

*The following is the text of a report for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of the company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.*

## 德勤·關黃陳方會計師行

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26th June, 2003

### The Directors

China Resources Cement Holdings Limited  
Anglo Chinese Corporate Finance, Limited

Dear Sirs,

We set out below our report on the pro forma combined financial information (“Pro forma Combined Financial Information”) relating to China Resources Cement Holdings Limited (the “Company”), Innovative Market Limited (“Innovative Market”) and its subsidiaries (hereinafter collectively referred to as the “Pro forma Group”), prepared on the basis set out in note 1 to the Pro forma Combined Financial Information, for each of the three years ended 31st December, 2002 (the “Relevant Periods”) and for inclusion in the prospectus of the Company dated 26th June, 2003 (the “Prospectus”).

The Company was incorporated in the Cayman Islands under the Companies Law (2002 Revision) as an exempted company with limited liability on 13th March, 2003. The Company has not carried out any business since its incorporation.

Innovative Market was incorporated in the British Virgin Islands, with limited liability on 8th May, 1997. At the date of this report, Innovative Market has the following subsidiaries and associates, all of which are private limited companies or, if incorporated outside Hong Kong, have substantially the same characteristics as a private limited company in Hong Kong.

Name of company	Place and date of incorporation	Issued and fully paid share capital	Attributable equity interest of the Pro forma Group	Principal activities
Subsidiaries:				
Bigwood Limited	Hong Kong 21st June, 1988	HK\$20	100%	Property investment
Britscore Properties Limited	British Virgin Islands 6th January, 2000	US\$1	100%	Investment holding
Cheer Forward Limited	Hong Kong 26th April, 2002	HK\$2	100%	Inactive

Name of company	Place and date of incorporation	Issued and fully paid share capital	Attributable equity interest of the Pro forma Group	Principal activities
Dynashare Investments Limited	British Virgin Islands 18th July, 2000	US\$1	100%	Investment holding
Falcon Strength Limited	British Virgin Islands 6th January, 2000	US\$1	100%	Inactive
First Route Limited	Hong Kong 9th January, 1996	HK\$2	100%	Property holding
General Perfect Limited	Hong Kong 16th May, 1989	HK\$2	100%	Property holding
Hasing Limited	Hong Kong 5th March, 1996	HK\$2	100%	Investment holding
Maple Hall International Limited	British Virgin Islands 6th January, 2000	US\$1	100%	Investment holding
New Age Resources Ltd.	British Virgin Islands 18th March, 1996	US\$2	100%	Investment holding
New Age Worldwide Ltd.	British Virgin Islands 18th March, 1996	US\$2	100%	Investment holding
Profit Success Development Limited	Hong Kong 22nd May, 1987	HK\$10,000	100%	Property holding
Prosper Supreme Limited	Hong Kong 5th March, 1996	HK\$2	100%	Investment holding
Quality Control Consultants Limited	Hong Kong 27th September, 1985	HK\$200,000	100%	Concrete testing and consultancy services
Redland Ash Limited	Hong Kong 25th June, 1996	HK\$2	100%	Trading of fly ash
Redland Concrete Limited	Hong Kong 28th February, 1986	HK\$300,010	100%	Manufacture and sales of concrete
Redland Concrete (China) Limited	Hong Kong 23rd March, 1998	HK\$2	100%	Inactive
Redland Concrete Connections Limited	Hong Kong 15th August, 1996	HK\$2	100%	Trading of dry mortars
Redland Construction Materials Limited	Hong Kong 27th May, 1988	HK\$2	100%	Trading of construction materials
Redland Holdings Limited	British Virgin Islands 29th April, 1997	US\$1,000	100%	Investment holding
Redland Mortars Limited	Hong Kong 8th August, 1986	HK\$2	100%	Trading of mortars

Name of company	Place and date of incorporation	Issued and fully paid share capital	Attributable equity interest of the Pro forma Group	Principal activities
Redland Quarries Limited	Hong Kong 10th November, 1987	HK\$2	100%	Inactive
Redland Shotcrete Limited	Hong Kong 8th October, 1997	HK\$2	100%	Trading of shotcrete
Standard Wealth Investment Limited	Hong Kong 26th May, 1999	HK\$2	100%	Property holding
Associates:				
Joyce Ocean Limited	British Virgin Islands 17th September, 1999	US\$2	50%	Investment holding
Man Wah Quarry Limited	Hong Kong 20th November, 1984	HK\$100,000	50%	Inactive
Redland — GRC Joint Venture Limited	Hong Kong 15th August, 1997	HK\$100	50%	Inactive
Redland Precast Concrete Products Limited	Hong Kong 25th July, 1991	HK\$8,000,000	50%	Manufacture and trading of precast concrete products
Redland Precast Concrete Products Pte. Limited	Singapore 24th March, 1998	S\$100,000	50%	Manufacture and trading of precast concrete products
Wealth Trinity Limited	British Virgin Islands 15th March, 1999	US\$2	50%	Investment holding

*Note:* All of the above companies operate at the place of incorporation and are held indirectly by Innovative Market other than Redland Holdings Limited which is held directly by Innovative Market.

The Company, Britscore Properties Limited, Cheer Forward Limited, Dynashare Investments Limited, Falcon Strength Limited, Joyce Ocean Limited, Maple Hall International Limited, New Age Resources Limited, New Age Worldwide Limited, Redland Concrete (China) Limited, Redland Holdings Limited, Redland Quarries Limited and Wealth Trinity Limited have not prepared any audited financial statements since their respective dates of incorporation as these companies either remained inactive or have not carried on any business other than acting as investment holding companies. We have, however, reviewed all relevant transactions of these companies since their respective dates of incorporation.

We have acted as the auditors of all the companies comprising the Pro forma Group other than those companies set out in the preceding paragraph for the Relevant Periods.

We have examined the audited financial statements or, where appropriate, management accounts of the companies comprising the Pro forma Group for the Relevant Periods, or since the respective dates of incorporation to 31st December, 2002, where this is a shorter period. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Society of Accountants.

The Pro forma Combined Financial Information of the Pro forma Group for the Relevant Periods set out in this report has been prepared from the audited financial statements or management accounts (the "Underlying Financial Statements") of the companies comprising the Pro forma Group, on the basis set out in note 1 to the Pro forma Combined Financial Information, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Pro forma Combined Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Pro forma Combined Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 1 to the Pro forma Combined Financial Information, the Pro forma Combined Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Pro forma Group as at 31st December, 2000, 2001 and 2002 and of the pro forma combined results and cash flows of the Pro forma Group for each of the three years ended 31st December, 2002.

## A. PRO FORMA FINANCIAL INFORMATION

## Pro forma combined profit and loss accounts

	<i>Notes</i>	Year ended 31st December,		
		2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	3	853,395	666,355	391,479
Cost of sales		<u>(460,696)</u>	<u>(360,182)</u>	<u>(246,851)</u>
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		<u>(81,682)</u>	<u>(76,881)</u>	<u>(48,281)</u>
Profit from operations	4	240,796	162,701	61,896
Finance costs	5	(5,217)	(3,034)	(2,244)
Share of results of associates		<u>10,912</u>	<u>8,562</u>	<u>3,962</u>
Profit before taxation		246,491	168,229	63,614
Taxation	6	<u>(45,713)</u>	<u>(27,390)</u>	<u>(10,308)</u>
Net profit for the year		<u>200,778</u>	<u>140,839</u>	<u>53,306</u>
Dividend	8	<u>—</u>	<u>(525,000)</u>	<u>—</u>
Earnings per share — basic (cents)	9	<u>96.5</u>	<u>67.7</u>	<u>25.6</u>

## Pro forma combined balance sheets

	Notes	As at 31st December,		
		2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
<b>Non-current assets</b>				
Fixed assets	11	312,780	305,520	288,502
Interests in associates	12	36,472	43,759	47,669
Other investments	13	<u>2,120</u>	<u>2,331</u>	<u>2,331</u>
		<u>351,372</u>	<u>351,610</u>	<u>338,502</u>
<b>Current assets</b>				
Stocks	14	6,810	5,222	2,590
Trade receivables	15	106,890	85,917	34,396
Trade receivables from fellow subsidiaries		5,927	4,883	2,833
Other receivables		8,624	8,958	7,404
Amount due from a fellow subsidiary		456,000	28,000	117,992
Amounts due from associates		244	973	2,432
Taxation recoverable		134	2	274
Cash and bank balances		<u>40,360</u>	<u>26,625</u>	<u>7,365</u>
		<u>624,989</u>	<u>160,580</u>	<u>175,286</u>
<b>Current liabilities</b>				
Trade payables	16	44,309	56,804	21,738
Trade payable to fellow subsidiaries		10,830	11,423	8,672
Other payables		46,815	24,071	15,974
Amount due to an associate		720	1,033	16
Amounts due to related companies		—	1,229	—
Taxation payable		<u>17,796</u>	<u>5,894</u>	<u>3,096</u>
		<u>120,470</u>	<u>100,454</u>	<u>49,496</u>
Net current assets		<u>504,519</u>	<u>60,126</u>	<u>125,790</u>
Total assets less current liabilities		<u>855,891</u>	<u>411,736</u>	<u>464,292</u>
<b>Non-current liabilities</b>				
Amount due to immediate holding company	17	948,187	948,508	—
Amount due to a fellow subsidiary	18	63,000	—	—
Deferred taxation	19	<u>4,619</u>	<u>7,304</u>	<u>7,562</u>
		<u>1,015,806</u>	<u>955,812</u>	<u>7,562</u>
		<u>(159,915)</u>	<u>(544,076)</u>	<u>456,730</u>
<b>Capital and reserves</b>				
Share capital	20	—	—	—
Reserves	21	<u>(159,915)</u>	<u>(544,076)</u>	<u>456,730</u>
		<u>(159,915)</u>	<u>(544,076)</u>	<u>456,730</u>

## Pro forma combined statements of changes in equity

	Special reserve <i>(note 21)</i> <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1st January, 2000	—	(715,843)	3	355,147	(360,693)
Net profit for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>200,778</u>	<u>200,778</u>
As at 31st December, 2000	—	(715,843)	3	555,925	(159,915)
Net profit for the year	—	—	—	140,839	140,839
Dividend paid	<u>—</u>	<u>—</u>	<u>—</u>	<u>(525,000)</u>	<u>(525,000)</u>
As at 31st December, 2001	—	(715,843)	3	171,764	(544,076)
Arising from issue of share capital	947,500	—	—	—	947,500
Net profit for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>53,306</u>	<u>53,306</u>
As at 31st December, 2002	<u>947,500</u>	<u>(715,843)</u>	<u>3</u>	<u>225,070</u>	<u>456,730</u>

## Pro forma combined cash flow statements

	Year ended 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Cash flow from operating activities			
Profit before taxation	246,491	168,229	63,614
Adjustments for:			
Depreciation and amortisation	42,374	26,392	21,939
(Gain) loss on disposal of fixed assets	(5,110)	(1,305)	164
Impairment loss recognised in respect of other investments	—	1,369	—
Interest income	(1,074)	(1,369)	(623)
Interest expenses	5,217	3,034	2,244
Share of results of associates	(10,912)	(8,562)	(3,962)
Operating cash flows before movements in working capital	276,986	187,788	83,376
(Increase) decrease in stocks	(1,721)	1,588	2,632
(Increase) decrease in trade receivables	(5,238)	20,973	51,521
Decrease in trade receivables from fellow subsidiaries	2,559	1,044	2,050
(Increase) decrease in other receivables	(380)	(334)	1,554
(Increase) decrease in amount due from a fellow subsidiary	(213,427)	428,000	(89,992)
Increase in amounts due from associates	(213)	(729)	(1,459)
(Decrease) increase in trade payables	(13,342)	12,495	(35,066)
Increase (decrease) in trade payable to fellow subsidiaries	—	593	(2,751)
Decrease in other payables	(13,611)	(22,744)	(8,097)
Increase (decrease) in amount due to an associate	701	313	(1,017)
Increase (decrease) in amounts due to related companies	—	1,229	(1,229)
Cash generated from operations	32,314	630,216	1,522
Income tax paid	(39,908)	(35,200)	(13,268)
Interest paid	(5,217)	(3,034)	(2,244)
Net cash (used in) generated from operating activities	(12,811)	591,982	(13,990)
Cash flows from investing activities			
Interest received	1,074	1,369	623
Dividend received from an associate	2,000	—	200
Purchase of fixed assets	(13,846)	(19,836)	(5,185)
Proceeds from disposals of fixed assets	6,726	2,009	100
Loans advanced to associates	(8,500)	—	—
Purchase of other investments	(2,120)	(1,580)	—
Net cash used in investing activities	(14,666)	(18,038)	(4,262)



## Pro forma combined cash flow statements — continued

	Year ended 31st December,		
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cash flows from financing activities			
Dividends paid	—	(525,000)	—
Borrowings raised	11,588	61,321	45,000
Repayment of borrowings	<u>(2,000)</u>	<u>(124,000)</u>	<u>(46,008)</u>
Net cash generated from (used in) financing activities	<u>9,588</u>	<u>(587,679)</u>	<u>(1,008)</u>
Decrease in cash and cash equivalents	(17,889)	(13,735)	(19,260)
Cash and cash equivalents as at 1st January	<u>58,249</u>	<u>40,360</u>	<u>26,625</u>
Cash and cash equivalents as at 31st December, representing cash and bank balances	<u><u>40,360</u></u>	<u><u>26,625</u></u>	<u><u>7,365</u></u>

## NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION

**1. BASIS OF PREPARATION OF PRO FORMA COMBINED FINANCIAL INFORMATION**

As explained more fully in the section headed "Group reorganisation" of the Prospectus, it is intended that, after the passing of an ordinary resolution by the independent shareholders of China Resources Enterprise, Limited ("China Resources Enterprise"), the Company's holding company, at the extraordinary general meeting to be held on 15th July, 2003 approving the acquisition (details of which are set out in the section headed "Acquisition" of the Prospectus), China Resources Enterprise will transfer the entire issued share capital of Innovative Market to the Company for the consideration of HK\$456,730,258 in return for the allotment and issue of one share in the Company to China Resources Enterprise credited as fully paid (the "Transfer"). Upon completion of the Transfer, the Company will become the immediate holding company of Innovative Market and its subsidiaries.

The Company has not carried out any business since its incorporation and the Transfer has not been completed as at the date of this report. For the purpose of this report:

- (a) the Company would be regarded as the immediate holding company of Innovative Market as if the above-mentioned ordinary resolution approving the acquisition would have been passed by the independent shareholders of China Resources Enterprise and the Transfer would have been completed on or before the date of this report; and
- (b) the effects, if any, resulted from the above-mentioned acquisition have not been taken into consideration for the preparation of this Pro forma Combined Financial Information.

The Pro forma Group comprising the Company together with Innovative Market and its subsidiaries is regarded, for the purpose of this report, as a continuing entity. Accordingly, this Pro forma Combined Financial Information of the Pro forma Group has been prepared on the basis as if the Company had always been the holding company of the Pro forma Group throughout the three years ended 31st December, 2002.

All significant transactions, cash flows and balances within the Pro forma Group have been eliminated on combination.

**2. PRINCIPAL ACCOUNTING POLICIES**

The Pro forma Combined Financial Information has been prepared under the historical cost convention. The principal accounting policies which have been adopted in preparing the Pro forma Combined Financial Information set out in this report and which conform with accounting principles generally accepted in Hong Kong are as follows:

**Goodwill/Negative goodwill**

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Pro forma Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiary or associate at the date of acquisition. Negative goodwill arising from acquisition represents the excess of the Pro forma Group's interest in the fair value of identifiable assets and liabilities acquired over the cost of acquisition.

Since 1st January, 2001, the Pro forma Group has adopted Statement of Standard Accounting Practice 30 "Business Combinations" issued by the Hong Kong Society of Accountants and elected not to restate goodwill/(negative goodwill) previously charged against/(credited to) reserves. For acquisitions prior to 1st January, 2001, goodwill arising thereon was eliminated against reserves and will be charged to the pro forma combined profit and loss account at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 was credited to reserves and will be released to the pro forma combined profit and loss account at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions on or after 1st January, 2001 is amortised to the pro forma combined profit and loss account on a straight-line basis over its estimated useful life of not more than 20 years and is stated in the pro forma combined balance sheet at cost less any accumulated amortisation and any impairment loss.

Negative goodwill arising on acquisitions on or after 1st January, 2001 is presented as a deduction from assets and will be released to the pro forma combined profit and loss account based on an analysis of the circumstances from which the balance resulted. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Pro forma Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the pro forma combined profit and loss account when the future losses and expenses are recognised in the pro forma combined profit and loss account. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the pro forma combined profit and loss account over the remaining weighted average useful life of those identifiable acquired depreciable assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the pro forma combined profit and loss account immediately.

Where an indication of impairment exists, the carrying amount of goodwill previously written off against reserves is assessed and written down immediately to its recoverable amount.

### Interests in associates

The pro forma combined profit and loss account includes the Pro forma Group's share of the results of the associates for the Relevant Periods. In the pro forma combined balance sheet, interests in associates are stated at the Pro forma Group's share of the net assets of the associates less any identified impairment loss.

### Other investments

Other investments are investments in debt and equity securities, except those held either solely for the purpose of recovering advances or, as investments in subsidiaries, associates or joint ventures.

Other investments which are held for an identified long-term purpose are measured at cost as reduced by any impairment loss that is other than temporary.

### Fixed assets

Fixed assets are stated at cost less depreciation and amortisation and accumulated impairment losses, if any.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the pro forma combined profit and loss account.

Depreciation and amortisation are provided to write off the cost of fixed assets using the straight line method over their estimated useful lives. The estimated useful lives are as follows:

Land and buildings	Over the unexpired term of lease
Leasehold improvements	Over the unexpired term of lease
Furniture and equipment	3 to 10 years
Motor vehicles, trucks and mixers	5 years
Plant and machinery	3 to 10 years
Silo	10 years

### Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the pro forma combined profit and loss account.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount. Such reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the pro forma combined profit and loss account in the year in which the reversals are recognised.

**Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase, is determined on the first-in first-out method. Net realisable value is determined as the estimated net selling price less all further costs of production and the related costs of marketing, selling and distribution.

**Turnover**

Turnover represents the net amounts received and receivable for goods sold and services rendered during the Relevant Periods.

**Recognition of revenue**

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

Rental income from property letting under operating leases is recognised on a straight line basis over the periods of the respective leases.

Interest income is recognised in the pro forma combined profit and loss account as it accrues.

Dividend income from investments is recognised when the Pro forma Group's rights to receive payment have been established.

**Deferred taxation**

Deferred taxation is accounted for using the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be crystallised in the foreseeable future.

**Foreign exchange**

Transactions in currencies other than Hong Kong dollars are converted at the rates of exchange ruling on the transaction dates. Monetary assets and liabilities denominated in such currencies are re-translated at the rates of exchange ruling on the balance sheet date. Exchange differences are included in the determination of operating profit.

The financial statements of subsidiaries and associates reported in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates of exchange ruling on the balance sheet date. Exchange differences are dealt with as movements in reserves.

**Operating leases**

Rentals payable under operating leases are accounted for in the pro forma combined profit and loss account on a straight line basis over the relevant lease terms.

**Retirement benefit scheme contributions**

Payments to defined contribution retirement benefit schemes are charged as expenses as they fall due.

## 3. TURNOVER AND SEGMENT INFORMATION

**Business segments**

The Pro forma Group's principal activities are sales of goods and provision of services. They are subjected to common risks and return and regarded as a single business segment.

**Geographical segments**

All of the Pro forma Group's assets and liabilities are located in Hong Kong and operations for each of the Relevant Periods were substantially carried out in Hong Kong. Accordingly, no geographical segment information for the Relevant Period is presented.

## 4. PROFIT FROM OPERATIONS

	<b>Year ended 31st December,</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging:			
Directors' remuneration	—	—	—
Retirement benefit scheme contributions	2,466	1,355	1,367
Other staff costs	77,982	71,545	49,685
	<u>80,448</u>	<u>72,900</u>	<u>51,052</u>
Total staff costs			
Auditors' remuneration	505	418	432
Depreciation and amortisation	42,374	26,392	21,939
Impairment loss recognised in respect of other investments	—	1,369	—
Loss on disposal of fixed assets	—	—	164
Operating lease charges on land and buildings	11,461	12,989	12,100
and after crediting:			
Gain on disposal of fixed assets	5,110	1,305	—
Interest income	1,074	1,369	623
Rental income	1,060	150	—
	<u>1,060</u>	<u>150</u>	<u>—</u>

## 5. FINANCE COSTS

	<b>Year ended 31st December,</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:			
Bank borrowings wholly repayable within five years	(2)	(1)	—
Other borrowings wholly repayable within five years	(5,215)	(3,033)	(2,244)
	<u>(5,217)</u>	<u>(3,034)</u>	<u>(2,244)</u>

## 6. TAXATION

	Year ended 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Company and subsidiaries			
Hong Kong Profits Tax			
— provision for the year	(45,535)	(26,064)	(9,760)
— (under)over provision in previous years	<u>(2,604)</u>	<u>2,634</u>	<u>(438)</u>
	(48,139)	(23,430)	(10,198)
Deferred taxation	<u>4,796</u>	<u>(2,685)</u>	<u>(258)</u>
	(43,343)	(26,115)	(10,456)
Share of taxation of associates			
— Hong Kong	<u>(2,370)</u>	<u>(1,275)</u>	<u>148</u>
	<u><u>(45,713)</u></u>	<u><u>(27,390)</u></u>	<u><u>(10,308)</u></u>

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profits for each of the Relevant Periods.

## 7. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

(i) Details of directors' remuneration are as follows:

	Year ended 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Directors:			
Fees	—	—	—
Salaries and other benefits	—	—	526
Provident fund contributions	—	—	36
Performance related incentive payments	<u>—</u>	<u>—</u>	<u>—</u>
	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>562</u></u>

The directors' remuneration for each of the Relevant Periods fall within the following band:

	Number of directors		
	2000	2001	2002
Nil-HK\$1,000,000	<u><u>5</u></u>	<u><u>5</u></u>	<u><u>5</u></u>

(ii) Employees

Details of remuneration paid by the Pro forma Group to the five highest paid individuals for each of the Relevant Periods are as follows:

	Year ended 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Salaries and other benefits	8,775	8,604	6,340
Provident fund contributions	621	652	510
Performance related incentive payments	<u>7,897</u>	<u>5,184</u>	<u>2,704</u>
	<u><u>17,293</u></u>	<u><u>14,440</u></u>	<u><u>9,554</u></u>

Remuneration of the five highest paid individuals for each of the Relevant Periods falls within the following bands:

	Number of individuals		
	2000	2001	2002
Nil-HK\$1,000,000	—	—	2
HK\$1,000,001-HK\$1,500,000	—	2	—
HK\$1,500,001-HK\$2,000,000	2	—	1
HK\$2,000,001-HK\$2,500,000	1	1	—
HK\$2,500,001-HK\$3,000,000	—	—	1
HK\$3,500,001-HK\$4,000,000	—	—	1
HK\$4,500,001-HK\$5,000,000	—	2	—
HK\$5,500,001-HK\$6,000,000	1	—	—
HK\$6,000,001-HK\$6,500,000	1	—	—
	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, no remuneration was paid by the Pro forma Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Pro forma Group or as a compensation for loss of office. No directors of the Company waived any remuneration during the Relevant Periods.

#### 8. DIVIDEND

For each of the Relevant Periods, the subsidiary of the Company declared and paid dividend to its sole shareholder as follows:

	Year ended 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Dividend declared and paid by Innovative Market	—	(525,000)	—
	<u>—</u>	<u>(525,000)</u>	<u>—</u>

#### 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the pro forma combined net profit for each of the Relevant Periods and on the assumption that 208,040,521 shares of the Company were deemed to have been issued as described more fully in the section headed "Acquisition" in the Prospectus.

No diluted earnings per share is presented as the Company did not have any dilutive potential shares.

#### 10. RETIREMENT BENEFIT SCHEMES

The Pro forma Group operates a defined contribution retirement benefit scheme for its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Pro forma Group in funds under the control of an independent trustee. The contribution rate ranged from 5% to 15% of the salary.

The Pro forma Group participates in a pension scheme, which had granted exemption under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December, 2000 and is funded by contributions from employers and employees according to the provisions of the MPF Ordinance.

During each of the Relevant Periods, the total amounts contributed by the Pro forma Group to these schemes and charged to the pro forma combined profit and loss account represent contributions payable to the funds by the Pro forma Group at rates specified in the rules of the schemes, are set out as below:

	Year ended 31st December,		
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Group contribution to staff provident fund	2,466	3,173	2,684
Forfeited contributions utilised	—	(1,818)	(1,317)
Amount charged to pro forma combined profit and loss account	<u>2,466</u>	<u>1,355</u>	<u>1,367</u>
Un-utilised forfeited contributions	<u>2,481</u>	<u>1,082</u>	<u>214</u>

## 11. FIXED ASSETS

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Motor vehicles, trucks and mixers HK\$'000	Plant and machinery HK\$'000	Silo HK\$'000	Total HK\$'000
<b>COST</b>							
As at 1st January, 2000	259,960	1,608	20,594	57,953	129,328	14,167	483,610
Additions	—	—	1,106	7,164	5,576	—	13,846
Disposals	—	—	(7,575)	(17,198)	—	—	(24,773)
As at 31st December, 2000	259,960	1,608	14,125	47,919	134,904	14,167	472,683
Additions	—	2,417	1,522	6,687	8,837	373	19,836
Disposals	—	(1,145)	(42)	(7,748)	(7,168)	—	(16,103)
As at 31st December, 2001	259,960	2,880	15,605	46,858	136,573	14,540	476,416
Additions	—	—	1,489	320	3,376	—	5,185
Disposals	—	—	—	(2,636)	(10,547)	—	(13,183)
As at 31st December, 2002	<u>259,960</u>	<u>2,880</u>	<u>17,094</u>	<u>44,542</u>	<u>129,402</u>	<u>14,540</u>	<u>468,418</u>
<b>DEPRECIATION AND AMORTISATION</b>							
As at 1st January, 2000	11,763	975	12,382	46,779	65,597	3,190	140,686
Provided for the year	5,381	174	5,556	5,758	24,088	1,417	42,374
Eliminated on disposals	—	—	(7,485)	(15,672)	—	—	(23,157)
As at 31st December, 2000	17,144	1,149	10,453	36,865	89,685	4,607	159,903
Provided for the year	5,264	755	1,432	5,343	12,165	1,433	26,392
Eliminated on disposals	—	(1,145)	(16)	(7,070)	(7,168)	—	(15,399)
As at 31st December, 2001	22,408	759	11,869	35,138	94,682	6,040	170,896
Provided for the year	5,264	576	1,617	4,425	8,603	1,454	21,939
Eliminated on disposals	—	—	—	(2,513)	(10,406)	—	(12,919)
As at 31st December, 2002	<u>27,672</u>	<u>1,335</u>	<u>13,486</u>	<u>37,050</u>	<u>92,879</u>	<u>7,494</u>	<u>179,916</u>
<b>NET BOOK VALUES</b>							
As at 31st December, 2000	<u>242,816</u>	<u>459</u>	<u>3,672</u>	<u>11,054</u>	<u>45,219</u>	<u>9,560</u>	<u>312,780</u>
As at 31st December, 2001	<u>237,552</u>	<u>2,121</u>	<u>3,736</u>	<u>11,720</u>	<u>41,891</u>	<u>8,500</u>	<u>305,520</u>
As at 31st December, 2002	<u>232,288</u>	<u>1,545</u>	<u>3,608</u>	<u>7,492</u>	<u>36,523</u>	<u>7,046</u>	<u>288,502</u>



	As at 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Net book values of the property interests comprise:			
Hong Kong			
— Properties held on long leases	21,657	21,167	20,678
— Properties held on medium-term lease	220,744	215,982	211,220
The People's Republic of China (the "PRC")			
Properties held on medium-term leases	<u>415</u>	<u>403</u>	<u>390</u>
	<u>242,816</u>	<u>237,552</u>	<u>232,288</u>

The Pro forma Group has pledged certain land and buildings to a bank to secure the credit facilities of HK\$5,000,000 granted to Pro forma Group. At the balance sheet dates, the net book value of the pledged land and buildings is as follows:

	As at 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Pledged land and buildings	<u>4,998</u>	<u>4,888</u>	<u>4,777</u>

## 12. INTERESTS IN ASSOCIATES

	As at 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Share of net assets	18,472	25,759	29,669
Loan to associate	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>
	<u>36,472</u>	<u>43,759</u>	<u>47,669</u>

Loan to associate is unsecured, non-interest bearing and does not have fixed repayment terms.

## 13. OTHER INVESTMENTS

	As at 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Unlisted shares in Hong Kong, at cost	2,120	3,700	3,700
Less: Impairment loss recognised	<u>—</u>	<u>(1,369)</u>	<u>(1,369)</u>
	<u>2,120</u>	<u>2,331</u>	<u>2,331</u>

## 14. STOCKS

	As at 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Raw materials	6,566	4,879	2,316
Spare parts	<u>244</u>	<u>343</u>	<u>274</u>
	<u>6,810</u>	<u>5,222</u>	<u>2,590</u>

At the balance sheet date, all the stocks were carried at cost.

**15. TRADE RECEIVABLES**

The credit terms of the Pro forma Group ranges from 30 to 60 days. The aging analysis of trade receivables is stated as follows:

	As at 31st December,		
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0-90 days	105,360	84,823	33,752
91-180 days	1,420	844	181
181-365 days	<u>110</u>	<u>250</u>	<u>463</u>
	<u>106,890</u>	<u>85,917</u>	<u>34,396</u>

**16. TRADE PAYABLES**

The aging analysis of trade payables is stated as follows:

	As at 31st December,		
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0-90 days	44,012	56,784	13,783
91-180 days	7	18	26
181-365 days	<u>290</u>	<u>2</u>	<u>7,929</u>
	<u>44,309</u>	<u>56,804</u>	<u>21,738</u>

**17. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY**

The amount is unsecured, non-interest bearing and does not have a fixed repayment term. In the opinion of the Company's directors, demand for repayment of the amount will not be made by the immediate holding company within the next twelve months from the balance sheet date, accordingly, the amount is shown as a non-current liability. The amount was capitalised on 31st December, 2002.

**18. AMOUNT DUE TO A FELLOW SUBSIDIARY**

The amount was unsecured, non-interest bearing and fully repaid in 2001.

**19. DEFERRED TAXATION**

	As at 31st December,		
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At 1st January,	9,415	4,619	7,304
(Credit) charge for the year	<u>(4,796)</u>	<u>2,685</u>	<u>258</u>
At 31st December,	<u>4,619</u>	<u>7,304</u>	<u>7,562</u>

The deferred taxation liability represents the tax effect of timing differences arising as a result of the excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements.

**20. SHARE CAPITAL**

The Company was incorporated on 13th March, 2003, with an authorised share capital of HK\$100,000,000 divided into 1,000,000,000 shares of HK\$0.10 each. Accordingly, nothing has been presented as share capital of the Pro forma Group on its pro forma combined balance sheets as at 31st December, 2000, 2001 and 2002.

Details of changes of the Company's share capital during the period from its date of incorporation to the date of this report are set out in section C of this report.

**21. RESERVES**

The special reserve of the Pro forma Group represents the difference between the nominal amount of the share capital issued by Innovative Market for the capitalisation of the amount due to immediate holding company.

At 31st December, 2002, the retained profits of the Pro forma Group include retained losses of approximately HK\$19,116,000 attributable to associates of the Pro forma Group.

**22. MAJOR NON-CASH TRANSACTIONS**

During the year ended 31st December, 2002, the amount due to immediate holding company amounting to HK\$947,500,000 was capitalised by way of the allotment of 1 share of US\$1 of Innovative Market.

**23. CONTINGENT LIABILITIES**

	As at 31st December,		
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Guarantees given to banks in respect of credit facilities in the form of short term borrowings utilised by an associate	—	9,263	10,116
Guarantees given to financial institutions to facilitate hire purchase loans granted to the Pro forma Group's sub-contractors for acquisition of trucks which were for the exclusive use by the Pro forma Group	<u>24,520</u>	<u>17,879</u>	<u>9,721</u>
	<u><u>24,520</u></u>	<u><u>27,142</u></u>	<u><u>19,837</u></u>

**24. OPERATING LEASE COMMITMENTS**

The Pro forma Group had outstanding commitments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	As at 31st December,		
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	4,143	7,305	7,689
In the second to fifth year inclusive	<u>2,448</u>	<u>7,625</u>	<u>749</u>
	<u><u>6,591</u></u>	<u><u>14,930</u></u>	<u><u>8,438</u></u>

## 25. RELATED PARTY TRANSACTIONS

The Pro forma Group entered into the following significant transactions with related parties for each of the Relevant Periods:

Name of related company	Notes	Nature of transaction	Year ended 31st December,		
			2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
<i>Continuing Transactions:</i>					
China Resources Cement Company Limited	(i)	Testing fees received	821	465	461
China Resources Construction Company Limited	(i)	Sales of concrete	41,917	23,712	18,999
	(i)	Testing fees received	596	400	981
CRC Petrol Filling Station Company Limited	(ii)	Purchase of fuel	—	159	1,804
Redland Precast Concrete Products Limited	(i)	Testing fees received	1,438	1,241	1,828
Strong Progress Limited	(i)	Testing fees received	29	28	19
Wygetta Quarry Limited ("Wygetta")	(iv)	Purchase of aggregates	64,020	30,669	9,243
<i>Discontinued Transactions:</i>					
Cement Connections Limited	(ii)	Purchase of dry mortar	—	2,028	—
China Resources Machinery and Minmetals (Holdings) Co., Limited	(ii)	Purchase of cement	65,243	80,408	48,450
CRE Finance (Hong Kong) Limited	(iii)	Interest paid	5,215	3,033	2,244
Man Wah Quarry Limited	(ii)	Purchase of aggregates	19,796	18,525	10,097
Redland Far East Limited	(i)	Sales of pulverized fuel ash	961	1,133	—
Share Long Company Limited	(vi)	Management fees paid	2,000	2,000	—
Upward Development Limited	(v)	Rental expenses paid	510	720	340

Mr. Chan Siu Cheung, the ex-director of subsidiaries of the Company, is also the director of Wygetta, Man Wah Quarry Limited, Cement Connections Limited, Share Long Company Limited, Upward Development Limited and Redland Far East Limited.

Man Wah Quarry Limited is an associate of the Pro forma Group.

Redland Precast Concrete Products Limited is an associate of the Pro forma Group.

For all other related companies, they are the subsidiaries of the Company's ultimate holding company.

*Notes:*

- (i) The prices of these transactions were determined between the parties with reference to market prices.
- (ii) The purchase prices of these transactions were determined between the parties with reference to market prices.
- (iii) The interest paid was charged at interest rate which is fixed at the Hong Kong prime rate less 0.5%.
- (iv) The subsidiary of the Pro forma Group, Redland Construction Materials Limited ("RCML") had entered into an agreement with Wygetta on 3rd September, 1999. According to the agreement, RCML will purchase all the crushed aggregates produced at Hung Wan Quarry which is operated by Wygetta, for a period of 10 years commencing from 1st September, 1999. The price for the aggregates of different types is HK\$39 per tonne and will be subject to adjustment in accordance with the ex-quarry prices for such aggregates as published by Members of Hong Kong Contract Quarry Association.
- (v) The rental expense was determined between the parties in accordance with term of agreement.
- (vi) The management fee was determined by the management of the Group and this arrangement was terminated in December 2001.

The Company's directors have represented that the above related party transactions were entered into in the ordinary course of the Pro forma Group's business based on normal commercial terms.

**B. DIRECTORS' REMUNERATION**

Save as disclosed herein, no remuneration has been paid or is payable by the Company or any of the subsidiaries in respect of each of the Relevant Periods.

Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments, excluding discretionary bonuses, payable to the directors of the Company for the year ending 31st December, 2003 will be approximately HK\$2.4 million. Further details concerning the terms of which are set out in the section headed directors' remuneration in Appendix IX of the Prospectus.

**C. SUBSEQUENT EVENTS**

Subsequent to 31st December, 2002, the following significant transactions took place:

- (a) Upon the incorporation of the Company, its authorized share capital was HK\$100,000,000 divided into 1,000,000,000 shares of HK\$0.10 each, of which one share was transferred to China Resources Enterprise by the subscriber on 13th March, 2003 at par.
- (b) On 25th March, 2003, an additional one share of HK\$0.10 was allotted and issued at HK\$100,000,000 to China Resources Enterprise, such new share ranks pari passu in all respects with the then existing share.

**D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies comprising the Pro forma Group in respect of any period subsequent to 31st December, 2002.

**E. ULTIMATE HOLDING COMPANY**

In the opinion of the Company's directors, the Company's ultimate holding company is China Resources National Corporation, a company established in the PRC.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*