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Asia Cement (China) Holdings Corporation

亞洲水泥(中國)控股公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 743)

ANNOUNCEMENT OF UNAUDITED RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2022

SUMMARY

The directors (“**Directors**”) of Asia Cement (China) Holdings Corporation (the “**Company**”) announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the three months ended 31 March 2022. This announcement is made as part of the Company’s practice to publish its financial results quarterly and pursuant to paragraph 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”).

The unaudited consolidated profit attributable to owners for the three months ended 31 March 2022 was approximately RMB123.9 million.

The Directors of the Company are making this announcement of the Group’s unaudited consolidated results for the three months ended 31 March 2022 in line with its practice to publish the Group’s financial results quarterly and pursuant to paragraph 13.09 of the Listing Rules.

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the three months ended	
	31 March	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	2,093,422	2,298,385
Cost of sales	(1,789,907)	(1,535,992)
Gross profit	303,515	762,393
Other income	36,704	40,179
Other gains and losses	50,799	7,836
Distribution and selling expenses	(88,512)	(101,330)
Administrative expenses	(78,130)	(65,728)
Share of profits of joint ventures	775	2,174
Share of losses of associates	(4,770)	(2,496)
Finance costs	(7,955)	(9,946)
Profit before tax	212,426	633,082
Income tax expenses	(83,493)	(152,351)
Profit and total comprehensive income for the period	128,933	480,731
Profit and total comprehensive income for the period attributable to:		
Owners of the Company	123,857	467,344
Non-controlling interests	5,076	13,387
	128,933	480,731
	RMB	RMB
Earnings per share:		
Basic	0.079	0.298

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2022 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2021 <i>RMB'000</i> <i>(Audited)</i>
NON-CURRENT ASSETS		
Property, plant and equipment	6,911,302	7,040,755
Quarry	925,649	941,673
Investment properties	133,942	132,286
Goodwill	554,241	554,241
Other intangible assets	3,963	4,378
Interest in joint ventures	68,027	67,252
Interest in an associate	799,570	804,340
Deferred tax assets	168,106	175,706
Right of use assets	774,932	783,805
	10,339,732	10,504,436
CURRENT ASSETS		
Inventories	971,926	1,140,753
Trade and other receivables	2,154,736	2,180,413
Financial assets at fair value through profit or loss (“FVTPL”)	59,132	65,202
Tax recoverable	–	16,532
Amount due from an associate	8,333	7,944
Amount due from a joint venture	6,217	6,217
Bank balances and cash	7,141,424	7,495,358
	10,341,768	10,912,419
CURRENT LIABILITIES		
Trade and other payables	979,959	1,476,351
Contracts liabilities	187,053	183,948
Amount due to joint ventures	21,619	14,226
Tax payables	123,996	383,404
Borrowings – due within one year	892,240	1,118,299
Lease liability – current	7,155	6,068
	2,212,022	3,182,396
NET CURRENT ASSETS	8,129,746	7,730,123
TOTAL ASSETS LESS CURRENT LIABILITIES	18,469,478	18,234,559

	As at 31 March 2022 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2021 <i>RMB'000</i> <i>(Audited)</i>
NON-CURRENT LIABILITIES		
Borrowings – due after one year	456,320	350,644
Lease liability	92,596	94,955
Deferred tax liabilities	65,408	63,255
Provision for environmental restoration	52,027	51,845
	<u>666,351</u>	<u>560,719</u>
NET ASSETS	<u>17,803,127</u>	<u>17,673,840</u>
CAPITAL AND RESERVES		
Share capital	140,390	140,390
Reserves	17,255,940	17,132,080
	<u>17,396,330</u>	<u>17,272,470</u>
Equity attributable to owners of the Company	17,396,330	17,272,470
Non-controlling interests	406,797	401,370
	<u>17,803,127</u>	<u>17,673,840</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the three months ended 31 March	
	2022 <i>RMB'000</i> <i>(Unaudited)</i>	2021 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash (used in) from operating activities	(198,825)	97,572
Net cash used in investing activities	(26,741)	(167,352)
Net cash (used in) from financing activities	(128,368)	146,971
	<u>(353,934)</u>	<u>77,191</u>
Net (decrease) increase in cash and cash equivalents	(353,934)	77,191
Cash and cash equivalents at beginning of the year	7,495,358	5,275,608
	<u>7,141,424</u>	<u>5,352,799</u>
Cash and cash equivalents at 31 March	<u>7,141,424</u>	<u>5,352,799</u>

The Group's unaudited consolidated results for the three months ended 31 March 2022 have been prepared in accordance with the same accounting policies adopted by the Group as disclosed in the last annual report for the year ended 31 December 2021.

The Directors do not recommend payment of a dividend in respect of the first three months of 2022 (2021: Nil).

Business Review and Prospects

In the first quarter of 2022, the government adhered to its policy of maintaining stability while making progress, strengthening adjustment in its cross-cyclical and counter-cyclical macro-economic policies. China's national economy continued to recover and grow steadily. However, the government still needs to step up efforts in maintaining stable economic recovery as there still exist many factors causing instability and uncertainty in the global environment, recurrent outbreaks of COVID-19, uneven economic recovery as well as enterprises facing difficulty in production and operation. In the first quarter of 2022, the national gross domestic product ("GDP") reached RMB27.02 trillion, representing an increase of 4.8% year-on-year; the national fixed asset investment increased by 9.3% year-on-year; the national infrastructure investment increased by 8.5% year-on-year; the national property development investment increased by 0.7% year-on-year.

In the first quarter of 2022, the total national cement output was 387 million tonnes, down by 12.1% from that of the same period of 2021. Weak cement demand was primarily due to sluggish real estate market, declining investment growth, low operating rate of projects and slowdown in progress of construction work.

From January to February, the market demand in the central and downstream regions of the Yangtze River remained weak. Industry players along the Yangtze River frequently adopted promotional pricing strategy to reduce inventory before the Spring Festival. In January, the price of clinker decreased by RMB80 per tonne, and the price of cement decreased by RMB50-80 per tonne. After the Spring Festival, operation of kiln production lines along the river were suspended due to off-peak season. The inventory level of clinker was low, and the price of clinker basically hit rock bottom after the significant decrease before the Chinese New Year. This together with the rise in imported clinker costs owing to surging shipping rates as well as high coal price had caused high sentiment among downstream grinding plants to stock up clinker and led to an upward trend in price. As of mid-March, clinker along the Yangtze River had undergone four rounds of price increases, with a cumulative increase of RMB110 per tonne, while cement price increased by RMB30-50 per tonne. Affected by weak real estate market and insufficient funds, the cement market demand after Chinese New Year recovered slower than that of the same period in 2021. In the downstream region of the Yangtze River, the spread of COVID-19 had disrupted the distribution of cement, and cement enterprises along the river was under great pressure of high inventory level. Adjustment of cement and clinker prices began in late March. As of early April, clinker along the Yangtze River cumulatively decreased by RMB80 per tonne while cement price decreased by RMB20-50 per tonne. The market demand is expected to recover gradually after the pandemic situation improves in the downstream region of the Yangtze River in the second quarter.

In Sichuan province, affected by the orange air quality alert, cement demand in January was weak, and the price continued the downward trend from its height in the previous year. In February, due to the Spring Festival and the real estate slump, market demand recovery was slow, and cement prices dropped by RMB80 per tonne. Owing to continued fine weather in early March, private market demand was almost back to its normal level, while the operating rate of projects and mixing stations gradually improved. As the price previously dropped to a relatively low level, cement from outside was basically forced out of the Chengdu market. The overall shipment volume of enterprises reached 80% to 90%, and the local industry players began to actively push up their prices by about RMB60 per tonne. In late March, cement from peripheral areas hit the Chengdu market again. Enterprises gave rebates or preferential treatment to customers to secure market share, and industry competition became increasingly fierce. In April, the cement price in Chongqing and eastern Sichuan was pushed up due to the rising costs of raw materials and fuel, with the actual price increase in the range of RMB60-80 per tonne. It is expected that the impact of external cement on the local area will be mitigated in the second quarter, and Chengdu and its surrounding areas will continue to experience market volatility and adjustments.

Due to poor market demand and the impact of pandemic lockdown and control measures since late March, the sales volume of the Group's cement products (cement and clinker) in the first quarter of 2022 was 5.37 million tonnes, representing a decrease of 14% from that of the same period of 2021. It is expected that after the end of the lockdown and containment measures, the market demand is likely to be unleashed. The sales volume of the Group's cement products in the second quarter is expected to reach 8.20 million tonnes, up by 4% from 7.89 million tonnes in the same period of 2021.

Although the cement industry is facing various challenges, including declining market demand, high cost and control of energy consumption, the Group remains cautiously optimistic about the cement industry outlook in the second quarter and second half of the year.

On the demand side, in early 2022, certain cities eased the curbs on purchase, loans and provident fund loans according to "one city, one policy", as well as lowered the mortgage rate for first-time homebuyers. Sales of residential properties are expected to recover in the second half of the year. On the other hand, driven by the policy of "increasing investment in infrastructures at an appropriate advanced scale", quality investment in the infrastructure sector will become the major driver of national economic growth this year. Various areas across the country have recently finalised the list of major projects for the year with the focus on key sectors including transport, energy, hydraulic and new infrastructure: at the end of February, Chengdu announced key project plans for 2022, compiling a total of 900 key projects of the city with a total investment of RMB2.5 trillion and planning to invest RMB347.5 billion during the year; in March, Jiangxi announced the first batch of 491 key provincial construction projects for 2022, with a total investment of RMB1.7 trillion, with a planned annual investment of RMB416.5 billion. As at the end of March, in Hubei, the investment scale of highway and waterway projects explicitly included in the state's plan exceeded RMB300 billion; 17 passenger transport hubs projects including Wuhanxi were included in the Comprehensive Transport Hub Specific Plan under the state's 14th-Five Year Plan. Taking into account that there would be some delay in the actual application of funds in the projects, it is expected that the cement market demand will go down first and then up in 2022, and that demand is likely to be unleashed in the second half of the year.

On the supply side, against the backdrop of reaching carbon dioxide peak, dual control of energy consumption and energy intensity, stricter regulations of environmental protection, pandemic prevention and control and the normalisation of off-peak season production, it is expected that cement supply in 2022 will be tightened, and the aggregate supply is likely to slightly decrease. In February, the National Development and Reform Commission issued the “Guidelines on the Transformation and Upgrading of Energy Intensive Industries and Key Areas for Energy Conservation and Carbon Reduction” and “Guidelines on the Transformation and Upgrading of Cement Industry for Energy Conservation and Carbon Reduction”, requiring the promotion of the application of energy-saving technology, which will be conducive to the elimination of obsolete production capacities and improvement in the supply-demand relationship of the cement industry. In addition, the policy on normalisation of off-peak season production of cement in 2022 has been promulgated in various provinces and regions. In future, off-peak season production will remain an industry-consensus practice. In view of the above, it is expected that there will be room for increase in cement price in the second half of the year, with decreased supply, improved demand and increased cost as the driving force.

Affected by the slow recovery in market demand and recurrent outbreaks of COVID-19, the Group saw its cement sales volume and price decrease in the first quarter, and profits below expectations. However, with year-on-year weaker effect of coal price, improved pandemic situation and the implementation of the state’s stabilisation policy, the Group’s operating results will improve quarter-on-quarter in future. We will further promote intelligentisation and digital transformation, enhance cost-efficiency, and increase overall competitiveness. At the same time, we will maintain high quality, premium service brand image, consolidate our share in core markets, get ready for future market competition, and strive to achieve better operating results.

By Order of the Board
Asia Cement (China) Holdings Corporation
HSU Shu-tong
Chairman

Hong Kong, 28 April 2022

As at the date of this announcement, the executive Directors are Mr. HSU Shu-ping, Mr. CHANG Tsai-hsiung, Dr. WU Chung-lih, Mr. CHANG Chen-kuen, Mr. LIN Seng-chang and Ms. WU Ling-ling; the non-executive Director and Chairman is Mr. HSU Shu-tong; the independent non-executive Directors are Mr. TSIM Tak-lung Dominic, Mr. WANG Wei, Mr. LEE Kao-chao and Dr. WANG Kuo-ming.