



# 華潤水泥控股有限公司

## China Resources Cement Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 712)

### ANNOUNCEMENT OF INTERIM RESULTS FOR 2004

#### FINANCIAL HIGHLIGHTS

	<b>Consolidated</b>		<b>Pro forma combined</b>
	<b>1 January 2004</b>	13 March 2003 (date of incorporation)	1 January 2003
	<b>to</b>	to	to
	<b>30 June 2004</b>	30 June 2003	30 June 2003
	<b>(Unaudited)</b>	(Unaudited)	(Unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	<b>671,270</b>	–	460,663
Profit from operations	<b>74,612</b>	–	35,503
Profit attributable to shareholders	<b>45,186</b>	–	21,574
Earnings per share – basic (HK\$)	<b>0.125</b>	–	0.059
Dividends per share	<b>Nil</b>	Nil	

The board (the “Board”) of directors of the Company is pleased to announce the interim results of the Company and its subsidiaries (the “Group”) for the six months period ended 30 June 2004. The interim results of the Group are unaudited and have been reviewed by the Company’s audit committee.

## PROFIT AND LOSS ACCOUNT

		<b>Consolidated</b>		Pro forma combined (note 8)
			13 March 2003 (date of incorporation)	
	Notes	1 January 2004 to 30 June 2004 (Unaudited) HK\$'000	to 30 June 2003 (Unaudited) HK\$'000	1 January 2003 to 30 June 2003 (Unaudited) HK\$'000
Turnover	3	671,270	–	460,663
Cost of sales		<u>(481,627)</u>	–	<u>(352,405)</u>
Gross profit		189,643	–	108,258
Other income		12,861	–	9,796
Selling and distribution expenses		(53,893)	–	(43,194)
General and administrative expenses		<u>(73,999)</u>	–	<u>(39,357)</u>
Profit from operations		74,612	–	35,503
Finance costs	4	(9,945)	–	(5,779)
Share of results of associates		–	–	504
Profit before taxation	5	64,667	–	30,228
Taxation	6	<u>(5,492)</u>	–	<u>(4,257)</u>
Profit before minority interests		59,175	–	25,971
Minority interests		<u>(13,989)</u>	–	<u>(4,397)</u>
Profit attributable to shareholders		<u><u>45,186</u></u>	–	<u><u>21,574</u></u>
Earnings per share (HK\$)	7			
– basic		<u><u>0.125</u></u>	–	<u><u>0.059</u></u>
– diluted		<u><u>0.124</u></u>	–	<u><u>N/A</u></u>

Notes:

### 1. Basis of preparation

The consolidated profit and loss account has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with the Statement of Standard Accounting Practice No. 25 “Interim financial reporting.”

## 2. Principal accounting policies

The consolidated profit and loss account has been prepared under the historical cost convention and in accordance with accounting policies that are consistent with those followed in the preparation of the Group's financial statements for the period from 13 March 2003 (date of incorporation) to 31 December 2003.

## 3. Turnover and segment information

### Primary reporting format – business segments

#### For the six months ended 30 June

	Cement		Concrete		Elimination		Consolidated	
	Consolidated	Pro forma combined	Consolidated	Pro forma combined	Consolidated	Pro forma combined	Consolidated	Pro forma combined
	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>								
External sales	349,352	268,426	321,918	192,237	-	-	671,270	460,663
Inter-segment sales	53,153	30,103	125	361	(53,278)	(30,464)	-	-
	<u>402,505</u>	<u>298,529</u>	<u>322,043</u>	<u>192,598</u>	<u>(53,278)</u>	<u>(30,464)</u>	<u>671,270</u>	<u>460,663</u>
<b>Results</b>								
Segment results	70,115	24,084	14,187	11,419	-	-	84,302	35,503
Interest income							305	-
Unallocated corporate expenses							(9,995)	-
Profit from operations							74,612	35,503
Finance costs							(9,945)	(5,779)
Share of results of associates	-	-	-	504	-	-	-	504
Profit before taxation							64,667	30,228
Taxation							(5,492)	(4,257)
Profit before minority interests							59,175	25,971
Minority interests							(13,989)	(4,397)
Profit attributable to shareholders							<u>45,186</u>	<u>21,574</u>

#### 4. Finance costs

For the six months ended 30 June

	<b>Consolidated 2004 (Unaudited) HK\$'000</b>	Pro forma combined 2003 (Unaudited) HK\$'000
Interest on:		
Bank loans wholly repayable within five years	9,824	8,579
Loans from minority shareholders of subsidiaries	648	1,538
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	10,472	10,117
<i>Less:</i> Amount capitalised to fixed assets	(527)	(4,338)
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	<b>9,945</b>	<b>5,779</b>
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#### 5. Profit before taxation

For the six months ended 30 June

	<b>Consolidated 2004 (Unaudited) HK\$'000</b>	Pro forma combined 2003 (Unaudited) HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation of fixed assets	45,890	33,243
Amortisation of goodwill (included in general and administrative expenses)	2,561	–
Amortisation of mining rights (included in general and administrative expenses)	484	182
Amortisation of prepaid rentals (included in general and administrative expenses)	283	283
Loss on disposal of fixed assets	2,779	–
and after crediting:		
Interest income	305	–
Release of negative goodwill (included in other income)	3,726	–
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## 6. Taxation

For the six months ended 30 June

	<b>Consolidated 2004 (Unaudited) HK\$'000</b>	Pro forma combined 2003 (Unaudited) HK\$'000
The taxation charge (credit) comprises:		
Current taxation		
Hong Kong Profits Tax	1,406	1,276
Chinese Mainland Enterprise Income Tax	(729)	–
	<u>677</u>	<u>1,276</u>
Deferred taxation		
Hong Kong	(1,751)	1,639
Chinese Mainland	6,566	1,129
Share of taxation attributable to associates		
Hong Kong	–	213
	<u>5,492</u>	<u>4,257</u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) 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 relevant subsidiaries in the Chinese Mainland.

## 7. Earnings per share

### For the six months ended 30 June

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

	<b>Consolidated 2004 (Unaudited) HK\$'000</b>	Pro forma combined 2003 (Unaudited) HK\$'000
<b>Earnings</b>		
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	<u><b>45,186</b></u>	<u>21,574</u>
<b>Number of shares</b>		
Weighted average number of shares for the purpose of calculating basic earnings per share	<u><b>362,807,461</b></u>	362,807,461
Effect on dilutive potential shares on share options	<u><b>1,218,203</b></u>	–
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u><b>364,025,664</b></u>	<u>362,807,461</u>

*Note:* The pro forma combined basic earnings per share was calculated on the assumption that 362,807,461 shares were in issue throughout the period as if the Group Reorganization and Acquisition (see note 8 below) had been completed on 1 January 2003.

No pro forma combined diluted earnings per share for 2003 is presented as the Company did not have any dilutive potential shares at 30 June 2003.

## 8. Pro forma 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 Revision) of the Cayman Islands. Pursuant to a reorganisation scheme (the “Group Reorganisation”) and the acquisition of Flavour Glory Limited, Clear Bright Investments Limited, Full Sincere Limited and Goodsales Investments Limited (the “Acquisition”), a group structure was formed which comprised the Company and the companies under the Group Reorganisation and the Acquisition (the “Enlarged Group”). The Company became the holding company of the Enlarged Group on 22 July 2003. Details of the Group Reorganisation and the Acquisition are set out in the prospectus issued by the Company on 26 June 2003 (the “Prospectus”).

The pro forma combined profit and loss account for the six months ended 30 June 2003 of the Enlarged Group has been extracted from the interim report 2003 for information purposes only. The pro forma combined financial information may not be indicative of the results of the Enlarged Group for the six months ended 30 June 2003 had the Company always been the holding company of the Enlarged Group.

The pro forma combined profit and loss account includes the results of the companies comprising the Enlarged Group and has been prepared as if the Enlarged Group had been in existence throughout the six months ended 30 June 2003, or since their respective dates of incorporation or establishment, where this is a shorter period.

## **INTERIM DIVIDEND**

No dividends were paid during the period.

The Board does not recommend the payment of an interim dividend.

## **REVIEW OF OPERATIONS**

For the six months period ended 30 June 2004, the consolidated gross profit of the Group was approximately HK\$189.6 million, representing an increase of 75.1% over the pro forma combined gross profit of HK\$108.3 million for the corresponding period last year. The gross margin was 28.3%, as compared to 23.5% for the corresponding period last year, which was attributable to the more efficient new cement production line in Guangxi Zhuang Autonomous Region (“Guangxi”) that was put into operations in October 2003 and the higher percentage increase in cement selling prices than the related manufacturing costs.

The consolidated profit from operations and profit attributable to shareholders for the six months ended 30 June 2004 amounted to HK\$74.6 million and HK\$45.2 million, representing increases of 110.1% and 109.3% as compared with the pro forma combined profit from operations and profit attributable to shareholders for the six months period ended 30 June 2003 of HK\$35.5 million and HK\$21.6 million respectively. Net profit margin increased to 6.7% for the current period, compared with 4.7% for the corresponding period last year.

At 30 June 2004, the Group had total assets and total liabilities of HK\$2,139.8 million and HK\$996.4 million (31/12/2003: HK\$2,120.1 million and HK\$1,035.5 million) respectively of which total assets of HK\$1,225.6 million and HK\$671.8 million (31/12/2003: HK\$1,154.8 million and HK\$611.5 million) and total liabilities of HK\$158.1 million and HK\$119.5 million (31/12/2003: HK\$172.9 million and HK\$107.9 million) were attributable to our cement and concrete operations respectively.

For the six months period ended 30 June 2004, net cash generated from operating activities amounted to HK\$52.0 million.

## **Cement Business**

The Group’s cement manufacturing plants produced and sold a total of approximately 1.7 million tonnes of cement in the first half of 2004, representing an increase of approximately 32.5% over the total volume of 1.3 million tonnes sold last year. External sales increased to HK\$349.4 million for the six months ended 30 June 2004, representing an increase of 30.2% as compared with HK\$268.4 million for the corresponding period last year. The consolidated profit from operations for the six months ended 30 June 2004 amounted to HK\$70.1 million, which was approximately 191.1% more than the pro forma profit from operations of the same period last year.

The construction of a new cement grinding plant in Guangxi with an annual production capacity of 600,000 tonnes was completed during the period and was put into operation on 18 June 2004. This has enabled us to process all the clinker produced from our production lines in Guangxi into cement. Our total annual cement production and grinding capacity then increased to approximately 3.3 million tonnes.

The construction of a 500,000 tonnes blast furnace slag powder production line in Dongguan was commenced in May 2004. This production line can be switched to cement grinding as may be required and we expect this production line will be put into operations in June 2005. The Company has obtained approval for the construction of the first of the two planned 5,000 tonnes per day clinker production lines in Guigang, Guangxi. The major construction of this production line is expected to commence in the fourth quarter of 2004. Upon the completion of this production line at around end of 2005, our total annual cement production capacity will increase to approximately 5.6 million tonnes.

We are in the process of integrating and centralising various functions such as procurement of materials and supplies, sales and marketing, project management and human resources management in order to streamline our cement business operations. We will establish a number of cement silo terminals along the branches of Pearl River in the Pearl River Delta region so as to enhance the Group's marketing and logistic network.

As mentioned in our previous reports, the Company entered into an option deed with China Resources (Holdings) Company Limited ("CR Holdings") pursuant to which the Company has the right to acquire all or any part of the 73.5% interest in Guangxi Ping Nan China Resources Yu Feng Cement Co., Limited held by CR Holdings at a specified price within a specified period. The construction of the cement manufacturing plant for a 5,000 tonnes per day clinker production line by this joint venture has been progressing satisfactorily and it is expected that the construction will be completed in the last quarter of 2004. The Company is considering when it should exercise this option.

## **Concrete Business**

The construction industry in Hong Kong continued to be sluggish in the first six months of 2004. Although concrete selling price has improved by over 40% since the middle of 2003, market demand for ready mixed concrete continues to decline. The demand for ready mixed concrete further reduced when many developers postponed their project construction schedules as a result of the frenzied steel prices, which has also adversely affected the delivery schedules of precast concrete products.

The consolidated turnover and profit from operations for the six months ended 30 June 2004 of our concrete business amounted to HK\$321.9 million and HK\$14.2 million, representing an increase of 67.5% and 24.6% over the pro forma combined turnover and profit from operations of HK\$192.2 million and HK\$11.4 million for the corresponding period last year respectively. The Group sold approximately 687,000 m<sup>3</sup> of ready mixed concrete products for the six months ended 30 June 2004 of which a total of 386,000 m<sup>3</sup> was produced in the Chinese Mainland. In the corresponding period last year, a total of approximately 512,000 m<sup>3</sup> of ready mixed concrete products was sold and of



which a total of 108,000 m<sup>3</sup> was produced in the Chinese Mainland. During the six months ended 30 June 2004, the Group also sold approximately 70,000 tonnes of precast concrete products through a subsidiary which was acquired by the Group in August 2003 when the Group decided to participate in the precast concrete product market.

In view of the increasing demand for ready mixed concrete in Dongguan, we have installed a new production line with annual production capacity of 200,000 m<sup>3</sup> at our existing concrete batching plant, which was put into operation in April 2004. The Group's total annual concrete production capacity in Dongguan then increased to approximately 500,000 m<sup>3</sup>.

The Group's concrete batching plant in Shenzhen which was equipped with two production lines and owned by our subsidiary company, Shenzhen China Resources Tiejian Concrete Co., Ltd. ("Shenzhen CR Tiejian"), has been temporarily closed in April 2004 due to resumption of land on which our plants are located by government for highway projects. One of the production lines was relocated to the Group's other batching plant in the neighbourhood for continuing production in July 2004. We have recently located a new site for establishing a new batching plant to re-install the second production line and expect to re-commence production in October 2004. By then, the total annual concrete production capacity in Shenzhen will be resumed from 1.2 million m<sup>3</sup> to 1.4 million m<sup>3</sup>.

During the period, the Company decided to expand its concrete business into Guangxi. In April 2004, we commenced the construction of a concrete batching plant with annual production capacity of 600,000 m<sup>3</sup> in Nanning, Guangxi. The plant is expected to be completed and put into commercial operation in late September this year.

To cope with our business needs and to ensure that our resources are deployed in an effective and efficient manner, we have closed our concrete batching plant in Kwai Chung in February 2004 therefore reducing our total annual concrete production capacity to 1.5 million m<sup>3</sup> in Hong Kong. Nevertheless, the Group managed to maintain its market share at about 11% in the Hong Kong ready mixed concrete market.

### **Liquidity, Financial Resources and Financial Management**

At 30 June 2004, the Group's cash and bank balances and pledged bank deposits totaling HK\$243.3 million (31/12/2003: HK\$333.9 million) included amounts held as follows: HK\$181.4 million and RMB65.6 million (31/12/2003: HK\$264.5 million and RMB73.5 million).

At 30 June 2004, total bank loans of the Group, which amounted to HK\$622.0 million (31/12/2003: HK\$662.4 million) were made up of loans of US\$3.6 million, HK\$299.0 million and RMB314.0 million (31/12/2003: US\$5.1 million, HK\$299.0 million and RMB345.0 million), of which HK\$489.6 million (31/12/2003: HK\$558.6 million) are repayable within one year; HK\$43.3 million (31/12/2003: HK\$99.1 million) are repayable after one year and within two years; and HK\$89.1 million (31/12/2003: HK\$4.7 million) are repayable after two years and within five years. Net repayment of bank loans during the period amounted to HK\$40.4 million. Bank loans totaling HK\$167.9 million (31/12/2003: HK\$304.9 million) carried interests at fixed rates and total bank loans of HK\$283.6 million (31/12/2003: HK\$392.4 million) were secured by fixed assets of the Group. The gearing ratio of the Group at 30 June 2004 was 60.4% (31/12/2003: 67.3%).

The Group's business transactions and assets and liabilities were principally denominated in Hong Kong dollars, Renminbi and United States dollars and its exposure to exchange risk is insignificant. It is the policy that the Group will not engage in any speculative activities. At 30 June 2004, the Group did not engage in any hedging transactions.

### Charges on Assets

At 30 June 2004, certain assets of the Group with an aggregate carrying value of HK\$559.8 million (31/12/2002: HK\$497.1 million) were pledged with banks for banking facilities used by subsidiaries.

### Employees

At 30 June 2004, the Group employed a total of 2,618 full time employees (31/12/2003: 2,361) of which 298 (31/12/2003: 288) were based in Hong Kong and the remaining 2,320 (31/12/2003: 2,073) were 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.

### CAPITAL EXPENDITURE

The residual balance of the Group's expansion plans to be invested as stated in the Prospectus at 31 December 2003 was approximately HK\$133.8 million. The status of these plans and other planned capital expenditure at 30 June 2004 is as follows:

	Balance to be invested at 31/12/2003 <i>HK\$ million</i>	<b>Invested during the six months ended 30/6/2004 <i>HK\$ million</i></b>	Residual balance to be invested <i>HK\$ million</i>
Expansion plans stated in the Prospectus			
Construction of a dry process cement production line, a pier and improvement works at our site in Guangxi	80.1	<b>21.3</b>	58.8
Expansion of cement production capacity at our site in Dongguan	50.0	<b>9.0</b>	41.0
Additional fixed assets used by our Dongguan concrete operations	3.7	<b>3.7</b>	–
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	<b>133.8</b>	<b>34.0</b>	99.8
			<hr/>
Other capital expenditure contracted for but not provided for			66.9
Other capital expenditure authorised but not contracted for			14.0
			<hr/>
			<b>180.7</b>

The Group's capital expenditure will be financed by internally generated funds, borrowings or new equity.

## **SUBSEQUENT EVENT**

On 19 July 2004, the Group acquired the 30% equity interest in Shenzhen CR Tiejian held by the former minority shareholder at the consideration of RMB15.0 million. Thereafter, Shenzhen CR Tiejian has become a wholly owned subsidiary of the Group.

## **PROSPECTS**

The Chinese Government intensified its austerity macroeconomic policies in the first half of 2004 through the releases of a series of policy statements resulting a slow down in growth of economic activities and capital expenditure investments. Notwithstanding these policies, the GDP and capital expenditure investments of China reached RMB5,877.3 billion and RMB2,608.2 billion respectively in the first half of 2004, represented an increase of 9.7% and 28.6% respectively as compared with those of the same period of 2003. The cement production in the Chinese Mainland was about 425 million tonnes in the first half of 2004, representing a growth of 17.9% as compared with that of the same period last year.

The development of the Chinese cement industry has been affected by the tightening credit policies of major banks in the Chinese Mainland after the Chinese Government raised concerns on the cement industry which was considered to be one of the over-heated industries. Although the impact on the cement industry is widespread and the cement industry has become more difficult in obtaining the necessary finance to continue with its development, we believe that such credit policies will benefit the Chinese cement industry in the long run in terms of industry consolidation and restructuring when the opportunity-driven investors are forced out of the business providing a more favorable environment for the development of our Group.

In June 2004, the Chinese Government launched a campaign to combat "over loading" in highway transportation which has significantly increased highway cement transportation cost. With our production facilities and our distribution network adequately located along the Xijiang River and major water ways in the Pearl River Delta, the Group's competitive edge in transportation will be more apparent when this policy is fully implemented.

The Company will establish footholds for development of ready mixed concrete and precast concrete markets in the Chinese Mainland. We will adjust our concrete production plan to cope with the market demand for concrete products in Hong Kong and look for opportunities to increase our market share in Hong Kong. We will strengthen the market positions of the Group's existing operations by increasing our production capacity through building new batching plants or acquiring existing concrete producers. We will develop our ready mixed concrete plants along our extensive cement distribution channel in the Chinese Mainland and streamline the Group's operations with a view to attaining a leading position in the end-market of high quality concrete products and becoming customers' most reliable partner.

Looking ahead, we expect the Chinese Government's austerity policy to have a limited short term impact on the Company's business and growth. The Chinese Government's determination to restructure the cement and concrete industry will encourage the construction of large scale production lines and eliminate backward technology. The Chinese economy will continue to grow at a moderate and healthy pace in the future providing the Group with ample opportunities to excel and to achieve satisfactory return to shareholders of the Company.

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

A detailed Interim Result Announcement containing all the information required by paragraphs 46 (1) to (6) of Appendix 16 of the Listing Rules in force prior to 31 March 2004, which remain applicable to results announcements in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be published on the Company's website and the website of the Stock Exchange in due course.

By Order of the Board  
**Qiao Shibo**  
Chairman

9 September 2004

*As at the date of this announcement, the Board comprises twelve directors, of which six are executive directors, namely Mr. Qiao Shibo, Mr. Shi Shanbo, Ms. Zhou Junqing, Mr. Zhou Longshan, Ms. Sun Mingquan and Mr. Zheng Yi, three non-executive directors, namely Mr. Ning Gaoning, Mr. Jiang Wei and Mr. Keung Chi Wang, Ralph and three independent non-executive directors, namely Mr. Chan Mo Po, Paul, Mr. Lin Zongshou and Mr. Lui Pui Kee, Francis.*

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