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# 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)

## VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

### ADDITIONAL CAPITAL CONTRIBUTION TO GUANGXI PINGNAN CHINA RESOURCES YUFENG CEMENT COMPANY LIMITED

Financial adviser

**ANGLO CHINESE**  
CORPORATE FINANCE, LIMITED

On 23 February 2005, the Board passed resolutions approving, among other things, Tricot Limited, a wholly owned subsidiary of the Company, to enter into a supplemental JV agreement with Guangxi Yufeng Group Cement Company Limited, under which the registered capital of Guangxi Pingnan China Resources Yufeng Cement Company Limited will, subject to approval from the relevant government authority of PRC, be increased from approximately RMB217.7 million, which is equivalent to approximately HK\$205.4 million, to approximately RMB636.9 million, which is equivalent to approximately HK\$600.9 million. According to the Supplemental JV Agreement, both parties agreed that Tricot will contribute all the incremental registered capital of Pingnan Joint Venture in an aggregate amount of RMB419.2 million, which is equivalent to approximately HK\$395.5 million. Upon approval of the shareholders of the Company, Tricot will enter into the Supplemental JV Agreement.

The Stock Exchange has formed a view that the capital contribution by Tricot is essentially an acquisition of 17.4% equity interest in Pingnan Joint Venture. As the capital contribution is expected to take place after approval by the relevant government authority of PRC and shareholders of the Company, which is expected to be within 12 months following completion of the acquisition of the 73.5% equity interest in Pingnan Joint Venture by the Company on 13 January 2005, the Stock Exchange has therefore aggregated the capital contribution and the acquisition, and the applicable percentage ratios of the two transactions exceed 100%. Accordingly, the proposed capital contribution

constitutes a very substantial acquisition of the Company pursuant to Chapter 14 of the Listing Rules. In addition, since Guangxi Yufeng is a substantial shareholder of Pingnan Joint Venture and therefore a connected person of the Company, and the capital contribution is not in proportion to the respective shareholdings of Tricot and Guangxi Yufeng, the capital contribution under the Supplemental JV Agreement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. In light of the above, the Supplemental JV Agreement is subject to approval of the shareholders of the Company by poll at an extraordinary general meeting.

A circular containing, among other things, further details of the Supplemental JV Agreement, a letter from an independent financial adviser containing its advice to the independent board committee and the recommendations of the independent board committee will be despatched to the Shareholders as soon as possible.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 24 February 2005 pending the release of this announcement. The Company has applied for a resumption of trading in the Shares with effect from 9:30 a.m. on 1 March 2005.

## **INTRODUCTION**

On 23 February 2005, the Board passed resolutions approving, among other things, Tricot Limited, a wholly owned subsidiary of the Company, to enter into a supplemental JV agreement with Guangxi Yufeng Group Cement Company Limited, under which the registered capital of Guangxi Pingnan China Resources Yufeng Cement Company Limited will, subject to approval from the relevant government authority of PRC, be increased from approximately RMB217.7 million, which is equivalent to approximately HK\$205.4 million, to approximately RMB636.9 million, which is equivalent to approximately HK\$600.9 million. According to the Supplemental JV Agreement, both parties agreed that Tricot will contribute all the incremental registered capital of Pingnan Joint Venture in an aggregate amount of RMB419.2 million, which is equivalent to approximately HK\$395.5 million. Upon approval of the shareholders of the Company, Tricot will enter into the Supplemental JV Agreement.

## **THE SUPPLEMENTAL JV AGREEMENT TO BE ENTERED INTO**

Parties:	Tricot Limited, a wholly owned subsidiary of the Company  Guangxi Yufeng Group Cement Company Limited, its principal activities include its investment holding in Pingnan Joint Venture
Joint venture company:	Guangxi Pingnan China Resources Yufeng Cement Company Limited
Capital contribution:	A total of RMB419,220,000 in cash, equivalent to approximately HK\$395,491,000, all of which will be injected by Tricot. The capital contribution of Tricot will be paid from internal financial resources of the Group. Guangxi Yufeng as the other party to the Supplemental JV Agreement is not required under such agreement to inject further capital into Pingnan Joint Venture.

Upon full contribution of the increased amount of the registered capital, the equity interest of the Company in Pingnan Joint Venture will be increased from approximately 73.5% to approximately 90.9%.

Registered capital and total investment amount:

The current registered capital of Pingnan Joint Venture is RMB217,700,000, which is equivalent to approximately HK\$205,377,000. Under the Supplemental JV Agreement, the registered capital of Pingnan Joint Venture will be increased to RMB636,920,000, which is equivalent to approximately HK\$600,868,000.

Also under the Supplemental JV Agreement, the total investment amount of Pingnan Joint Venture will be increased from RMB640,000,000, which is equivalent to approximately HK\$603,774,000 to RMB1,700,000,000, which is equivalent to approximately HK\$1,603,774,000.

Timing for signing and conditions precedent

It is intended that the Supplemental JV Agreement will be signed following the passing of an ordinary resolution(s) by the Shareholders in general meeting in accordance with the applicable requirements under the Listing Rules to approve the Supplemental JV Agreement, which constitutes a very substantial acquisition and connected transaction under Chapters 14 and 14A of the Listing Rules respectively. The Supplemental JV Agreement will come into effect upon receiving the necessary PRC governmental approval.

Board of directors:

The current composition of the board of directors of Pingnan Joint Venture comprises 11 members, of which 8 and 3 were appointed by Tricot and Guangxi Yufeng respectively. Upon the coming into effect of the Supplemental JV Agreement, the board of directors of Pingnan Joint Venture will comprise 11 members, of which 9 and 2 will be appointed by Tricot and Guangxi Yufeng respectively.

Deadline for full contribution of the additional capital:

Parties to the Supplemental JV Agreement are required to inject 15% of the additional capital within three months from the date of PRC governmental approval.

The Supplemental JV Agreement has not specified the timing of contribution of the remaining amount into Pingnan Joint Venture but it is required by the applicable PRC law to do so within three years from the date of the PRC governmental approval, or otherwise prescribed by the relevant government authority of PRC.

## **REASONS AND BENEFITS FOR THE CAPITAL CONTRIBUTION**

On 13 January 2005, the Group successfully acquired Pingnan Joint Venture and increased its annual cement production capacity from 3.3 million tonnes to 5.2 million tonnes. As stated in the circular issued by the Company dated 24 December 2004 that the cement market will remain strong and the market prices for cement products will remain stable in the PRD. The Directors, therefore, has begun to review the necessity to construct another cement production line in order to maintain the Group's competitiveness in the PRD after the acquisition of Pingnan Joint Venture. After careful consideration of the current market conditions, the timing and the funding requirement, the Board has decided to build another 5,000 tonnes per day dry process rotary kiln cement clinker production line alongside the existing 5,000 tonnes per day clinker production line. The construction cost of the second 5,000 tonnes per day clinker production line is estimated to be HK\$500 million and it will be funded by the proposed capital contribution and internal financial resources of the Group. The second 5,000 tonnes per day clinker production line is expected to be completed in the first quarter of 2006. The Board will continue to monitor the market conditions in the PRD and assess the possibility to build another production line or acquire appropriate cement production company in order to increase its production capacity.

In order to obtain immediate financial resources for the construction of the new production line, upon negotiation, it has been agreed that Tricot will inject the entire fund required for the additional capital contribution. As a result, the shareholding interest of Guangxi Yufeng in Pingnan Joint Venture will be diluted to approximately 9.1%. As the capital contribution is viewed by the Stock Exchange as an acquisition of 17.4% equity interest in Pingnan Joint Venture, the consideration of such acquisition represents the increased shareholder's equity in Pingnan Joint Venture and it represents a premium of 1.0% on basis of the unaudited net asset value of RMB 194.4 million of Pingnan Joint Venture as at 31 December 2004.

The proposed additional capital contribution is not in proportion to the respective shareholdings of Tricot and Guangxi Yufeng and the equity interest of Tricot in Pingnan Joint Venture will be increased from 73.5% to 90.9% upon full payment of such contribution.

The Directors consider that the terms of the Supplemental JV Agreement were arrived at after arm's length negotiations and on normal commercial terms and the amount to be paid by the Company, essentially as consideration for the acquisition of the additional equity interests, is fair and reasonable as far as the Shareholders are concerned and the Supplemental JV Agreement is in the interest of the Company and its shareholders as a whole.

The independent non-executive Directors will provide their views on the Supplemental JV Agreement in the circular to be despatched to the Shareholders upon reviewing the letter of recommendation to be provided by an independent financial adviser.

### **Information on Tricot**

Tricot is an investment holding company which was incorporated in the British Virgin Islands on 1 July 2003 and its principal asset is the 73.5% interest in Pingnan Joint Venture.

Since Pingnan Joint Venture only commenced operation in October 2004, no turnover was recorded for the period from the date of establishment to 30 September 2004. For the nine months ended 30 September 2004, Tricot recorded a loss of approximately HK\$5.0 million.

## **INFORMATION ON PINGNAN JOINT VENTURE**

Pingnan Joint Venture was established on 20 May 2002 with a registered and paid up capital of RMB217.7 million, which is equivalent to approximately HK\$205.4 million. As at 30 September 2004, the unaudited net tangible asset of Pingnan Joint Venture was approximately RMB206.7 million, which is equivalent to approximately HK\$195.0 million. The principal activity of Pingnan Joint Venture is the production and sale of cement products.

## **INFORMATION ABOUT THE COMPANY**

The Company is a listed company on the Stock Exchange and the business of the Group includes production, distribution and sale of cement, concrete, mortars and shotcrete in Hong Kong and PRC.

## **REQUIREMENT OF THE LISTING RULES**

The Stock Exchange regards the capital contribution by Tricot as an acquisition of 17.4% equity interest in Pingnan Joint Venture and together with the acquisition of the 73.5% equity interest in Pingnan Joint Venture by the Company on 13 January 2005 which they are all expected to be completed within a 12 month period. Accordingly, the Stock Exchange has aggregated the capital contribution and the acquisition and as a result, the applicable percentage ratios exceed 100%. In addition, Guangxi Yufeng is a substantial shareholder of Pingnan Joint Venture and the capital contribution is not in proportion to the respective shareholdings of Tricot and Guangxi Yufeng, the capital contribution under the Supplemental JV Agreement constitutes a very substantial acquisition and connected transaction for the Company under the Listing Rules. Therefore, the Supplemental JV Agreement is subject to approval of the shareholders of the Company at an extraordinary general meeting. Guangxi Yufeng and its associates will, to the extent they hold any Share(s), abstain from voting at the extraordinary general meeting. Based on the Board's understanding, Guangxi Yufeng and its associates do not hold any share in the Company as at the date of this announcement.

A circular containing, among other things, further details of the Supplemental JV Agreement, a letter from an independent financial adviser containing its advice to the independent board committee and the recommendations of the independent board committee will be despatched to the Shareholders as soon as possible.

## **GENERAL**

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 24 February 2005 pending the release of this announcement. The Company has applied for a resumption of trading in the Shares with effect from 9:30 a.m. on 1 March 2005.

## **DEFINITIONS**

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of directors of the Company

“Company”	China Resources Cement Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Guangxi Yufeng”	Guangxi Yufeng Group Cement Company Limited, a limited liability company established in PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Pingnan Joint Venture”	Guangxi Pingnan China Resources Yufeng Cement Company Limited, a company established in PRC on 20 May 2002
“PRC”	The People’s Republic of China
“PRD”	Pearl River Delta region in Guangdong Province, PRC
“RMB”	Renminbi, the legal currency in PRC
“Share(s)”	Share(s) of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental JV Agreement”	a supplemental agreement of Pingnan Joint Venture proposed to be entered into between Tricot and Guangxi Yufeng
“Tricot”	Tricot Limited, a wholly owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability

*Unless otherwise specified in this announcement, amounts denominated in RMB have been converted, for the purpose of illustration only, into Hong Kong dollars at the rate of HK\$1.00 = RMB1.06. This exchange is for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be converted at the above rate or any other rates.*

By order of the Board

**Shi Shanbo**

*Director*

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.