



華潤水泥控股有限公司

China Resources Cement Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS FOR 2003

The Board of Directors of China Resources Cement Holdings Limited (the “Company”) is pleased to announce the first unaudited interim results of the Company and its subsidiaries (the “Group”) for the six month period ended 30 June 2003 after the listing of the Company’s shares on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 29 July 2003. The interim results of the Group are unaudited and have been reviewed by the Company’s Audit Committee.

Pursuant to the reorganisation as stated in the Company’s prospectus dated 26 June 2003 (the “Prospectus”), the Group acquired the companies engaged in concrete business in Hong Kong previously held by China Resources Enterprise, Limited and the cement business and concrete business in the Chinese Mainland previously held by China Resources (Holdings) Company Limited in July 2003 (the “Acquisitions”). Prior to the Acquisitions, the Company did not have income and expenses for the period from 13 March 2003 (date of incorporation) to 30 June 2003 and therefore no profit and loss account for this period is separately presented. On the basis as if the Acquisitions had been completed and all the companies forming part of the Group had been held by the Company since 1 January 2002, or the respective dates of incorporation or establishment, whichever is later, the unaudited pro forma combined turnover and profit attributable to shareholders for the six months ended 30 June 2003 amounted to HK\$460.7 million and HK\$21.6 million, representing decreases of 1% and 53% respectively over the same period of last year. Pro forma earnings per share for the six months ended 30 June 2003, calculated based on the number of issued shares upon the completion of the Acquisitions, was HK\$0.059 compared with HK\$0.126 in the first half of 2002.

PRO FORMA CONDENSED COMBINED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003

	Notes	Six months ended 30 June	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover	3	460,663	464,852
Cost of sales		(352,405)	(310,156)
Gross profit		108,258	154,696
Other operating income		9,796	10,811
Selling and distribution expenses		(43,194)	(37,206)
General and administrative expenses		(39,357)	(49,985)
Impairment loss in respect of goodwill arising on acquisition of additional interests in subsidiaries		–	(557)
Negative goodwill arising on acquisition of additional interests in subsidiaries realised		–	919
Profit from operations		35,503	78,678
Finance costs	4	(5,779)	(15,475)
Share of results of associates		504	1,805
Profit before taxation		30,228	65,008
Taxation	6	(4,257)	(16,787)
Profit before minority interests		25,971	48,221
Minority interests		(4,397)	(2,636)
Profit attributable to shareholders		21,574	45,585
Earnings per share – basic (cents)	7	5.9	12.6

NOTES TO THE PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

For the six months ended 30 June 2003

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 13 March 2003 under the Companies Law (2002 Revisions) of the Cayman Islands. A reorganisation scheme (the “Group Reorganisation”) was implemented to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Main Board of the Stock Exchange on 29 July 2003. The Company became the holding company of the Group formed after the completion of the Group Reorganisation on 22 July 2003.

The pro forma Group comprising the Company, Innovative Market Limited and its subsidiaries and other Acquired Companies as mentioned in the Prospectus, is regarded, for the purpose of this pro forma condensed combined financial information, as a continuing entity. Accordingly, this pro forma condensed combined financial information of the pro forma Group has been prepared on the basis as if the Company had always been the holding company of the pro forma Group throughout the reporting period since 1 January 2002 and is included for information purpose only.

The pro forma condensed combined financial information should be read in conjunction with the historical financial information of the Company, Innovative Market Limited and its subsidiaries, the Acquired Companies and other financial information set out in the Prospectus.

Details of the Group Reorganisation are set out in the Prospectus.

All significant transactions and balances within the pro forma Group have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The pro forma condensed financial information has been prepared under the historical cost convention and is consistent with those accounting policies followed in the preparation of accountants’ report of the pro forma Group for the year ended 31 December 2002, as

set out in the Prospectus, except the change in accounting policy for adoption of SSAP 12 (Revised) “Income taxes” (“SSAP 12 (Revised)”) which became effective for accounting periods commencing on or after 1 January 2003.

The adoption of SSAP 12 (Revised) has been applied retrospectively and result in a decrease in the net assets of the pro forma Group by HK\$23,831,000 at 1 January 2002 and HK\$29,298,000 at 1 January 2003 respectively. The adoption of SSAP 12 (Revised) has also resulted in the decrease in profit of the pro forma Group amounted to HK\$5,129,000 for the six month period ended 30 June 2002 and HK\$343,000 for the period ended 30 June 2003. Comparative amounts for the prior period have been restated in order to achieve a consistent presentation.

3. TURNOVER AND SEGMENT INFORMATION

	Six months ended 30 June	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Primary reporting format – business segments		
Turnover		
Concrete	192,237	237,598
Cement	268,426	227,254
	<u>460,663</u>	<u>464,852</u>
Segment result		
Concrete	11,923	47,424
Cement	24,084	33,059
	<u>36,007</u>	<u>80,483</u>
Profit from operations after share of results of associates	36,007	80,483
Finance costs	(5,779)	(15,475)
	<u>30,228</u>	<u>65,008</u>
Profit before taxation	30,228	65,008
Taxation	(4,257)	(16,787)
	<u>25,971</u>	<u>48,221</u>
Profit before minority interests	<u>25,971</u>	<u>48,221</u>

4. FINANCE COSTS

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	8,579	13,027
Other borrowings wholly repayable within five years	1,538	2,448
	<hr/>	<hr/>
Total borrowing costs	10,117	15,475
Less: Amount capitalised	(4,338)	–
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	5,779	15,475
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5. DEPRECIATION AND AMORTISATION

During the period, depreciation and amortisation of approximately HK\$33,243,000 (2002: HK\$33,874,000) was charged in respect of the pro forma Group's fixed assets.

6. TAXATION

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
The charge comprises		
– Hong Kong Profits Tax	1,276	7,986
– Chinese Mainland Enterprise Income Tax	–	364
	<hr/>	<hr/>
	1,276	8,350
Deferred taxation		
– Hong Kong	1,639	(2,312)
– Chinese Mainland	1,129	10,214

Share of taxation of associates		
– Hong Kong	<u>213</u>	<u>535</u>
	<u>4,257</u>	<u>16,787</u>

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profits for the period.

Chinese Mainland Enterprise Income Tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the pro forma Group in the Chinese Mainland.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	Six months ended 30 June	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Pro forma combined profit attributable to shareholders for the purpose of calculating basic earnings per share	<u>21,574</u>	<u>45,585</u>
Number of shares		
Pro forma weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>362,807,461</u>	<u>362,807,461</u>

The calculation of basic earnings per share for each of the two interim periods ended 30 June 2003 and 2002 is based on the pro forma combined profit attributable to shareholders of the pro forma Group for each of the two interim periods ended 30 June 2003 and 2002 and on the assumption of a total of 362,807,461 shares in issue throughout the periods which is equal to the number of shares issued immediately after the distribution of 208,052,461 shares and the issue of 154,755,000 shares for the acquisition of the Acquired Companies.

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

INTERIM DIVIDEND

As stated in the Prospectus, no interim dividend is declared by the Board of Directors.

REVIEW OF OPERATIONS

For the six month period ended 30 June 2003, the pro forma gross profit of the Group was approximately HK\$108.3 million, representing a decrease of 30.0% as compared to the corresponding period last year. The pro forma gross margin was 23.5%, as compared to 33.3% for the corresponding period last year, mainly due to the significant drop in selling price of concrete in Hong Kong and the increase in cost of raw materials for the cement manufacturing operations.

The pro forma profit from operations and profit attributable to shareholders of the Group for the six month period ended 30 June 2003 decreased by 54.9% and 52.7% to HK\$35.5 million and HK\$21.6 million respectively as compared to the corresponding period last year. The pro forma net profit margin decreased to 4.7% for the current period, compared with 9.8% for the corresponding period last year. These decreases were the result of factors affecting the gross margin as stated above, the Group's effort to reduce administrative expenses and reduction in finance costs.

As at 30 June 2003, the Group had, on the pro forma basis, total assets and total liabilities of HK\$1,921.6 million and HK\$852.6 million (31/12/2002: HK\$1,752.7 million and HK\$720.2 million) respectively of which total assets of HK\$1,217.5 million and HK\$622.2 million (31/12/2002: HK\$1,086.0 million and HK\$581.1 million) and total liabilities of HK\$720.1 million and HK\$150.6 million (31/12/2002: HK\$604.5 million and HK\$130.1 million) were attributable to our cement and concrete operations respectively.

For the six month period ended 30 June 2003, the pro forma cash inflow from operating activities amounted to HK\$54.1 million, representing an increase of 23.6% from HK\$43.8 million of the same period last year.

Cement Business

The Group's cement manufacturing plant were operated at full capacity producing and selling a total of approximately 1.3 million tonnes of cement in the first half of 2003, representing an increase of approximately 21% over that of last year. Sales to external customers increased to HK\$268.4 million for the six months ended 30 June 2003, representing an increase of 18.1%

as compared with HK\$227.3 million for the same period last year. The pro forma profit from operations from cement business for the six months ended 30 June 2003 amounted to HK\$24.1 million, which is approximately 27.1% less than that of the same period last year.

Development of a new production line in our site at Guangxi Zhuang Autonomous Region (“Guangxi ZAR”) has been completed and trial production was commenced in June 2003. Provided that the trial production is successful, full production is expected to commence in around October this year. Then, the total annual production capacity of our cement operations will increase to approximately 3.3 million tonnes.

Concrete Business

The Group’s concrete business has been under pressure primarily due to decreasing construction activities in Hong Kong, where overall demand for ready mix concrete decreased. The ready mixed concrete market did not turnaround in the first half of 2003, despite the stabilised demand.

The pro forma turnover and profit from operations for the six months ended 30 June 2003 of our concrete business amounted to HK\$192.2 million and HK\$11.4 million, representing a decrease of 19.1% and 74.9% respectively over the same period last year. This is mainly due to the lower selling price of ready mix concrete in Hong Kong. Total concrete sales volume in Hong Kong was approximately 404,000 m³ for the six months ended 30 June 2003, representing a decrease of 1% from approximately 409,000 m³ in the same period last year. During the period, the Group’s newly established subsidiary, China Resources Dongguan Concrete Co. Ltd., commenced commercial production and together with another subsidiary engaged in the concrete manufacturing business in Shenzhen, produced approximately 108,000 m³ of ready mixed concrete in the Chinese Mainland.

Liquidity, Finance Resources and Capital Structure

As at 30 June 2003, the Group’s cash and bank balances amounted to HK\$269.4 million (31/12/2002: HK\$258.3 million) and pledged bank deposits amounted to HK\$7.8 million (31/12/2002: HK\$2.3 million).

Total bank loans amounted to HK\$461.4 million (31/12/2002: HK\$365.8) of which HK\$338.9 million (31/12/2002: HK\$231.7 million) are repayable within one year; HK\$116.7 million (31/12/2002: HK\$117.0 million) are repayable between one to two years; and HK\$5.8 million (31/12/2002: HK\$17.1 million) are repayable between two to five years. The increase in bank

loans of HK\$95.6 million was due mainly to new loans obtained for the acquisition of fixed assets. These bank loans carried interests at market rates ranging from approximately 1.8% to 5.8% per annum. Of these bank loans, total amount of HK\$190.9 million (31/12/2002: HK\$108.2 million) were secured by fixed assets of the Group. Out of the remaining balance of the bank loans, a total of HK\$178.8 million (31/12/2002: HK\$179.1 million) were unsecured but covered by guarantees provided by the Company's immediate holding company on a no fee basis.

The Group's business transactions were mainly carried out in Hong Kong dollars, Renminbi and United States dollars which remained stable in the past few years. Whilst the Group has not engaged in any hedging activities, we are closely monitoring the risk of foreign exchange and will take actions to safeguard the interests of the Group where necessary.

Charges on Assets

As at 30 June 2003, certain assets of the Group with an aggregate carrying value of HK\$296.5 million (31/12/2002: HK\$131.8 million) were pledged with banks for banking facilities used by subsidiaries.

Capital Expenditures

As stated in the Prospectus, the Group had expansion plans to the extent of approximately HK\$294.7 million for 2003 and 2004. The status of these plans are as follows:

Expansion Plan	Planned expenditure <i>HK\$million</i>	Invested as at 30/6/2003 <i>HK\$million</i>	Residual balance to be invested <i>HK\$million</i>
Construction of a dry process cement production line, a pier and improvement works at our site in Guangxi ZAR	225.7	104.9	120.8
Expansion of cement production capacity at our site in Dongguan	50.0	–	50.0
Acquisition of additional 5% interest in our Dongguan cement business	4.8	–	4.8
Additional fixed assets used by our Dongguan concrete operations	14.2	10.1	4.1
	<u>294.7</u>	<u>115.0</u>	<u>179.7</u>

Out of the residual balance to be invested, a total of HK\$17.6 million has been contracted for. The residual balance to be invested will be funded through internal resources or external borrowings. The Group has no other significant planned capital expenditure for expansion purpose at the date of this report.

Employees

As at 30 June 2003, the companies comprising the Group employed a total of 1,790 full time employees of which 207 are based in Hong Kong and the remaining 1,583 are based in the Chinese Mainland. The Group offers its employees remuneration packages mainly on the basis of individual performance and experience and also having regard to industrial practice. The Company has established a share option scheme whereby employees of the Group may be granted options to acquire shares in the Company.

PROSPECTS

The cement business of the Group in the Chinese Mainland has been developing steadily with strong market demand and stable prices. The Group intends to expand its cement production capacity from the current 2.4 million tonnes to 10 million tonnes in three years and to become one of the leading cement manufacturers in the Chinese Mainland.

In June of 2003, the Company's subsidiary at Guangxi ZAR has completed the installation of a new 2,500 tonnes per day dry process rotary kiln production line and trial production has already commenced. The new line has been operating smoothly and is expected to produce 750,000 tonnes of clinker annually. Other than establishing new production lines, the Group will also consider other means, including acquisitions of existing producers, to expand its market share and coverage.

The Group is also actively seeking for opportunities to expand its ready mixed concrete production from its current production capacity of 2.8 million m³ to 4.0 million m³ in three years, primarily in the Guangdong Province and the Guangxi ZAR. In accordance with the Government policy, on-site concrete mixing will be prohibited in provincial capitals, coastal open cities and tourist cities from 2004. We believe that such measure will have a positive effect on the ready mixed concrete industry in the Chinese Mainland and expect that the Company's ready mixed concrete business will improve as the deadline set by the Government approaches.

While demand for ready mixed concrete in Hong Kong is greatly affected by the economic environment, the Company expects the market demand to stabilise and selling price to improve in the second half of 2003. As in the past, appropriate actions will be taken to ensure that our business will respond promptly to changes in demand for concrete products.

As stated in the Company's circular dated 15 August 2003, the Group acquired the remaining 50% interest in Redland Precast Concrete Products Limited which is now an indirect wholly owned subsidiary of the Company. The acquisition represented a significant step of the Group's effort to integrate its business vertically along the cement and concrete value chain and to diversify its business portfolio to include high value added downstream products. We believe such acquisition and integration will allow the Group to improve its gross margins and overall profitability.

The Company aims at becoming one of the biggest vertically integrated cement and concrete products manufacturers in Hong Kong and the Chinese Mainland in three years. In view of the current economic environment and the prospects for future growth, it is expected that the Company will look for acquisitions, in addition to the development of its existing businesses, mainly in the Chinese Mainland in order to achieve this goal. It is expected that the growth of the Group will be financed, in addition to internally generated funds, by both bank borrowings and new equity. The Company will endeavour to improve cost efficiency and gross margins through vertical integration and further improvement on operation efficiency by establishing more advanced new production facilities and enhancing existing production lines. It includes but is not limited to streamlining supply chain and operation management, sharing resources and concentrating efforts to increase the proportions of its high value added products to total sales.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express my sincere thanks to all the employees of the Group for their continued loyalty and hard work.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

A detailed Interim Result Announcement containing all the information in respect of the Company required by paragraphs 46(1) to (6) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange will be published on the Stock Exchange's website in due course.

By Order of the Board

Qiao Shibo

Chairman

10 September 2003

Please also refer to the published version of this announcement in The Standard.