

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.

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**Deloitte
Touche
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26th June, 2003

The Directors

Clear Bright Investments Limited

晴朗投資有限公司

Anglo Chinese Corporate Finance, Limited

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) relating to Clear Bright Investments Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31st December, 2002 (the “Relevant Periods”) and for inclusion in the prospectus dated 26th June, 2003 (the “Prospectus”) of China Resources Cement Holdings Limited, the Company’s immediate holding company upon completion of the acquisition (the “Acquisition”) as detailed in the section headed “Acquisition” in the Prospectus.

The Company was incorporated in the British Virgin Islands as an international business company with limited liability under International Business Companies Ordinance on 8th January, 2003.

Through a group reorganisation as more fully explained in the section C of this report (the “Group Reorganisation”), the Company has since 31st March and 20th May, 2003, respectively became the holding company of the companies comprising the Group.

At the date of this report, the Company has the following subsidiaries, all of which are private limited companies or, if established outside Hong Kong, have substantially the same characteristics as a private limited company in Hong Kong:

Name of subsidiary	Place and date of incorporation/ establishment	Form of business	Issued share/ registered capital	Attributable equity interest of the Company	Principal activities
China Resources Cement Company Limited	Hong Kong 25th January, 1994	Limited liability company	HK\$1,000,000	70%	Trading of clinker and cement
東莞華潤水泥廠有限公司 Dongguan Huarun Cement Manufactory Co., Ltd. ("Dongguan Huarun")	People's Republic of China (the "PRC") 23rd May, 1994	Sino-foreign equity joint venture	HK\$149,000,000	70%	Trading and manufacturing of cement

No audited financial statements have been prepared for the Company since its date of incorporation as the Company did not have any transactions other than those related to the Group Reorganisation. We have, however, reviewed all relevant transactions of the Company since its date of incorporation.

We have acted as the auditors of China Resources Cement Company Limited for the Relevant Periods.

The statutory financial statements of Dongguan Huarun for each of the three years ended 31st December, 2002 were prepared in accordance with the relevant accounting rules and financial regulations applicable to foreign invested enterprises established in the PRC and were audited by 廣州信瑞有限責任會計師事務所 for each of the two years ended 31st December, 2000 and 2001 and by 東莞市德信康會計師事務所 for the year ended 31st December, 2002. For the purpose of this report, we have however, undertaken our own independent audits of the financial statements, which were prepared in accordance with accounting principles generally accepted in Hong Kong, for the Relevant Periods in accordance with Statements of Auditing Standards in Hong Kong.

We have examined the audited financial statements of the companies comprising the Group for the Relevant Periods. 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 Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the audited financial statements (the "Underlying Financial Statements") of the companies comprising the Group, on the basis set out in note 1 to the 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 Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

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

A. FINANCIAL INFORMATION

Combined profit and loss accounts

	Notes	Year ended 31st December,		
		2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Turnover	3	209,589	329,909	324,142
Cost of sales		<u>(175,584)</u>	<u>(259,245)</u>	<u>(253,760)</u>
Gross profit		34,005	70,664	70,382
Other operating income		4,383	9,057	4,290
Selling and distribution expenses		(7,966)	(7,500)	(14,701)
General and administrative expenses		(14,482)	(19,045)	(21,133)
Impairment loss in respect of goodwill arising on acquisition of additional interests in subsidiaries		(3,236)	—	(557)
Negative goodwill arising on acquisition of additional interest in a subsidiary realised		<u>—</u>	<u>—</u>	<u>919</u>
Profit from operations	4	12,704	53,176	39,200
Finance costs	7	<u>(39,997)</u>	<u>(38,082)</u>	<u>(25,224)</u>
(Loss) profit before minority interests		(27,293)	15,094	13,976
Minority interests		<u>11,175</u>	<u>(4,981)</u>	<u>(3,993)</u>
Net (loss) profit for the year		<u><u>(16,118)</u></u>	<u><u>10,113</u></u>	<u><u>9,983</u></u>
Dividend	8	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
(Loss) earnings per share — basic (cents)	9	<u><u>(17.3)</u></u>	<u><u>10.9</u></u>	<u><u>10.7</u></u>

Combined balance sheets

	Notes	As at 31st December,		
		2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Non-current assets				
Fixed assets	11	<u>531,114</u>	<u>503,895</u>	<u>485,484</u>
Current assets				
Stocks	12	23,787	29,926	26,402
Trade receivables	13	45,644	87,701	73,557
Trade receivable from a holding company		3,574	20,787	10,602
Trade receivable from minority interest		—	5,836	2,500
Other receivables		1,622	1,600	2,361
Amount due from a holding company		97,914	103,601	—
Amounts due from fellow subsidiaries		—	—	14,631
Pledged bank deposits	14	1,154	834	—
Cash and bank balances	15	<u>13,984</u>	<u>19,036</u>	<u>18,395</u>
		<u>187,679</u>	<u>269,321</u>	<u>148,448</u>
Current liabilities				
Trade payables	16	10,901	13,393	10,734
Trade payable to minority interests		16,112	13,611	18,367
Other payables		36,847	36,769	36,420
Amount due to a holding company	17	226,660	141,259	—
Amounts due to minority interests	18	21,088	40,351	—
Bank loans — amount due within one year	19	<u>224,124</u>	<u>421,397</u>	<u>201,775</u>
		<u>535,732</u>	<u>666,780</u>	<u>267,296</u>
Net current liabilities		<u>(348,053)</u>	<u>(397,459)</u>	<u>(118,848)</u>
Total assets less current liabilities		<u>183,061</u>	<u>106,436</u>	<u>366,636</u>
Non-current liabilities				
Bank loans — amount due after one year	19	154,195	62,493	39,805
Amounts due to minority interests	18	—	—	60,530
Loans from holding companies	20	<u>—</u>	<u>—</u>	<u>208,705</u>
		<u>154,195</u>	<u>62,493</u>	<u>309,040</u>
Minority interests		<u>9,526</u>	<u>14,501</u>	<u>17,279</u>
Net assets		<u>19,340</u>	<u>29,442</u>	<u>40,317</u>
Capital and reserves				
Paid-up capital	21	84,900	84,900	85,766
Reserves	22	<u>(65,560)</u>	<u>(55,458)</u>	<u>(45,449)</u>
		<u>19,340</u>	<u>29,442</u>	<u>40,317</u>

Combined statements of changes in equity

	Paid-up capital <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1st January, 2000	76,500	(228)	1,461	(50,957)	26,776
Acquisition of additional interest in subsidiaries	8,400	(3,236)	—	—	5,164
Impairment loss in respect of goodwill arising on acquisition of additional interest in subsidiaries	—	3,236	—	—	3,236
Exchange differences arising from translation of financial statements of overseas operations not recognised in profit and loss account	—	—	282	—	282
Net loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(16,118)</u>	<u>(16,118)</u>
As at 31st December, 2000	84,900	(228)	1,743	(67,075)	19,340
Exchange differences arising from translation of financial statements of overseas operations not recognised in profit and loss account	—	—	(11)	—	(11)
Net profit for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,113</u>	<u>10,113</u>
As at 31st December, 2001	84,900	(228)	1,732	(56,962)	29,442
Acquisition of additional interest in subsidiaries	866	—	—	—	866
Exchange differences arising from translation of financial statements of overseas operations not recognised in profit and loss account	—	—	26	—	26
Net profit for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,983</u>	<u>9,983</u>
As at 31st December, 2002	<u>85,766</u>	<u>(228)</u>	<u>1,758</u>	<u>(46,979)</u>	<u>40,317</u>

Combined cash flow statements

	Year ended 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Cash flows from operating activities			
(Loss) profit before minority interests	(27,293)	15,094	13,976
Adjustments for:			
Depreciation and amortisation	31,598	31,734	32,351
Loss on disposal of fixed assets	—	—	11
Impairment loss in respect of goodwill arising on acquisition of additional interest in subsidiaries	3,236	—	557
Negative goodwill arising on acquisition of additional interest in a subsidiary realised	—	—	(919)
Interest income	(1,084)	(7,929)	(1,808)
Interest expenses	39,997	38,082	25,224
Operating cash flows before movements in working capital	46,454	76,981	69,392
Effect of foreign exchange rate changes on inter-company balances	(1,565)	62	(53)
(Increase) decrease in stocks	(6,740)	(6,146)	3,540
(Increase) decrease in trade receivables	(25,661)	(47,908)	20,036
Decrease (increase) in trade receivable from a holding company	1,333	(17,213)	10,185
(Increase) decrease in other receivables	(311)	21	(756)
Increase in trade receivable from minority interest	—	—	(2,500)
Increase in amounts due from fellow subsidiaries	—	—	(14,631)
Increase (decrease) in trade payables	3,945	2,495	(2,667)
Increase (decrease) in trade payable to minority interest	1,921	(2,501)	4,756
Increase (decrease) in other payables	15,012	(65)	(372)
Cash generated from operations	34,388	5,726	86,930
Interest paid	(39,997)	(38,082)	(25,224)
Net cash (used in) generated from operating activities	(5,609)	(32,356)	61,706
Cash flows from investing activities			
Interest received	1,084	7,929	1,808
Consideration paid on acquisition of additional interest in subsidiaries	(8,400)	—	(866)
Purchase of fixed assets	(2,616)	(4,715)	(13,619)
Net (advance to) repayment from a holding company	(97,914)	(5,688)	103,602
(Increase) decrease in pledged bank deposits	(1,154)	320	834
Net cash (used in) generated from investing activities	(109,000)	(2,154)	91,759

Combined cash flow statements — continued

	Year ended 31st December,		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Cash flows from financing activities			
Bank loans raised	141,469	235,494	84,833
Repayments of bank loans	(84,237)	(129,792)	(327,442)
Net advance from (repayment to) a holding company	—	141,259	(53,754)
Loans from holding companies	—	—	121,200
Net advances from (repayments to) minority interests	41,747	(207,397)	20,179
Increase in paid-up capital upon acquisition of additional interest in subsidiaries	<u>8,400</u>	<u>—</u>	<u>866</u>
Net cash generated from (used in) financing activities	<u>107,379</u>	<u>39,564</u>	<u>(154,118)</u>
Net (decrease) increase in cash and cash equivalents	(7,230)	5,054	(653)
Cash and cash equivalents at 1st January	21,179	13,984	19,036
Effect of exchange rate changes on cash and cash equivalents	<u>35</u>	<u>(2)</u>	<u>12</u>
Cash and cash equivalents at 31st December, representing cash and bank balances	<u><u>13,984</u></u>	<u><u>19,036</u></u>	<u><u>18,395</u></u>

Notes to the financial statements

1. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The combined profit and loss accounts, combined statements of changes in equity and the combined cash flow statements for each of the periods referred to in this report have been prepared as if the current group structure had been in existence throughout the Relevant Periods. The combined balance sheets of the Group as at 31st December, 2000, 2001 and 2002 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those date.

All significant intra-group transactions and balances have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention. The principal accounting policies which have been adopted in preparing the 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 consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiary at the date of acquisition. Negative goodwill arising from acquisitions of subsidiaries represents the excess of the Group's interest in the fair value of identifiable assets and liabilities acquired over the cost of acquisition.

Since 1st January, 2001, the Group has adopted Statement of Standard Account 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 profit and loss account at the time of disposal of the relevant subsidiary, 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 combined profit and loss account at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisitions on or after 1st January, 2001 is amortised to the 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 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 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 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 profit and loss account when the future losses and expenses are recognised in the profit and loss account. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the 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 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.

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.

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

Fixed assets

Fixed assets, other than construction in progress, 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 sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

The cost of land use right is amortised over the period of the right using the straight line method.

Properties, plant and equipment in the course of construction for production, rent or administrative purposes or for purposes not yet determined, are carried at cost less accumulated impairment losses, if any. Cost includes all construction expenditure, professional fees, borrowing cost capitalised and other relevant expenses directly attributable to such projects.

No provision for depreciation is made on construction in progress until such time when construction work is completed and the costs of construction are transferred to the appropriate category of fixed assets.

Depreciation and amortisation is provided to write off the cost of other fixed assets over their estimated useful lives, after taking into account of their estimated residual value. The estimated useful lives are as follows:

Land	Over the unexpired term of leases
Buildings	25 to 50 years
Leasehold improvements	Over the unexpired term of leases
Cement barge	11 years
Furniture and equipment	5 to 16 ² / ₃ years
Motor vehicles	5 to 10 years
Pier	25 years
Plant and machinery	5 to 40 years
Silo	25 to 40 years

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

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 loss is recognised in the 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. Reversal of impairment loss is credited to the profit and loss account in the year in which the reversal is recognised.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is calculated using 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.

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 currencies

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 currencies other than the Hong Kong dollars are re-translated at the rates of exchange ruling on the balance sheet date. Exchange differences are included in the determination of operating profit.

Operating leases

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

Retirement benefit scheme contributions

The retirement benefit scheme contributions charged to the profit and loss accounts represent the amount of contributions payable by the Group under defined contribution retirement benefit schemes and defined contribution mandatory provident fund schemes.

The pension cost, which represents the amount payable in accordance with the regulations promulgated by the local municipal government of the PRC in which the subsidiary of the Company is operated, is charged to the profit and loss account as incurred.

3. TURNOVER AND SEGMENT INFORMATION

Business segments

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

Geographical segments

The Group's operations are in the PRC and Hong Kong. The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods:

	Turnover by geographical market		
	Year ended 31st December,		
	2000	2001	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC	113,099	232,301	264,864
Hong Kong	<u>96,490</u>	<u>97,608</u>	<u>59,278</u>
	<u><u>209,589</u></u>	<u><u>329,909</u></u>	<u><u>324,142</u></u>

Contribution to profit by geographical market has not been presented as the contribution to profit from each market is substantially in line with the overall group ratio of profit to turnover.

The following table provides an analysis of the carrying amount of segment assets and additions to fixed asset analysed by the geographical areas in which the assets are located:

	As at 31st December,		
	2000	2001	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of segment assets:			
PRC	598,260	637,774	610,064
Hong Kong	<u>120,533</u>	<u>135,442</u>	<u>23,868</u>
	<u><u>718,793</u></u>	<u><u>773,216</u></u>	<u><u>633,932</u></u>
Additions to fixed assets:			
PRC	2,612	4,613	5,055
Hong Kong	<u>4</u>	<u>102</u>	<u>8,564</u>
	<u><u>2,616</u></u>	<u><u>4,715</u></u>	<u><u>13,619</u></u>

4. PROFIT FROM OPERATIONS

	Year ended 31st December,		
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:			
Directors' remuneration	—	—	—
Other staff costs	5,111	7,315	8,690
Pension cost	<u>73</u>	<u>90</u>	<u>116</u>
	<u>5,184</u>	<u>7,405</u>	<u>8,806</u>
Auditors' remuneration			
— Current year	100	158	153
— Underprovision in prior years	145	14	—
Allowance for bad debts	—	2,470	4,421
Depreciation and amortisation	31,598	31,734	32,351
Loss on disposal of fixed assets	—	—	11
Operating lease rentals in respect of land and buildings	448	342	190
and after crediting:			
Interest income	<u>1,084</u>	<u>7,929</u>	<u>1,808</u>

5. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

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

	Year ended 31st December,		
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Directors:			
Fees	—	—	—
Salaries and other benefits	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>

Emoluments of the directors for each of the Relevant Periods falls within the following band:

	Number of directors		
	2000	2001	2002
Nil - HK\$1,000,000	<u>2</u>	<u>2</u>	<u>2</u>

(ii) Employees

Details of remuneration paid by the Group to the five highest paid individuals (including directors, details of whose emoluments are set out above, and employees) for each of the periods referred to in this report are as follows:

	Year ended 31st December,		
	2000	2001	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	<u>681</u>	<u>933</u>	<u>1,076</u>

Emoluments of the five highest paid individuals for each of the Relevant Periods falls within the following band:

	Number of individuals		
	2000	2001	2002
Nil - HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>
Number of directors included	—	—	—
Number of other employees	<u>5</u>	<u>5</u>	<u>5</u>
	<u>5</u>	<u>5</u>	<u>5</u>

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

6. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit for the two years ended 31st December, 2000 and 31st December, 2002 and the Group's estimated assessable profit for the year ended 31st December, 2001 was wholly absorbed by tax losses brought forward.

Pursuant to the relevant laws and regulations in the PRC, a subsidiary of the Company is entitled to full exemption from PRC Enterprise Income Tax for the first two years and 50% reduction for the following three years commencing from the first profitable year of operation after fully set off against the accumulated losses brought forward. No provision for taxation has been made in the financial statements during the Relevant Periods as the estimated assessable profit of this subsidiary in the PRC for the two years ended 31st December, 2001 and 2002 was wholly absorbed by tax losses brought forward.

Details of the unrecognised deferred taxation are set out in note 23.

7. FINANCE COSTS

	Year ended 31st December,		
	2000	2001	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:			
— Bank borrowings wholly repayable within five years	22,456	26,376	18,800
— Amount due to immediate holding company	15,907	9,394	4,310
— Amount due to intermediate holding company	9	23	—
— Amounts due to minority interests	<u>1,625</u>	<u>2,289</u>	<u>2,114</u>
	<u>39,997</u>	<u>38,082</u>	<u>25,224</u>

8. DIVIDEND

During the Relevant Periods, the Company and its subsidiaries did not declare for any dividend.

9. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share for the Relevant Periods is based on the combined net (loss) profit for each of the Relevant Periods and on the assumption that approximately 93,054,000 shares of China Resources Cement Holdings Limited were deemed to have been issued during the three years ended 31st December, 2002 as part of the total number of approximately 154.7 million shares to be issued pursuant to the acquisition (subject to adjustment) as described in section headed "Acquisition" in the Prospectus.

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

10. RETIREMENT BENEFIT SCHEMES

The 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 Group in funds under the control of an independent trustee.

The Group participates in a pension scheme, which was registered 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.

The Group also participates in a defined contribution retirement benefit scheme, for all of its employees, organised by the local government of Dongguan, the PRC. All employees of Dongguan Huarun are entitled to an annual pension equal to a fixed portion of their individual final basic salaries at their retirement date. The Group is required to make contributions to the retirement scheme at the rate of 11% of the basic salaries of its employees.

The total contributed incurred in this connection for the Relevant Period were approximately HK\$73,000, HK\$90,000 and HK\$116,000. No forfeited contributions may be used by the employer to reduce the existing level of contributions.

11. FIXED ASSETS

	Land and buildings	Leasehold improvements	Cement barge	Furniture and equipment	Motor vehicles	Pier	Plant and machinery	Silo	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP										
COST										
As at 1st January, 2000	63,988	7,408	—	1,377	1,620	69,144	378,049	95,060	—	616,646
Currency realignment	446	50	—	6	11	482	2,637	663	—	4,295
Additions	—	—	—	56	—	—	575	—	1,985	2,616
As at 31st December, 2000	64,434	7,458	—	1,439	1,631	69,626	381,261	95,723	1,985	623,557
Currency realignment	(24)	(3)	—	—	—	(26)	(144)	(36)	(1)	(234)
Transfer	—	—	—	19	—	—	1,446	2,567	(4,032)	—
Additions	—	—	—	382	728	—	1,343	—	2,262	4,715
Disposals	—	(246)	—	(332)	—	—	—	—	—	(578)
As at 31st December, 2001	64,410	7,209	—	1,508	2,359	69,600	383,906	98,254	214	627,460
Currency realignment	42	5	—	1	1	46	254	65	—	414
Transfer	—	136	—	—	—	—	1,519	265	(1,920)	—
Additions	—	—	8,543	252	1,361	—	1,598	—	1,865	13,619
Disposals	—	—	—	(32)	—	—	—	—	—	(32)
As at 31st December, 2002	64,452	7,350	8,543	1,729	3,721	69,646	387,277	98,584	159	641,461
DEPRECIATION AND AMORTISATION										
As at 1st January, 2000	2,401	650	—	854	544	3,921	47,132	4,927	—	60,429
Currency realignment	16	3	—	4	3	27	329	34	—	416
Provided for the year	800	260	—	100	113	2,234	25,540	2,551	—	31,598
As at 31st December, 2000	3,217	913	—	958	660	6,182	73,001	7,512	—	92,443
Currency realignment	(1)	—	—	—	—	(2)	(28)	(3)	—	(34)
Provided for the year	304	259	—	113	102	2,518	25,685	2,753	—	31,734
Eliminated on disposals	—	(246)	—	(332)	—	—	—	—	—	(578)
As at 31st December, 2001	3,520	926	—	739	762	8,698	98,658	10,262	—	123,565
Currency realignment	2	1	—	—	—	6	66	7	—	82
Provided for the year	1,379	261	259	157	203	2,521	24,770	2,801	—	32,351
Eliminated on disposals	—	—	—	(21)	—	—	—	—	—	(21)
As at 31st December, 2002	4,901	1,188	259	875	965	11,225	123,494	13,070	—	155,977
NET BOOK VALUES										
As at 31st December, 2000	61,217	6,545	—	481	971	63,444	308,260	88,211	1,985	531,114
As at 31st December, 2001	60,890	6,283	—	769	1,597	60,902	285,248	87,992	214	503,895
As at 31st December, 2002	59,551	6,162	8,284	854	2,756	58,421	263,783	85,514	159	485,484

The land and buildings of the Group are situated in Dongguan, the PRC and are held under medium term leases.

12. STOCKS

	As at 31st December,		
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Raw materials	8,411	12,207	10,096
Consumables	11,096	16,139	12,572
Finished goods	<u>4,280</u>	<u>1,580</u>	<u>3,734</u>
	<u>23,787</u>	<u>29,926</u>	<u>26,402</u>

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

13. TRADE RECEIVABLES

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

	As at 31st December,		
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
0-90 days	37,143	68,304	64,272
91-180 days	2,309	10,763	5,068
181-365 days	<u>6,192</u>	<u>14,470</u>	<u>4,217</u>
	<u>45,644</u>	<u>93,537</u>	<u>73,557</u>

14. PLEDGED BANK DEPOSITS

The bank deposits, which were denominated in Hong Kong dollars, are pledged with banks for granting credit banking facilities to the Group to the extent of the amount of deposits placed with the banks. The pledged bank deposits were released during the year ended 31st December, 2002.

15. CASH AND BANK BALANCES

As at 31st December, 2002, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$12,161,000. RMB is not truly convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct the foreign exchange business.

16. TRADE PAYABLES

The aging analysis of the Group's trade payables is stated as follows:

	As at 31st December,		
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
0-90 days	8,544	12,814	9,121
91-180 days	2,300	579	1,257
181-365 days	—	—	300
Over 365 days	<u>57</u>	<u>—</u>	<u>56</u>
	<u>10,901</u>	<u>13,393</u>	<u>10,734</u>

17. AMOUNT DUE TO A HOLDING COMPANY

The amount is unsecured and bore interest at 8.25%, 3.75%-7.25% and 3.75% per annum for the year ended 31st December, 2000, 2001 and 2002, respectively.

18. AMOUNTS DUE TO MINORITY INTERESTS

The amounts is unsecured and bore interest at 7.95%-9.5%, 5.5%-7.25% and 3.75%-5.5% per annum for the year ended 31st December, 2000, 2001 and 2002, respectively.

Subsequent to 31st December, 2002, the minority interests have agreed not to demand for repayment within next twelve months from 31st December, 2002. Accordingly, the amounts are reclassified as non-current liabilities.

19. BANK LOANS

	As at 31st December,		
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unsecured bank loans	<u>378,319</u>	<u>483,890</u>	<u>241,580</u>
The bank loans are repayable as follows:			
Within one year	224,124	421,397	201,775
Between one to two years	91,706	22,682	22,683
Between two to five years	<u>62,489</u>	<u>39,811</u>	<u>17,122</u>
	378,319	483,890	241,580
Less: Amount due within one year shown under current liabilities	<u>(224,124)</u>	<u>(421,397)</u>	<u>(201,775)</u>
Amount due after one year	<u>154,195</u>	<u>62,493</u>	<u>39,805</u>

The unsecured bank loans above was guaranteed by intermediate holding company and minority interest to secure the credit banking facilities granted to the Group.

20. LOANS FROM HOLDING COMPANIES

	As at 31st December,		
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loan from immediate holding company	—	—	87,505
Loan from intermediate holding company	<u>—</u>	<u>—</u>	<u>121,200</u>
	<u>—</u>	<u>—</u>	<u>208,705</u>

Loan from immediate holding company was unsecured and bore interest at 3.75% per annum.

Loan from intermediate holding company was unsecured and bore interest at HIBOR plus 0.75%. Subsequent to 31st December, 2002, both loans from immediate holding company and intermediate holding company will be transferred from China Resources (Holdings) Company Limited to China Resources Cement Holdings Limited pursuant to the Acquisition.

21. PAID-UP CAPITAL

The paid-up capital represents the amounts of issued and fully paid share capital of China Resources Cement Company Limited and paid-up registered capital of Dongguan Huarun which are contributed by the holding company. The movements of the paid-up capital during the Relevant Periods are as follows:

	<i>HK\$'000</i>
As at 1st January, 2000	76,500
Increase upon acquisition of additional interest in subsidiaries	<u>8,400</u>
As at 31st December, 2000 and 31st December, 2001	84,900
Increase upon acquisition of additional interest in subsidiaries	<u>866</u>
As at 31st December, 2002	<u><u>85,766</u></u>

22. RESERVES

As at 31st December, 2002, the Group and the Company did not have any reserves distributable to shareholders.

23. UNRECOGNISED DEFERRED TAXATION

During the Relevant Periods, the Group has an unrecognised deferred tax asset which represents the tax losses available to set off against future assessable profits as it is not certain that the tax losses will be realised in the foreseeable future. At each of the balance sheet date, the amount of unrecognised deferred taxation for the Group is shown as follows:

	As at 31st December,		
	2000	2001	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences:			
Excess of tax allowances over depreciation	(5)	(7)	(838)
Unrelieved tax losses	<u>2,860</u>	<u>2,485</u>	<u>4,412</u>
	<u><u>2,855</u></u>	<u><u>2,478</u></u>	<u><u>3,574</u></u>

The taxation losses for the subsidiary in the PRC for each of the Relevant Periods as at 31st December, 2000, 2001 and 2002 amounting to RMB114,000,000, RMB99,522,000 and RMB77,831,000 respectively. The maximum benefit from unutilised tax losses which can be carried forward is up to five years from the year in which the loss was originated to offset future taxable profits.

24. CAPITAL COMMITMENTS

	As at 31st December,		
	2000	2001	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital commitment outstanding at the balance sheet date in respect of acquisition of fixed assets contracted for but not provided in the financial statements	<u>—</u>	<u>—</u>	<u>1,228</u>

25. RELATED PARTY TRANSACTIONS

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

Name of related company	Notes	Nature of transactions	Year ended 31st December,		
			2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Continuing transactions:					
東莞中威預製混凝土有限公司 Dongguan Redland Precast Concrete Products Limited ("DG Precast")	(i)	Sales of cement	—	—	1,843
廣東省東莞五金礦產進出口公司 Guangdong Dongguan Metals and Minerals Import and Export Ltd. ("DG MM")	(i)	Sales of cement	28,891	19,695	5,553
Quality Control Consultants Limited ("QCCL")	(ii)	Testing fees paid	821	465	461
深圳市華潤鐵建混凝土有限公司 Shenzhen China Resources Tiejian Concrete Co., Ltd. ("Shenzhen Tiejian")	(i)	Sales of cement	—	—	11,980
深圳市華潤石油有限公司 Shenzhen China Resources Petroleum Company Limited	(iii)	Purchase of fuel	1,849	2,330	3,601
Sumitomo Corporation ("Sumitomo")	(iii) (iv)	Purchase of clinker Interest paid	47,154 1,313	122,248 1,173	126,304 1,844
Sumitomo (Guangzhou) Corporation Ltd. ("Sumitomo Guangzhou")	(i)	Sales of cement	1,613	2,595	4,545
Sumitomo Corporation (Hong Kong) Limited ("Sumitomo HK")	(i) (iv)	Sales of cement Interest paid	— 1,329	887 1,116	716 776
Discontinued transactions:					
China Resources Machinery and Minmetals (Holdings) Co. Limited ("CRMM (H)")	(i) (iii) (iv) (vi)	Sales of cement Purchase of clinker Interest paid Interest received	66,761 36,390 9 489	81,054 4,710 23 7,620	48,450 — — 1,578
China Resources Metal and Minerals Company Limited ("CRMM")	(iv) (v)	Interest paid Management fee paid	15,907 —	9,394 560	4,310 88
東莞五金礦產進出口公司 Dongguan Metals and Minerals Import and Export Co., Ltd.	(v)	Management fee paid	—	40	43
Sumitomo Corporation	(v)	Management fee paid	—	80	87
Sumitomo Corporation (Hong Kong) Limited	(v)	Management fee paid	—	20	22
UBE Industries, Ltd. ("UBE")	(v)	Management fee paid	—	100	109

CRMM is a fellow subsidiary of the Group and immediate holding company of CR Cement Company and Dongguan Huarun. The effective interest for the Relevant Periods was 67%, 67% and 70% for the year ended 31st December, 2000, 2001 and 2002.

CRMM (H) was a fellow subsidiary of the Group during the period.

東莞中威預製混凝土有限公司 (DG Precast) is an associate of the ultimate holding company of the Group upon completion of Acquisition.

QCCL is a fellow subsidiary of the Group.

Shenzhen Tiejian is a fellow subsidiary of the Group.

深圳市華潤石油有限公司 (Shenzhen China Resources Petroleum Company Limited) is a fellow subsidiary of the Group.

Sumitomo Guangzhou is a subsidiary of Sumitomo Corporation.

All other companies are minority interest of CR Cement Company and Dongguan Huarun. The effective interest for DGMM, Sumitomo, Sumitomo HK and UBE over CR Cement Company and Dongguan Huarun is 5%, 10%, 2.5% and 12.5% respectively.

Notes:

- (i) The prices of these transactions were determined between the parties with reference to market prices.
- (ii) The testing fees were determined between the parties with reference to market price.
- (iii) The purchase prices of these transactions were determined between the parties with reference to market prices.
- (iv) The interest paid was charged at interest rate of 7.95%-9.5%, 5.5%-7.25% and 3.75%-5.5% per annum on loan advance to the Group for the year ended 31st December, 2000, 2001 and 2002 respectively.
- (v) Management fee paid was special payment to representative of shareholders in the recognition of their efforts and was determined by the Board of directors.
- (vi) The interest received was charged at interest rate of 8.25%, 3.75%-7.25% and 3.75% per annum on loan advance to its intermediate holding company for the year ended 31st December, 2000, 2001 and 2002 respectively.

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

B. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable, in respect of the Relevant Period referred to in this report by the Group to the directors of the Company.

As at 31st December, 2002, the Group did not have any employment contracts with the directors of the Company.

C. SUBSEQUENT EVENTS

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

1. On 24th March, 2003, the Company entered into an agreement to acquire 70% of the entire interest in each of registered capital of Dongguan Huarun and share capital of China Resources Cement Company Limited from CRMM for a total consideration of HK\$85,234,600 and HK\$531,770 respectively. The consideration is equal to the original investment costs of CRMM in Dongguan Huarun and China Resources Cement Company Limited. The acquisitions of Dongguan Huarun and China Resources Cement Company were completed on 31st March, 2003 and 20th May, 2003 respectively.
2. On 26th March, 2003, China Resources Cement Holdings Limited entered into an acquisition agreement with China Resources (Holdings) Company Limited for the acquisition of the Company at a consideration based on the consolidated audited net asset value of the Group, such consideration will be settled in the form of new shares to be allotted as referred to in the section headed "Acquisition" of the Prospectus.
3. On 24th March, 2003, the Company purchased the interest and benefit of certain debt owed by the Dongguan Huarun in the principal sum of HK\$121,200,000 with interest accruing at an annual rate of HIBOR plus 0.75% from CRMM (H).
4. On 24th March, 2003, the Company purchased the interest and benefit of certain debt owed by the China Resources Cement Company Limited in the principal sum of HK\$87,504,951 with interest accruing at an annual rate of 2.6% from CRMM.
5. On 3rd June, 2003, the Company entered into an agreement with DGMM for the acquisition of its 5% interest in each of Dongguan Huarun and China Resources Cement Company Limited for an aggregate consideration of HK4.8 million, payment for which is expected to be made shortly before the introduction in July 2003. The consideration for such acquisition represents a historical price to earnings ratio of approximately 6.9 with reference to audited profit before minority interest of the Group for the year ended 31st December, 2002.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the 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