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[Date]

The Directors
China Resources Cement Holdings Limited
[●]

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to 國投海南水泥有限責任公司 (SDIC Hainan Cement Company Limited) ("Hainan Cement") and its subsidiary (hereinafter collectively referred to as the "Hainan Cement Group") for each of the three years ended December 31, 2008 and six months ended June 30, 2009 (the "Relevant Periods"). On December 18, 2008, a wholly-owned subsidiary of the Company won the bid at public auction for the acquisition of 29.3% equity interest in Hainan Cement. In addition, on June 30, 2009, the Group entered into an agreement with SDIC Assets Management Co. (國投資產管理有限公司) ("Guo Tou") in which Guo Tou agreed to transfer 34.14% equity interest in Hainan Cement to a subsidiary of the Company. Both acquisitions are still subject to government approval as at June 30, 2009.

Hainan Cement was established in the People's Republic of China (the "PRC" or "Chinese Mainland") on July 31, 1997 and is principally engaged in manufacture and sale of cement.

Throughout the Relevant Periods and as at the date of this report, Hainan Cement has interests in the following entities:

Subsidiary	Place of establishment	Date of establishment	Registered capital	Attributable equity interest of the "Hainan Cement Group"				At date of report	Principal activities
				As at December 31,		As at June 30,			
				2006	2007	2008	2009		
昌江海島水泥綜合開發有限公司 (Changjiang Haidao Cement Development Company Limited) ("Changjiang Haidao") ⁽¹⁾	Chinese Mainland	November 19, 1993	RMB1,000,000	100%	100%	100%	100%	100%	Provision of catering and other support services to Hainan Cement
Associate 海南海島混凝土有限責任公司 (Hainan Haidao Concrete Company Limited) ("Hainan Concrete") ⁽¹⁾	Chinese Mainland	August 25, 2005	RMB20,000,000	30%	30%	30%	30%	30%	Manufacture and sale of concrete

⁽¹⁾ Interests in these companies are directly held by Hainan Cement.

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Both the above subsidiary and associate were established in the Chinese Mainland in the form of limited company and adopt December 31 as the financial year end date.

The statutory financial statements of the subsidiary and the associate for the three years ended December 31, 2008 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC jurisdiction and were audited by the following certified public accountants registered in the PRC, except for the description in Note a:

<u>Name</u>	<u>Financial period</u>	<u>Auditors</u>
Hainan Cement	For each of the three years ended December 31, 2008	海南海正會計師事務所
Changjiang Haidao	For each of the two years ended December 31, 2008 (Note a)	海南海正會計師事務所
Hainan Concrete	For each of the three years ended December 31, 2008	海南海正會計師事務所

Note:

- (a) The financial statements of Changjiang Haidao for the year ended December 31, 2006 has not been audited.

For the purpose of the preparation of this report, the directors of Hainan Cement have prepared consolidated financial statements of Hainan Cement in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have undertaken an independent audit of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements for each of the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to adjust the Underlying Financial Statements in the preparation of this report for inclusion in this document.

The Underlying Financial Statements are the responsibility of the directors of Hainan Cement who approve their issue. The directors of the Company are responsible for the contents of this document 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 independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Hainan Cement Group and Hainan Cement as at December 31, 2006, December 31, 2007, December 31, 2008 and June 30, 2009 and of the consolidated results and consolidated cash flows of Hainan Cement Group for the Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Hainan Cement Group for the six months ended June 30, 2008 together with the notes thereon (the "June 30, 2008 Financial Information") have been extracted from the Hainan Cement Group's unaudited consolidated financial information for the same period which was prepared by the directors of the Hainan Cement solely for the purpose of this report. We have reviewed the June 30, 2008 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our

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review of the June 30, 2008 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the June 30, 2008 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 30, 2008 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with Hong Kong Financial Reporting Standards.

A. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

	Notes	Year ended December 31,			Six months ended June 30,	
		2006	2007	2008	2008	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Turnover	5	396,233	532,337	801,657	312,463	352,107
Cost of sales		(327,961)	(370,510)	(562,103)	(229,392)	(267,909)
Gross profit		68,272	161,827	239,554	83,071	84,198
Other income	6	726	6,271	12,448	3,657	3,685
Selling and distribution expenses		(31,883)	(33,276)	(38,039)	(15,788)	(23,712)
General and administrative expenses		(32,610)	(46,099)	(50,469)	(18,956)	(23,372)
Finance costs	7	(19,079)	(11,046)	(22,855)	(10,676)	(10,925)
Share of result of an associate		(167)	(822)	340	(420)	1,587
(Loss) profit before taxation	8	(14,741)	76,855	140,979	40,888	31,461
Taxation	10	—	(8,327)	(26,332)	(7,911)	(6,046)
(Loss) profit for the year/period		(14,741)	68,528	114,647	32,977	25,415
Other comprehensive income (expenses)						
Exchange differences arising on translation to presentation currency		36,828	38,088	39,821	40,665	(838)
Total comprehensive income for the year/period		<u>22,087</u>	<u>106,616</u>	<u>154,468</u>	<u>73,642</u>	<u>24,577</u>
(Loss) profit for the year/period attributable to equity holders of Hainan Cement		<u>(14,741)</u>	<u>68,528</u>	<u>114,647</u>	<u>32,977</u>	<u>25,415</u>
Total comprehensive income for the year/period attributable to equity holders of Hainan Cement		<u>22,087</u>	<u>106,616</u>	<u>154,468</u>	<u>73,642</u>	<u>24,577</u>

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Consolidated Statements of Financial Position

	Notes	As at December 31,			As at June 30,
		2006	2007	2008	2009
		HKS'000	HKS'000	HKS'000	HKS'000
Non-current assets					
Fixed assets	13	743,125	785,029	989,041	1,315,504
Prepaid lease payments	14	15,732	16,401	24,280	23,950
Interest in an associate	16	5,807	5,369	6,056	7,636
Deposits on acquisition of mining rights		—	11,998	19,144	19,123
Deposits on acquisition of fixed assets		883	1,668	2,935	2,090
Mining rights	17	25,525	25,180	24,474	23,292
Available-for-sale investment	18	996	—	—	—
		<u>792,068</u>	<u>845,645</u>	<u>1,065,930</u>	<u>1,391,595</u>
Current assets					
Inventories	19	58,534	76,230	108,265	99,528
Prepaid lease payments	14	427	458	606	605
Amounts due from equity holders	20	6,729	7,243	7,679	—
Amount due from an associate	21	4,350	6,258	—	—
Trade receivables	22	51,177	21,095	14,730	21,304
Other receivables	23	31,034	17,518	25,999	26,521
Pledged bank deposits	24	—	283	26,944	9,895
Cash and bank balances	25	28,508	66,786	457,546	214,308
		<u>180,759</u>	<u>195,871</u>	<u>641,769</u>	<u>372,161</u>
Current liabilities					
Trade payables	26	53,314	32,311	78,000	53,390
Other payables	27	37,224	48,838	60,612	147,219
Amount due to an equity holder	28	226,321	223,919	230,192	226,045
Taxation payable		—	8,659	35,898	41,905
Bank loans — amount due within one year	29	98,924	76,645	63,610	63,540
		<u>415,783</u>	<u>390,372</u>	<u>468,312</u>	<u>532,099</u>
Net current (liabilities) assets		<u>(235,024)</u>	<u>(194,501)</u>	<u>173,457</u>	<u>(159,938)</u>
Total assets less current liabilities		<u>557,044</u>	<u>651,144</u>	<u>1,239,387</u>	<u>1,231,657</u>
Non-current liabilities					
Bank loans — amount due after one year	29	63,770	51,254	485,029	475,414
		<u>493,274</u>	<u>599,890</u>	<u>754,358</u>	<u>756,243</u>
Capital and reserves					
Paid in capital	30	500,441	500,441	500,441	500,441
Reserves		(7,167)	99,449	253,917	255,802
Total equity		<u>493,274</u>	<u>599,890</u>	<u>754,358</u>	<u>756,243</u>

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	Notes	As at December 31,			As at June 30,
		2006	2007	2008	2009
		HKS'000	HKS'000	HKS'000	HKS'000
Non-current assets					
Fixed assets	13	742,752	784,705	988,777	1,315,275
Prepaid lease payments	14	15,732	16,401	24,280	23,950
Investment in a subsidiary	15	996	1,068	1,136	1,135
Investment in an associate	16	5,978	6,407	6,815	6,808
Deposits on acquisition of mining rights		—	11,998	19,144	19,123
Deposits on acquisition of fixed assets		883	1,668	2,935	2,090
Mining rights	17	25,525	25,180	24,474	23,292
		<u>791,866</u>	<u>847,427</u>	<u>1,067,561</u>	<u>1,391,673</u>
Current assets					
Inventories	19	58,514	76,205	108,120	99,383
Prepaid lease payments	14	427	458	606	605
Amount due from a subsidiary	15	—	39	—	126
Amounts due from equity holders	20	6,729	7,243	7,679	—
Amount due from an associate	21	4,350	6,258	—	—
Trade receivables	22	51,173	21,091	14,730	21,304
Other receivables	23	30,920	17,450	25,869	25,683
Pledged bank deposits	24	—	283	26,944	9,895
Cash and bank balances	25	27,501	64,505	456,543	213,922
		<u>179,614</u>	<u>193,532</u>	<u>640,491</u>	<u>370,918</u>
Current liabilities					
Trade payables	26	53,311	32,304	77,996	53,338
Other payables	27	36,740	48,175	60,278	146,925
Amount due to a subsidiary	15	208	—	180	—
Amount due to an equity holder	28	226,321	223,919	230,192	226,045
Taxation payable		—	8,659	35,898	41,905
Bank loans — amount due within one year	29	98,924	76,645	63,610	63,540
		<u>415,504</u>	<u>389,702</u>	<u>468,154</u>	<u>531,753</u>
Net current (liabilities) assets		<u>(235,890)</u>	<u>(196,170)</u>	<u>172,337</u>	<u>(160,835)</u>
Total assets less current liabilities		555,976	651,257	1,239,898	1,230,838
Non-current liabilities					
Bank loans — amount due after one year	29	63,770	51,254	485,029	475,414
		<u>492,206</u>	<u>600,003</u>	<u>754,869</u>	<u>755,424</u>
Capital and reserves					
Paid in capital	30	500,441	500,441	500,441	500,441
Reserves	31	(8,235)	99,562	254,428	254,983
Total equity		<u>492,206</u>	<u>600,003</u>	<u>754,869</u>	<u>755,424</u>

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Consolidated Statements of Changes in Equity

	Equity attributable to equity holders of Hainan Cement						
	Paid in capital	Capital surplus	Capital reserve	Statutory reserve	Translation reserve	Accumulated losses	Total
	HKS'000	HKS'000 (Note a)	HKS'000 (Note b)	HKS'000	HKS'000	HKS'000	HKS'000
At January 1, 2006	500,441	510,767	103,591	3,573	(26,739)	(620,446)	471,187
Exchange differences arising on translation to presentation currency	—	—	—	—	36,828	—	36,828
Loss for the year	—	—	—	—	—	(14,741)	(14,741)
Total comprehensive income and expense for the year	—	—	—	—	36,828	(14,741)	22,087
Transfer of reserve (Note c)	—	—	—	556	—	(556)	—
At December 31, 2006	500,441	510,767	103,591	4,129	10,089	(635,743)	493,274
Exchange differences arising on translation to presentation currency	—	—	—	—	38,088	—	38,088
Profit for the year	—	—	—	—	—	68,528	68,528
Total comprehensive income for the year	—	—	—	—	38,088	68,528	106,616
Transfer of reserve (Note c)	—	—	—	13,119	—	(13,119)	—
At December 31, 2007	500,441	510,767	103,591	17,248	48,177	(580,334)	599,890
Exchange differences arising on translation to presentation currency	—	—	—	—	39,821	—	39,821
Profit for the year	—	—	—	—	—	114,647	114,647
Total comprehensive income for the year	—	—	—	—	39,821	114,647	154,468
Transfer of reserve (Note c)	—	—	—	18,469	—	(18,469)	—
At December 31, 2008	500,441	510,767	103,591	35,717	87,998	(484,156)	754,358
Exchange differences arising on translation to presentation currency	—	—	—	—	(838)	—	(838)
Profit for the period	—	—	—	—	—	25,415	25,415
Total comprehensive income and expense for the period	—	—	—	—	(838)	25,415	24,577
Transfer of reserve (Note c)	—	—	—	6,431	—	(6,431)	—
Dividends declared (Note c)	—	—	—	—	—	(22,692)	(22,692)
At June 30, 2009	500,441	510,767	103,591	42,148	87,160	(487,864)	756,243
Unaudited							
At January 1, 2008	500,441	510,767	103,591	17,248	48,177	(580,334)	599,890
Exchange differences arising on translation to presentation currency	—	—	—	—	40,665	—	40,665
Profit for the period	—	—	—	—	—	32,977	32,977
Total comprehensive income for the period	—	—	—	—	40,665	32,977	73,642
Transfer of reserve (Note c)	—	—	—	6,119	—	(6,119)	—
At June 30, 2008	500,441	510,767	103,591	23,367	88,842	(553,476)	673,532

Notes:

- (a) According to the "Debt to Equity Swap" agreement signed between Hainan Cement and 中國長城資產管理公司, 中國建設銀行海南分行, 中國東方資產管理公司 and 海南省國際信托投資公司 (collectively referred to as the "New Equity Holders") during the year ended December 31, 2005, the New Equity Holders agreed to capitalize the loans to Hainan Cement amounted to RMB864,665,000 (equivalent to HK\$830,943,000). The amount of contributed surplus represented the difference between the amount of capitalized loan of RMB864,665,000 (equivalent to HK\$830,943,000) and the amount of registered paid in capital of RMB333,170,000 (equivalent to HK\$320,176,000).
- (b) The amount represented the additional contribution in excess of registered paid in capital amounting to RMB108,000,000 (equivalent to HK\$103,591,000) injected by two equity holders pursuant to the "Debt to Equity Swap" agreement during the year ended December 31, 2005.
- (c) Transfer of reserve and dividends declared are determined by reference to the statutory financial statements of Hainan Cement prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises.

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Consolidated Statements of Cash Flows

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HKS'000	HKS'000	HKS'000	HKS'000 (unaudited)	HKS'000
Cash flows from operating activities					
(Loss) profit before taxation	(14,741)	76,855	140,979	40,888	31,461
Adjustments for:					
Depreciation of fixed assets	48,487	52,940	58,588	28,690	28,199
Amortization of mining rights	1,986	2,091	2,282	1,124	1,155
Release of prepaid lease payments	418	440	598	237	303
Impairment loss on other receivables	283	420	229	—	—
Impairment loss on amount due from an associate . . .	—	—	1,530	—	—
Write-down of inventories	2,173	—	2,524	—	—
Write-off of trade receivables	—	2,676	—	—	—
Interest income	(326)	(327)	(587)	(197)	(884)
Interest expenses	19,079	11,046	22,855	10,676	10,925
Waiver of outstanding payables to suppliers	—	(445)	—	—	—
Share of result of an associate	167	822	(340)	420	(1,587)
Allowance for doubtful debts	129	9,801	1,611	—	—
(Gain) loss on disposal of fixed assets	(152)	(25)	18	—	—
Operating cash flows before movements in working capital	57,503	156,294	230,287	81,838	69,572
Decrease (increase) in inventories	10,672	(13,502)	(30,059)	(15,587)	8,456
(Increase) decrease in trade receivables	(25,885)	22,565	6,202	(6,423)	(6,613)
(Increase) decrease in other receivables	(18,768)	15,923	(7,691)	(7,055)	(590)
(Increase) decrease in amount due from an associate	(4,099)	(1,596)	5,127	(3,274)	—
Increase (decrease) in trade payables	20,287	(23,428)	43,048	(1,220)	(24,406)
(Decrease) increase in other payables	(7,953)	14,982	(3,920)	(2,125)	(25,724)
Cash generated from operations	31,757	171,238	242,994	46,154	20,695
Interest paid	(8,925)	(28,952)	(33,217)	(3,515)	(28,629)
Net cash generated from (used in) operating activities	22,832	142,286	209,777	42,639	(7,934)

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	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HKS'000	HKS'000	HKS'000	HKS'000 (unaudited)	HKS'000
Cash flows from investing activities					
Proceed from disposal of available-for-sale investment	—	1,067	—	—	—
Interest received	326	327	587	197	884
Purchase and deposits paid for acquisition of fixed assets	(52,537)	(34,226)	(199,577)	(43,965)	(228,633)
Increase in prepaid lease payments	(1,911)	—	(7,557)	—	—
Deposits paid for acquisition of mining rights	—	(11,998)	(6,381)	—	—
(Increase) decrease in pledged bank deposits	—	(283)	(26,643)	(25,900)	16,979
Proceeds from disposal of fixed assets	1,536	303	—	—	—
Advances to equity holders	—	—	26	235	—
Net cash used in investing activities	<u>(52,586)</u>	<u>(44,810)</u>	<u>(239,545)</u>	<u>(69,433)</u>	<u>(210,770)</u>
Cash flows from financing activities					
Bank loan raised	—	78,044	494,117	—	—
Repayments of bank loans	—	(139,566)	(80,458)	(10,928)	(9,077)
Dividends paid	—	—	—	—	(15,030)
Net cash (used in) generated from financing activities	<u>—</u>	<u>(61,522)</u>	<u>413,659</u>	<u>(10,928)</u>	<u>(24,107)</u>
Net (decrease) increase in cash and cash equivalents for the year/period	<u>(29,754)</u>	<u>35,954</u>	<u>383,891</u>	<u>(37,722)</u>	<u>(242,811)</u>
Cash and cash equivalents at beginning of the year/period	<u>57,325</u>	<u>28,508</u>	<u>66,786</u>	<u>66,786</u>	<u>457,546</u>
Effect of foreign exchange rate change	<u>937</u>	<u>2,324</u>	<u>6,869</u>	<u>7,024</u>	<u>(427)</u>
Cash and cash equivalents at end of the year/period, representing cash and bank balances	<u><u>28,508</u></u>	<u><u>66,786</u></u>	<u><u>457,546</u></u>	<u><u>36,088</u></u>	<u><u>214,308</u></u>

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Hainan Cement was established on July 31, 1997 as a limited liability company in the PRC.

The Financial Information incorporate the financial information of Hainan Cement and its subsidiary.

The functional currency of Hainan Cement Group is Renminbi while the Financial Information is presented in Hong Kong dollars ("HK\$") which is consistent with the presentation currency of the financial information of the Company and its subsidiaries incorporated in this document.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

The HKICPA issued a number of new Hong Kong Accounting Standards ("HKAS"s) and HKFRS, Amendments and Interpretations ("INT"s) (hereinafter collectively referred to as "new HKFRS") which are effective for Hainan Cement Group's financial period beginning on January 1, 2009. For the purposes of preparing and presenting the Financial Information for the Relevant Periods, Hainan Cement Group has adopted all these new HKFRS consistently throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following standards, amendments and interpretations that are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ⁽¹⁾
HKFRSs (Amendments)	Improvements to HKFRSs in 2009 ⁽²⁾
HKAS 27 (Revised)	Consolidated the separate financial statements ⁽¹⁾
HKAS 39 (Amendments)	Eligible hedged items ⁽¹⁾
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions ⁽³⁾
HKFRS 3 (Revised)	Business combinations ⁽¹⁾
HK(IFRIC) — INT 17	Distributions of non-cash assets to owners ⁽¹⁾
HK(IFRIC) — INT 18	Transfers of assets from customers ⁽⁴⁾

⁽¹⁾ Effective for annual periods beginning on or after July 1, 2009.

⁽²⁾ Effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate.

⁽³⁾ Effective for annual periods beginning on or after January 1, 2010.

⁽⁴⁾ Effective for transfers on or after July 1, 2009.

The directors of Hainan Cement anticipate the application of the revised standards, amendments and interpretations will have no material impact on the results and the financial position of Hainan Cement Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conforms with HKFRS issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial information of Hainan Cement and an entity controlled by Hainan Cement (its subsidiary). Control is achieved where Hainan Cement has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial information of its subsidiary to bring its accounting policies in line with those used by Hainan Cement Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investment in a subsidiary

Investment in a subsidiary is stated at cost less any identified impairment loss in the statement of financial position of Hainan Cement.

Fixed assets

Fixed assets other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of fixed assets, other than construction in progress, over their estimated useful lives after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives are as follows:

Buildings	Over the unexpired term of lease
Plant and equipment	3 to 40 years
Logistic equipment	10 to 40 years
Others	3 to 35 years

Construction in progress includes fixed assets in the course of construction for production or administrative purposes or for the purposes not yet determined and are carried at cost less accumulated impairment losses, if any. Cost includes all construction expenditure, professional fees, borrowing cost capitalized and other relevant expenses directly attributable to such projects. Construction in progress is

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classified to the appropriate category of fixed assets when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of fixed asset is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceed and the carrying amount of the item) is included in the consolidated statements of comprehensive income in the year/period in which the item is derecognized.

Mining rights

Mining rights acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization of mining rights with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gain or loss arising from derecognition of mining right is measured at the difference between the net disposal proceed and its carrying amount and is recognized in the consolidated statement of comprehensive income when it is derecognized.

Interest in an associate

An associate is an entity over which Hainan Cement Group has significant influence and that is neither a subsidiary nor an interest in a jointly controlled entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is neither control nor joint control over those policies.

The results and assets and liabilities of an associate are incorporated in the Financial Information using the equity method of accounting. Under the equity method, interest in an associate is carried in the consolidated statements of financial position at cost as adjusted for post acquisition changes in Hainan Cement Group's share of the net assets of the associate, less any identified impairment loss. When Hainan Cement Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of Hainan Cement Group's net investment in the associate), Hainan Cement Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that Hainan Cement Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over Hainan Cement Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of Hainan Cement Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after assessment, is recognized immediately in the consolidated statements of comprehensive income.

Where an entity of Hainan Cement Group transacts with an associate of Hainan Cement Group, profits and losses are eliminated to the extent of Hainan Cement Group's interest in the relevant associate.

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Investment in an associate is stated at cost less any identified impairment loss in the statement of financial position of Hainan Cement.

Prepaid lease payments

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as finance lease and accounted for as fixed assets. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

The up-front payments to acquire leasehold interest in land are accounted for as operating leases and are stated at cost and released over the lease term on a straight-line basis.

Impairment

At the end of each reporting period, Hainan Cement Group reviews the carrying amounts of its tangible assets and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss is recognized as income immediately.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average cost method.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts, value added tax and other sales related taxes.

Sale of goods is recognized when goods are delivered and title has passed.

Service income is recognized when services are rendered.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary

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investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the year/period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years/period, and it further excludes the items of income and expense that are never taxable and deductible. The liability of Hainan Cement Group for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investment in a subsidiary and an associate, except where Hainan Cement Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year/period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statements of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are not recognized until there is reasonable assurance that Hainan Cement Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Hainan Cement Group with no future related costs are recognized in profit or loss in the year/period in which they become receivable.

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Foreign currencies

In preparing the financial information of each individual entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in the profit or loss in the year/period in which they arise.

For the purposes of presenting the Financial Information in HK\$, the assets and liabilities of Hainan Cement Group which are stated at functional currency are translated into HK\$ at the exchange rate prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the year/period in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in the profit or loss in the year/period in which the foreign operation is disposed of.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to Hainan Cement Group. All other leases are classified as operating leases.

Hainan Cement Group as lessee

Rental expense arising from operating leases is recognized in the consolidated statements of comprehensive income on a straight-line basis over the periods of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Hainan Cement Group as lessor

Rental income from operating leases is recognized in the consolidated statements of comprehensive income account on a straight-line basis over the term of the relevant lease.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statements of financial position and the statements of financial position of Hainan Cement when an entity of Hainan Cement Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial

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assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Hainan Cement Group's financial assets comprise of loans and receivables and available-for-sale financial assets. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including amounts due from equity holders/an associate, trade and other receivables, pledged bank deposits and bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition. Impairment loss for available-for-sale equity investments measured at cost less any identified impairment losses are not reversed in subsequent periods.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occur after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Hainan Cement Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Hainan Cement Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

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Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to a subsidiary/an equity holder and bank loans are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by Hainan Cement are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Hainan Cement Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in other comprehensive income is reclassified to profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration received or receivable is recognized in profit or loss.

Employee benefits

Payments to government-managed retirement benefit schemes is charged as an expense when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimated impairment of trade receivables

Where there is objective evidence of impairment loss, Hainan Cement Group takes into consideration the estimation of future cash flows. The amount of impairment loss is measured on the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). As at December 31, 2006, 2007 and 2008 and June 30, 2009, the carrying amount of trade receivables of Hainan Cement Group are HK\$51,177,000 (net of allowance for doubtful debts of HK\$1,408,000), HK\$21,095,000 (net of allowance for doubtful debts of HK\$11,700,000), HK\$14,730,000 (net of allowance for doubtful debts of HK\$14,079,000) and HK\$21,304,000 (net of allowance for doubtful debts of HK\$14,063,000) respectively (see note 22).

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amount received and receivable for goods sold and service rendered to outside customers.

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An analysis of Hainan Cement Group's turnover for the year/period is as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of goods	396,073	531,594	801,507	312,441	352,068
Services income	160	743	150	22	39
	<u>396,233</u>	<u>532,337</u>	<u>801,657</u>	<u>312,463</u>	<u>352,107</u>

Segment information has been identified on the basis of internal management accounts that are regularly reviewed by the General Manager, the chief operating decision maker, in order to allocate resources to the reportable segments and to assess their performance.

Hainan Cement Group's reportable segments under HKFRS 8 are as follows:

Cement — manufacture and sale of cement and related products carried out by Hainan Cement

Catering and other support services — provision of catering and other support services by Changjiang Haidao to Hainan Cement.

Inter-segment sales are carried out on terms equivalent to those charged to outside customers.

During the Relevant Periods, one of the customers of Hainan Cement Group contributed turnover of HK\$380,662,000 and HK\$116,818,000 for the year ended December 31, 2008 and the six months ended June 30, 2009 respectively which were more than 10% of the Hainan Cement Group's turnover for that year/period under the Cement reportable segment. Save as disclosed above, none of the customers from Hainan Cement Group contributed more than 10% of the total turnover for the two years ended December 31, 2006 and 2007 and six months ended June 30, 2008. In the opinion of the directors of Hainan Cement, Hainan Cement Group did not rely on any major customer during the Relevant Periods.

Segment results represent the post-tax profits for the year/period of the group entity engaged in the respective segment operation without allocation of share of result of an associate.

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The information of segment results are as follows:

For the year ended December 31, 2006

	<u>Cement</u>	<u>Catering and other support services</u>	<u>Elimination</u>	<u>Total</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
TURNOVER				
External sales	396,073	160	—	396,233
Inter-segment sales	<u>60</u>	<u>7,524</u>	<u>(7,584)</u>	<u>—</u>
	<u>396,133</u>	<u>7,684</u>	<u>(7,584)</u>	<u>396,233</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS				
Segment results	<u>(13,657)</u>	<u>(917)</u>	—	(14,574)
Share of result of an associate				<u>(167)</u>
Loss for the year				<u>(14,741)</u>

For the year ended December 31, 2007

	<u>Cement</u>	<u>Catering and other support services</u>	<u>Elimination</u>	<u>Total</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
TURNOVER				
External sales	531,594	743	—	532,337
Inter-segment sales	<u>130</u>	<u>8,329</u>	<u>(8,459)</u>	<u>—</u>
	<u>531,724</u>	<u>9,072</u>	<u>(8,459)</u>	<u>532,337</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS				
Segment results	<u>69,429</u>	<u>(79)</u>	—	69,350
Share of result of an associate				<u>(822)</u>
Profit for the year				<u>68,528</u>

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For the year ended December 31, 2008

	<u>Cement</u>	<u>Catering and other support services</u>	<u>Elimination</u>	<u>Total</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	801,507	150	—	801,657
Inter-segment sales	<u>172</u>	<u>8,562</u>	<u>(8,734)</u>	<u>—</u>
	<u>801,679</u>	<u>8,712</u>	<u>(8,734)</u>	<u>801,657</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS				
Segment results	<u>115,050</u>	<u>(743)</u>	<u>—</u>	114,307
Share of result of an associate				<u>340</u>
Profit for the year				<u>114,647</u>

For the six months ended June 30, 2009

	<u>Cement</u>	<u>Catering and other support services</u>	<u>Elimination</u>	<u>Total</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	352,068	39	—	352,107
Inter-segment sales	<u>194</u>	<u>3,848</u>	<u>(4,042)</u>	<u>—</u>
	<u>352,262</u>	<u>3,887</u>	<u>(4,042)</u>	<u>352,107</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS				
Segment results	<u>23,950</u>	<u>(122)</u>	<u>—</u>	23,828
Share of result of an associate				<u>1,587</u>
Profit for the period				<u>25,415</u>

For the six months ended June 30, 2008 (unaudited)

	<u>Cement</u>	<u>Catering and other support services</u>	<u>Elimination</u>	<u>Total</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	312,441	22	—	312,463
Inter-segment sales	<u>140</u>	<u>2,324</u>	<u>(2,464)</u>	<u>—</u>
	<u>312,581</u>	<u>2,346</u>	<u>(2,464)</u>	<u>312,463</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS				
Segment results	<u>34,288</u>	<u>(891)</u>	<u>—</u>	33,397
Share of result of an associate				<u>(420)</u>
Profit for the period				<u>32,977</u>

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Information of segment assets and segment liabilities are as follows:

Consolidated statements of financial position

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets				
Segment assets				
— Cement	970,333	1,038,815	1,706,157	1,762,156
— Catering and other support services	2,494	2,701	1,542	1,600
Consolidated total assets	<u>972,827</u>	<u>1,041,516</u>	<u>1,707,699</u>	<u>1,763,756</u>
Liabilities				
Segment liabilities				
— Cement	479,066	440,956	953,004	1,007,168
— Catering and other support services	487	670	337	345
Consolidated total liabilities	<u>479,553</u>	<u>441,626</u>	<u>953,341</u>	<u>1,007,513</u>

Other information

For the year ended December 31, 2006

	Cement	Catering and other support services	Total
	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	61,775	—	61,775
Additions to prepaid lease payments	1,911	—	1,911
Allowance for doubtful debts	129	—	129
Amortization of mining rights	1,986	—	1,986
Depreciation of fixed assets	48,371	116	48,487
Gain on disposal of fixed assets	152	—	152
Increase in deposits on acquisition of fixed assets	883	—	883
Interest income	321	5	326
Interest expenses	19,079	—	19,079
Impairment loss on other receivables	—	283	283
Release of prepaid lease payments	418	—	418
Write-down of inventories	<u>2,173</u>	<u>—</u>	<u>2,173</u>

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For the year ended December 31, 2007

	Catering and other		Total
	Cement	support services	
	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	43,961	13	43,974
Allowance for doubtful debts	9,801	—	9,801
Amortization of mining rights	2,091	—	2,091
Depreciation of fixed assets	52,852	88	52,940
Deposit on acquisition of mining rights	11,998	—	11,998
Gain on disposal of fixed assets	25	—	25
Increase in deposits on acquisition of fixed assets	722	—	722
Interest income	319	8	327
Interest expenses	11,046	—	11,046
Impairment loss on other receivables	420	—	420
Release of prepaid lease payments	440	—	440
Taxation	8,327	—	8,327
Write-off of trade receivables	2,676	—	2,676

For the year ended December 31, 2008

	Catering and other		Total
	Cement	support services	
	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	213,340	—	213,340
Additions to prepaid lease payments	7,557	—	7,557
Allowance for doubtful debts	1,611	—	1,611
Amortization of mining rights	2,282	—	2,282
Depreciation of fixed assets	58,510	78	58,588
Deposit on acquisition of mining rights	6,381	—	6,381
Loss on disposal of fixed assets	18	—	18
Increase in deposits on acquisition of fixed assets	1,161	—	1,161
Interest income	578	9	587
Interest expenses	22,855	—	22,855
Impairment loss on other receivables	229	—	229
Write-down of inventories	2,524	—	2,524
Release of prepaid lease payments	598	—	598
Taxation	26,332	—	26,332

For the six months ended June 30, 2009

	Catering and other		Total
	Cement	support services	
	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	355,763	3	355,766
Amortization of mining rights	1,155	—	1,155
Decrease in deposits on acquisition of fixed assets	837	—	837
Depreciation of fixed assets	28,162	37	28,199
Interest income	883	1	884
Interest expenses	10,925	—	10,925
Release of prepaid lease payments	303	—	303
Taxation	6,046	—	6,046

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ACCOUNTANTS' REPORT OF HAINAN CEMENT

For the six months ended June 30, 2008 (unaudited)

	Cement	Catering and other support services	Total
	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	47,894	—	47,894
Amortization of mining rights	1,124	—	1,124
Depreciation of fixed assets	28,649	41	28,690
Interest income	191	6	197
Interest expenses	10,676	—	10,676
Increase in deposits on acquisition of fixed assets	122	—	122
Release of prepaid lease payments	237	—	237
Taxation	<u>7,911</u>	<u>—</u>	<u>7,911</u>

All turnover from external customers during the Relevant Periods are derived from customers in Chinese Mainland.

All non-current assets are located in Chinese Mainland.

6. OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	326	327	587	197	884
Sales of scrap materials	307	617	2,355	—	330
Exchange gain	—	479	—	—	—
Government incentives (Note 38)	—	2,978	9,144	3,003	1,884
Rental income	62	111	97	43	55
Waiver of outstanding payables to suppliers	—	445	—	—	—
Others	31	1,314	265	414	532
Total	<u>726</u>	<u>6,271</u>	<u>12,448</u>	<u>3,657</u>	<u>3,685</u>

7. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interests on					
— bank loans wholly repayable within five years ..	8,925	9,163	15,444	3,100	18,591
— write-back of interest payable to banks (Note) ...	—	(11,018)	(2,877)	—	—
— amount due to an equity holder	<u>10,154</u>	<u>12,901</u>	<u>12,748</u>	<u>7,576</u>	<u>6,146</u>
	19,079	11,046	25,315	10,676	24,737
Less: Amount capitalized to fixed assets	—	—	(2,460)	—	(13,812)
Total	<u>19,079</u>	<u>11,046</u>	<u>22,855</u>	<u>10,676</u>	<u>10,925</u>

Borrowing costs of HK\$2,460,000 and HK\$13,812,000 capitalized to fixed assets during the year ended December 31, 2008 and the six months ended June 30, 2009 respectively are related to specific borrowings attributable to the construction of fixed assets.

Note: During the year ended December 31, 2007, 2008 write-back of interests to banks was made as a result of a waiver of interests granted by two banks during those years.

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8. (LOSS) PROFIT BEFORE TAXATION

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Loss (profit) before taxation has been arrived at after charging (crediting):					
Directors' emoluments (note 9)	—	—	—	—	—
Pension costs	2,150	2,024	2,747	1,460	1,214
Other staff costs	14,012	16,654	30,068	15,560	18,224
Total staff costs	16,162	18,678	32,815	17,020	19,438
Allowance for doubtful debts (included in general and administrative expenses)	129	9,801	1,611	—	—
Amortization of mining rights (included in general and administrative expenses)	1,986	2,091	2,282	1,124	1,155
Auditors' remuneration	29	51	73	72	28
Cost of inventories recognized as expense	318,521	361,643	551,166	184,637	264,235
Depreciation of fixed assets	48,487	52,940	58,588	28,690	28,199
Release of prepaid lease payments (included in general and administrative expenses)	418	440	598	237	303
(Gain) loss on disposal of fixed assets	(152)	(25)	18	—	—
Impairment loss on other receivables	283	420	229	—	—
Impairment loss on amount due from an associate	—	—	1,530	—	—
Write-down of inventories (included in cost of sales)	2,173	—	2,524	—	—
Minimum lease payments in respect of rented premises	—	—	210	—	170

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9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

No directors' emoluments have been paid or payable for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009.

(b) Employees' emoluments

No directors of Hainan Cement were the five highest paid employees of Hainan Cement Group during the Relevant Periods. The details of the emoluments paid to the five highest paid employees for the Relevant Periods were as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries and allowances	627	660	491	208	286
Pension costs	8	11	24	5	11
	<u>635</u>	<u>671</u>	<u>515</u>	<u>213</u>	<u>297</u>

Their emoluments were within the following bands:

	Number of employees				
	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, no emoluments has been paid by Hainan Cement Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining Hainan Cement Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

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10. TAXATION

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
The charge comprise:					
Current taxation					
Chinese Mainland Enterprise Income Tax ("EIT")	—	8,327	26,332	7,911	6,046

Chinese Mainland Enterprise Income Tax represents the income tax in the Chinese Mainland which is calculated at the prevailing tax rate on the taxable income of the group entities in the Chinese Mainland.

On March 16, 2007, The Law of the Chinese Mainland on Enterprise Income Tax (the "New Tax Law") was promulgated by Order No. 63 of the President of the Chinese Mainland. On December 6, 2007, the State Council of the Chinese Mainland issued Implementation Regulations of the New Tax Law, which became effective on January 1, 2008 and superseded the Chinese Mainland Foreign Invested Enterprise and Foreign Enterprise Income Tax Law and the Provisional Regulations on Enterprise Income Tax of the Chinese Mainland. The New Tax Law consolidates the previous two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified enterprise income tax rate of 25% for both types of enterprises. Under the New Tax Law, the entities that previously enjoyed a preferential tax rate prior to January 1, 2008 will gradually transit to the new tax rate over five years from January 1, 2008.

Taxation arising in the Chinese Mainland is calculated at the following income tax rates.

	Year ended December 31,			Six months ended June 30,		
	2006	2007	2008	2008	2009	Notes
Hainan Cement	—	15%	18%	18%	20%	(a)
Changjiang Haidao	—	—	—	—	—	(b)

Notes:

- (a) Hainan Cement is a limited company registered in Hainan Island Province, which is subject to EIT at a rate of 15% for years 2006 and 2007, 18% for year 2008 and 20% for six months ended June 30, 2009. It was not subject to tax in 2006 as it incurred a tax loss during that year.
- (b) Changjiang Haidao is a limited company registered in Hainan Island Province, which is subject to EIT at a rate of 15% for years 2006 and 2007, 18% for year 2008 and 20% for six months ended June 30, 2009. Changjiang Haidao was not subject to tax in years 2006, 2007 and 2008 and six months ended June 30, 2008 and June 30, 2009 as they incurred tax losses during the years/period.

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The charge for the year/period can be reconciled to the consolidated (loss) profit before taxation as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) profit before taxation	(14,741)	76,855	140,979	40,888	31,461
Applicable income tax rate	15%	15%	18%	18%	20%
Tax (credit) charge at the applicable income tax rate	(2,211)	11,528	25,376	7,360	6,292
Tax effect of share of result of an associate	25	123	(61)	76	(317)
Tax effect of expenses that are not deductible in determining taxable profit	1,418	3,428	865	193	47
Tax effect of tax losses not recognized	768	13	152	282	24
Tax effect of utilization of tax losses previously not recognized	—	(6,765)	—	—	—
Taxation expense for the year/period	—	8,327	26,332	7,911	6,046

Hainan Cement Group had unused tax losses of approximately HK\$92,015,000, HK\$1,004,000, HK\$1,848,000, HK\$2,571,000 and HK\$1,968,000 as at December 31, 2006, 2007 and 2008 and June 30, 2008 and 2009 respectively, available for offset against future profits. The unused tax losses of approximately HK\$45,100,000 of Hainan Cement had been fully utilized during the year ended December 31, 2007. The unrecognized tax losses of approximately HK\$45,998,000 expired during the year ended December 31, 2007. The remaining unrecognized tax losses of HK\$917,000, HK\$1,004,000, HK\$1,848,000, HK\$2,571,000 and HK\$1,968,000 as at December 31, 2006, 2007 and 2008 and June 30, 2008 and 2009 respectively, will expire in five years from the year of origination.

11. RETIREMENT BENEFITS SCHEME

The employees of Hainan Cement Group in the Chinese Mainland are members of government-managed retirement benefit schemes operated by the respective local government in the Chinese Mainland. Hainan Cement Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of Hainan Cement Group with respect to these schemes is to make the specified contributions.

12. DIVIDENDS

On May 5, 2009, the directors of Hainan Cement declared final dividend of RMB20,000,000 (equivalent to approximately HK\$22,692,000) in respect of the year ended December 31, 2008. Amount of RMB6,753,000 (equivalent to HK\$7,662,000) was settled by offsetting amounts due from equity holders.

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13. FIXED ASSETS

HAINAN CEMENT GROUP

	Buildings	Plant and equipment	Logistic equipment	Others	Construction in progress	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
COST						
At January 1, 2006	300,912	338,138	61,916	2,580	249,860	953,406
Additions	2,400	3,990	2,019	90	53,276	61,775
Transfer upon completion of construction in progress	97,901	179,846	9,653	116	(287,516)	—
Disposals	(1,298)	—	(425)	—	—	(1,723)
Exchange adjustments	11,085	12,456	2,281	95	9,204	35,121
At December 31, 2006	411,000	534,430	75,444	2,881	24,824	1,048,579
Additions	3,314	7,254	172	275	32,959	43,974
Transfer upon completion of construction in progress	7,332	49,343	—	6	(56,681)	—
Disposals	—	(375)	—	—	—	(375)
Exchange adjustments	29,451	38,296	5,406	209	1,779	75,141
At December 31, 2007	451,097	628,948	81,022	3,371	2,881	1,167,319
Additions	4,369	13,737	5,164	245	189,825	213,340
Disposals	—	—	(359)	—	—	(359)
Exchange adjustments	28,769	40,112	5,167	215	184	74,447
At December 31, 2008	484,235	682,797	90,994	3,831	192,890	1,454,747
Additions	441	1,320	762	161	353,082	355,766
Exchange adjustments	(537)	(757)	(101)	(4)	(219)	(1,618)
At June 30, 2009	484,139	683,360	91,655	3,988	545,753	1,808,895
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At January 1, 2006	57,208	177,310	10,713	1,934	—	247,165
Charge for the year	10,070	33,279	4,851	287	—	48,487
Written back on disposals	(25)	—	(314)	—	—	(339)
Exchange adjustments	2,324	7,248	492	77	—	10,141
At December 31, 2006	69,577	217,837	15,742	2,298	—	305,454
Charge for the year	10,743	37,050	4,959	188	—	52,940
Written back on disposals	—	(97)	—	—	—	(97)
Exchange adjustments	5,414	17,085	1,322	172	—	23,993
At December 31, 2007	85,734	271,875	22,023	2,658	—	382,290
Charge for the year	11,988	40,438	5,940	222	—	58,588
Written back on disposals	—	—	(337)	—	—	(337)
Exchange adjustments	5,629	17,890	1,474	172	—	25,165
At December 31, 2008	103,351	330,203	29,100	3,052	—	465,706
Charge for the period	6,090	18,848	3,136	125	—	28,199
Exchange adjustments	(114)	(365)	(32)	(3)	—	(514)
At June 30, 2009	109,327	348,686	32,204	3,174	—	493,391
CARRYING VALUES						
At December 31, 2006	341,423	316,593	59,702	583	24,824	743,125
At December 31, 2007	365,363	357,073	58,999	713	2,881	785,029
At December 31, 2008	380,884	352,594	61,894	779	192,890	989,041
At June 30, 2009	374,812	334,674	59,451	814	545,753	1,315,504

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HAINAN CEMENT

	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Logistic equipment</u>	<u>Others</u>	<u>Construction in progress</u>	<u>Total</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
COST						
At January 1, 2006	300,912	337,373	61,823	2,257	249,860	952,225
Additions	2,400	3,990	2,019	90	53,276	61,775
Transfer upon completion of construction in progress	97,901	179,846	9,653	116	(287,516)	—
Disposals	(1,298)	—	(425)	—	—	(1,723)
Exchange adjustments	11,085	12,428	2,277	83	9,204	35,077
At December 31, 2006	411,000	533,637	75,347	2,546	24,824	1,047,354
Additions	3,314	7,254	172	262	32,959	43,961
Transfer upon completion of construction in progress	7,332	49,343	—	6	(56,681)	—
Disposals	—	(375)	—	—	—	(375)
Exchange adjustments	29,451	38,239	5,399	183	1,779	75,051
At December 31, 2007	451,097	628,098	80,918	2,997	2,881	1,165,991
Additions	4,369	13,737	5,164	245	189,825	213,340
Disposals	—	—	(359)	—	—	(359)
Exchange adjustments	28,769	40,059	5,161	191	184	74,364
At December 31, 2008	484,235	681,894	90,884	3,433	192,890	1,453,336
Additions	441	1,317	762	161	353,082	355,763
Exchange adjustments	(537)	(755)	(101)	(4)	(219)	(1,616)
At June 30, 2009	484,139	682,456	91,545	3,590	545,753	1,807,483
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At January 1, 2006	57,208	176,879	10,690	1,680	—	246,457
Charge for the year	10,070	33,209	4,847	245	—	48,371
Written back on disposals	(25)	—	(314)	—	—	(339)
Exchange adjustments	2,324	7,231	491	67	—	10,113
At December 31, 2006	69,577	217,319	15,714	1,992	—	304,602
Charge for the year	10,743	36,986	4,949	174	—	52,852
Written back on disposals	—	(97)	—	—	—	(97)
Exchange adjustments	5,414	17,046	1,319	150	—	23,929
At December 31, 2007	85,734	271,254	21,982	2,316	—	381,286
Charge for the year	11,988	40,377	5,928	217	—	58,510
Written back on disposals	—	—	(337)	—	—	(337)
Exchange adjustments	5,629	17,850	1,471	150	—	25,100
At December 31, 2008	103,351	329,481	29,044	2,683	—	464,559
Charge for the period	6,090	18,827	3,125	120	—	28,162
Exchange adjustments	(114)	(364)	(32)	(3)	—	(513)
At June 30, 2009	109,327	347,944	32,137	2,800	—	492,208
CARRYING VALUES						
At December 31, 2006	341,423	316,318	59,633	554	24,824	742,752
At December 31, 2007	365,363	356,844	58,936	681	2,881	784,705
At December 31, 2008	380,884	352,413	61,840	750	192,890	988,777
At June 30, 2009	374,812	334,512	59,408	790	545,753	1,315,275

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Others mainly comprise furniture and equipment and leasehold improvements.

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying values of buildings comprise:				
Properties in Chinese Mainland held on medium-term leases . . .	341,423	365,363	380,884	374,812
Net interest capitalized included in construction in progress . . .	—	—	2,460	16,272

Hainan Cement Group and Hainan Cement have pledged fixed assets with the following carrying amounts to secure banking facilities granted to Hainan Cement Group and Hainan Cement.

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amounts	107,473	157,806	382,465	362,577

14. PREPAID LEASE PAYMENTS

Prepaid lease payments represent medium-term leasehold land in Chinese Mainland.

Movements of prepaid lease payment, are as follows:

	HAINAN CEMENT GROUP AND HAINAN CEMENT	
	HK\$'000	
At January 1, 2006	14,155	
Additions	1,911	
Charge for the year	(418)	
Exchange adjustments	511	
At December 31, 2006	16,159	
Charge for the year	(440)	
Exchange adjustments	1,140	
At December 31, 2007	16,859	
Additions	7,557	
Charge for the year	(598)	
Exchange adjustments	1,068	
At December 31, 2008	24,886	
Charge for the period	(303)	
Exchange adjustments	(28)	
At June 30, 2009	24,555	

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The lease terms of the prepaid lease payments ranged from 35 years to 50 years.

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Analyzed for reporting purposes as:				
Current assets	427	458	606	605
Non-current assets	15,732	16,401	24,280	23,950
	<u>16,159</u>	<u>16,859</u>	<u>24,886</u>	<u>24,555</u>

Hainan Cement Group and Hainan Cement have pledged prepaid lease payments with the following carrying amounts to secure banking facilities granted to Hainan Cement Group and Hainan Cement.

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amounts	<u>—</u>	<u>—</u>	<u>6,382</u>	<u>6,282</u>

15. INVESTMENT IN A SUBSIDIARY/AMOUNT DUE FROM A SUBSIDIARY/AMOUNT DUE TO A SUBSIDIARY

Investment in a subsidiary

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted capital contribution, at cost	<u>996</u>	<u>1,068</u>	<u>1,136</u>	<u>1,135</u>

Amount due from/to a subsidiary are unsecured, interest-free and repayable on demand.

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16. INTEREST IN AN ASSOCIATE/INVESTMENT IN AN ASSOCIATE

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted capital contribution, at cost	5,978	5,978	5,978	5,978
Share of (losses) profit	(167)	(989)	(649)	938
Exchange adjustments	(4)	380	727	720
	<u>5,807</u>	<u>5,369</u>	<u>6,056</u>	<u>7,636</u>

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted capital contribution, at cost	5,978	5,978	5,978	5,978
Exchange adjustments	—	429	837	830
	<u>5,978</u>	<u>6,407</u>	<u>6,815</u>	<u>6,808</u>

The summarized financial information in respect of the associate of Hainan Cement Group is set out below:

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	34,506	38,893	54,476	60,075
Total liabilities	(15,148)	(20,997)	(34,289)	(34,621)
Net assets	<u>19,358</u>	<u>17,896</u>	<u>20,187</u>	<u>25,454</u>
Share of net assets of an associate by Hainan Cement				
Group	<u>5,807</u>	<u>5,369</u>	<u>6,056</u>	<u>7,636</u>
Turnover	<u>18,035</u>	<u>58,160</u>	<u>143,624</u>	<u>49,027</u>
(Loss) profit for the year/period	<u>(558)</u>	<u>(2,741)</u>	<u>1,134</u>	<u>5,290</u>
Share of result of an associate by Hainan Cement Group for the year/period	<u>(167)</u>	<u>(822)</u>	<u>340</u>	<u>1,587</u>

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17. MINING RIGHTS

	HAINAN CEMENT GROUP AND HAINAN CEMENT
	HKS'000
COST	
At January 1, 2006	37,584
Exchange adjustments	<u>1,384</u>
At December 31, 2006	38,968
Exchange adjustments	<u>2,792</u>
At December 31, 2007	41,760
Exchange adjustments	<u>2,664</u>
At December 31, 2008	44,424
Exchange adjustments	<u>(49)</u>
At June 30, 2009	<u>44,375</u>
ACCUMULATED AMORTIZATION	
At January 1, 2006	11,009
Charge for the year	1,986
Exchange adjustments	<u>448</u>
At December 31, 2006	13,443
Charge for the year	2,091
Exchange adjustments	<u>1,046</u>
At December 31, 2007	16,580
Charge for the year	2,282
Exchange adjustments	<u>1,088</u>
At December 31, 2008	19,950
Change for the period	1,155
Exchange adjustments	<u>(22)</u>
At June 30, 2009	<u>21,083</u>
CARRYING VALUES	
At December 31, 2006	<u>25,525</u>
At December 31, 2007	<u>25,180</u>
At December 31, 2008	<u>24,474</u>
At June 30, 2009	<u>23,292</u>

The useful lives of mining rights ranged from 10 to 20 years.

Hainan Cement Group and Hainan Cement have pledged mining rights with the following carrying amounts to secure banking facilities granted to Hainan Cement Group and Hainan Cement.

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HKS'000	HKS'000	HKS'000	HKS'000
Carrying amounts	<u>—</u>	<u>—</u>	<u>24,474</u>	<u>23,292</u>

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18. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment comprise:

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted capital contribution, at cost	996	—	—	—

The above unlisted investment represented investment in an unlisted private entity established in Chinese Mainland. The investment is measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of Hainan Cement are of the opinion that its fair value cannot be measured reliably.

The available-for-sale investment was disposed of during the year ended December 31, 2007 at a consideration of RMB1,000,000 (equivalent to approximately HK\$1,067,000) with no gain or loss recognized.

19. INVENTORIES

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials and consumables	48,038	68,490	85,948	65,090
Work in progress	7,880	4,817	13,447	8,590
Finished goods	2,616	2,923	8,870	25,848
	<u>58,534</u>	<u>76,230</u>	<u>108,265</u>	<u>99,528</u>

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials and consumables	48,018	68,465	85,803	64,945
Work in progress	7,880	4,817	13,447	8,590
Finished goods	2,616	2,923	8,870	25,848
	<u>58,514</u>	<u>76,205</u>	<u>108,120</u>	<u>99,383</u>

20. AMOUNTS DUE FROM EQUITY HOLDERS

The amounts were unsecured and interest-free as at December 31, 2006, 2007 and 2008 and the amounts were settled by offsetting with the dividend declared during the six months ended June 30, 2009.

21. AMOUNT DUE FROM AN ASSOCIATE

The amount was trade-related balance. It was unsecured, interest-free and repayable on demand. During the year ended December 31, 2008, an impairment loss on amount due from an associate of HK\$1,530,000 was recognized.

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22. TRADE RECEIVABLES

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	51,177	21,095	14,730	21,304

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	51,173	21,091	14,730	21,304

Hainan Cement Group and Hainan Cement have a policy of allowing a credit period ranging from 30 days to 90 days to its customers, from the date of issuance of invoices. The following is an aged analysis of trade receivables at the end of each reporting period.

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 to 90 days	49,059	19,052	11,743	12,686
91 to 180 days	886	2,043	2,783	61
181 to 360 days	112	—	204	8,557
361 to 720 days	1,120	—	—	—
	<u>51,177</u>	<u>21,095</u>	<u>14,730</u>	<u>21,304</u>

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 to 90 days	49,055	19,048	11,743	12,686
91 to 180 days	886	2,043	2,783	61
181 to 360 days	112	—	204	8,557
361 to 720 days	1,120	—	—	—
	<u>51,173</u>	<u>21,091</u>	<u>14,730</u>	<u>21,304</u>

Ageing of trade receivables which are past due but not impaired

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Past due 1 to 90 days	886	2,043	2,783	61
Past due 91 to 180 days	112	—	204	8,557
Past due 181 to 360 days	1,120	—	—	—
Total	<u>2,118</u>	<u>2,043</u>	<u>2,987</u>	<u>8,618</u>

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Hainan Cement Group and Hainan Cement do not hold any collateral over these balances which are past due. Hainan Cement Group and Hainan Cement have no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Movement in the allowance for doubtful debts

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at beginning of the year/period	1,231	1,408	11,700	14,079
Allowance recognized on receivables	129	9,801	1,611	—
Exchange adjustments	48	491	768	(16)
Balance at end of the year/period	<u>1,408</u>	<u>11,700</u>	<u>14,079</u>	<u>14,063</u>

In determining the recoverability of the trade receivables, Hainan Cement Group and Hainan Cement consider any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of Hainan Cement believe that there is no further allowance required in excess of the current amount of allowance for doubtful debts.

23. OTHER RECEIVABLES

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments and deposits (Note a)	17,060	3,515	4,672	8,331
Deposits paid to suppliers (Note b)	5,222	9,890	20,038	6,547
Value-added tax, government incentive receivables and others (Note c)	6,188	1,337	—	8,956
Staff advances	2,373	2,447	1,126	2,144
Others (Note d)	191	329	163	543
	<u>31,034</u>	<u>17,518</u>	<u>25,999</u>	<u>26,521</u>

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments and deposits (Note a)	17,013	3,515	4,672	8,331
Deposits paid to suppliers (Note b)	5,222	9,890	20,038	6,547
Value-added tax, government incentive receivables and others (Note c)	6,188	1,337	—	8,935
Staff advances	2,327	2,379	997	1,327
Others (Note d)	170	329	162	543
	<u>30,920</u>	<u>17,450</u>	<u>25,869</u>	<u>25,683</u>

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Notes:

- (a) Prepayments and deposits mainly comprise the prepayments for electricity, insurance, petroleum expenses and rental deposits for the plant located in the Chinese Mainland.
- (b) Deposits paid to suppliers represent the deposits paid for purchase of raw materials.
- (c) Value-added tax ("VAT"), government incentive receivables and others represent the input VAT on purchase of raw materials, government incentives receivables (Note 38) and other tax recoverable.
- (d) Others represent interest receivables and temporary payments for constructors and customers.

24. PLEDGED BANK DEPOSITS

Bank deposits of HK\$283,000, HK\$26,944,000 and HK\$9,895,000 as at December 31, 2007 and 2008 and June 30, 2009 have been pledged to banks as guarantee payment to suppliers. The pledged bank deposits carried variable interest rates at 0.7% to 0.8%, 0.4% to 0.7% and 0.4% per annum for the year ended December 31, 2007 and 2008 and the six months ended June 30, 2009 respectively.

25. CASH AND BANK BALANCES

Cash and bank balances comprise cash held by Hainan Cement Group and Hainan Cement and short-term bank deposits with maturity within three months from initial inception.

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	Year ended December 31,			Six months ended
	2006	2007	2008	June 30, 2009
	%	%	%	%
Interest rates of bank deposits per annum	<u>0.7</u>	<u>0.7-0.8</u>	<u>0.4-0.7</u>	<u>0.4</u>

26. TRADE PAYABLES

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	<u>53,314</u>	<u>32,311</u>	<u>78,000</u>	<u>53,390</u>

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	<u>53,311</u>	<u>32,304</u>	<u>77,996</u>	<u>53,338</u>

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Hainan Cement Group and Hainan Cement normally receive credit periods of 30 days to 90 days from their suppliers. The following is an aged analysis of trade payables at the end of each reporting period:

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HKS'000	HKS'000	HKS'000	HKS'000
0 to 90 days	49,396	29,835	69,962	46,194
91 to 180 days	2,153	1,220	3,576	1,526
181 to 360 days	1,124	290	463	3,958
361 to 720 days	641	966	3,999	1,712
	<u>53,314</u>	<u>32,311</u>	<u>78,000</u>	<u>53,390</u>

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HKS'000	HKS'000	HKS'000	HKS'000
0 to 90 days	49,393	29,829	69,958	46,142
91 to 180 days	2,153	1,220	3,576	1,526
181 to 360 days	1,124	290	463	3,958
361 to 720 days	641	965	3,999	1,712
	<u>53,311</u>	<u>32,304</u>	<u>77,996</u>	<u>53,338</u>

27. OTHER PAYABLES

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HKS'000	HKS'000	HKS'000	HKS'000
Payables to constructor and for the acquisition of fixed assets (Note a)	10,121	10,470	12,464	112,484
Guarantee deposits from suppliers (Note b)	265	617	662	783
Deposits from customers	8,862	17,147	20,242	25,355
Salaries and staff welfare payables	3,256	2,904	1,360	1,462
VAT and other tax payables	7,263	11,060	15,305	—
Transportation payables	1,642	4,184	9,297	5,618
Accrued expenses (Note c)	5,312	1,509	730	1,145
Others (Note d)	503	947	552	372
	<u>37,224</u>	<u>48,838</u>	<u>60,612</u>	<u>147,219</u>

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	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Payables to constructors and for the acquisition of fixed assets (Note a)	10,121	10,470	12,464	112,484
Guarantee deposits from suppliers (Note b)	265	617	662	783
Deposits from customers	8,862	17,147	20,242	25,355
Salaries and staff welfare payables	3,050	2,578	1,263	1,447
VAT and other tax payables	7,263	11,060	15,294	—
Transportation payables	1,642	4,184	9,297	5,618
Accrued expenses (Note c)	5,218	1,293	650	988
Others (Note d)	319	826	406	250
	<u>36,740</u>	<u>48,175</u>	<u>60,278</u>	<u>146,925</u>

Notes:

- (a) Payables to constructors represent the construction costs payables after the completion of constructions in accordance with the terms in the agreements. Payables for the acquisition of fixed assets represent the unpaid balances for the fixed assets acquired.
- (b) Guarantee deposits from suppliers represent the quality guarantee money retained by Hainan Cement Group and Hainan Cement, which will be refunded to the constructors from 3 months to 1 year after the completion of the construction.
- (c) Accrued expenses mainly comprise utility expenses and selling expenses.
- (d) Others mainly comprise reimbursements to staff and other miscellaneous advances.

28. AMOUNT DUE TO AN EQUITY HOLDER

The amount represented the advances and accrued interests payable to an equity holder, namely Guo Tou. The advances amounted to HK\$159,449,000, HK\$170,874,000, HK\$181,772,000 and HK\$181,571,000 as at December 31, 2006, 2007 and 2008 and June 30, 2009 were unsecured, bears fixed interest at 4.4% per annum and were repayable on demand. The accrued interests of HK\$66,872,000, HK\$53,045,000, HK\$48,420,000 and HK\$44,474,000 were unsecured, repayable on demand and bears variable interest. The average interest rate on accrued interests was 6.8%, 8.1%, 8.1% and 10.9% per annum for the year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 respectively.

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29. BANK LOANS

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans are repayable as follows:				
Within one year	98,924	76,645	63,610	63,540
After one year but within two years	15,942	17,085	40,892	78,290
After two years but within three years	15,942	17,085	74,969	56,732
After three years but within four years	15,942	17,084	56,795	56,732
After four years but within five years	15,944	—	56,795	56,732
Over five years	—	—	255,578	226,928
	<u>162,694</u>	<u>127,899</u>	<u>548,639</u>	<u>538,954</u>
Less: Amount due within one year included in current liabilities	<u>(98,924)</u>	<u>(76,645)</u>	<u>(63,610)</u>	<u>(63,540)</u>
Amount due after one year	<u>63,770</u>	<u>51,254</u>	<u>485,029</u>	<u>475,414</u>

All bank loans are secured and arranged at fixed rates as well as floating rates. The effective interest rates (which are also equal to contracted interest rates) on Hainan Cement Group's and Hainan Cement's bank loans ranged from 5.1% to 7.6%, 5.1% to 6.8%, 5.1% to 7.5% and 5.9% to 7.5% per annum for the year ended December 31, 2006, 2007 and 2008 and six months ended June 30, 2009, respectively.

The analysis of the terms of the bank loans as follows:

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fixed rate borrowings	—	42,712	45,436	45,386
Variable rate borrowings	162,694	85,187	503,203	493,568
	<u>162,694</u>	<u>127,899</u>	<u>548,639</u>	<u>538,954</u>

30. PAID IN CAPITAL

	Paid in capital	
	RMBS'000	HK\$'000
At January 1, 2006, December 31, 2006, 2007 and 2008 and June 30, 2009	<u>520,750</u>	<u>500,441</u>

There were no changes in Hainan Cement's paid in capital during the Relevant Periods.

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31. RESERVES

HAINAN CEMENT

	<u>Capital surplus</u>	<u>Capital reserve</u>	<u>Statutory reserve</u>	<u>Translation reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
At January 1, 2006	510,767	103,591	3,573	(26,764)	(622,519)	(31,352)
Exchange differences arising on translation to presentation						
currency	—	—	—	36,774	—	36,774
Loss for the year	—	—	—	—	(13,657)	(13,657)
Transfer of reserve	—	—	556	—	(556)	—
At December 31, 2006	<u>510,767</u>	<u>103,591</u>	<u>4,129</u>	<u>10,010</u>	<u>(636,732)</u>	<u>(8,235)</u>
Exchange differences arising on translation to presentation						
currency	—	—	—	38,049	—	38,049
Profit for the year	—	—	—	—	69,748	69,748
Transfer of reserve	—	—	13,119	—	(13,119)	—
At December 31, 2007	<u>510,767</u>	<u>103,591</u>	<u>17,248</u>	<u>48,059</u>	<u>(580,103)</u>	<u>99,562</u>
Exchange differences arising on translation to presentation						
currency	—	—	—	39,815	—	39,815
Profit for the year	—	—	—	—	115,051	115,051
Transfer of reserve	—	—	18,469	—	(18,469)	—
At December 31, 2008	<u>510,767</u>	<u>103,591</u>	<u>35,717</u>	<u>87,874</u>	<u>(483,521)</u>	<u>254,428</u>
Exchange differences arising on translation to presentation						
currency	—	—	—	(837)	—	(837)
Profit for the period	—	—	—	—	24,084	24,084
Transfer of reserve	—	—	6,431	—	(6,431)	—
Dividends declared	—	—	—	—	(22,692)	(22,692)
At June 30, 2009	<u>510,767</u>	<u>103,591</u>	<u>42,148</u>	<u>87,037</u>	<u>(488,560)</u>	<u>254,983</u>

32. CAPITAL RISK MANAGEMENT

Hainan Cement Group manages its capital to ensure that entities within Hainan Cement Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. Hainan Cement Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Hainan Cement Group consists of debts, which includes bank loans disclosed in note 29, and equity attributable to equity holders of Hainan Cement, comprising paid in capital and reserves.

The management of Hainan Cement review the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associates with each class of capital. Based on recommendations of the management, Hainan Cement Group will balance its overall structure through the payment of dividends, as well as the issue of new debts.

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33. FINANCIAL INSTRUMENTS

Categories of financial instruments

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	99,516	105,778	508,188	257,150
Available-for-sale investment	996	—	—	—
	<u>100,512</u>	<u>105,778</u>	<u>508,188</u>	<u>257,150</u>
Financial liabilities				
Amortized cost	<u>463,737</u>	<u>410,127</u>	<u>887,174</u>	<u>933,290</u>
	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	<u>98,438</u>	<u>103,425</u>	<u>507,055</u>	<u>256,052</u>
Financial liabilities				
Amortized cost	<u>463,552</u>	<u>409,673</u>	<u>887,096</u>	<u>933,101</u>

Financial risk management objectives and policies

Major financial assets and liabilities of Hainan Cement Group include amounts due from equity holders, amount due from an associate, trade and other receivables, pledged bank deposits, cash and bank balances, trade and other payables, amount due to an equity holder and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments are interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

Hainan Cement Group is exposed to interest rate risk mainly from its bank balances, pledged bank deposits, amount due to an equity holder and bank loans. Bank loans at variable interest rates expose Hainan Cement Group to fair value interest rate risk and cash flow interest rate risk respectively. Hainan Cement Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

Hainan Cement Group and Hainan Cement

Hainan Cement Group and Hainan Cement's sensitivity to interest rate risk has been determined based on the exposure to interest rate risk relating to the accrued interests payable to an equity holder and variable rate bank loans outstanding at the end of each reporting period. No sensitivity analysis is performed for bank balances as the fluctuation of interest rate on bank balances is considered not significant.

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If interest rate had been 50 basis points higher/lower and all other variables were held constant, Hainan Cement Group's loss would have been increased/decreased by approximately HK\$976,000 for the year ended December 31, 2006 and the profit would have been decreased/increased by approximately HK\$587,000, HK\$2,262,000 and HK\$1,076,000 for the year ended December 31, 2007 and 2008 and the six months ended June 30, 2009, respectively.

The analysis is prepared by using certain assumptions on a hypothetical situation. In reality, market interest rates would not change in isolation. In management's opinion, the analysis is used for reference purpose and should not be considered a projection of future profits or losses.

Credit risk

Hainan Cement Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at the end of each reporting period in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimize the credit risk, the management of Hainan Cement has formulated a defined credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, Hainan Cement Group reviews the recoverable amount of each individual trade receivable regularly at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Hainan Cement consider that Hainan Cement Group's credit risk is significantly reduced.

Hainan Cement Group has no significant concentration of credit risk with exposure spread over a number of counterparties and customers as at December 31, 2006, 2007 and 2008 and June 30, 2009.

The credit risk for bank deposits is considered minimal as such amounts are placed in banks with high credit ratings.

Liquidity risk

In the management of the liquidity risk, Hainan Cement Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance Hainan Cement Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and amount due to an equity holder and ensures compliance with loan covenants.

Hainan Cement Group and Hainan Cement have net current liabilities as at December 31, 2006 and 2007 and June 30, 2009, which exposed Hainan Cement Group and Hainan Cement to liquidity risk. In order to mitigate the liquidity risk, the management regularly monitors the operating cash flows of Hainan Cement Group and Hainan Cement, to ensure sufficient reserves of cash to meet its liquidity requirements in the short and long term.

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The following table details the remaining contractual maturity of financial liabilities in Hainan Cement Group and Hainan Cement. The table has been drawn up to reflect the undiscounted cash flows of financial liabilities based on the earliest date on which Hainan Cement Group and Hainan Cement can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

HAINAN CEMENT GROUP							
	Weighted average interest rate	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At December 31, 2006							
Trade payables	—	53,314	—	—	—	53,314	53,314
Other payables	—	21,408	—	—	—	21,408	21,408
Amount due to an equity holder							
— Fixed rate	4.4	166,481	—	—	—	166,481	159,449
— Variable rate	6.8	71,446	—	—	—	71,446	66,872
Bank loans							
— Variable rate	5.9	112,844	30,298	51,919	—	195,061	162,694
		<u>425,493</u>	<u>30,298</u>	<u>51,919</u>	<u>—</u>	<u>507,710</u>	<u>463,737</u>
At December 31, 2007							
Trade payables	—	32,311	—	—	—	32,311	32,311
Other payables	—	25,998	—	—	—	25,998	25,998
Amount due to an equity holder							
— Fixed rate	4.4	178,410	—	—	—	178,410	170,874
— Variable rate	8.1	57,342	—	—	—	57,342	53,045
Bank loans							
— Fixed rate	6.8	44,409	—	—	—	44,409	42,712
— Variable rate	5.1	36,166	19,499	36,140	—	91,805	85,187
		<u>374,636</u>	<u>19,499</u>	<u>36,140</u>	<u>—</u>	<u>430,275</u>	<u>410,127</u>
At December 31, 2008							
Trade payables	—	78,000	—	—	—	78,000	78,000
Other payables	—	30,343	—	—	—	30,343	30,343
Amount due to an equity holder							
— Fixed rate	4.4	189,788	—	—	—	189,788	181,772
— Variable rate	8.1	52,342	—	—	—	52,342	48,420
Bank loans							
— Fixed rate	7.5	48,821	—	—	—	48,821	45,436
— Variable rate	6.0	19,890	98,434	253,558	295,221	667,103	503,203
		<u>419,184</u>	<u>98,434</u>	<u>253,558</u>	<u>295,221</u>	<u>1,066,397</u>	<u>887,174</u>
At June 30, 2009							
Trade payables	—	53,390	—	—	—	53,390	53,390
Other payables	—	114,901	—	—	—	114,901	114,901
Amount due to an equity holder							
— Fixed rate	4.4	189,578	—	—	—	189,578	181,571
— Variable rate	10.9	49,339	—	—	—	49,339	44,474
Bank loans							
— Fixed rate	7.5	45,646	—	—	—	45,646	45,386
— Variable rate	5.9	19,763	129,335	228,561	258,466	636,125	493,568
		<u>472,617</u>	<u>129,335</u>	<u>228,561</u>	<u>258,466</u>	<u>1,088,979</u>	<u>933,290</u>

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HAINAN CEMENT							
	Weighted average interest rate	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At December 31, 2006							
Trade payables	—	53,311	—	—	—	53,311	53,311
Other payables	—	21,018	—	—	—	21,018	21,018
Amount due to a subsidiary	—	208	—	—	—	208	208
Amount due to an equity holder							
— Fixed rate	4.4	166,481	—	—	—	166,481	159,449
— Variable rate	6.8	71,446	—	—	—	71,446	66,872
Bank loans							
— Variable rate	5.9	112,844	30,298	51,919	—	195,061	162,694
		<u>425,308</u>	<u>30,298</u>	<u>51,919</u>	<u>—</u>	<u>507,525</u>	<u>463,552</u>
At December 31, 2007							
Trade payables	—	32,304	—	—	—	32,304	32,304
Other payables	—	25,551	—	—	—	25,551	25,551
Amount due to an equity holder							
— Fixed rate	4.4	178,410	—	—	—	178,410	170,874
— Variable rate	8.1	57,342	—	—	—	57,342	53,045
Bank loans							
— Fixed rate	6.8	44,409	—	—	—	44,409	42,712
— Variable rate	5.1	36,166	19,499	36,140	—	91,805	85,187
		<u>374,182</u>	<u>19,499</u>	<u>36,140</u>	<u>—</u>	<u>429,821</u>	<u>409,673</u>
At December 31, 2008							
Trade payables	—	77,996	—	—	—	77,996	77,996
Other payables	—	30,089	—	—	—	30,089	30,089
Amount due to a subsidiary	—	180	—	—	—	180	180
Amount due to an equity holder							
— Fixed rate	4.4	189,788	—	—	—	189,788	181,772
— Variable rate	8.1	52,342	—	—	—	52,342	48,420
Bank loans							
— Fixed rate	7.5	48,821	—	—	—	48,821	45,436
— Variable rate	6.0	19,890	98,434	253,558	295,221	667,103	503,203
		<u>419,106</u>	<u>98,434</u>	<u>253,558</u>	<u>295,221</u>	<u>1,066,319</u>	<u>887,096</u>
At June 30, 2009							
Trade payables	—	53,338	—	—	—	53,338	53,338
Other payables	—	114,764	—	—	—	114,764	114,764
Amount due to an equity holder							
— Fixed rate	4.4	189,578	—	—	—	189,578	181,571
— Variable rate	10.9	49,339	—	—	—	49,339	44,474
Bank loans							
— Fixed rate	7.5	45,646	—	—	—	45,646	45,386
— Variable rate	5.9	19,763	129,335	228,561	258,466	636,125	493,568
		<u>472,428</u>	<u>129,335</u>	<u>228,561</u>	<u>258,466</u>	<u>1,088,790</u>	<u>933,101</u>

Fair values

The fair values of financial assets and financial liabilities of Hainan Cement Group and Hainan Cement are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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The directors of Hainan Cement consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

34. OPERATING LEASE COMMITMENTS

As lessee

At the end of each reporting period, Hainan Cement Group and Hainan Cement had outstanding commitments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note)	(Note)		
Within one year	293	488	196	28
In the second to fifth year inclusive	463	—	—	—
	<u>756</u>	<u>488</u>	<u>196</u>	<u>28</u>

Operating leases are negotiated for terms from 1 to 3 years.

Note: As at December 31, 2006 and 2007, the outstanding commitments represented a non-cancellable operating lease entered into by Changjiang Haidao on behalf of Hainan Concrete.

As lessor

At the end of each reporting period, Hainan Cement Group and Hainan Cement had no outstanding commitments in respect of land and buildings under non-cancellable operating leases. Rental income generated from the lease of staff quarters is recognized when services are rendered.

35. CAPITAL COMMITMENTS

Capital commitments for purchase and construction of fixed assets and acquisition of mining rights by Hainan Cement Group and Hainan Cement outstanding at the end of each reporting period are as follows:

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for	26,173	49,894	265,272	98,232
	<u>26,173</u>	<u>49,894</u>	<u>265,272</u>	<u>98,232</u>

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36. RELATED PARTY TRANSACTIONS

- (a) Apart from details of the balances with related parties disclosed in the Financial Information during the Relevant Periods, Hainan Cement Group entered into following transactions with related parties:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of goods to an associate	3,516	25,906	31,437	27,856	—
Interest expenses paid to an equity holder . . .	—	28,952	20,650	—	10,038
Management fee paid to an equity holder . . .	—	—	347	68	225
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

- (b) The key management personnel of Hainan Cement is disclosed in note 9.
- (c) In the opinion of the directors of Hainan Cement, the related party transactions were conducted on normal commercial terms and in the ordinary and usual course of business of Hainan Cement Group.
- (d) Hainan Cement Group operates in an economic environment currently denominated by entities directly or indirectly owned or controlled by the PRC government ("state-owned entities").

Apart from the disclosure in (a) above, Hainan Cement Group also conducts business with other state-owned entities. The directors consider those state-owned entities as independent third parties so far as Hainan Cement Group's business with them are concerned:

- i. Hainan Cement Group has certain deposits placements and borrowings with banks, which are state-owned entities in its ordinary course of business. In view of the nature of those banking transactions, the directors of Hainan Cement are of the opinion that separate disclosure would not be meaningful.
- ii. Hainan Cement Group also has certain sales and purchases transactions with certain customers and suppliers in which the directors of Hainan Cement are of the opinion that it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions are with other state-owned entities.

Except as disclosed above, the directors of Hainan Cement are of the opinion that the transactions with other state-owned entities are not significant to Hainan Cement Group's operations.

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37. PLEDGE OF ASSETS

At the end of each reporting period, secured bank loans of Hainan Cement Group and Hainan Cement were secured by the following assets:

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Buildings	18,909	9,427	149,536	147,014
Plant and equipment	88,564	148,379	232,929	215,563
Prepaid lease payments	—	—	6,382	6,282
Mining rights	—	—	24,474	23,292
	<u>107,473</u>	<u>157,806</u>	<u>413,321</u>	<u>392,151</u>

38. GOVERNMENT INCENTIVES

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Incentive subsidies:					
(i) Business encouragement subsidies	—	—	9,144	3,003	1,884
(ii) Environmental protection subsidies	—	<u>2,978</u>	—	—	—
Amounts credited to consolidated statements of comprehensive income (Note 6)	—	<u>2,978</u>	<u>9,144</u>	<u>3,003</u>	<u>1,884</u>

Incentive subsidies were granted by the relevant government of the Chinese Mainland to Hainan Cement Group and Hainan Cement in the following basis:

- (i) The business encouragement subsidies were granted to Hainan Cement Group and Hainan Cement to encourage the establishment of cement manufacturing business in Hainan Island Province. The incentive subsidies granted to Hainan Cement Group and Hainan Cement were calculated according to the value-added tax paid by Hainan Cement Group and Hainan Cement for the sales of certain type of cement products.
- (ii) The environmental protection subsidies were granted to Hainan Cement Group and Hainan Cement as development funds to establish the environmental friendly manufacturing factory by making use of residual heat power, which is produced during the process of the manufacture of cement.

39. MAJOR NON-CASH TRANSACTION

On May 5, 2009, Hainan Cement declared final dividend of RMB20,000,000 (equivalent to approximately HK\$22,692,000) in respect of the year ended December 31, 2008 and an amount of RMB6,753,000 (equivalent to HK\$7,662,000) was settled by offsetting amounts due from equity holders.

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B. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

Hainan Cement did not have ultimate holding company and immediate holding company throughout the Relevant Periods.

C. SUBSEQUENT EVENTS

There were no significant subsequent events after the reporting date of June 30, 2009.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Hainan Cement or any of the companies of Hainan Cement Group subsequent to June 30, 2009.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong