Notes to the Financial Statements

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

1. ORGANISATION AND OPERATIONS

Anhui Conch Cement Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 1st September, 1997 as a joint stock limited company. The Company and its subsidiaries are collectively referred to as the "Group". The principal activities of the Group are the manufacture and sale of cement products.

Pursuant to a reorganisation on 1st September, 1997, the Company acquired the assets and assumed the liabilities of Ningguo Cement Plant and Baimashan Cement Plant, and the related cement manufacturing business of Anhui Conch Holdings Company Limited ("Holdings") by issuance of 622,480,000 State-owned shares ("State-owned shares") of the Company to Holdings with a par value of RMB1.00 each. The Company subsequently issued 361,000,000 overseas public shares ("H shares") on 17th October, 1997, which were listed on The Stock Exchange of Hong Kong Limited on 21st October, 1997.

The Company's ultimate parent company is Anhui Conch Holdings Company Limited, a state owned enterprise incorporated in the PRC.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing financial statements of the Company and of the Group are as follows:

(a) Basis of presentation

The financial statements have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This basis of accounting differs from that used in the preparation of the Company's and of the Group's statutory accounts which are prepared in accordance with PRC Accounting Standards for Enterprises and the Accounting Regulations of the PRC for Joint Stock Limited Companies ("Statutory Accounts"). The adjustment made to conform the Statutory Accounts of the Group to IAS is shown in Note 25.

(b) Principles of consolidation

The consolidated financial statements include those of the Company and its subsidiaries and also incorporate the Group's interests in associates on the basis as set out in Note 2(f) below.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Principles of consolidation (continued)

The purchase method of accounting is used for acquired businesses. Results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheets and consolidated income statements, respectively.

All significant intercompany balances and transactions, including intercompany profits and losses and resulting unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(c) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are recognised as expense in the period in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of the asset.

When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is calculated using the straight-line method to write off the cost, after taken into account the estimated residual value of 5%, of each asset over its expected useful life (no residual value is considered for leasehold lands). The expected useful lives are as follows:

Leasehold lands	30-50 years
Buildings	30 years
Plant and machinery	15 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The useful lives of assets and depreciation method are reviewed periodically.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Construction-in-progress

Construction-in-progress represents buildings and plant under construction and machinery and equipment under installation and testing, and is stated at cost. This includes cost of construction, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs.

Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.

(e) Subsidiaries

A subsidiary is a company over which the Company exercises control. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

In the Company's financial statements, investments in subsidiaries are accounted for using the equity method. An assessment of investments in subsidiaries is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

(f) Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Company has significant influence. Significant influence exists when the Company has the power to participate in, but not control, the financial and operating decisions of the associate.

Investments in associates are accounted for using the equity method. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

(g) Short-term investments

Marketable securities held for short-term purposes are stated at the lower of cost and market value on an aggregate portfolio basis. Changes in the carrying amount of short-term investments are included in the income statements.

Income from investments is accounted for to the extent of interest and dividends received.

Upon disposal of an investment, the difference between the net disposal proceeds and the carrying amount is included in the income statements.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. The amortization period and the amortization method are reviewed annually at each financial year-end.

(i) Licenses

Limestone mining licenses injected by Holdings as a part of reorganisation are capitalised and amortized on a straight-line basis over the expected periods of benefit. The expected useful lives of the licenses are ten to twenty years.

(ii) Goodwill

The excess of the cost of an acquisition over the Company's interest in the fair value of the net identifiable assets acquired as at the date of the exchange transaction is recorded as goodwill and recognised as an asset in the balance sheet. Goodwill is carried at cost less accumulated amortization. Goodwill is amortized on a straight-line basis over its useful life of five to fifteen years. The amortization period and the amortization method are reviewed annually at each financial year-end.

(i) Inventory

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the weighted average basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Receivables

Receivables are stated at face value, after provision for bad and doubtful accounts.

(k) Cash and cash equivalents

Cash represents cash in hand and deposits with banks (or other financial institution), which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments, which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(l) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis that takes into account the effective yield on the assets.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Taxation

The Group provides for taxation on the basis of its statutory profit for financial reporting purposes, adjusted for income and expense items, which are not assessable or deductible for income tax purposes after considering all available tax benefits.

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilized.

(n) Foreign currency transactions

The Company and its subsidiaries maintain their books and records in RMB. Transactions in other currencies are translated into the reporting currency at exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are re-translated at exchange rates prevailing at that date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences, other than those capitalised as a component of borrowing costs, are recognised in the income statement in the period in which they arise.

(o) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortization of discounts or premiums relating to borrowings, amortization of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of property, plant and equipment, that necessarily takes a substantial period of time to get ready for its intended use in which case they are capitalised as part of the cost of that asset. Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised at the weighted average cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Pension scheme and housing policy

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff are to be made monthly to a government agency based on 23% to 26% of the standard salary set by the provincial government, of which 18% to 21% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Group accounts for these contributions on an accrual basis.

The Group does not hold any staff dormitories and is not required to pay monetary housing subsidies to its employees. Hence, the Group had no sales of dormitories to its employees during the years ended 31st December, 2000 and 1999.

(q) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, trade and other receivable and payable, borrowings. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in Note 2.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

(r) Impairment of Assets

Property, plant and equipment, intangible assets and investments in associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income statements for items of property, plant and equipment, intangible assets and investments in associates carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded in income.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(t) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(u) Subsequent Events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(v) Changes in accounting policy

A change in accounting policy should be made only if required by statute, or by an accounting standard setting body, or if the change will result in a more appropriate presentation of events or transactions in the financial statements of the Company.

A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable, in which case, the change in accounting policy should be applied prospectively.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

3. PROPERTY, PLANT AND EQUIPMENT

GROUP

Movements in property, plant and equipment were as follows:

	2000						
	Leasehold lands	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction-in-progress	Total
Cost							
Beginning of year	406,184	1,451,251	2,198,874	139,938	80,854	78,728	4,355,829
Addition from change of consolidation scope (Note 23(e))	10,546	42,496	24,137	6,832	6,066	52,092	142,169
Additions	—	4,771	48,872	1,394	6,358	264,501	325,896
Transfers	—	4,668	9,404	352	(200)	(14,224)	—
Disposals	—	(3,925)	(406)	(170)	(1,111)	—	(5,612)
End of year	416,730	1,499,261	2,280,881	148,346	91,967	381,097	4,818,282
Accumulated depreciation							
Beginning of year	20,609	218,444	697,297	90,479	33,147	—	1,059,976
Addition from change of consolidation scope (Note 23(e))	2	10,992	5,804	887	518	—	18,203
Charge for the year	8,540	48,562	116,408	16,118	16,622	—	206,250
Disposals	—	(272)	(417)	(59)	(68)	—	(816)
End of year	29,151	277,726	819,092	107,425	50,219	—	1,283,613
Net book value							
End of year	387,579	1,221,535	1,461,789	40,921	41,748	381,097	3,534,669
Beginning of year	385,575	1,232,807	1,501,577	49,459	47,707	78,728	3,295,853

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

	1999						
	Leasehold lands	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction-in-progress	Total
Cost							
Beginning of year	406,184	1,243,974	2,133,759	130,715	58,682	256,307	4,229,621
Additions	—	8,424	12,937	3,452	5,720	108,850	139,383
Transfers	—	207,110	56,647	6,043	16,629	(286,429)	—
Disposals	—	(8,257)	(4,469)	(272)	(177)	—	(13,175)
End of year	406,184	1,451,251	2,198,874	139,938	80,854	78,728	4,355,829
Accumulated depreciation							
Beginning of year	12,399	180,164	569,292	80,101	22,704	—	864,660
Charge for the year	8,210	41,158	131,247	10,398	10,573	—	201,586
Disposals	—	(2,878)	(3,242)	(20)	(130)	—	(6,270)
End of year	20,609	218,444	697,297	90,479	33,147	—	1,059,976
Net book value							
End of year	385,575	1,232,807	1,501,577	49,459	47,707	78,728	3,295,853
Beginning of year	393,785	1,063,810	1,564,467	50,614	35,978	256,307	3,364,961

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) The leasehold lands are valid for a period of 30 to 50 years from the date of certificates obtained by the Company and its subsidiaries.

(b) As at 31st December, 2000, machinery and equipment with an aggregate net book value of approximately RMB127,353,000 have been pledged as collaterals for short-term borrowings (Note 13(a)) (1999: certain leasehold lands, machinery and equipment with an aggregate net book value of approximately RMB107,296,000 were pledged as collaterals for short-term borrowings (Note 13(a)).

(c) Construction-in-progress

	31st December, 2000	31st December, 1999
Cost of construction, plant and equipment and other direct costs	**373,936**	77,963
Borrowing costs capitalised — interest	**7,161**	765
	381,097	78,728
Average capitalization rate	**6.83%**	7.65%

As at 31st December, 2000, the capitalised interest in construction-in-progress includes the addition from change of consolidation scope amounting to approximately RMB961,000.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

4. INTANGIBLE ASSETS

Group

Intangible assets comprised:

	2000		
	Goodwill	**Limestone mining licences**	**Total**
Cost			
Beginning of year	64,203	72,379	136,582
Additions	—	—	—
End of year	64,203	72,379	136,582
Accumulated amortization			
Beginning of year	7,483	9,777	17,260
Charge for the year	5,720	3,619	9,339
End of year	13,203	13,396	26,599
Net book value			
End of year	51,000	58,983	109,983
Beginning of year	56,720	62,602	119,322

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

4. INTANGIBLE ASSETS (continued)

	1999		
	Goodwill	**Limestone mining licences**	**Total**
Cost			
Beginning of year	64,053	72,379	136,432
Additions	150	—	150
End of year	64,203	72,379	136,582
Accumulated amortization			
Beginning of year	2,333	6,158	8,491
Charge for the year	5,150	3,619	8,769
End of year	7,483	9,777	17,260
Net book value			
End of year	56,720	62,602	119,322
Beginning of year	61,720	66,221	127,941

The goodwill arose from the excess of acquisition cost over the Company's equity interest in the fair value of net identifiable assets of its subsidiaries including Ningbo Hailuo Cement Co., Ltd., Anhui Tongling Hailuo Cement Co., Ltd., Zhangjianggang Hailuo Cement Co., Ltd. and Nantong Hailuo Cement Co., Ltd. (Note 5) at the date of acquisition.

The limestone mining licences are valid for a period of 20 years from the date of the licences obtained by the Company and its subsidiaries.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

5. INVESTMENTS IN CONSOLIDATED SUBSIDIARIES

COMPANY

	31st December, 2000	31st December, 1999
Unlisted investments, at cost	**1,872,151**	1,711,386
Share of post-acquisition profits less losses	**334,794**	210,331
Less: Dividends declared by subsidiaries	**(140,000)**	(140,000)
Amounts due from subsidiaries	**239,170**	214,582
Amounts due to subsidiaries	**(187,120)**	(95,675)
Total	**2,118,995**	1,900,624

The amounts due from (to) subsidiaries arose from ordinary business transactions, and were unsecured, non-interest bearing and without fixed repayment terms.

The Company's directors are of the opinion that the underlying value of the subsidiaries was not less than the carrying value of the Company's investments in the subsidiaries as of year-end.

Details of the Company's subsidiaries, all of which are limited liability companies or joint stock limited company, as at 31st December, 2000 were as follows:

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Baimashan Cement Plant 安徽省白馬山水泥廠	PRC 21st July, 1982	100% (directly held)	RMB 308,310,000	Manufacture and sale of clinker and cement products
Ningguo Cement Plant 安徽省寧國水泥廠	PRC 21st January, 1985	100% (directly held)	RMB 649,350,000	Manufacture and sale of clinker and cement products
Ningbo Hailuo Cement Co., Ltd. ("Ningbo Cement") 寧波海螺水泥有限公司	PRC 3rd April, 1993	60% (directly held)	RMB 171,000,000	Manufacture and sale of clinker and cement products

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

5. INVESTMENTS IN CONSOLIDATED SUBSIDIARIES (continued)

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Anhui Hailuo Cement Product Co., Ltd. ("Hailuo Cement") 安徽海螺水泥有限公司	PRC 23rd June, 1994	75% (directly held)	USD 29,980,000	Manufacture and sale of clinker and cement products
Anhui Tongling Hailuo Cement Co., Ltd. ("Tongling Cement") 安徽銅陵海螺水泥有限公司	PRC 22nd September, 1995	68.2% (directly held)	RMB 565,000,000	Manufacture and sale of clinker and cement products
Anhui Hailuo Machinery & Electric Co., Ltd. 安徽海螺機電設備有限公司	PRC 5th January, 1998	100% (indirectly held)	RMB 10,000,000	Provision of installation and repairing services
Jieyang Hailuo Cement Co., Ltd. 揭陽海螺水泥有限公司	PRC 10th April, 1998	60% (directly held)	RMB 3,000,000	Process and sale of clinker and cement products and provision of warehouse services
Ningbo Hailuo Free-trade Zone Trading Co., Ltd. 寧波保稅區海螺貿易公司	PRC 9th July, 1998	100% (indirectly held)	RMB 1,000,000	Trading and sale of clinker and cement products
Wuxi Hailuo Cement Sales Co., Ltd. 無錫市海螺水泥銷售有限公司	PRC 30th July, 1998	60.5% (directly held)	RMB 600,000	Sale of clinker and cement products
Anhui Changfeng Hailuo Cement Co., Ltd. 安徽長豐海螺水泥有限公司	PRC 4th September, 1998	80% (directly held)	RMB 10,000,000	Manufacture and sale of clinker and cement products
Zhangjiagang Hailuo Cement Co., Ltd. ("Zhangjiagang Cement") 張家港海螺水泥有限公司	PRC 30th September, 1998	94.89% (directly held)	RMB 8,800,000	Manufacture and sale of clinker and cement products

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

5. INVESTMENTS IN CONSOLIDATED SUBSIDIARIES (continued)

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Shanghai Hailuo Cement Co., Ltd. 上海海螺水泥有限責任公司	PRC 13th November, 1998	55.23% (directly held)	RMB 33,500,000	Manufacture and sale of clinker and cement products
Nanjing Hailuo Cement Co., Ltd. ("Nanjing Cement") 南京海螺水泥有限公司	PRC 20th November, 1998	99.25% (directly held)	RMB 5,000,000	Manufacture and sale of clinker and cement products
Nantong Hailuo Cement Co., Ltd. ("Nantong Cement") 南通海螺水泥有限公司	PRC 22nd June, 1999	99% (directly held)	RMB 15,000,000	Manufacture and sale of clinker and cement products
Shanghai Hailuo Cement Sales Co., Ltd. ("Shanghai Cement Sales") 上海海螺水泥銷售有限公司	PRC 2nd November, 1999	90% (directly held) 10% (indirectly held)	RMB 5,000,000	Sale of clinker and cement products
Nanchang Hailuo Construction Materials Trading Co., Ltd. ("Nanchang Construction") 南昌海螺建材貿易有限責任公司	PRC 28th January, 2000	90% (directly held) 10% (indirectly held)	RMB 1,000,000	Trading of construction materials
Anhui Digang Hailuo Cement Co., Ltd. ("Digang Hailuo") 安徽荻港海螺水泥股份有限公司	PRC 28th April, 2000	51% (directly held)	RMB 150,000,000	Manufacture and sale of clinker and cement products
Fujian Jianyang Hailuo Cement Co., Ltd. ("Fujian Cement") 福建省建陽海螺水泥有限公司	PRC 9th June, 2000	76% (directly held)	RMB 14,000,000	Manufacture and sale of clinker and cement products
Taizhou Hailuo Cement Co., Ltd. ("Taizhou Cement") 泰州海螺水泥有限責任公司	PRC 6th November, 2000	93.75% (directly held)	RMB 11,520,000	Manufacture and sale of clinker and cement products

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

6. INVESTMENT IN AN ASSOCIATE

GROUP

	31st December, 2000	31st December, 1999
Unlisted investment, at cost	49,671	49,671
Share of post-acquisition profits less losses	(1,645)	—
Amount due from the associate	990	—
	49,016	49,671

COMPANY

	31st December, 2000	31st December, 1999
Unlisted investment, at cost	49,671	49,671
Share of post-acquisition profits less losses	(1,645)	—
	48,026	49,671

The amount due from the associate arose from ordinary business transactions, and was unsecured, non-interest bearing and without fixed repayment terms.

The Company's directors are of the opinion that the underlying value of the associate was not less than the carrying value of the Company's investment in it as of year-end.

Details of the Company's associate, as at 31st December, 2000 were as follows:

Name of subsidiaries	Country of incorporation and date of incorporation	Group's equity interest	Registered capital	Principal activities
Anhui King Bridge Cement Co., Ltd. ("King Bridge Cement") 安徽朱家橋水泥有限公司	PRC 18th December, 1997	40% (directly held)	USD 15,000,000	Manufacture and sale of clinker and cement products

King Bridge Cement is a limited liability equity joint venture established on 18th December, 1997 and owned by the Company and TCC Hong Kong Cement (International) Limited ("TCC HK"), a related company of TCC International Limited, which held 98,316,000 shares of the Company's H shares as at 31st December, 2000.

— United States Dollars referred to as "USD"

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

7. SHORT-TERM INVESTMENTS

GROUP AND COMPANY

	31st December, 2000	31st December, 1999
Marketable securities		
— Listed, at the lower of cost and market value	**12,610**	—
Market value of marketable securities	**13,779**	—

8. INVENTORIES

GROUP

	31st December, 2000	31st December, 1999
Raw materials	**109,713**	137,275
Work-in-process	**46,528**	9,326
Finished goods	**32,287**	31,823
	188,528	178,424
Less: Provision for obsolescence	**(3,639)**	(3,639)
	184,889	174,785

For the year ended 31st December, 2000, inventories expensed in the income statement amounted to approximately RMB914,896,000 (1999: approximately RMB750,543,000).

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

9. PREPAYMENTS AND OTHER RECEIVABLES

GROUP

	31st December, 2000	31st December, 1999
Prepayment to suppliers	**15,067**	4,111
Recoverable transportation costs	**14,636**	8,718
Others	**28,370**	18,237
	58,073	31,066

10. TRADE RECEIVABLES

GROUP

	31st December, 2000	31st December, 1999
Accounts receivable	**109,805**	197,373
Notes receivable	**86,881**	38,348
Less: Provision for bad and doubtful debts	**(29,256)**	(29,253)
	167,430	206,468

COMPANY

	31st December, 2000	31st December, 1999
Accounts receivable	**47,657**	108,857
Notes receivable	**54,852**	17,626
Less: Provision for bad and doubtful debts	**(6,439)**	(6,439)
	96,070	120,044

Trade receivables generated from credit sales with general credit terms of one to two months.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

10. TRADE RECEIVABLES (continued)

Ageing analysis of accounts receivable was as follows:

GROUP

	31st December, 2000	31st December, 1999
Ageing		
— not exceeding one year	**31,209**	95,341
— more than one year but not exceeding two years	**6,802**	36,135
— more than two years but not exceeding three years	**24,670**	65,897
— more than three years	**47,124**	—
	109,805	197,373

COMPANY

	31st December, 2000	31st December, 1999
Ageing		
— not exceeding one year	**11,547**	57,560
— more than one year but not exceeding two years	**6,132**	26,295
— more than two years but not exceeding three years	**20,441**	25,002
— more than three years	**9,537**	—
	47,657	108,857

Provision is made for long ageing and doubtful debts based on reviews of the status of individual accounts receivable outstanding.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

11. SHARE CAPITAL

GROUP AND COMPANY

The Company issued 361,000,000 overseas public shares (H shares) with a par value of RMB1.00 each on 17th October, 1997 at an issue price of RMB2.44 (HK$ 2.28) per share. The H shares were listed on the Stock Exchange of Hong Kong on 21st October, 1997. State-owned shares and H shares rank pari passu in all respects, except that ownership of state-owned shares are restricted to PRC nationals and legal persons, while H share can only be owned and traded by overseas investors. And dividends on state-owned shares are payable in RMB, while dividends on H shares are payable in HK$.

The details of share capital were as follows:

	31st December, 2000		31st December, 1999	
	Number of shares	**Amount RMB'000**	Number of shares	Amount RMB'000
Registered, issued and fully paid:				
State-owned shares with a par value of RMB1.00 each	**622,480,000**	**622,480**	622,480,000	622,480
H shares with a par value of RMB1.00 each	**361,000,000**	**361,000**	361,000,000	361,000
	983,480,000	**983,480**	983,480,000	983,480

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

12. RESERVES

(a) Share premium

As at 31st December, 2000 and 1999, share premium represents net assets acquired from Holdings in excess of par value of the state-owned shares issued, and proceeds from the issuance of H shares in excess of their par value, net of underwriting commissions, organisation costs and professional fees.

(b) Statutory Surplus Reserve ("SSR")

In accordance with the Company Law and the Company's Articles of Association, the Company and its subsidiaries shall appropriate 10 per cent. of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve account respectively. When the balance of such reserve fund reaches 50 per cent. of each entity's share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such statutory surplus reserve must be maintained at a minimum of 25 per cent. of share capital after such usage.

(c) Statutory Public Welfare Fund ("SPWF")

According to the relevant financial regulations of the PRC and the Company's Articles of Association, the Company and its subsidiaries are also required to appropriate 5 per cent. to 10 per cent. of their annual statutory net profit (after offsetting any prior years' losses) to a statutory public welfare fund to be utilized to build or acquire capital items, such as dormitories and other facilities for the Company and its subsidiaries' employees, and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the Company and its subsidiaries.

For the year ended 31st December, 2000, the directors have recommended that 10 per cent. (1999: 10 per cent.) of statutory net profit of each entity be appropriated to this fund.

All obligations with respect to staff housing are the responsibility of Holdings.

(d) Unappropriated profit

Unappropriated profit is to be carried forward for future distribution.

The distribution of dividends is made in accordance with the Company's Articles of Association and the recommendation of the Board of Directors and is subject to approval by shareholders in general meetings. Pursuant to the Notice [1995] 31st issued by MOF on 24th August, 1995, the amount of profit available for distribution to the shareholders will be determined based on the lower of unappropriated profit in the financial statements determined in accordance with (i) PRC accounting standards and regulations, and (ii) IAS.

As at 31st December, 2000, the Group's profit available for distribution to shareholders after transfers to reserves amounted to approximately RMB126,731,000 (1999: approximately RMB62,999,000).

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

12. RESERVES (continued)

(d) Unappropriated profit (continued)

Analysis of the appropriations to SSR and SPWF in the Statutory Accounts and the financial statements prepared under IAS is as follows:

	Statutory Accounts	Financial statements under IAS
Net profit for the year	113,772	113,772
Transfer to SSR	(25,020)	(25,020)
Transfer to SPWF	(25,020)	(25,020)
Distributable profit attributable to shareholders	63,732	63,732
Unappropriated profit, beginning of year	62,998	82,535
Total distributable profit	126,730	146,267
Dividends	(29,504)	—
Unappropriated profit, end of year	97,226	146,267

13. BORROWINGS

GROUP

(a) Short-term borrowings

	31st December, 2000		31st December, 1999	
	Interest rate per annum	RMB'000	Interest rate per annum	RMB'000
— Secured *	5.85%-6.39%	381,250	5.94%-6.39%	647,250
— Unsecured	2.88%-6.17%	130,240	5.58%-6.39%	10,000
		511,490		657,250

* As at 31st December, 2000, short-term borrowings amounting to approximately RMB271,250,000 are guaranteed by Holdings (Note 24(a)) (1999: approximately RMB529,250,000 were guaranteed by Holdings and approximately RMB12,000,000 were guaranteed by other related company of the Group); approximately RMB110,000,000 (1999: approximately RMB106,000,000) are mortgaged by machinery and equipment of the Group (Note 3(b)).

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

13. BORROWINGS (continued)

(b) Long-term borrowings

(i) Details of long-term borrowings are as follows:

	31st December, 2000			31st December, 1999		
	Interest rate per annum	**Foreign currency**	**RMB equivalent**	Interest rate Per annum	Foreign currency	RMB equivalent
		('000)	**('000)**		('000)	('000)
Bank borrowings						
— Secured *	**5.94%-6.66%**	**—**	**631,940**	5.94%-10.35%	—	562,024
	7.71%-8.66%	**USD 42,626**	**352,747**	7.06%-8.77%	USD 56,121	464,593
— Unsecured	**5.94%-6.21%**	**—**	**166,727**	7.56%	—	19,800
	9.53%	**USD 4,865**	**40,264**	8.29%	USD 5,744	47,549
Other borrowings **						
— Unsecured	**4%**	**KD 468**	**12,699**	4%	KD 1,403	38,152
			1,204,377			1,132,118

— Kuwait Dinar referred to as "KD"

* As at 31st December, 2000, long-term borrowings amounting to approximately RMB581,940,000 (1999: approximately RMB511,130,000) are guaranteed by Holdings (Note 24(a)); approximately RMB50,000,000 (1999: approximately RMB50,894,000) are guaranteed by other related company of the Group; approximately USD 37,526,000, or RMB equivalent 310,533,000 (1999: approximately USD 48,621,000, or RMB equivalent 402,506,000) are guaranteed by Anhui Finance Bureau and approximately USD 5,100,000, or RMB equivalent 42,214,000 (1999: approximately USD 7,500,000, or RMB equivalent 62,087,000) are guaranteed by Anhui Trust and Investment Corporation respectively.

** Other loans represented unsecured loans denominated in Kuwait Dinar granted by the Kuwait Fund For Arab Economic Development through the PRC State Construction Material Bureau (國家建築材料工業局).

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

13. BORROWINGS (continued)

(b) Long-term borrowings (continued)

(ii) Long-term loans are repayable in the following periods:

	31st December, 2000			31st December, 1999		
	Bank loans	**Other loans**	**Total**	Bank loans	Other loans	Total
Amount repayable within a period						
— not exceeding one year	**367,400**	**12,699**	**380,099**	320,878	25,435	346,313
— more than one year but not exceeding two years	**249,386**	**—**	**249,386**	195,001	12,717	207,718
— more than two years but not exceeding five years	**497,094**	**—**	**497,094**	469,409	—	469,409
— more than five years	**77,798**	**—**	**77,798**	108,678	—	108,678
	1,191,678	**12,699**	**1,204,377**	1,093,966	38,152	1,132,118
Less: current portion of long-term loans	**(367,400)**	**(12,699)**	**(380,099)**	(320,878)	(25,435)	(346,313)
	824,278	**—**	**824,278**	773,088	12,717	785,805

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

13. BORROWINGS (continued)

COMPANY

(a) Short-term borrowings

	31st December, 2000		31st December, 1999	
	Interest rate per annum	RMB'000	Interest rate per annum	RMB'000
— Secured	5.85%-6.39%	162,000	5.58%-6.39%	330,000

As at 31st December, 2000 and 1999, all short-term borrowings are guaranteed by Holdings.

(b) Long-term borrowings

(i) Details of long-term borrowings are as follows:

	31st December, 2000			31st December, 1999		
	Interest rate per annum	Foreign currency	RMB equivalent	Interest rate per annum	Foreign currency	RMB equivalent
		('000)	('000)		('000)	('000)
Bank borrowings						
— Secured	5.94%	—	198,000	—	—	—

As at 31st December, 2000, all long-term borrowings are guaranteed by Holdings.

(ii) Long-term loans are repayable in the following periods:

	31st December, 2000			31st December, 1999		
	Bank loans	Other loans	Total	Bank loans	Other loans	Total
Amount repayable within a period						
— not exceeding one year	—	—	—	—	—	—
— more than one year but not exceeding two years	48,000	—	48,000	—	—	—
— more than two years but not exceeding five years	150,000	—	150,000	—	—	—
— more than five years	—	—	—	—	—	—
	198,000	—	198,000	—	—	—
Less: current portion of long-term loans	—	—	—	—	—	—
	198,000	—	198,000	—	—	—

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

14. OTHER PAYABLES AND ACCRUALS

GROUP

	31st December, 2000	31st December, 1999
Advances from customers	**42,254**	35,790
Accrued staff salaries and bonuses	**4,764**	1,823
Accrued utility expenses	**30,022**	14,304
Accrued interest expenses	**1,635**	3,042
Accrued harbour expenses, loading expenses and freight fees	**11,161**	10,919
Accrued staff welfare (accrued at 14% of total salaries)	**3,073**	1,385
Accrued pension fund	**18,548**	14,209
Payables for construction-in-progress	**6,325**	15,783
Deposits received for contract commitments	**16,284**	3,698
Deposits received for leasing van covers	**2,377**	5,009
Others	**35,147**	20,571
	171,590	126,533

COMPANY

	31st December, 2000	31st December, 1999
Advances from customers	**15,083**	20,402
Accrued harbour expenses, loading expenses and freight fees	**688**	812
Others	**5,402**	5,157
	21,173	26,371

(Amounts expressed in thousands of Renminbi (“RMB”) unless otherwise stated)

15. TRADE PAYABLES

The Group’s trade payables are all with ageing less than one year.

16. REVENUE, net

Revenue comprised:

	2000	1999
Gross sales (excluding VAT) less discounts and returns	**1,333,856**	1,074,825
Less: surtaxes	**(9,921)**	(8,241)
	1,323,935	1,066,584

The Group is subject to the following surtaxes, which are recorded as deductions from gross sales:

— City Development Tax, levied at five to seven per cent. of net VAT payable.

— Education Supplementary Tax, levied at three per cent. of net VAT payable.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

17. PROFIT BEFORE TAXATION AND MINORITY INTERESTS

Profit before taxation and minority interests in the consolidated income statements was determined after crediting and charging the following items:

	2000	1999
After crediting:		
Interest income — Bank deposits	**2,250**	3,848
VAT refund (Note 19(b)(iii))	**10,234**	13,743
Reversal of provision for bad and doubtful debts	**—**	11
Foreign exchange gain	**44**	—
After charging:		
Interest expenses		
— on bank loans repayable within five years	**96,090**	99,067
— on bank loans repayable more than five years	**6,799**	11,716
— on other loans repayable within five years	**973**	1,910
	103,862	112,693
Less: Amounts capitalised in construction-in-progress	**(5,435)**	(3,132)
Finance cost	**98,427**	109,561
Staff costs		
— salaries and wages	**68,208**	59,964
— provision for staff and workers' bonus and welfare fund	**17,001**	10,033
— contribution to pension scheme (Note 2(p))	**9,128**	8,290
Depreciation of property, plant and equipment	**206,250**	201,586
Amortisation of intangible assets	**9,339**	8,769
Cost of inventories (Note 8)	**914,896**	750,543
Provision for bad and doubtful debts	**3**	—
Foreign exchange loss	**—**	1,084
Auditor's remuneration	**1,961**	1,980

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

18. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' and supervisors' emoluments were:

	2000	1999
Fees for executive directors	**—**	—
Fees for non-executive directors	**—**	—
Fees for supervisors	**—**	—
Other emoluments for executive directors		
— Basic salaries and allowances	**566**	543
— Bonus	**—**	—
— Pension	**107**	5
Other emoluments for non-executive directors	**—**	—
Other emoluments for supervisors	**335**	272
	1,008	820

No directors or supervisors waived any emoluments during the years ended 31st December, 2000 and 1999.

(b) Details of emoluments paid to the five highest paid individuals (including directors, supervisors and employees) were:

	2000	1999
Basic salaries and allowances	**578**	554
Bonus	**—**	—
Pension	**110**	6
	688	560
Number of directors	**4**	4
Number of supervisors	**1**	1
	5	5

All of the five highest paid individuals were directors and supervisors of the Company, whose emoluments were included in Note 18 (a). The emoluments paid to each of the five highest paid individuals during the years ended 31st December, 2000 and 1999 were less than RMB1,060,000 (equivalent of Hong Kong Dollars ("HK$") 1,000,000).

During the years, no emoluments were paid to the five highest paid individuals as an inducement to join the Group or as compensation for loss of office.

(Amounts expressed in thousands of Renminbi (“RMB”) unless otherwise stated)

19. TAXATION

(a) Enterprise Income Tax（企業所得稅）

(i) Income tax expense in the consolidated income statements comprised:

	2000	1999
Income tax expense		
— Current	**36,006**	18,327
— Financial refund	**(17,624)**	(9,223)
	18,382	9,104

Individual companies within the Group are generally subject to Enterprise Income Tax (“EIT”) at 33 per cent. on taxable income determined according to the PRC tax laws except Hailuo Cement, which is a sino-foreign equity joint venture and entitled to full excemption from EIT for the first two years and 50% reduction for the next three years commencing from the first profitable year of operation after offsetting all tax losses carried from previous years (at most five years) (“Tax Holidays”). 1999 was the last year of Hailuo Cement in the Tax Holidays, the applicable EIT rate was 15 per cent.. In 2000, Hailuo Cement was recognised as advanced technology enterprise with foreign investment, Hence according to the tax regulations, Hailuo Cement was granted to 50% reduction for another three years after the Tax Holidays expired. Therefore the applicable EIT rate in 2000 remains at 15 per cent.

Pursuant to relevant documents issued by Anhui Finance Bureau, the Company was granted financial refunds equal to 18 per cent. of the Company’s taxable income in respect of EIT paid commenced from 1st January, 1998. Hence the Company is entitled to an effective EIT rate of 15 per cent.. Pursuant to Cai Shui [2000] No.99 issued in October 2000, the above preferential tax treatment would remain effective until 31st December, 2001.

There were no Hong Kong profits tax liabilities as the Group did not earn any income subject to Hong Kong profits tax.

As at 31st December, 2000, there was no material unprovided deferred tax.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

19. TAXATION (continued)

(a) Enterprise Income Tax（企業所得稅）(continued)

(ii) The reconciliation of the applicable tax rate to the effective tax rate is as follows:

	2000		1999	
Accounting profit before taxation and minority interests	**133,911**	**100%**	51,020	100%
Tax at the effective tax rate of 15% (1999: 15%)	**20,087**	**15%**	7,653	15%
Tax effect of expenses that are not deductible in determining taxable profit	**1,284**	**1%**	1,451	3%
Tax effect of income that are not taxable in determining taxable profit	**(2,989)**	**(2%)**	—	—
Income tax expense	**18,382**	**14%**	9,104	18%

(b) Value-Added Tax（增值稅）

(i) The Group is subject to Value-Added Tax ("VAT") on its sales and purchases, which is levied at 17 per cent. on the gross turnover upon sales or purchases of merchandises. Input VAT paid on purchases of raw materials, semi-finished products, and other direct inputs can be used to offset the output VAT on sales.

(ii) Following the implementation of VAT, Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") of the PRC directed enterprises to segregate from the inventory balance as at 1st January, 1994, a deemed input VAT calculated at 14 per cent. of the inventory balance as at 1st January, 1994. MOF and SAT also stipulated that this deemed input VAT, could be offset against future output VAT under specific circumstances.

Pursuant to Wan Guo Shui Fa [1998] No. 150 issued on 5th August, 1998, enterprises is allowed to offset the unutilised balance of the deemed input VAT after obtaining the approval from Anhui Tax Bureau. During the year ended 31st December, 2000, the Group utilized approximately RMB3,094,000 of the deemed input VAT to offset output VAT (1999: nil).

(iii) Pursuant to Cai Gong Zi [1998] No. 241 issued by MOF and SAT, the Group was granted VAT refund from local financial bureau. This tax refund is related to the foreign currency loans borrowed by the Group before 31st December, 1994.

(Amounts expressed in thousands of Renminbi (“RMB”) unless otherwise stated)

20. NET PROFIT FOR THE YEAR

The consolidated net profit for the year ended 31st December, 2000 included a net profit of approximately RMB3,524,000 (1999: net loss of approximately RMB17,948,000) dealt with in the financial statements of the Company before accounting for the results of subsidiaries and an associate using the equity method of accounting.

21. DIVIDENDS

	2000	1999
Dividends declared before year end		
— Interim	**—**	—
— Final, RMB0.02 per share *	**—**	21,003
	—	21,003
Dividends proposed after year end (Note 28)	**29,504**	—
	29,504	21,003

* Final dividends for 1998 declared in 1999.

In accordance with its articles of association, the Company declares dividends based on the lower of the consolidated unappropriated profit calculated according to the PRC accounting standards and regulations as reported in the statutory financial statements and that calculated according to IAS (Note 12(d)).

The dividends for 2000 of approximately RMB29,504,400 were proposed by the board of directors, and are subject to approval by shareholders’ meeting.

22. EARNINGS PER SHARE

The calculation of basic earnings per share was based on the net profit for the year attributable to ordinary shareholders of approximately RMB113,772,000 (1999: approximately RMB58,588,000) divided by the weighted average number of 983,480,000 ordinary shares in issue during the year ended 31st December, 2000 (1999: 983,480,000 ordinary shares).

The diluted earning per share was not calculated, because no potential shares existed.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

23. CASH GENERATED FROM OPERATIONS

(a) Reconciliation from profit before taxation and minority interests to cash generated from operations:

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before taxation and minority interests	**133,911**	51,020
Adjustments for:		
Depreciation of plant, property and equipment	**206,250**	201,586
Net loss on disposals of plant, property and equipment	**4,796**	1,906
Amortisation of intangible assets	**9,339**	8,769
Share of profits less losses from investments under equity method	**1,645**	639
Provision for (reversal of) bad and doubtful debts	**3**	(11)
Interest income	**(2,250)**	(3,848)
Interest expenses	**98,427**	109,561
Operating profit before working capital changes	**452,121**	369,622
(Increase) decrease in operating assets:		
— Inventories	**9,184**	11,574
— Prepayments and other receivables	**(7,014)**	20,180
— Due from Holdings	**(25,132)**	—
— Due from unconsolidated subsidiaries	**—**	(51,825)
— Due from an associate	**(990)**	—
— Due from related parties	**(2,515)**	10,205
— Trade receivables	**73,081**	7,237
Increase (decrease) in operating liabilities:		
— Other payables and accruals	**19,005**	(19,000)
— Provision for tax	**10,150**	(22,749)
— Due to Holdings	**—**	(37,719)
— due to unconsolidated subsidiaries	**—**	2,964
— Due to related parties	**(17,198)**	(10,616)
— Trade payables	**998**	(7,183)
Cash generated from operations	**511,690**	272,690

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

23. CASH GENERATED FROM OPERATIONS (continued)

(b) Analysis of the balances of cash and cash equivalents

	31st December, 2000	31st December, 1999
Short-term investment (Note 7)	**12,610**	—
Cash on hand	**80**	45
Cash on bank		
— Current deposits	**357,214**	236,454
— Time deposits	**—**	54,316
— Deposits in respect of letters of credit and bank drafts	**7,153**	5,498
Total	**377,057**	296,313

Current deposits are without fixed terms, time deposits and deposits in respect of letters of credit and bank draft are both with terms less than three months.

Deposits in respect of letters of credit and bank drafts are restricted for the period from the date of issuing letters of credits and bank drafts till the date of settlement with bank by the Group.

(c) Supplemental cash flow information

	2000	1999
Increase in property, plant and equipment	**325,896**	139,383
Less: Capitalised interest	**(5,435)**	(3,132)
Cash outflows for purchase of property, plant and equipment	**320,461**	136,251

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

23. CASH GENERATED FROM OPERATIONS (continued)

(d) Analysis of changes in financing activities during the years ended 31st December, 2000 and 1999

	2000			1999
	Short-term borrowings	**Long-term borrowings**	**Total**	Total
Beginning of year	**657,250**	**1,132,118**	**1,789,368**	1,734,934
Additions of loans from change of consolidation scope (Note 23(e))	**6,750**	**6,500**	**13,250**	—
Loans borrowed	**345,490**	**265,192**	**610,682**	540,000
Repayments of loans	**(498,000)**	**(199,433)**	**(697,433)**	(485,566)
End of year	**511,490**	**1,204,377**	**1,715,867**	1,789,368

(e) Net increase in cash and cash equivalents from change of consolidation scope

Certain subsidiaries were consolidated in the Group's financial statements from 1st January, 2000. The fair value of assets and liabilities of these subsidiaries as at 1st January, 2000 was as follows:

	1st January, 2000
Cash and cash equivalents	**22,545**
Trade receivables	**34,046**
Due from related parties	**334**
Prepayments and other receivables	**19,993**
Inventories	**19,288**
Property, plant and equipment, net (Note 3)	**123,966**
Short-term borrowings (Note 23(d))	**(6,750)**
Trade payables	**(31,255)**
Due to related parties	**(3,243)**
Other payables and accruals	**(27,459)**
Provision for taxes	**(2,907)**
Long-term borrowings, non-current portion (Note 23(d))	**(6,500)**
Minority interests	**(19,071)**
	122,987
Less: balance of investments in unconsolidated subsidiaries	**(122,987)**
Add: cash and cash equivalents of subsidiaries	**22,545**
Net increase in cash and cash equivalents from change of consolidation scope	**22,545**

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

24. RELATED PARTY TRANSACTIONS

GROUP

(a) Details of transactions between the Group and Holdings were as follow:

	2000	1999
Trademark licence fees paid to Holdings (i)	**1,513**	1,513
Clay evacuate fees paid to Holdings (ii)	**241**	164
Composite services fees paid to Holdings (iii)	**4,306**	4,967
Guarantee provided by Holdings (iv)	**853,190**	1,040,380

(i) The Company has entered into a trademark licence agreement with Holdings, pursuant to which Holdings granted the Company an exclusive right to use and apply the Trademarks within and outside of the PRC in respect of all cement and clinker products of the Group. In return, the Company should pay RMB1,513,000 to Holdings each year. Such services fees were charged to the Group starting from 1st January, 1998.

(ii) The Company has entered into a clay supply agreement with Holdings for the purchases of clay evacuate right at RMB0.5 per tonne from Holdings to evacuate clay in certain specified mines owned by Holdings.

(iii) The Company has entered into a composite services agreement with Holdings, pursuant to which the Company has a non-exclusive right to purchase certain services, facilities and supplies from Holdings on normal commercial terms.

(iv) Holdings provided guarantees for the borrowings of the Company and its subsidiaries. These guarantees are free of any charges to the Company and its subsidiaries (Note 13(a), (b)).

(b) Details of transactions between the Group and related companies were as follows:

	2000	1999
Purchase of cement packaging materials from subsidiaries of Holdings	**69,560**	82,822
Purchase of construction services from subsidiaries of Holdings	**836**	568
Sales of cement products to an associate	**4,945**	—

(c) Due from / due to Holdings

GROUP AND COMPANY

The amounts due to or due from Holdings mainly arose from the related party transactions mentioned in Note 24(a) and the imported equipment and spare parts paid by Holdings on behalf of the Group and the Company or the other way around. The amounts due to / due from Holdings are unsecured and non-interest bearing (Note 28(b)).

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

24. RELATED PARTY TRANSACTIONS (continued)

(d) Due from/to related parties

Name of related party	Nature of relationship
Anhui Hailuo Construction Materials Co., Ltd. ("Hailuo Construction Material")	Subsidiary of Holdings
Anhui Hailuo Construction and Installation Co., Ltd ("Hailuo Construction and Installation")	Subsidiary of Holdings
Anhui Ningchong Packaging Material Bags Co., Ltd. ("Ningchong Packaging")	Subsidiary of Holdings

GROUP

	31st December, 2000	31st December, 1999
Due from related parties		
Hailuo Construction Material	**553**	1,811
Hailuo Construction and Installation	**3,973**	3,987
Other related companies	**6,434**	2,313
	10,960	8,111
Due to related parties		
Ningchong Packaging	**11,911**	22,432
Other related companies	**2,441**	5,875
	14,352	28,307

COMPANY

Due to related parties

	31st December, 2000	31st December, 1999
Ningchong Packaging	**8,297**	20,840
Other related companies	**306**	566
	8,603	21,406

The amounts due from/to related companies arose from ordinary business transactions, and were unsecured, non-interest bearing and without fixed repayment terms.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

25. IMPACT OF IAS ADJUSTMENT ON NET PROFIT AND NET ASSETS

	Net profit		Net assets	
	2000	1999	**2000**	1999
As reported in the Group's statutory accounts	**113,772**	58,588	**2,031,683**	1,947,415
Impact of adjustment:				
— dividends proposed in subsequent period	**—**	—	**29,504**	—
As restated in the Group's IAS financial statements	**113,772**	58,588	**2,061,187**	1,947,415

26. FINANCIAL INSTRUMENTS

(a) Fair values

The following methods and assumptions were used to estimate the fair value of each major class of the Group's financial instruments for which it is practicable to estimate that value:

(i) Cash and cash equivalents

The carrying amount approximates fair value because these assets either carry a current rate of interest or have a short period of time between the origination of the cash deposits and their expected maturity.

(ii) Trade receivables, prepayments and other receivables, trade payables, provision for taxes and other payables and accruals

The carrying amount of receivables, prepayments, payables, provision for taxes and accruals approximates fair value because these are subject to normal trade credit terms.

(iii) Balances with related parties

No disclosure of fair values is made for balances with related parties as it is not practicable to determine their fair values with sufficient reliability since these balances are non-interest bearing and have no fixed repayment terms.

(iv) Borrowings

As of 31st December, 2000, the carrying amount of borrowings approximates fair value based on current market interest rates for comparable instruments.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

26. FINANCIAL INSTRUMENTS (continued)

(b) Concentration of risks

(i) Credit risk

The carrying amounts of cash and cash equivalents, trade receivables, and other current assets represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

(ii) Interest rate risk

The interest rates and terms of repayments of short-term and long-term bank borrowings are disclosed in Note 13(a) and Note 13(b).

27. COMMITMENTS

(a) Capital commitments

Capital commitments relate to purchases of machinery and equipment for production purposes as at 31st December, 2000 not provided for in the accounts were as follow:

	31st December, 2000
Contracted but not provided for	**150,221**
Authorised but not contracted for	**610,364**
	760,585

(b) License agreement

As mentioned in Note 24(a)(i), as at 31st December, 2000, the Company is committed to pay the trademark licence fee to Holdings at RMB1,513,000 per annum. The licence agreement did not indicate the expiration date.

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

28. SUBSEQUENT EVENTS

(a) Pursuant to the resolution made by the Board of Directors subsequent to 31st December, 2000, the Company will propose a final dividend of RMB0.03 per share for 2000.

(b) As at the issuance date of this report, Holdings has settled all amounts due to the Group.

29. CHANGE IN ACCOUNTING POLICY

During 2000, the Company changed its accounting policy with respect to the treatment of dividends declared after the balance sheet date. To conform to the treatment in IAS 10 "Events After the Balance Sheet Date", the Company now disclosed the dividends declared after the balance sheet date as a subsequent events rather than recognised those dividends as a liability at the balance sheet date. This change in accounting policy has been accounted for retrospectively. The comparative consolidated financial statements have been restated to conform to the changed policy. The effect of the change is an increase in unappropriated profit as at 1st January, 1999 of approximately RMB21,003,000 and a increase in dividends distribution during 1999 of approximately RMB21,003,000.

30. COMPARATIVE FIGURES

Certain comparative's figures in the 1999 financial statements have been restated and reclassified to conform to the current year's presentation in accordance with the new presentation and disclosure requirements under newly revised or promulgated IAS, including IAS 10 "Events After the Balance Sheet Date" and IAS 38 "Intangible Assets".

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 10th February, 2001.