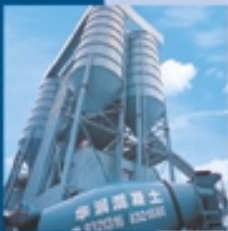




# 華潤水泥控股有限公司 China Resources Cement Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*



## Interim Report 2003



# CORPORATE INFORMATION

## **CHAIRMAN**

QIAO Shibo

## **VICE CHAIRMAN AND GENERAL MANAGER**

SHI Shanbo

## **EXECUTIVE DIRECTORS**

ZHOU Junqing

ZHOU Longshan

SUN Mingquan

ZHENG Yi

## **NON EXECUTIVE DIRECTORS**

NING Gaoning

JIANG Wei

KEUNG Chi Wang, Ralph

## **INDEPENDENT NON EXECUTIVE DIRECTORS**

CHAN Mo Po, Paul

LIN Zongshou

LUI Pui Kee, Francis

## **COMPANY SECRETARY**

LEE Yip Wah, Peter

## **AUDIT COMMITTEE**

CHAN Mo Po, Paul

LIN Zongshou

LUI Pui Kee, Francis

JIANG Wei

KEUNG Chi Wang, Ralph

## **AUDITORS**

Deloitte Touche Tohmatsu

## **SHARE REGISTRAR AND TRANSFER OFFICE**

Standard Registrars Limited

Ground Floor, Bank of East Asia Harbour View Centre  
56 Gloucester Road, Wanchai, Hong Kong

## **REGISTERED OFFICE**

P. O. Box 309GT, Ugland House, South Church Street  
George Town, Grand Cayman, Cayman Islands

## **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Room 4107, 41/F, China Resources Building  
26 Harbour Road, Wanchai, Hong Kong

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## FINANCIAL HIGHLIGHTS

### ON THE PRO FORMA BASIS

	Six months ended 30 June	
	2003	2002
Turnover ( <i>HK\$'000</i> )	<b>460,663</b>	464,852
Profit from operations ( <i>HK\$'000</i> )	<b>35,503</b>	78,678
Profit attributable to shareholders ( <i>HK\$'000</i> )	<b>21,574</b>	45,585
Earnings per share <sup>1</sup> ( <i>HK\$</i> )	<b>0.059</b>	0.126
	<b>At</b>	At
	<b>30 June</b>	31 December
	<b>2003</b>	2002
Net assets ( <i>HK\$'000</i> )	<b>973,391</b>	941,548
Minority interests ( <i>HK\$'000</i> )	<b>95,655</b>	91,023
Net borrowings ( <i>HK\$'000</i> )	<b>273,935</b>	184,645
Current ratio	<b>1.07</b>	1.24
Gearing ratio <sup>2</sup>	<b>47.4%</b>	38.9%
Net debt to equity ratio <sup>3</sup>	<b>18.9%</b>	11.2%
Net assets per share ( <i>HK\$</i> )	<b>2.68</b>	2.60

#### Notes:

- Pro forma earnings per share is calculated by dividing the profit attributable to shareholders by the total number of issued shares of 362,807,461 shares after the completion of the acquisition of the subsidiaries comprising the Group pursuant to the reorganization as stated in the Company's prospectus dated 26 June 2003.
- Gearing ratio is calculated by dividing the total bank indebtedness by net assets.
- Net debt to equity ratio is calculated by dividing total bank indebtedness less cash and bank balances and pledged bank deposits by net assets.

## CHAIRMAN'S STATEMENT

### INTERIM RESULTS

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 months 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 ("CRE") 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.

### INTERIM DIVIDEND

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

## CHAIRMAN'S STATEMENT

### 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.

## CHAIRMAN'S STATEMENT

### 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 m<sup>3</sup> for the six months ended 30 June 2003, representing a decrease of 1% from approximately 409,000 m<sup>3</sup> 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 m<sup>3</sup> 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 million) 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 year; 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.

## CHAIRMAN'S STATEMENT

### 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:

<b>Expansion Plan</b>	<b>Planned expenditure</b> <i>HK\$million</i>	<b>Invested as at 30/6/2003</b> <i>HK\$million</i>	<b>Residual balance to be invested</b> <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.



## CHAIRMAN'S STATEMENT

The Group is also actively seeking for opportunities to expand its ready mixed concrete production from its current production capacity of 2.8 million m<sup>3</sup> to 4.0 million m<sup>3</sup> 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.

## CONDENSED BALANCE SHEET

At 30 June 2003

	Note	(Unaudited) HK\$'000
Current assets		
Amount due from holding company		<u>100,000</u>
Capital and reserves		
Share capital	6	–
Share premium		<u>100,000</u>
		<u>100,000</u>

## CONDENSED STATEMENT OF CHANGES IN EQUITY

For the period from 13 March 2003 (date of incorporation) to 30 June 2003

	<b>Share capital (Unaudited) HK\$'000</b>	<b>Share premium (Unaudited) HK\$'000</b>	<b>Total (Unaudited) HK\$'000</b>
Issue of one share at par upon incorporation	–	–	–
Issue of one share on 25 March 2003 to China Resources Enterprise, Limited at HK\$100,000,000	–	<b>100,000</b>	<b>100,000</b>
At 30 June 2003	–	<b>100,000</b>	<b>100,000</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the period from 13 March 2003 (date of incorporation) to 30 June 2003

### 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 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 Group was formed after completion of the Group Reorganisation, and comprises the Company, Innovative Market Limited ("Innovative Market") and its subsidiaries and the Acquired Companies, which consisted of Flavour Glory Limited, Clear Bright Investments Limited, Full Sincere Limited and Goodsales Investments Limited and their subsidiaries (the "Acquisition"). The results of the Group will be accounted for under acquisition accounting method immediately after completion of the Group Reorganisation and the Acquisition as the respective effective shareholding interests in the Company of its ultimate shareholders will be different after completion of the Group Reorganisation and the Acquisition. The details of the Group Reorganisation and Acquisition were set out in the Prospectus.

Pursuant to the resolution passed by the independent shareholders of CRE at its extraordinary general meeting on 15 July 2003, the Company acquired the 100 percentage interest in each of Flavour Glory Limited, Clear Bright Investments Limited, Full Sincere Limited and Goodsales Investments Limited and related shareholders' loans at the aggregate consideration of approximately HK\$414.1 million, which was satisfied by the issue of 154,755,000 shares of HK\$0.10 each of the Company to China Resources (Holdings) Company Limited. Following the passing of the resolution by the independent shareholders of CRE in respect of the Acquisition, the Company issued and allotted one share of HK\$0.10, credited as fully paid, to CRE as consideration for the acquisition of the entire issued share capital of Innovative Market. Accordingly, the Company became the holding company of companies now comprising the Group on 22 July 2003.

On 29 July 2003, the Company's entire shares in issue of 362,807,461 shares of HK\$0.10 each were listed on Main Board of the Stock Exchange by way of introduction.

In the opinion of the Company's directors, the Company's ultimate holding company is China Resources National Corporation, a company established in the Chinese Mainland.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention and are consistent with those accounting policies followed in the preparation of the 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 Statement of Standard Accounting Practice No. 12 (Revised) "Income taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Society of Accountants, which became effective for accounting periods commencing on or after 1 January 2003.

SSAP 12 (Revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements which have been adopted in the condensed financial statements. The adoption of the SSAP 12 (Revised) has no significant effect on the results for the current period.

### 3. RESULTS FOR THE PERIOD

The Company did not derive any income nor incur any expenses during the period from 13 March 2003 (date of incorporation) to 30 June 2003.

### 4. TAXATION

No provision for taxation has been made as the Company had no income for the period.

### 5. INTERIM DIVIDEND

The Board of Directors does not declare the payment of an interim dividend for the period under review.

### 6. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$</i>
Issued and fully paid:		
Share of HK\$0.10 each		
Issued upon incorporation	1	0.10
Issued on 25 March 2003	1	0.10
	<hr/>	<hr/>
At the end of the period	2	0.20
	<hr/>	<hr/>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 6. SHARE CAPITAL (continued)

The Company was incorporated on 13 March 2003 with an authorised share capital of HK\$100,000,000 divided into 1,000,000,000 shares of HK\$0.10 each. One share of HK\$0.10 was allotted and issued on date of incorporation, credited as fully paid, to the initial subscriber to provide the initial share capital for the Company. On 25 March 2003, one additional share of HK\$0.10 was allotted and issued at HK\$100,000,000 to CRE. This share ranks pari passu in all respects with the then existing share.

### 7. POST BALANCE SHEET EVENT

On 30 July 2003, the Company's indirect wholly owned subsidiary, Redland Concrete Limited ("Redland Concrete"), entered into an acquisition agreement with Grand Max Investment Limited, a company owned and controlled by a former director of Redland Concrete, for the acquisition of its 50% shareholding interests in Redland Precast Concrete Products Limited ("Redland Precast"), at a consideration of approximately HK\$23.2 million. Such consideration was satisfied in cash. Upon completion of the acquisition, Redland Precast became an indirect wholly owned subsidiary of the Company. Details of the acquisition are set out in the Company's circular dated 15 August 2003.

## PRO FORMA CONDENSED COMBINED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003

	Notes	Six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
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

## PRO FORMA CONDENSED COMBINED BALANCE SHEET

At 30 June 2003

	Notes	At 30 June 2003 (Unaudited) HK\$'000	At 31 December 2002 (Unaudited) HK\$'000
<b>Non-current assets</b>			
Fixed assets	8	<b>1,184,626</b>	1,088,859
Interests in associates		<b>49,359</b>	47,669
Intangible assets		<b>23,524</b>	23,706
Prepaid rentals		<b>4,261</b>	4,545
Other investments		<b>2,331</b>	2,331
Deferred tax assets		<b>16,031</b>	16,844
		<b>1,280,132</b>	1,183,954
<b>Current assets</b>			
Stocks		<b>77,651</b>	78,892
Trade receivables	9	<b>209,286</b>	161,939
Bills receivable	10	<b>3,277</b>	–
Trade receivables from minority interests		<b>34,258</b>	31,523
Trade receivables from fellow subsidiaries		<b>11,041</b>	15,953
Other receivables		<b>25,238</b>	17,226
Amounts due from associates		<b>3,525</b>	2,432
Taxation recoverable		–	274
Pledged bank deposits		<b>7,803</b>	2,281
Cash and bank balances		<b>269,428</b>	258,270
		<b>641,507</b>	568,790
<b>Current liabilities</b>			
Trade payables	11	<b>99,854</b>	95,998
Bills payable	12	<b>12,254</b>	–
Trade payable to minority interest		<b>16,433</b>	18,367
Trade payable to fellow subsidiaries		<b>10,468</b>	8,672
Other payables		<b>100,979</b>	92,854
Amounts due to minority interests		<b>2,979</b>	4,105
Amounts due to fellow subsidiaries		<b>12,508</b>	2,107
Amount due to an associate		<b>13</b>	16
Taxation payable		<b>2,847</b>	4,159
Bank loans – amount due within one year		<b>338,923</b>	231,749
		<b>597,258</b>	458,027
Net current assets		<b>44,249</b>	110,763
Total assets less current liabilities		<b>1,324,381</b>	1,294,717



## PRO FORMA CONDENSED COMBINED BALANCE SHEET

At 30 June 2003

	<b>At 30 June 2003 (Unaudited) HK\$'000</b>	At 31 December 2002 (Unaudited) HK\$'000
Non-current liabilities		
Bank loans – amount due after one year	<b>122,463</b>	134,065
Loans from minority interests	<b>71,871</b>	60,530
Amount due to minority interest	<b>17,909</b>	18,852
Deferred tax liabilities	<b>43,092</b>	48,699
	<b>255,335</b>	262,146
Minority interests	<b>95,655</b>	91,023
Net assets	<b>973,391</b>	941,548

## PRO FORMA CONDENSED COMBINED CASH FLOW STATEMENT

For the six months ended 30 June 2003

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash generated from operating activities	<b>54,107</b>	43,776
Net cash used in investing activities	<b>(135,129)</b>	(35,488)
Net cash generated from financing activities	<b>92,180</b>	9,989
Net increase in cash and cash equivalents	<b>11,158</b>	18,277
Cash and cash equivalents at 1 January	<b>258,270</b>	45,661
Cash and cash equivalents at 30 June, representing cash and bank balances	<b>269,428</b>	63,938

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

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 has been prepared in accordance with the applicable disclosure requirements of the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. In order for the interim financial information to be comparable with the financial information contained in the Prospectus, the pro forma condensed combined profit and loss account and pro forma condensed combined cash flow statement include the results and cash flows of the companies now comprising the pro forma Group and have been prepared as if the current group structure had been in existence throughout the six months ended 30 June 2002 and 2003, or since their respective dates of incorporation or establishment, where this is a shorter period. The pro forma condensed combined balance sheets of the pro forma Group as at 31 December 2002 and at 30 June 2003 have been prepared to present the assets and liabilities of the companies now comprising the pro forma Group as at the respective dates, as if the current group structure had been in existence as at those dates.

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

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.

## NOTES TO THE PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

### 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) 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

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

## NOTES TO THE PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

### 4. FINANCE COSTS

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) 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
Total borrowing costs	10,117	15,475
Less: Amount capitalised	(4,338)	–
	<b>5,779</b>	<b>15,475</b>

### 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 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
The charge comprises		
– Hong Kong Profits Tax	1,276	7,986
– Chinese Mainland Enterprise Income Tax	–	364
	<b>1,276</b>	<b>8,350</b>
Deferred taxation		
– Hong Kong	1,639	(2,312)
– Chinese Mainland	1,129	10,214
Share of taxation of associates		
– Hong Kong	213	535
	<b>4,257</b>	<b>16,787</b>

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.

## NOTES TO THE PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

### 7. EARNINGS PER SHARE

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

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

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.

### 8. ADDITIONS TO FIXED ASSETS

During the period, the pro forma Group spent approximately HK\$129,104,000 (2002: HK\$38,171,000) on acquisition of fixed assets.

## NOTES TO THE PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

### 9. TRADE RECEIVABLES

The credit terms of the pro forma Group's trade receivables range from 30 to 60 days. The aging analysis of trade receivables is as follows:

	<b>At</b> <b>30 June</b> <b>2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>At</b> <b>31 December</b> <b>2002</b> <b>(Unaudited)</b> <b>HK\$'000</b>
0 – 90 days	<b>158,634</b>	141,499
91 – 180 days	<b>29,838</b>	15,615
181 – 365 days	<b>20,814</b>	4,825
	<b>209,286</b>	161,939

### 10. BILLS RECEIVABLE

The aging analysis of bills receivable is as follows:

	<b>At</b> <b>30 June</b> <b>2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>At</b> <b>31 December</b> <b>2002</b> <b>(Unaudited)</b> <b>HK\$'000</b>
0 – 90 days	<b>142</b>	–
91 – 180 days	<b>3,135</b>	–
	<b>3,277</b>	–

### 11. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	<b>At</b> <b>30 June</b> <b>2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>At</b> <b>31 December</b> <b>2002</b> <b>(Unaudited)</b> <b>HK\$'000</b>
0 – 90 days	<b>64,623</b>	56,493
91 – 180 days	<b>6,175</b>	8,231
181 – 365 days	<b>7,565</b>	8,500
Over 365 days	<b>21,491</b>	22,774
	<b>99,854</b>	95,998

## NOTES TO THE PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

### 12. BILLS PAYABLE

The aging analysis of bills payable is as follows:

	<b>At</b> <b>30 June</b> <b>2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	At 31 December 2002 (Unaudited) HK\$'000
0 – 90 days	10,369	–
91 – 180 days	1,885	–
	<u>12,254</u>	<u>–</u>

### 13. CAPITAL COMMITMENTS

Capital commitments for purchase and construction of fixed assets outstanding at the balance sheet date are as follows:

	<b>At</b> <b>30 June</b> <b>2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	At 31 December 2002 (Unaudited) HK\$'000
Contracted for but not provided for	17,597	61,714
Authorised but not contracted for	157,300	235,100
	<u>174,897</u>	<u>296,814</u>

### 14. PLEDGE OF ASSETS

At 30 June 2003, the pro forma Group has pledged certain land and buildings, silo, plant and machinery and construction in progress with net book values of approximately HK\$54,856,000 (31/12/2002: HK\$56,371,000), HK\$22,894,000 (31/12/2002: HK\$23,416,000), HK\$49,311,000 (31/12/2002: HK\$52,060,000) and HK\$169,391,000 (31/12/2002: nil) respectively to banks to secure the credit facilities granted to the pro forma Group.



## NOTES TO THE PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

### 15. RELATED PARTY TRANSACTIONS

During the period, the pro forma Group entered into transactions with related parties as follows:

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Continuing transactions:</b>		
Sales of goods to fellow subsidiaries	<b>5,237</b>	13,247
Sales of goods to minority interests of subsidiaries	<b>11,239</b>	19,458
Sales of goods to associates	<b>2,761</b>	668
Purchases of goods from fellow subsidiaries	<b>8,494</b>	618
Purchases of goods from minority interests of subsidiaries	<b>67,501</b>	69,225
Purchases of goods from a subsidiary of minority interest of a subsidiary	<b>603</b>	348
Purchases of goods from a company owned by a former director of a subsidiary	<b>10,059</b>	5,954
Catering services from minority interest of a subsidiary	<b>333</b>	–
Interest paid to minority interests of subsidiaries	<b>830</b>	936
<b>Discontinued transactions:</b>		
Sales of goods to a fellow subsidiary	<b>24,055</b>	25,193
Purchase of goods from a fellow subsidiary	<b>24,055</b>	23,524
Purchase of goods from an associate	–	8,671
Interest paid to fellow subsidiaries	<b>437</b>	3,718
Interest received from a fellow subsidiary	–	1,489
Rental payment to a company owned by a former director of a subsidiary	–	210
Purchase of fixed assets from minority interest of a subsidiary	–	16,495

The above transactions were entered into in accordance with mutually agreed terms with reference to market price or in accordance with the terms of the contracts or agreements governing the transactions.

## NOTES TO THE PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

### 16. CONTINGENT LIABILITIES

	<b>At 30 June 2003 (Unaudited) HK\$'000</b>	At 31 December 2002 (Unaudited) HK\$'000
Guarantees given to banks in respect of credit facilities in the form of short term borrowings utilised by an associate	<b>17,212</b>	10,116
Guarantees given to financial institutions to facilitate hire purchase loans granted to the pro forma Group's sub-contractors for acquisition of trucks which were for the exclusive use by the pro forma Group	<b>5,706</b>	9,721
	<b>22,918</b>	19,837

## OTHER INFORMATION

### SHARE OPTIONS

On 20 June 2003, the Company's sole shareholder and directors adopted the Company's first share option scheme (the "Scheme"). The Scheme was approved at an extraordinary general meeting of China Resources Enterprise, Limited on 15 July 2003 and was deemed to be adopted on 29 July 2003, the date on which dealings in the shares of the Company first commenced on the Stock Exchange. No option has been granted under the Scheme since the adoption of the Scheme.

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2003, the interests or short positions of the directors, chief executives or their associates in the shares and underlying shares of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the directors and chief executive of the Company are taken or deemed to have under such provisions of SFO or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

**(a) Long position in the issued ordinary shares of China Resources Enterprise, Limited ("CRE"), an associated corporation of the Company**

Name of director	Capacity	Number of shares held			Approximate percentage of interest (%) (Note)
		Personal interest	Family interest	Total	
Mr. Ning Gaoning	Beneficial Owner	1,630,000	Nil	1,630,000	0.078
Ms. Sun Mingquan	Interest of Spouse	Nil	50,000	50,000	0.002

Note: Based on 2,080,405,215 shares of CRE in issue as at 30 June 2003.

## OTHER INFORMATION

### (b) Long position in the issued ordinary shares of China Resources Logic Limited ("CR Logic"), an associated corporation of the Company

Name of director	Capacity	Number of shares held			Approximate percentage of interest (%) (Note)
		Personal interest	Family interest	Total	
Mr. Shi Shanbo	Beneficial Owner	96,000	Nil	96,000	0.004
Mr. Zhou Longshan	Beneficial Owner and Interest of Spouse	200,000	800,000	1,000,000	0.038
Ms. Sun Mingquan	Beneficial Owner	50,000	Nil	50,000	0.002

Note: Based on 2,618,151,071 shares of CR Logic in issue as at 30 June 2003.

### (c) Options outstanding under the two share option schemes of CRE (the old scheme being adopted on 17 September 1992, amended on 17 June 1999 and terminated on 31 January 2002 and the new scheme being adopted on 31 January 2002)

Name of director	Date of grant	Date of expiry	Exercise price HK\$	Number of share options			Approximate percentage of interest (%) (Note 3)
				Outstanding at beginning of period	Granted during period	Outstanding at end of period	
Qiao Shibo	7 February 2002	6 February 2012	7.17	1,800,000	–	1,800,000	0.087
Shi Shanbo	5 March 2002	4 March 2012	7.35	100,000	–	100,000	0.005
Zhou Junqing	5 March 2002	4 March 2012	7.35	100,000	–	100,000	0.005
Zhou Longshan	5 March 2002	4 March 2012	7.35	110,000	–	110,000	0.005
	14 April 2003	13 April 2013	6.29	–	500,000	500,000	0.024
Sun Mingquan	7 February 2002	6 February 2012	7.17	550,000	–	550,000	0.026
	5 March 2002	4 March 2012	7.35	60,000	–	60,000	0.003
Zheng Yi	5 March 2002	4 March 2012	7.35	60,000	–	60,000	0.003
Ning Gaoning	20 June 2000	19 June 2010	7.19	3,300,000	–	3,300,000	0.159
	7 February 2002	6 February 2012	7.17	1,200,000	–	1,200,000	0.058
Jiang Wei	8 March 2002	7 March 2012	7.50	600,000	–	600,000	0.029
Keung Chi Wang, Ralph	20 June 2000	19 June 2010	7.19	1,400,000	–	1,400,000	0.067
	7 February 2002	6 February 2012	7.17	500,000	–	500,000	0.024

## OTHER INFORMATION

### Notes:

1. Out of these options for 110,000 shares in CRE, options for 50,000 shares are held by Mr. Zhou Longshan's spouse, and therefore Mr. Zhou is deemed to be interested in these share options.
2. Options for 550,000 shares in CRE are held by Ms. Sun Mingquan's spouse, and therefore Ms. Sun is deemed to be interested in these share options.
3. Based on 2,080,405,215 shares of CRE in issue as at 30 June 2003
4. Consideration for each of the above grants is HK\$1.00.

**(d) Options outstanding under the two share option schemes of CR Logic (the old scheme being adopted on 15 October 1994 and terminated on 26 November 2001 and the new scheme being adopted on 26 November 2001 and amended on 21 February 2002)**

Name of director	Date of grant	Date of expiry	Exercise price HK\$	Number of share options			Approximate percentage of interest (%) (Note 2)
				Outstanding at beginning of period	Granted during period	Outstanding at end of period	
Shi Shanbo	9 April 2002	8 April 2012	0.820	120,000	–	120,000	0.005
Zhou Junqing	9 April 2002	8 April 2012	0.820	120,000	–	120,000	0.005
Zhou Longshan	9 April 2002	8 April 2012	0.820	120,000	–	120,000 (Note 1)	0.005
Sun Mingquan	9 April 2002	8 April 2012	0.820	60,000	–	60,000	0.002
Zheng Yi	9 April 2002	8 April 2012	0.820	60,000	–	60,000	0.002
Ning Gaoning	2 October 2002	1 October 2012	0.570	2,000,000	–	2,000,000	0.076
	9 April 2003	8 April 2013	0.479	–	1,000,000	1,000,000	0.038
Jiang Wei	9 April 2002	8 April 2012	0.820	720,000	–	720,000	0.028

### Notes:

1. Out of these options for 120,000 shares in CR Logic, options for 60,000 shares are held by Mr. Zhou Longshan's spouse, and therefore Mr. Zhou is deemed to be interested in these share options.
2. Based on 2,618,151,071 shares of CR Logic in issue as at 30 June 2003.
3. Consideration for each of the above grants is HK\$1.00.

## OTHER INFORMATION

**(e) Options outstanding under the two share option schemes of China Resources Land Limited ("CR Land") (the old scheme being adopted on 28 May 1997 and terminated on 31 January 2002 and the new scheme being adopted on 31 January 2002)**

Name of director	Date of grant	Date of expiry	Exercise price HK\$	Number of share options outstanding at beginning and at end of period	Approximate percentage of interest (%) (Note 2)
Shi Shanbo	4 March 2002	3 March 2012	1.59	120,000	0.008
Zhou Junqing	4 March 2002	3 March 2012	1.59	120,000	0.008
Zhou Longshan	4 March 2002	3 March 2012	1.59	140,000 (Note 1)	0.009
Sun Mingquan	4 March 2002	3 March 2012	1.59	80,000	0.005
Zheng Yi	4 March 2002	3 March 2012	1.59	80,000	0.005
Ning Gaoning	27 June 1997	27 May 2007	4.592	2,500,000	0.166
	20 July 2000	27 May 2007	0.99	2,500,000	0.166
Jiang Wei	4 March 2002	3 March 2012	1.59	720,000	0.048
Keung Chi Wang, Ralph	27 June 1997	27 May 2007	4.592	2,000,000	0.133
	20 July 2000	27 May 2007	0.99	1,300,000	0.087

Notes:

1. Out of these options for 140,000 shares in CR Land, options for 60,000 shares are held by Mr. Zhou Longshan's spouse, and therefore Mr. Zhou is deemed to be interested in these share options.
2. Based on 1,502,667,428 shares of CR Land in issue as at 30 June 2003.
3. Consideration for each of the above grants is HK\$1.00.
4. There were no new grants, exercise or cancellation of share options during the six months period ended 30 June 2003.

Save as disclosed above, as at 30 June 2003, so far is known to the directors of the Company, no other person had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which he/she is taken or deemed to have under such provisions of SFO, or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

## OTHER INFORMATION

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the Company was wholly owned by China Resources Enterprise, Limited. Immediately following the completion of the group reorganisation as stated in the Prospectus and the listing of the Company's shares on the Stock Exchange on 29 July 2003, so far as is known to the directors of the Company, the following persons had interests or short positions in the shares and underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of interested party	No. of ordinary shares	Approximate percentage of shareholding (%) (Note 2)
China Resources National Corporation ("CRNC") (Note 1)	270,132,647	74.46
China Resources Co., Limited (Note 1)	270,132,647	74.46
CRC Bluesky Limited (Note 1)	270,132,647	74.46
China Resources (Holdings) Company Limited (Note 1)	270,132,647	74.46

Notes:

- China Resources (Holdings) Company Limited is a 100% subsidiary of CRC Bluesky Limited, which is in turn owned as to 100% by China Resources Co., Limited, which is in turn held as to 99.98% by CRNC, a state owned enterprise in the PRC. Each of CRNC, China Resources Co., Limited and CRC Bluesky Limited is deemed by virtue of Section 316 of Part XV of the SFO to have the same interests in the shares as those of China Resources (Holdings) Company Limited.
- Based on 362,807,461 shares of the Company in issue as at 29 July 2003

Save as disclosed above, so far as is known to the directors of the Company, as at 30 June 2003 and 29 July 2003, no other person had interests or short positions in the shares and underlying shares of the Company which are required to be disclosed to the Company or the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company's shares were firstly listed on 29 July 2003 and accordingly, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2003.

## OTHER INFORMATION

### CORPORATE GOVERNANCE

On 20 June 2003, the Company established an Audit Committee which comprises three independent non executive directors, Messrs. Chan Mo Po, Paul, Lin Zongshou and Lui Pui Kee, Francis; and two non executive directors, Messrs. Jiang Wei and Keung Chi Wang, Ralph. The Audit Committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems.

On 29 July 2003, the Company established a Remuneration Committee which comprises two independent non executive directors, Messrs. Lui Pui Kee, Francis and Chan Mo Po, Paul, and our Vice Chairman and General Manager, Mr. Shi Shanbo and is chaired by Mr. Lui Pui Kee, Francis, to review and advise on the remuneration packages of the Group's senior management including directors of the Company.

### CODE OF BEST PRACTICE

With the exception that non-executive directors have no set term of office but retire from office on a rotational basis, none of the directors is aware of any information that would reasonably indicate that the Company is not, or was not, since the listing of the Company's shares on the Stock Exchange on 29 July 2003, in compliance with the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### 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.

By Order of the Board

**Qiao Shibo**

Chairman

Hong Kong, 10 September 2003