



# 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)

### FINAL RESULTS ANNOUNCEMENT

| FINANCIAL HIGHLIGHTS                                      | Consolidated                           |   | Pro forma combined                     |
|---|--|---|--|
|   | year from<br>1/1/2004 to<br>31/12/2004 | period from<br>13/3/2003 to<br>31/12/2003 | year from<br>1/1/2003 to<br>31/12/2003 |
| Turnover (HK\$'000)                                       | <b>1,438,391</b>                       | 543,729                                   | 1,070,189                              |
| Profit from operations (HK\$'000)                         | <b>142,807</b>                         | 47,549                                    | 92,735                                 |
| Profit attributable to shareholders/net profit (HK\$'000) | <b>88,656</b>                          | 23,553                                    | 49,272                                 |
| Earnings per share – basic (HK\$)                         | <b>0.244</b>                           | 0.114                                     | 0.136                                  |
| Dividends per share (HK\$)                                | <b>0.05</b>                            | Nil                                       | Nil                                    |

#### FINAL RESULTS 2004

The Directors of China Resources Cement Holdings Limited (the “Company”) are pleased to present the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2004 (the “Year 2004”) with comparative figures for the period from 13 March 2003 (date of incorporation) to 31 December 2003 (the “Period 2003”) as follows:

|                                     | Notes | Year 2004<br>HK\$'000 | Period 2003<br>HK\$'000 |
|-------------------------------------|-------|-----------------------|-------------------------|
| Turnover                            | 2     | <b>1,438,391</b>      | 543,729                 |
| Cost of sales                       |       | <b>(1,063,538)</b>    | (410,913)               |
| Gross profit                        |       | <b>374,853</b>        | 132,816                 |
| Other income                        |       | <b>33,417</b>         | 20,127                  |
| Selling and distribution expenses   |       | <b>(115,739)</b>      | (42,034)                |
| General and administrative expenses |       | <b>(149,724)</b>      | (63,360)                |
| Profit from operations              |       | <b>142,807</b>        | 47,549                  |
| Finance costs                       | 3     | <b>(21,572)</b>       | (10,024)                |
| Share of results of associates      |       | <b>(7)</b>            | (3,423)                 |

|                                     |   |                 |         |
|-------------------------------------|---|-----------------|---------|
| Profit before taxation              | 4 | <b>121,228</b>  | 34,102  |
| Taxation                            | 5 | <b>(4,631)</b>  | (3,254) |
| Profit before minority interests    |   | <b>116,597</b>  | 30,848  |
| Minority interests                  |   | <b>(27,941)</b> | (7,295) |
| Profit attributable to shareholders |   | <b>88,656</b>   | 23,553  |
| Earnings per share (HK\$)           | 6 |                 |         |
| – basic                             |   | <b>0.244</b>    | 0.114   |
| – diluted                           |   | <b>0.244</b>    | 0.114   |
| Dividend per share (HK\$)           |   | <b>0.05</b>     | NIL     |

Notes:

## 1. GROUP REORGANISATION AND BASIS OF PREPARATION

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 “Acquisitions”) to form a group structure of the Company and the companies under the Group Reorganisation and the Acquisitions (the “Enlarged Group”), the Enlarged Group was formed immediately after the completion of Group Reorganisation and the Acquisitions and the Company became the holding company of the Enlarged Group on 22 July 2003.

The results of the Group were accounted for using acquisition accounting method.

## 2. TURNOVER AND SEGMENT INFORMATION

### PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

|                     | Cement         |             | Concrete       |             | Elimination      |             | Consolidated     |             |
|---------------------|----------------|-------------|----------------|-------------|------------------|-------------|------------------|-------------|
|                     | Year 2004      | Period 2003 | Year 2004      | Period 2003 | Year 2004        | Period 2003 | Year 2004        | Period 2003 |
|                     | HK\$'000       | HK\$'000    | HK\$'000       | HK\$'000    | HK\$'000         | HK\$'000    | HK\$'000         | HK\$'000    |
| Turnover            |                |             |                |             |                  |             |                  |             |
| External sales      | <b>724,453</b> | 272,612     | <b>713,938</b> | 271,117     | –                | –           | <b>1,438,391</b> | 543,729     |
| Inter-segment sales | <b>113,894</b> | 42,460      | <b>265</b>     | 141         | <b>(114,159)</b> | (42,601)    | –                | –           |
|                     | <b>838,347</b> | 315,072     | <b>714,203</b> | 271,258     | <b>(114,159)</b> | (42,601)    | <b>1,438,391</b> | 543,729     |

Inter-segment sales are charged at prevailing market prices.

|                                     |                |        |               |         |   |   |                 |          |
|-------------------------------------|----------------|--------|---------------|---------|---|---|-----------------|----------|
| Results                             |                |        |               |         |   |   |                 |          |
| Segment results                     | <b>129,651</b> | 33,642 | <b>30,636</b> | 20,931  | - | - | <b>160,287</b>  | 54,573   |
| Interest income                     |                |        |               |         |   |   | <b>975</b>      | 843      |
| Unallocated corporate expenses      |                |        |               |         |   |   | <b>(18,455)</b> | (7,867)  |
| Profit from operations              |                |        |               |         |   |   | <b>142,807</b>  | 47,549   |
| Finance costs                       |                |        |               |         |   |   | <b>(21,572)</b> | (10,024) |
| Share of results of associates      | -              | -      | (7)           | (3,423) | - | - | <b>(7)</b>      | (3,423)  |
| Profit before taxation              |                |        |               |         |   |   | <b>121,228</b>  | 34,102   |
| Taxation                            |                |        |               |         |   |   | <b>(4,631)</b>  | (3,254)  |
| Profit before minority interests    |                |        |               |         |   |   | <b>116,597</b>  | 30,848   |
| Minority interests                  |                |        |               |         |   |   | <b>(27,941)</b> | (7,295)  |
| Profit attributable to shareholders |                |        |               |         |   |   | <b>88,656</b>   | 23,553   |

## SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

|                  | Year 2004<br><i>HK\$'000</i> | Period 2003<br><i>HK\$'000</i> |
|------------------|------------------------------|--------------------------------|
| Segment turnover |                              |                                |
| Chinese Mainland | 926,777                      | 299,855                        |
| Hong Kong        | 511,614                      | 243,874                        |
|                  | <u>1,438,391</u>             | <u>543,729</u>                 |

### 3. FINANCE COSTS

|  | Year 2004<br><i>HK\$'000</i> | Period 2003<br><i>HK\$'000</i> |
|--|------------------------------|--------------------------------|
| Interest on:                                     |                              |                                |
| Bank loans wholly repayable within five years    | 20,864                       | 10,072                         |
| Loans from minority shareholders of subsidiaries | 1,235                        | 524                            |
|  | <u>22,099</u>                | <u>10,596</u>                  |
| Less: Amount capitalised to fixed assets         | (527)                        | (572)                          |
|  | <u>21,572</u>                | <u>10,024</u>                  |

#### 4. PROFIT BEFORE TAXATION

|  | Year 2004<br><i>HK\$'000</i> | Period 2003<br><i>HK\$'000</i> |
|--|------------------------------|--------------------------------|
| Profit before taxation has been arrived at after charging (crediting): |                              |                                |
| Depreciation and amortisation  | 100,678                      | 38,841                         |
| Operating lease payments in respect of rented premises                 | 20,138                       | 13,663                         |
| Release of negative goodwill to income                                 | (7,880)                      | (3,106)                        |
|  | <u>112,936</u>               | <u>49,398</u>                  |

#### 5. TAXATION

|  | Year 2004<br><i>HK\$'000</i> | Period 2003<br><i>HK\$'000</i> |
|--|------------------------------|--------------------------------|
| Current taxation                       |                              |                                |
| Hong Kong Profits Tax                  | 5,227                        | 3,320                          |
| Chinese Mainland Enterprise Income Tax | (278)                        | –                              |
|  | <u>4,949</u>                 | <u>3,320</u>                   |
| Deferred taxation                      |                              |                                |
| Hong Kong                              | (4,353)                      | (1,480)                        |
| Chinese Mainland                       | 4,035                        | 1,414                          |
|  | <u>(318)</u>                 | <u>(66)</u>                    |
|  | <u>4,631</u>                 | <u>3,254</u>                   |

#### 6. EARNINGS PER SHARE

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

|  | Year 2004<br><i>HK\$'000</i> | Period 2003<br><i>HK\$'000</i> |
|--|------------------------------|--------------------------------|
| <i>Earnings</i>  |                              |                                |
| Profit attributable to shareholders for the purpose of calculating basic<br>and diluted earnings per share | <u>88,656</u>                | <u>23,553</u>                  |

|   | Year 2004<br>'000 | Period 2003<br>'000 |
|---|-------------------|---------------------|
| <i>Number of shares</i>   |                   |                     |
| Weighted average number of shares for the purpose of calculating basic earnings per share   | 362,807           | 206,805             |
| Effect on dilutive potential shares on share options  | 612               | 305                 |
|   | <hr/>             | <hr/>               |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | <u>363,419</u>    | <u>207,110</u>      |

## **DIVIDENDS**

No dividend has been declared during the year. The Directors recommend a final dividend of HK5 cents per share amounting to approximately HK\$19.1 million payable on or about 3 May 2005 to all persons registered as holders of shares of the Company on 4 April 2005.

## **CLOSURE OF REGISTER**

The Register of Members will be closed from 4 April 2005 to 7 April 2005, both days inclusive. In order to be eligible for the final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Standard Registrars Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 1 April 2005.

## **THE BUSINESS ENVIRONMENT**

In the past year, as the result of government austerity economic policies such as the nationwide investigation of investment projects in certain industries, suspension on approval of land-use-rights, controlling bank commercial lending and raising of capital requirement for new investment projects, the growth in capital expenditure and cement demand were suppressed. The cost of cement production also increased due to increases in prices of coal, power, oil and transportation costs.

The above policies and measures have had an impact on the Chinese economy as evidenced by gradual decline in the rate of growth of national capital expenditure from 43% in the first quarter of 2004 to 25.8% in the fourth quarter of 2004. The Chinese Mainland experienced severe shortages in the supplies of coal and power in 2004. Due to tight supply caused by insufficient transportation capability and strong demand, the average coal price went up by 33.4% at the end of 2004 as compared with that of 2003.

Despite of the energy shortages as well as austerity policies and measures, the Chinese economy maintained its growth. In 2004, the Chinese Gross Domestic Products ("GDP") and national capital expenditure increased by 9.5% and 25.8% respectively as compared with that of 2003. As regards our target markets, the GDP and capital expenditure increased by 14.2% and 19.9% respectively over 2003 in Guangdong Province and 11.8% and 27.0% respectively in Guangxi.

## THE INDUSTRY

The government of China has been promoting a structural consolidation in the cement industry by encouraging companies to establish New Suspension Preheater (“NSP”) cement production lines with daily capacity of 4,000 tonnes of clinker or above in areas with sufficient limestone resources. The authority for approving such investment projects formerly controlled by the National Development and Reform Commission had been delegated to provincial governments. Local governments in China have also implemented a variety of policies to close vertical kiln cement production lines in their jurisdiction.

According to the China Cement Association, total cement produced in the Chinese Mainland amounted to 970 million tonnes in 2004, representing an increase of 12.5% over 2003. The total cement output is expected to reach 1.05 billion tonnes in 2005. In 2004, a total of 143 NSP clinker production lines were constructed and put into commercial operation in the Chinese Mainland, adding a total clinker capacity of approximately 130 million tonnes. As a result of these new production lines and the closure of certain vertical kiln production lines, NSP clinker capacity at the end of 2004, as a percentage of total national clinker production capacity, has increased to approximately 32% from 23% for 2003.

Under the policy set out in “Air Dust Emission Standards for the Cement Industry” promulgated by the State Environmental Protection Administration of China, which became effective on 1 January, 2005, air dust emission standards for various cement production methods in the Chinese Mainland were unified allowing a grace transitional period of 18 months. The emission standards contained in the above policy document is significantly stricter than the current emission standards for production using vertical kilns which accounts for more than 50% of total cement production capacity in China.

As mentioned in the Company’s Annual Report 2003, the Chinese Government has banned on-site concrete batching in 124 major cities from 1 January 2004 and this policy will be extended to all cities in China with effect from 1 January 2006.

## CORPORATE MISSION AND STRATEGY

The Company will actively participate in the structural consolidation of the Chinese cement industry, improve and update its production technology, environmental protection and management standards and aims to become one of the most competitive cement and concrete producers in the Chinese Mainland, providing high quality building materials and good customer services with a view to maximising shareholders’ as well as employees’ values.

The Group intends to establish itself as a leading low-cost producer through expansion of its production capacity, rationalisation and improvement of its processes and the supply of raw materials and its strategic position in its target markets. The Company will provide high quality cement, ready mixed concrete and concrete precast products to major construction works and becomes customers’ most reliable partner.

Currently, the Company has focused its business development in Southern China, being principally Guangdong Province and Guangxi. The Company’s development strategy can be described as “**two points, one stroke**”. The first point refers to our core target market, the Pearl River Delta, which is one of China’s largest cement markets with an annual cement consumption of more than 60 million tonnes. The second point refers the Xijiang River basin in Guangxi, an ideal location for large scale cement production plants with abundant and concentrated high quality limestone reserves as well as plentiful supply of relatively cheap power. One stroke depicts the Xijiang River, the second largest inland water transportation system in China and a major water transportation artery between Guangdong Province and Guangxi. It provides a large capacity and low cost means of transportation for the Group’s cement products.

Its present concentration on its strategic location in Southern China will not exclude the possibility of making its investments in the Chinese cement industry in areas other than Southern China provided that there is a genuine opportunity for the Company to establish a leading market position and for future growth in those areas.

While business conditions have stabilised in Hong Kong and its market position has been maintained, the Company intends to accelerate its expansion of its market coverage of the emerging ready mixed concrete markets in the Chinese Mainland. The Company will introduce the technology and management experience gained from its Hong Kong concrete operations into our business operations in the Chinese Mainland. It also intends to use its well established cement distribution and logistic capability for concurrent and synergic development of its ready-mixed concrete operations.

## **SOCIAL RESPONSIBILITY**

The future of the Company depends on the sustainable development of the society. As such, we pay close attention to issues such as environmental protection, employee safety and health, and local economic and social development. We comply strictly with government environmental protection standards and equip our cement and concrete plants with the best dust and air emission control systems. As part of its policy in this regard, the Company also endeavours to make the best use of industrial waste such as fly ash generated from coal-fired electric power stations and furnace slag from the steel industry in our production of cement. The protection of environment remains a major priority for us and it is for this reason in plan to replace our five wet process kilns at Guangxi China Resources Hongshuihe Cement Co. Ltd. ("Guangxi CR Cement") with an advanced 3,200 tonnes per day NSP clinker production line which will result in a much lower level of emissions. The Company will also ensure it will comply fully with OHSAS 18000 (Occupational Health and Safety Assessment) standards at all its production sites.

## **REVIEW OF OPERATIONS**

*The Group Reorganisation and the Acquisitions was completed in July 2003 and, therefore, the consolidated financial information for the period from 13 March 2003 (date of incorporation) to 31 December 2003 does not reflect the full year results of all the subsidiaries comprising the Group. For the purpose of a proper appraisal of the performance of the Group for the year ended 31 December 2004, comparisons are made in this section against the pro forma combined financial information for the year ended 31 December 2003 as if the Group Reorganisation and the Acquisitions had been completed and all the relevant companies forming part of the Group had been held by the Company since 1 January 2003, or the respective dates of incorporation or establishment, or the respective dates of acquisition, whichever is later. The pro forma combined financial information was extracted from our Annual Report 2003. Please refer to the Annual Report 2003 for the basis of preparation of the pro forma combined financial information.*

The consolidated turnover and consolidated gross profit for the year ended 31 December 2004 amounted to HK\$1,438.4 million and HK\$374.9 million, representing increases of 34.4% and of 45.1% over the pro forma combined turnover of HK\$1,070.2 million and pro forma combined gross profit of HK\$258.4 million respectively for the last year. The consolidated gross margin was 26.1%, as compared to 24.1% for the last year, attributable primarily to the increase in selling price of cement.

The consolidated profit from operations and profit attributable to shareholders for the year of the Group were HK\$142.8 million and HK\$88.7 million, representing increases of 54.0% and 79.9% from the pro forma combined profit from operations of HK\$92.7 million and pro forma combined net profit of HK\$49.3 million respectively. These increases were due to increased sales volume and increase in gross margin.

For the year ended 31 December 2004, the consolidated net cash generated from operating activities amounted to HK\$160.6 million, representing an increase of 99.3% from the pro forma combined net cash generated from operating activities of HK\$80.6 million of last year.

## **Cement Business**

With the establishment of the new 2,500 tonnes per day dry process rotary kiln clinker production line at Guangxi CR Cement which was put into commercial operations in October 2003, the new 600 tonnes per day cement grinding factory at Zhanjiang which commenced commercial operations in May 2003 and the completion of construction of the new grinding plant in Guangxi CR Cement with an annual production capacity of 600,000 tonnes in June 2004, total annual cement production capacity of the Group was approximately 3.3 million tonnes throughout 2004. Our production lines were almost operating at full capacity production with the result that total volume of cement sold in 2004 was approximately 3.56 million tonnes, representing an increase of 23.6% over that of last year.

In the first half of year 2004, our cement selling prices had increased by an average of 8.0% and thereafter remained stable until the end of 2004. The consolidated turnover of cement business for the year was HK\$724.5 million, representing an increase of 23.6% as compared with the pro forma combined turnover of HK\$586.2 million last year. The consolidated profit from operations for the year amounted to HK\$129.7 million, which is approximately 94.5% more than the pro forma combined profit from operations of HK\$66.7 million for the last year.

The construction of the Group's new production line with annual production capacity of 500,000 tonnes of cement or slag powder in Dongguan is progressing well and we expect it will be put into operations in May 2005.

As stated in the prospectus of the Company dated 26 June 2003, the Company entered into an option deed with the Company's holding company, China Resources (Holdings) Company Limited ("CR Holdings"), in terms of which the Company has the right to acquire all or any part of the 73.5% interest in Guangxi Pingnan China Resources Yufeng Cement Co. Ltd. (the "Pingnan Joint Venture") held by CR Holdings at the 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 was completed in October 2004. On 29 November 2004, the Company exercised the rights under the option deed and following the passing of a resolution by shareholders approving the transaction, the Company completed the acquisition of the Pingnan Joint Venture on 13 January 2005.

Following the acquisition of the Pingnan Joint Venture in January 2005, the Group has planned to build another 5,000 tonnes per day NSP clinker production line at the production site of the Pingnan Joint Venture. The construction of this clinker production line is expected to commence in the second quarter of 2005 and it is anticipated that the new production line will be completed in the first quarter of 2006.

As mentioned in our Annual Report 2003 and Interim Report 2004, we planned to build two 5,000 tonnes per day NSP lines in two stages in Guigang, Guangxi by 2006. By January 2005, the Government has approved the allocation of land and the environmental assessment procedures for our Guigang project. Construction of the first production line has been commenced at full speed and it is expected to be completed and put into operations in early 2006.

After the completion of the additions to our production capacity as described above, our Group's cement annual production capacity will reach 9.5 million tonnes.



## Concrete Business

The Hong Kong construction industry continued to be sluggish during 2004. Overall demand for ready mixed concrete decreased further when many developers postponed their project construction schedules in response to sharply higher steel prices, which has also adversely affected the delivery schedules of precast concrete products. Although we managed to maintain a proportionate market share of approximately 11% in the ready mixed concrete market of Hong Kong and concrete market selling price has risen to approximately HK\$450 per m<sup>3</sup>, our total concrete sales (including mortars and other concrete products) in Hong Kong was 596,000 m<sup>3</sup>, representing a decrease of 25.0% from 795,000 m<sup>3</sup> of 2003. In 2004, the Group's subsidiaries engaged in concrete business in the Chinese Mainland produced and sold approximately 1,003,000 m<sup>3</sup> of ready mixed concrete, as compared with 368,000 m<sup>3</sup> in 2003. Concrete prices in our markets in the Chinese Mainland had been steady throughout the year.

The consolidated turnover and profit from operations of our concrete business, including our precast concrete business, for the year amounted to HK\$713.9 million and HK\$30.6 million, representing increase of 47.5% and decrease of 10.3% over the pro forma combined turnover of HK\$484.0 million and profit from operations of HK\$34.1 million respectively for the last year. This was mainly due to lower sales volume in Hong Kong which was not fully offset by the growth achieved in the Chinese Mainland.

During 2004, Redland Precast Concrete Products Limited ("Redland Precast") sold a total of about 205,000 tonnes of precast concrete products in Hong Kong and was the largest precast concrete product supplier with a market share of approximately 35%. Redland Precast has generated a total turnover of HK\$214.0 million and net loss of HK\$1.1 million during the year. The performance of Redland Precast was adversely affected by the significant production and transportation cost increases caused by the rise in the price of steel and oil.

In order to meet strong market demand for ready mixed concrete in the Chinese Mainland, a new concrete production line with annual production capacity of 200,000 m<sup>3</sup> was established in our Dongguan concrete batching plant which was put into operations in April 2004. Total annual concrete production capacity of the Group in Dongguan then increased to 500,000 m<sup>3</sup>.

On 1 October 2004, the Group acquired 100% equity interest in Foshan Shunan Concrete Co. Ltd. which owns and operates two concrete production lines with total annual production capacity of approximately 500,000 m<sup>3</sup> for extension of our business coverage into the Foshan area.

On 18 October 2004, the Group completed the installation and has put into operation two concrete batching plants with total annual production capacity of approximately 600,000 m<sup>3</sup> in Nanning, Guangxi, which is the Group's first concrete batching plant in Guangxi and represented the Group's strategic entry into the concrete business of Guangxi.

As mentioned in our interim report for 2004, our concrete batching plant in Shenzhen which was formerly equipped with two production lines was closed in April 2004 due to the resumption of land on which our plants are located by the government for use in a highway project. One of the production lines was relocated to the Group's other batching plant in the neighbourhood for resumption of production in July 2004. We have recently leased another piece of land in Shenzhen for the building of a new batching plant and expect to re-erect the second 200,000 m<sup>3</sup> per year production line and install a new 300,000 m<sup>3</sup> per year concrete production line in March 2005. By then, our total annual concrete production capacity in Shenzhen will be increased to 1.6 million m<sup>3</sup>.

As at 31 December 2004, the Group's total annual concrete production capacity in Hong Kong and in the Chinese Mainland was approximately 1.5 million m<sup>3</sup> and 2.7 million m<sup>3</sup> respectively.

## **Liquidity and Financial Resources**

As at 31 December 2004, the Group's cash and bank balances totaling HK\$257.2 million (31/12/2003: HK\$332.9 million) included amounts held as follows: HK\$133.8 million and RMB131.3 million (31/12/2003: HK\$264.5 million and RMB73.5 million).

On 25 October 2004, the Company signed a facility agreement with four banks. Loans drawn under this facility agreement are repayable by five equal bi-annual instalments commencing from the end of the third year from the date of the facility agreement. Under the terms of the facility agreement, CR Holdings, the Company's holding Company is required to hold not less than 51% of the voting share capital in the Company. As at 31 December 2004, total amount of HK\$100.0 million has been drawn down.

As at 31 December 2004, total bank loans of the Group, which amounted to HK\$691.6 million (31/12/2003: HK\$662.4 million), comprised loans of US\$2.2 million, HK\$379.5 million and RMB314.0 million (31/12/2003: US\$5.1 million, HK\$299.0 million and RMB345.0 million). Bank loans totaling HK\$168.1 million (31/12/2003: HK\$304.9 million) carried interests at fixed rates. Of these bank loans, a total amount of HK\$282.7 million (31/12/2003: HK\$392.4 million) was secured by fixed assets of the Group and a total amount of HK\$45.2 million (31/12/2003: HK\$77.3 million) was unsecured but covered by guarantees provided by minority shareholders of subsidiaries on a no fee basis. The gearing ratio as at 31 December 2004 was 68.3% (31/12/2003: 71.5%).

The Group's business transactions were mainly carried out in Hong Kong dollars, Renminbi and United States dollars and given the linkage between these currencies, its exposure to exchange risk is insignificant. It is the policy that the Group will not engage in any speculative activities. As at 31 December 2004, the Group did not engage in any hedging transactions.

## **Charges on Assets**

As at 31 December 2004, certain fixed assets of subsidiaries of the Company with an aggregate carrying value of HK\$532.3 million (31/12/2003: HK\$497.1 million) were pledged with banks for banking facilities used by these subsidiaries.

## **Employees**

As at 31 December 2004, the Group employed a total of 3,070 (31/12/2003: 2,361) full time employees of which 263 (31/12/2003: 288) are based in Hong Kong and the remaining 2,807 (31/12/2003: 2,073) are based in the Chinese Mainland. The average age of the 184 (31/12/2003: 130) senior and middle managerial staff of the Group is about 38 (31/12/2003: 39) years. 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. Details of options granted during the year will be shown in the section on the Share Option Scheme contained in the Report of the Directors of the Annual Report 2004.

## CAPITAL EXPENDITURE

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

| <b>Expansion plan</b>   | <b>Balance<br/>to be invested<br/>at 31/12/2003<br/><i>HK\$ million</i></b> | <b>Authorised<br/>during the<br/>Year 2004<br/><i>HK\$ million</i></b> | <b>Invested<br/>during the<br/>Year 2004<br/><i>HK\$ million</i></b> | <b>Balance<br/>to be invested<br/>at 31/12/2004<br/><i>HK\$ million</i></b> |
|---|---|--|--|---|
| Construction of a dry process cement production line, a pier and improvement works at our site in Guangxi | 80.1  | –  | 43.2   | 36.9  |
| Expansion of cement production capacity at our site in Dongguan   | 50.0  | 47.7   | 41.4   | 56.3  |
| Additional fixed assets used by our Dongguan concrete operations  | 3.7   | –  | 3.7  | –   |
| Construction of a dry process cement production line at Guigang, Guangxi                                  | –   | 656.6  | 84.6   | 572.0   |
| Acquisition of the Pingnan Joint Venture  | –   | 151.7  | –  | 151.7   |
|   | <u>133.8</u>  | <u>856.0</u>   | <u>172.9</u>   | 816.9   |
| Other capital expenditure contracted for but not provided for   |   |  |  | <u>19.7</u>   |
|   |   |  |  | <u>836.6</u>  |

Apart from the foregoing, the Group has no other significant planned capital expenditure as at 31 December 2004. These planned and intended capital expenditures and any other future expansion will be financed by internally generated funds, borrowings, introduction of strategic investors or new equity.

## POST BALANCE SHEET EVENTS

1. Pursuant to the resolution of shareholders passed in an extraordinary general meeting of the Company on 10 January 2005, the Group issued HK\$800.0 million zero coupon convertible bonds due 2010 guaranteed by and convertible into ordinary shares of the Company at the initial conversion price of HK\$2.00 per share to CR Holdings on 13 January 2005. On the same date, the shareholders also passed the resolution to approve the acquisition of 73.5% interest in the Pingnan Joint Venture and the related shareholder's loans at the aggregate consideration of HK\$151.7 million and the acquisition was also completed on 13 January 2005.
2. On 12 January 2005, the Company entered into a share swap agreement with Sumitomo Corporation, Sumitomo Corporation (Hong Kong) Limited and UBE Industries Ltd., being all the minority shareholders of the Group's subsidiary, China Resources Dongguan Cement Manufactory Holdings Limited, for the

purpose of acquisition of the remaining 25% shareholding interests in China Resources Dongguan Cement Manufactory Holdings Limited at the total consideration of HK\$38,000,000 which shall be settled by the issuance of 19,000,000 shares of HK\$0.10 each of the Company. The acquisition was completed on 23 February 2005.

3. On 23 February 2005, the Board approved the increase in registered capital of, and the injection of capital into, the Pingnan Joint Venture to the extent of RMB419.2 million for the purpose of construction of a new 5,000 tonnes per day NSP production line. The capital injection is subject to approval by shareholders of the Company. Details of this transaction has been separately announced.
4. On 23 February 2005, the Board approved the construction of a new 3,200 tonnes per day NSP production line for the purpose of replacing the five existing wet process kilns at Guangxi CR Cement with a total cost of approximately RMB230,000,000. The construction is expected to be completed at the end of 2005.

## **PROSPECTS**

Looking into the future, while the austerity economic policy implemented by the Chinese government will continue, we believe its impact on the continuing development of the Chinese economy will be positive. In 2005, the GDP and national capital expenditure of the Chinese Mainland is expected to continue to remain healthy and grow steadily which will provide an excellent environment for the business and growth of the cement industry.

We are confident that the Company will be able to achieve its strategic goals of becoming a manufacturer with annual production capacity of 15 million tonnes of cement and 8 million m<sup>3</sup> of concrete by the end of 2007.

## **DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE**

A detailed announcement of the results for the year containing all the information required by paragraph 45(1) to 45(3) inclusive to Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 traditional arrangements, will be submitted for publication on the Stock Exchange's website in due course.

By Order of the Board

**Qiao Shibo**

*Chairman*

Hong Kong, 28 February 2005

*As at the date of this announcement, the Board comprises eleven 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; two are non-executive Directors, namely Mr. Jiang Wei and Mr. Keung Chi Wang, Ralph and three are 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.