets were approximately HK$645.4 million, comprising stocks of approximately HK$73.1 million, trade receivables of approximately HK$199.1 million, other receivables and prepayments of approximately HK$26.6 million, trade receivables from fellow subsidiaries of approximately HK$13.9 million, trade receivable from minority interest of approximately HK$28.9 million, trade receivable from associates of approximately HK$5.1 million, amount due from immediate holding company of approximately HK$100.0 million, amounts due from fellow subsidiaries of approximately HK$118.0 million, pledged bank deposits of approximately HK$7.2 million and cash and bank balances of approximately HK$73.5 million. As at 30th April, 2003, the enlarged group's total current liabilities were approximately HK$590.5 million, comprising trade payables of approximately HK$106.6 million, other payables of approximately HK$99.6 million, trade payable to minority interest of approximately HK$17.9 million, trade payable to fellow subsidiaries of approximately HK$16.2 million, amount due to minority interest of approximately HK$2.7 million, amounts due to fellow subsidiaries of approximately HK$33.6 million, amount due to an associate of approximately HK$5,000, taxation payable of approximately HK$3.0 million and short term bank loans of approximately HK$310.9 million.

Capital and other commitments

As at 30th April, 2003, the enlarged group had capital commitments in respect of the acquisition of fixed assets and operating lease commitments amounting to approximately HK$75.7 million and HK$9.0 million respectively. Of the capital commitment, HK$71.8 million and HK$3.9 million had been contracted for but not provided for and authorised but not contracted for, respectively.

Borrowings

Borrowings of the enlarged group as at 31st December, 2000, 2001 and 2002 are as follows:

	As at 31st December,		
	2000	**2001**	**2002**
	HK$	*HK$*	*HK$*
Bank loans			
Secured	—	—	108,210
Unsecured	378,319	483,890	257,604
	378,319	483,890	365,814
Loan from minority interest	—	—	60,530
Amount due to minority interest	—	—	18,852
	378,319	483,890	445,196

The bank loans as at 31st December, 2000, 2001 and 2002 which bear interest at the rates in a range of approximately 5.0% to 7.0%, 1.9% to 5.6% and 1.3% to 6.4% per annum respectively are repayable as follows:

	As at 31st December,		
	2000	**2001**	**2002**
	HK$	*HK$*	*HK$*
Within one year	224,124	421,397	326,009
Between one to two years	91,706	22,682	22,683
Between two to five years	62,489	39,811	17,122
	378,319	483,890	365,814

Loan from minority interest is unsecured and bore interest at the rate in a range of 3.75% to 5.5% per annum for the year ended 31st December, 2002. Subsequent to 31st December, 2002, the minority shareholders have agreed not to demand for repayment within the next twelve months.

Amount due to minority interest is unsecured, interest free and has no fixed repayment terms. In the opinion of the directors, no demand for repayment will be made by the minority shareholders in the next twelve months.

As at 31st December, 2002, the enlarged group has pledged certain land and buildings, silo and plant and machinery with net book values of approximately RMB59,804,000, RMB24,842,000 and RMB55,230,000 equivalent to approximately HK$56,371,000, HK$23,416,000 and HK$52,060,000 respectively to banks to secure the bank loans of HK$108,210,000.

Hedging policy

The enlarged group generates its revenue mainly in Hong Kong dollars and Renminbi and the exchange rates of such currencies have been stable during the three years ended 31st December, 2002, no hedging or other alternatives have been implemented.

As at 30th April, 2003, the enlarged group did not have any outstanding hedging instruments.

Directors' opinion of the net current asset position

The directors are of the opinion that, taking into account of the financial resources available to the enlarged group including internally generated funds and available banking facilities, the enlarged group has sufficient working capital to meet its present requirements.

PROPERTY INTERESTS

Particulars of the Redland group and the enlarged group's property interests are set out in appendix VII to this prospectus.

Properties held and occupied by the Redland group in Hong Kong

The Redland group holds and occupies an area in aggregate of approximately 1,086.7 sq.m., equivalent to approximately 11,697 sq.ft. in Yuen Long, New Territories, Hong Kong mainly as its mixer trucks parking area and open storage area.

The Redland group holds and occupies another piece of land of approximately 4,365.4 sq.m. equivalent to approximately 46,989 sq.ft. in Yuen Long, New Territories, Hong Kong, which is occupied as its concrete producing operation.

The Redland group holds and occupies a piece of land and a ground floor premises of approximately 2,293.8 sq.m., equivalent to approximately 24,690 sq.ft. and 1,235.3 sq.m., equivalent to 13,297 sq.ft., respectively in Yau Tong, Kowloon, Hong Kong, which is occupied as its concrete producing operation and as a driveway and for storage and ancillary office uses.

The Redland group holds and occupies a portion of space at the Safety Godown Industrial Building, Chai Wan, Hong Kong which comprises an area of approximately 1,478.9 sq.m., equivalent to approximately 15,919 sq.ft., and is currently used for carparking, loading and unloading, and its concrete mixing operation.

Further details of these properties are contained in appendix VII to this prospectus.

Properties leased by the Redland group in Hong Kong

The Redland group leases office premises comprising approximately 769.2 sq.m., equivalent to approximately 8,280 sq.ft. as its principal offices in Hong Kong on 8th and 15th Floors, Kaiseng Commercial Centre, 4–6 Hankow Road, Tsim Sha Tsui, Kowloon, Hong Kong.

The Redland group leases an area of approximately 1,690.0 sq.m., equivalent to approximately 18,191 sq.ft. under STT No. 3450 at Container Port Road South, Kwai Chung, New Territories, Hong Kong and occupies the same for its concrete mixing operation.

The Redland group leases a berthing space No. TM11 at Tuen Mun Public Cargo Working Area, Area 16, for loading and unloading of sand, cement and aggregates.

The Redland group leases an area of approximately 1,266.6 sq.m., equivalent to approximately 13,634 sq.ft. at 7th Floor, Block 3, Tai Ping Industrial Centre, 53 Ting Kok Road, Tai Po, New Territories, Hong Kong and occupies the same as its testing laboratories for construction materials with ancillary office.

The Redland group also leases a flat at No. 34 Discovery Bay Road, Coastline Villa of Peninsula Village, Discovery Bay City, Lantau Island, Hong Kong for use as staff quarters. The gross floor area of the flat is approximately 144.9 sq.m., equivalent to approximately 1,560 sq.ft..

The Redland group leases an agricultural lot of approximately 1,268.1 sq.m., equivalent to approximately 13,651 sq.ft., at Tong Yan San Tsuen, Yuen Long, New Territories, Hong Kong and use the same as parking area and vehicle maintenance workshop.

The Redland group leases another agricultural lot of approximately 1,858.0 sq.m., equivalent to approximately 20,000 sq.ft., at Pat Heung, Yuen Long, New Territories, Hong Kong and uses the same for parking mixer trucks.

These properties had been valued as at 31st March, 2003 by DTZ Debenham Tie Leung Limited, an independent property valuer, as having no commercial values.

Property held by the Redland group in the PRC

The Redland group holds a residential unit comprising a gross floor area and apportioned site area of approximately 153.1 sq.m. and 121.7 sq.m. respectively, equivalent to approximately 1,648 sq.ft. and 1,310 sq.ft. respectively, at unit 401 of Block 22 at Bibo Garden, Yanhe Road, Luohu, Shenzhen City, Guangdong province, China. The property is currently vacant.

Further details of this property is contained in appendix VII to this prospectus.

Properties held and occupied by the enlarged group in the PRC

The enlarged group holds and occupies a cement plant comprising 152 buildings and structures erected on 6 plots of land of approximately 1,564,769.7 sq.m., equivalent to approximately 16,843,181 sq.ft., at Li Tang Town, Binyang County, Guangxi ZAR, China. The total gross floor area of the buildings is about 89,367.9 sq.m., equivalent to approximately 961,957 sq.ft.. The property is used as a cement production plant, staff quarters, warehousing and ancillary offices.

The enlarged group also holds and occupies a cement plant comprising 31 buildings and structures erected on 2 plots of land of approximately 173,466.0 sq.m., equivalent to approximately 1,867,188 sq.ft. at Fu Lu Sha Management District, Shatian Town, Dongguan City, Guangdong province, China. The total gross floor area of the buildings is about 38,343.1 sq.m., equivalent to approximately 412,725 sq.ft.. The property is used as cement production plant, staff quarters, warehousing and ancillary offices.

The enlarged group holds 2 plot of lands of approximately 100,767.0 sq.m., equivalent to approximately 1,084,656 sq.ft. at Legou Zuoye District, Qinzhou Harbour, Qinzhou City, Guangxi ZAR, China. The property is planned to be developed into a 50,000 tonnes pier with a berth length of about 230 metres. The property is currently a levelled site.

The enlarged group holds a plot of land of approximately 3,277.1 sq.m., equivalent to approximately 35,275 sq.ft. at Makeng, Shenwan Town, Zhongshan City, Guangdong province, China. The property is planned to be developed into a cement plant interchange station with a berth length of 50 metres and the property is currently occupied by some ancillary structures.

The enlarged group holds an industrial site comprising a plot of land of approximately 698,849.8 sq.m., equivalent to approximately 7,522,419 sq.ft. at Feng Huang Shan, Qintang Village, Eastern Plot of Litang Town, Binyang Country, Guangxi ZAR, China. The property is currently a vacant land for industrial use.

The enlarged group holds a residential unit comprising a total gross floor area of approximately 100.5 sq.m., equivalent to approximately 1,082 sq.ft., at Unit 501 of Block 13, Haiwan Garden, Shi Hau Xi Road, Zhuhai City, Guangdong province, China. The property is currently occupied as staff quarters.

The enlarged group holds a residential unit comprising a total gross floor area of approximately 194.8 sq.m., equivalent to approximately 2,097 sq.ft. at Unit 101 of Block 6, Julong Court, ShiJie Garden, Western of Shennan Road, Nanshan District, Shenzhen City, Guangdong province, China. The property is currently occupied as staff quarters.

Further details of these properties are contained in appendix VII to this prospectus.

Properties leased by the enlarged group in the PRC

The enlarged group leases a plot of land of approximately 2,000.0 sq.m., equivalent to approximately 21,528 sq.ft. at San Shan Harbour Development District, Nanhai City, Guangdong province, China and which is being used temporarily for cement transportation.

The enlarged group leases 3 residential units comprising a total gross floor area of approximately 260.0 sq.m., equivalent to approximately 2,799 sq.ft., at Units 302, 501 and 502 of a composite building, Legou Zuoye District, Qinzhou Harbour, Qinzhou City, Guangxi ZAR, China, which are used as staff quarters.

The enlarged group leases a plot of land with a site area of approximately 5,000.0 sq.m., equivalent to approximately 53,820 sq.ft. and a berth of 46 metres in length at western plot of New Water Gate at Fu Lu Sha Management District, Shatian Town, Dongguan City, Guangdong province, China and which is used temporarily as a deep water berth.

The enlarged group leases a plot of land of approximately 12,889.0 sq.m., equivalent to approximately 138,737 sq.ft., at Xiaohe Industrial Park, Xiaohe Village, Daojiao Town, Dongguan City, Guangdong province, China which is used for its concrete batching operation.

The enlarged group leases a plot of land of approximately 8,162.0 sq.m., equivalent to approximately 87,856 sq.ft., at Meilin Inspection Station, Futian District, Shenzhen City, Guangdong province, China and which is used for its concrete batching operation.

The enlarged group leases a plot of land of approximately 6,318.8 sq.m., equivalent to approximately 68,015 sq.ft., at Suiqi County, Zhanjiang City, Guangdong province, China for its cement production and ancillary uses.

The enlarged group leases a plot of land of approximately 2,400.0 sq.m., equivalent to approximately 25,834 sq.ft., at Qinzhou Front Station (K28+40–K28+100) Qinzhou City, Guangxi ZAR, China as its cement interchange station.

The enlarged group leases a plot of land of approximately 738.0 sq.m., equivalent to approximately 7,944 sq.ft., at Xiashan District, Zhanjiang City, Guangdong province, China as its cement interchange station.

These properties had been valued at 31st March, 2003 by DTZ Debenham Tie Leung Limited, an independent property valuer, as having no commercial value.

Property valuation

DTZ Debenham Tie Leung Limited has valued the property interests of the enlarged group at approximately HK$332.9 million as at 31st March, 2003. The text of its letter, summary of valuations and the valuation certificates are set out in appendix VII to this prospectus.

DISTRIBUTABLE RESERVES

As at 31st December, 2002, there were no reserves available for distribution to the shareholders of the company.

TAXATION

For the three years ended 31st December, 2002, operations of the enlarged group in Hong Kong and the PRC was principally subject to Hong Kong Profits Tax and PRC Enterprise Income Tax, respectively.

Provisions for Hong Kong Profits Tax for the three years ended 31st December, 2002 have been calculated at the rate of 16% based on the estimated assessable profits in Hong Kong. The effective tax rates of the Redland group for each of the three years ended 31st December, 2002 were approximately 18.5%, 16.3% and 16.2%, respectively.

DIVIDEND POLICY

The group has consistently paid dividends to its shareholders since China Resources Enterprise acquired the Redland group in 1997. During the five years ended 31st December, 2002, Redland Holdings declared and paid dividends amounting to HK$80 million, HK$220 million, HK$269 million, HK$140 million and HK$44 million, respectively, based on its net profits of approximately HK$186 million, HK$202 million, HK$201 million, HK$141 million and HK$53 million, respectively. Any dividend paid by Redland Holdings attributable to the China Resources Enterprise group has been retained in the account of Innovative Market and Innovative Market has not declared or paid any dividends other than a dividend in an amount of HK$525 million which was declared on 31st December, 2001 in recognition of China Resources Enterprise's successful investment in the Redland group. Such dividend was declared by Innovative Market as part of the internal control mechanism of China Resources Enterprise group at the time when Redland Concrete had no plan to expand its operation outside Hong Kong through any acquisitions. The effect of the dividend of HK$525 million was partially offset against the repayment of an amount due from a fellow subsidiary of Innovative Market of approximately HK$456 million as at 31st December, 2000. As a result of such offset arrangement, only an amount of HK$69 million was actually paid in cash. Accordingly, the dividend payment did not have any material impact of the group's working capital position and funding for future plans as the dividend payment represented the excess cash of the group accumulated over last five years. Therefore, the directors consider the dividend of HK$525 million declared by Innovative Market was appropriate at the time of declaration. As the consideration for the acquisition shall be satisfied by the issue of the shares, the directors consider the declaration of the said dividend would not have any material impact on the enlarged group's working capital position.

In the future, the declaration of dividends of the company is subject to the discretion of the directors. The amounts of dividends actually paid to shareholders will depend upon a number of factors, including the company's earnings, the future capital requirements of the enlarged group, the required distributable reserve for payment of such dividends, its general financial condition, the provisions of relevant laws and any other factors considered relevant by the directors. As part of an overall dividend policy of the company, the company intends to adopt a long term dividend payout ratio of approximately 20% to 25% subject to the financial performance of the company and availability of funds in view of the growth strategy of the enlarged group through acquisitions and investments. In view of the anticipated capital expenditure for the second half of 2003, the directors do not intend to recommend any interim or final dividend for the year ending 31st December, 2003.

The level of total reserves of the group as at 31st December, 2002 and the portion of these were distributable, are set out in note 21 to the accountants' report in appendix I to this prospectus.

NO MATERIAL ADVERSE CHANGE

Details of the group reorganisation are set out in the section headed "Group reorganisation and distribution in specie" in appendix IX to this prospectus. The directors confirm that there has been no material adverse change in the financial or trading position or prospects of the group since 31st December, 2002, being the date to which the latest audited pro forma combined financial statements of the group were made up.