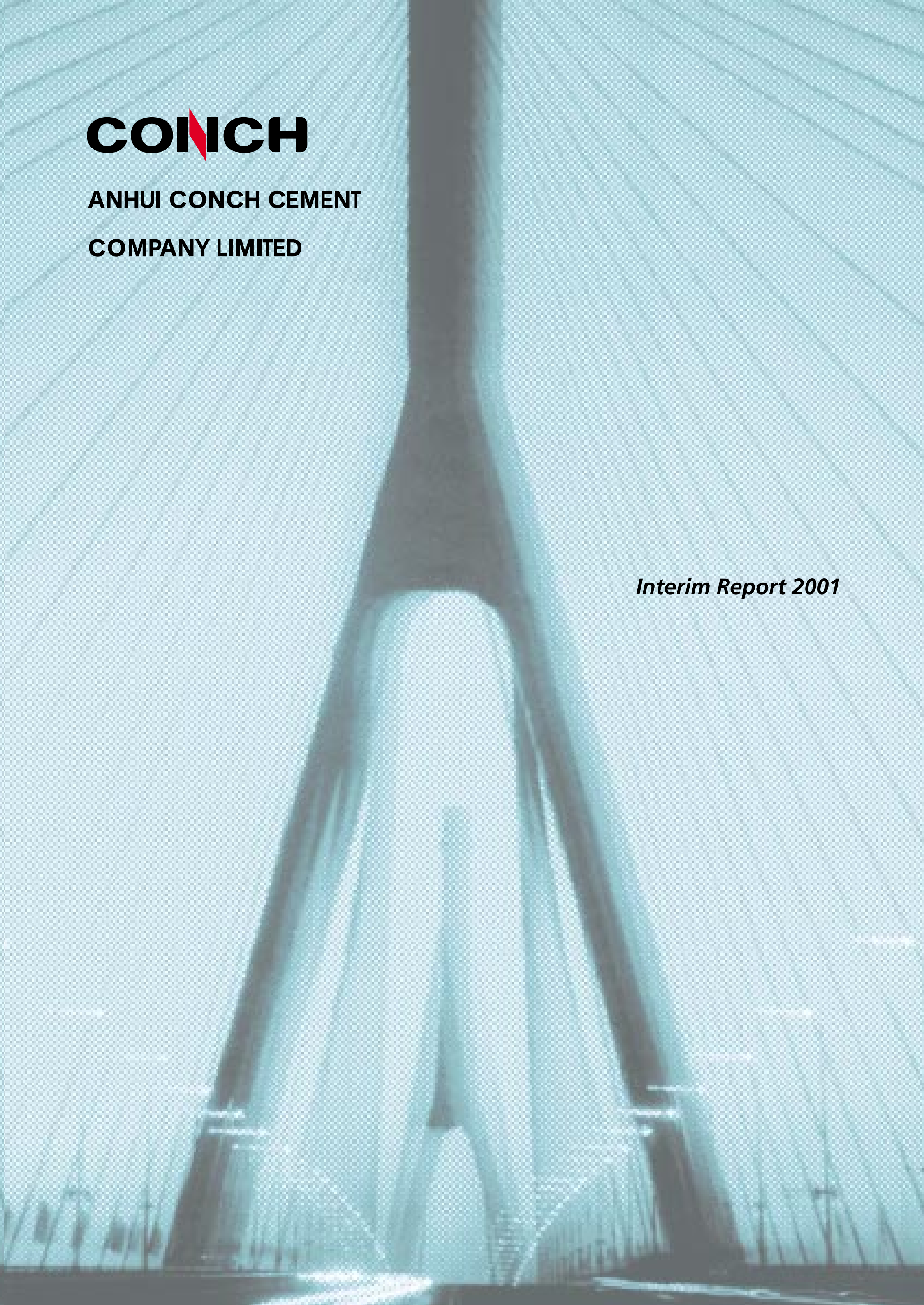
ANHUI CONCH CEMENT COMPANY LIMITED

Interim Report 2001



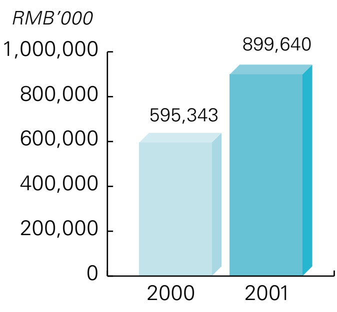
The Board of Directors of Anhui Conch Cement Company Limited (the "Company") is pleased to announce the interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2001 (the "Reporting Period"). Please note that the financial statements set out herein are unaudited, but they have been reviewed by the audit committee of the Board of Directors of the Company.

The unaudited revenue from operations for the Group during the Reporting Period was RMB899.64 million, up 51.1% from the corresponding period last year. Profit after taxation and minority interests was RMB91.118 million, representing an increase of 68.3% from the corresponding period last year. Earnings per share were RMB0.09, an increase of RMB0.03 from the same period last year. The detailed operating results are set out in the unaudited financial statements below.

The Board of Directors is pleased with the above results, and would like to sincerely thank our shareholders and friends for their concern, support and encouragement.

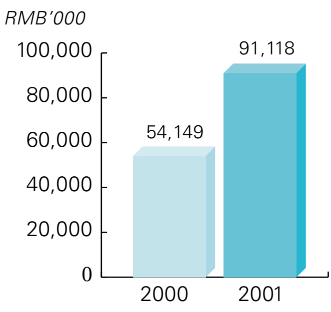
The summary of unaudited consolidated financial statements for the first half of 2001, prepared in accordance with International Accounting Standards ("IAS"), are set out below together with comparisons figures for the corresponding period last year:

Revenue, net



For the six months ended 30th June

Profit after taxation and minority interests



For the six months ended 30th June

CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

(With comparatives for the six months ended 30th June, 2000)

	For the six months ended 30th June,	
	2001	2000
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Revenue, net	**899,640**	595,343
Cost of sales	**(565,683)**	(379,930)
Gross profit	**333,957**	215,413
Other operating income	**8,207**	1,391
Distribution costs	**(90,207)**	(75,729)
Administrative expenses	**(62,167)**	(46,503)
Other operating expenses	**(2,447)**	(4,886)
Profit from operations	**187,343**	89,686
Finance cost	**(52,699)**	(48,789)
Gain on disposal of short-term investments	**—**	15,000
Share of (losses) profits from investments under equity method	**(1,894)**	3,431
Others, net	**(376)**	864
Profit before taxation and minority interests *(Note 3)*	**132,374**	60,192
Income tax expense *(Note 4)*	**(20,445)**	(9,298)
Profit after taxation but before minority interests	**111,929**	50,894
Minority interests	**(20,811)**	3,255
Net profit for the period	**91,118**	54,149
Dividends *(Note 5)*	**29,504**	—
Earnings per share *(Note 6)*		
— Basic	**RMB0.09**	RMB0.06
— Diluted	**Not applicable**	Not applicable

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF 30TH JUNE, 2001

(With comparatives as of 31st December, 2000)

	As of 30th June, 2001 (unadited) RMB'000	As of 31st December, 2000 (audited) RMB'000
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	**4,226,591**	3,534,669
Intangible assets	**120,717**	109,983
Investment in an associate	**47,512**	49,016
Other long-term investment	**87,710**	—
	4,482,530	3,693,668
Current assets		
Inventories	**211,846**	184,889
Prepayments and other receivables	**62,651**	58,073
Due from Holdings *(Note 12)*	**5,535**	22,303
Due from related parties *(Note 12)*	**9,229**	10,960
Trade receivables *(Note 8)*	**157,055**	167,430
Short-term investments	**5,996**	12,610
Cash on hand and bank deposits	**622,643**	364,447
	1,074,955	820,712
Current liabilities		
Current portion of long-term borrowings	**357,165**	380,099
Other payables and accruals	**366,165**	171,590
Provision for taxes	**33,045**	18,304
Due to related parties *(Note 12)*	**17,069**	14,352
Trade payables *(Note 9)*	**193,489**	131,122
Short-term borrowings	**771,800**	511,490
	1,738,733	1,226,957

	As of 30th June, 2001 (unadited) *RMB'000*	As of 31st December, 2000 (audited) *RMB'000*
Net current liabilities	**663,778**	406,245
Total assets less current liabilities	**3,818,752**	3,287,423
Non-current liabilities		
Long-term borrowings, non-current portion	**950,525**	824,278
Long-term payable	**12,186**	—
	962,711	824,278
Minority interests	**733,240**	401,958
NET ASSETS	**2,122,801**	2,061,187
Capital and reserves		
Share capital *(Note 10)*	**983,480**	983,480
Reserves *(Note 7)*	**1,139,321**	1,077,707
EQUITY	**2,122,801**	2,061,187

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2001
(With comparatives for the six months ended 30th June, 2000)

	For the six months ended 30th June, 2001 (unaudited) *RMB'000*	2000 (unaudited) *RMB'000*
Net cash inflow from operating activities	**535,519**	140,770
Net cash outflow from investing activities *(Note 11(a))*	**(411,441)**	(132,540)
Net cash inflow (outflow) from financing activities *(Note 11(c))*	**134,118**	(41,285)
Increase (decrease) in cash and cash equivalents	**258,196**	(33,055)
Cash and cash equivalents, beginning of period	**364,447**	296,313
Cash and cash equivalents, end of period	**622,643**	263,258

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

(With comparatives for the six months ended 30th June, 2000)

From 1st January, 2001 to 30th June, 2001 (unaudited)

	Share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Unappropriated profit	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Beginning of period	983,480	789,776	70,832	70,832	146,267	2,061,187
— Dividends declared after 31st December, 2000 *(Note 5)*	—	—	—	—	(29,504)	(29,504)
— Net profit for the period	—	—	—	—	91,118	91,118
End of period	983,480	789,776	70,832	70,832	207,881	2,122,801

From 1st January, 2000 to 30th June, 2000 (unaudited)

	Share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Unappropriated profit	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Beginning of period	983,480	789,776	45,812	45,812	82,535	1,947,415
— Net profit for the period	—	—	—	—	54,149	54,149
End of period	983,480	789,776	45,812	45,812	136,684	2,001,564

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENT AS OF 30TH JUNE, 2001

(With comparatives for the six months ended 30th June, 2000 and as of 31st December, 2000)

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The accompanying condensed interim consolidated financial statements are prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Committee and Appendix 16 of the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The principal accounting policies adopted in preparing the interim financial statements of the Group are the same as those adopted in the preparation of the annual financial statements as at and for the year ended 31st December, 2000, except that financial instruments are recognised and measured in accordance with IAS 39, which is effective from 1st January, 2001 (Note 14). In addition, there is no change of accounting policies as the result of the effectiveness of revised IAS 12, which is also effective from 1st January, 2001.

2. PRINCIPLES AND BASIS OF CONSOLIDATION

The accompanying condensed consolidated financial statements include the accounts of Anhui Conch Cement Company Limited (the "Company") and its consolidated subsidiaries (hereinafter together with the Company referred to as the "Group").

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.

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.

Details of the Group's consolidated subsidiaries as at 30th June, 2001 were as follows:

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Baimashan Cement Plant	PRC 21st July, 1982	100% (directly held)	RMB 308,310,000	Manufacture and sale of clinker and cement products
Ningguo Cement Plant	PRC 21st January, 1985	100% (directly held)	RMB 649,350,000	Manufacture and sale of clinker and cement products
Ningbo Hailuo Cement Co., Ltd.	PRC 3rd April, 1993	60% (directly held)	RMB 171,000,000	Manufacture and sale of clinker and cement products
Anhui Hailuo Cement Product Co., Ltd.("Hailuo Cement")	PRC 23rd June, 1994	75% (directly held)	US$ 29,980,000	Manufacture and sale of clinker and cement products
Anhui Tongling Hailuo Cement Co., Ltd.	PRC 22nd September, 1995	68.14% (directly held)	RMB 565,000,000	Manufacture and sale of clinker and cement products
Shanghai Hailuo Mingzhu Cement Co., Ltd. ("Mingzhu Cement")	PRC 3rd April, 1995	63.4% (directly held)	RMB 13,710,000	Manufacture and sale of clinker and cement products
Anhui Hailuo Machinery & Electric Co., Ltd.	PRC 5th January, 1998	100% (indirectly held)	RMB 10,000,000	Provision of installation and repairing services
Jieyang Hailuo Cement Co., Ltd.	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.	PRC 9th July, 1998	100% (indirectly held)	RMB 1,000,000	Trading and sale of clinker and cement products

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Wuxi Hailuo Cement Sales Co., Ltd.	PRC 30th July, 1998	60.5% (directly held)	RMB 600,000	Sale of clinker and cement products
Anhui Changfeng Hailuo Cement Co., Ltd.	PRC 4th September, 1998	80% (directly held)	RMB 10,000,000	Manufacture and sale of clinker and cement products
Zhangjiagang Hailuo Cement Co., Ltd.	PRC 30th September, 1998	94.89% (directly held)	RMB 8,800,000	Manufacture and sale of clinker and cement products
Shanghai Hailuo Cement Co., Ltd.	PRC 13th November, 1998	75% (directly held)	RMB 60,000,000	Manufacture and sale of clinker and cement products
Nanjing Hailuo Cement Co., Ltd.	PRC 20th November, 1998	99.25% (directly held) 0.75% (indirectly held)	RMB 5,000,000	Manufacture and sale of clinker and cement products
Nantong Hailuo Cement Co., Ltd.	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.	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.	PRC 28th January, 2000	90% (directly held) 10% (indirectly held)	RMB 1,000,000	Trading of construction materials
Anhui Digang Hailuo Cement Co., Ltd.	PRC 28th April, 2000	51% (directly held)	RMB 150,000,000	Manufacture and sale of clinker and cement products
Jianyang Hailuo Cement Co., Ltd.	PRC 9th June, 2000	76% (directly held)	RMB 14,000,000	Manufacture and sale of clinker and cement products

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Anhui Zongyang Conch Cement Co., Ltd. ("Zongyang Cement")	PRC 19th June, 2000	51% (directly held)	RMB 300,000,000	Manufacture and sale of clinker and cement products
Anhui Chizhou Conch Cement Co., Ltd. ("Chizhou Cement")	PRC 2nd November, 2000	51% (directly held)	RMB 318,000,000	Manufacture and sale of clinker and cement products
Taizhou Hailuo Cement Co., Ltd.	PRC 6th November, 2000	93.75% (directly held)	RMB 11,520,000	Manufacture and sale of clinker and cement products
Bangbu Hailuo Cement Co., Ltd.*	PRC 9th February, 2001	96.7% (directly held) 3.3% (indirectly)	RMB 6,000,000	Manufacture and sale of clinker and cement products
Wenzhou Hailuo Cement Co., Ltd.*	PRC 16th March, 2001	95% (directly held) 5% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products

* *Newly set-up consolidated subsidiaries in 2001.*

3. PROFIT BEFORE TAXATION AND MINORITY INTERESTS

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

	For the six months ended 30th June,	
	2001	2000
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Interest expense on borrowings	**54,108**	51,088
Less: Capitalised interests of construction in progress	**(1,409)**	(2,299)
Finance cost	**52,699**	48,789
Depreciation of property, plant and equipment	**108,772**	102,150
Amortization of intangible assets	**5,209**	4,670

4. TAXATION

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 exemption 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 this subsidiary in the Tax Holidays, the applicable EIT rate is 15 per cent.. In 2000, this subsidiary 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 2001 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.

During the interim reporting periods, income tax expense in the condensed consolidated income statements comprised:

	For the six months ended 30th June,	
	2001	2000
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Income tax expense		
— current	**39,715**	20,355
— refund	**(19,270)**	(11,057)
	20,445	9,298

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

As at 30th June, 2001, there was no material unprovided deferred tax.

5. DIVIDENDS

During this interim reporting period, the shareholder's meeting approved the dividend appropriation for 2000 of approximately RMB29,504,400 (RMB0.03 per share), which has been paid-off.

The directors do not recommend any interim dividend for the six months ended 30th June 2001 (corresponding period of 2000: nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share was based on the unaudited consolidated net profit of approximately RMB 91,118,000 for the six months ended 30th June, 2001 (Corresponding period of 2000: approximately RMB54,149,000) divided by the weighted average number of 983,480,000 ordinary shares (Corresponding period of 2000: 983,480,000 shares) in issue during the period.

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

7. RESERVES

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

In accordance with relevant financial regulations of the PRC and the Company's articles of association, the Company and its subsidiaries are also required to appropriate 5 to 10 per cent. of their statutory net profit (after offsetting any prior years' losses) to a statutory public welfare fund ("PWF") to be utilized to build or acquire capital items respectively, 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.

Pursuant to the Notice [1995] 31 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 profits determined in accordance with (i) PRC accounting standards and regulations, and (ii) IAS or Hong Kong Statements of Standard Accounting Practice.

There is no appropriation of net profit to SSR and PWF during the six months ended 30th June, 2001. In accordance with the Company's articles of association, these appropriations will be proposed by the Board of Directors for the approval from the annual general meetings of shareholders.

8. TRADE RECEIVABLES

	As of 30th June, 2001	As of 31st December, 2000
	(unaudited)	(audited)
	RMB'000	*RMB'000*
Accounts receivable	**114,407**	109,805
Notes receivable	**70,995**	86,881
Less: Provision for bad and doubtful debts	**(28,347)**	(29,256)
	157,055	167,430

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

Ageing analysis of accounts receivable was as follows:

	As of 30th June, 2001	As of 31st December, 2000
	(unaudited)	(audited)
	RMB'000	*RMB'000*
Ageing		
— not exceeding one year	**36,486**	31,209
— more than one year but not exceeding two years	**2,765**	6,802
— more than two years but not exceeding three years	**13,556**	24,670
— more than three years	**61,600**	47,124
	114,407	109,805

9. TRADE PAYABLES

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

10. SHARE CAPITAL

There was no movement in the share capital of the Company in the interim reporting periods.

11. SUPPLEMENTARY INFORMATION TO CONDENSED FINANCIAL STATEMENTS

(a) Net cash outflow from acquisition of subsidiaries

During the six months ended 30th June 2001, the Company acquired 51% equity interest in Zongyang Cement (effective from 21st June, 2001), 51% equity interests in Chizhou Cement (effective from 21st June, 2001) and 63.4% equity interest in Mingzhu Cement (effective from 24th April, 2001) respectively. The fair value of related assets obtained and liabilities assumed, as well as the net cash outflow were as follows:

Property, plant and equipment	666,221
Intangible assets	15,937
Inventories	16,170
Trade receivables	1,495
Other receivables	7,177
Other current assets	193,979
Cash on hand and bank deposits	130,089
Short-term borrowings *(Note 11(c))*	(150,000)
Trade payables	(14,349)
Other payables and accruals	(154,625)
Provision for taxes	958
Other current liabilities	(1,768)
Long-term borrowing *(Note 11(c))*	(50,000)
Long-term payable	(24,126)
Minority interests	(310,519)
Net assets	326,639
Goodwill	(1,211)
Total consideration	325,428
Less: Cash on hand and bank deposits of the subsidiaries purchased	(130,089)
Less: Remaining payables to former shareholders	(685)
Net cash outflow	194,654

Results of above subsidiaries acquired during the period are included in the consolidated financial statements from the individual effective date of acquisition.

(b) Summarised unaudited financial information of the above acquired subsidiaries was as follows:

	As of 30th June, 2001 (unaudited) *RMB'000*
Balance sheet	
Current assets	335,727
Total assets	1,017,710
Current liabilities	319,182
Total liabilities	380,887

	For the six months ended 30th June, 2001 (unaudited) *RMB'000*
Income statement	
Revenue, net	28,529
Cost of sales	26,023
Net loss	395

(c) Analysis of changes in financing activities during the six months ended 30th June, 2001 and 2000

	For the six months ended 30th June,			
	2001			2000
	Short-term borrowings (unaudited) *RMB'000*	Long-term borrowings (unaudited) *RMB'000*	Total (unaudited) *RMB'000*	Total (unaudited) *RMB'000*
Beginning of period	511,490	1,204,377	1,715,867	1,789,368
Additions of loans from acquisition of subsidiaries *(Note 11(a))*	150,000	50,000	200,000	—
Loans borrowed *	125,000	117,793	242,793	278,314
Repayments of loans	(14,690)	(64,480)	(79,170)	(447,489)
End of period	771,800	1,307,690	2,079,490	1,620,193

* Loans borrowed during the six months ended 30th June, 2001 were all guaranteed by Anhui Conch Holdings Company Limited and bore annual interest ranging from 5.58% to 5.95%.

12. RELATED PARTY TRANSACTIONS

(a) Details of transactions between the Group and Anhui Conch Holdings Company Limited ("Holdings") were as follows:

	For the six months ended 30th June,	
	2001 (unaudited) *RMB'000*	2000 (unaudited) *RMB'000*
Trademark licence fees paid to Holdings	757	757
Clay evacuate fees paid to Holdings	120	87
Composite services fees paid to Holdings	2,149	2,675

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

	For the six months ended 30th June,	
	2001	2000
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Purchase of cement packaging materials	**34,592**	26,969
Purchase of construction services	**—**	1,384
Purchase of transportation services	**2,696**	1,170

(c) Details of transactions between the Group and an associated company were as follows:

	For the six months ended 30th June,	
	2001	2000
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Sales of cement products		
— Anhui King Bridge Cement Co., Ltd.	**7,055**	1,104

(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

	As of 30th June, 2001	As of 31st December, 2000
	(unaudited)	(audited)
	RMB'000	*RMB'000*
Due from related parties		
Hailuo Construction Material	**345**	553
Hailuo Construction and Installation	**4,780**	3,973
Other related companies	**4,104**	6,434
	9,229	10,960
Due to related parties		
Ningchong Packaging	**13,401**	11,911
Other related companies	**3,668**	2,441
	17,069	14,352

13. COMMITMENTS

Capital commitments related to purchases of machinery and equipment for production purposes as at 30th June, 2001 and 31st December, 2000 were as follows:

	As of 30th June, 2001	As of 31st December, 2000
	(unaudited)	(audited)
	RMB'000	*RMB'000*
Contracted but not provided for	**210,598**	150,221
Authorised but not contracted for	**489,987**	610,364
	700,585	760,585

14. CHANGE IN ACCOUNTING POLICY

From 1st January, 2001, the Group changed its accounting policy with respect to the recognition and measurement of the financial instruments to conform to IAS 39 "Financial Instruments: Recognition and Measurement".

After initial recognition of a financial asset or financial liability at cost, the Group measures each major class of the financial instruments at either the reliable fair value or amortized cost in accordance with IAS 39. Regular way purchases and sales of financial assets are accounted for at trade date. The gains and losses arising from changes in the fair value of those available-for-sale financial assets that are measured at fair value subsequent to initial recognition are included in net profit or loss for the period.

Short-term investments and other long-term investments are classified as financial assets held-for-trading and available-for-sale respectively. The fair values of these financial assets are determined according to note 15(b).

The financial effects of the adopting IAS 39 did not have a significant effect to the opening balances to these condensed financial statements.

For the six months ended 30th June, 2001, there is no gain or loss arising from changes in the fair value of those available-for-sale financial assets that are measured at fair value subsequent to initial recognition.

15. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group activities expose it to a variety of financial risks, including credit risk and interest rate risk.

Financial risk management is carried out by the Finance Department under policies approved by the Board of Directors.

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures. The Group has no significant concentration of credit risk with any single counterparty or group counterparties.

The Group's income and operating cash flows are substantially independent of changes in market interest rate prices.

The Group has no significant foreign exchange risk due to limited foreign currency transactions.

(b) Fair value estimation

The fair value of publicly traded securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-trading securities and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

16. COMPARATIVE FIGURES

Certain comparative figures for the six months ended 30th June, 2000 and as of 31st December, 2000 have been reclassified to conform to the current interim period's presentation.

DIVIDENDS

The Board of Directors have resolved not to declare any interim dividend for the year 2001.

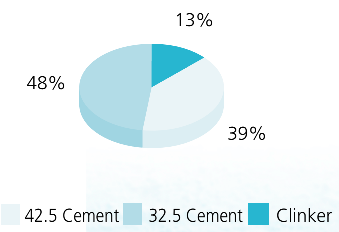
BUSINESS REVIEW AND PROSPECTS

Business review

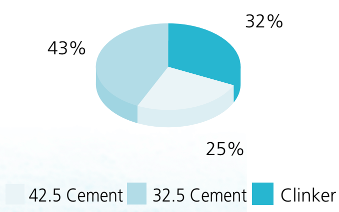
The year 2001 was a critical year in strategic planning for the Group. China continued to pursue a prudent monetary policy and a proactive fiscal policy, speeding up the country's economic development. Meanwhile, the national economic structure was also strengthened. Against this backdrop, public infrastructure development was reinforced and the property market has emerged as the new economic centre. This in turn gives rise to tremendous opportunities for the cement industry, since cement is the necessary material for infrastructure development.

For the six months ended 30th June, 2001, the Group's total sales of cement and clinker totaled 4,493,700 tonnes (according to inter-group sales: 5,580,000 tonnes), up 42.58% from the same period of the previous year, reflecting a trend of rapid growth. While cement sales increased by 80.94% to 3,896,200 tonnes as compared with the same period of the previous year, clinker sales were down by 40.15% to 597,400 tonnes from the same period of the previous year.

Sales by product in the first half of 2001



Sales by product in the first half of 2000



The Group's good results can be attributed to the increase in demand driven by the turnaround in the macroeconomic conditions, as well as the Company's implementation of the "T-type" development strategy with the launch of the "clinker factory – grinding mill" operation model and in establishing the market network. (In pursuant to the "T-type" development strategy, clinker factories are built along the resources-rich bank of the Yangtze River, and grinding mills are established in coastal areas that are remote from the resources but near to the markets. In "T", "I" represents the "Yangtze River", while "–" represents "by the sea"). Besides, the Group also benefited from the Company's improved management and its capacity to analyse, forecast, carry out contingency plans, and to exercise control and adjustments.

During the Reporting Period, the Company completed the capital injection and issued additional shares in the Shanghai Hailuo Mingzhu Cement Ltd, increasing the Company's shareholding percentage to 63.4%. The Company acquired the Bangbu Cement Factory and converted it into a 600,000-tonne grinding mill. The Company also built a 1,500,000-tonne cement grinding mill in Yongjia of Wenzhou, bringing the total number of its grinding mills to 12. Expansion and improvement works in grinding mills in Shanghai, Nantong and Zhangjiagang progressed on schedule, and the various management measures were strengthened. The Company's increased sales brought about a larger market share. During the Reporting Period, the aggregate sales of the Company's various grinding mills reached 1,930,000, an increase of 82% from the same period of the previous year.

During the Reporting Period, there was a transient supply shortage in some of the cement markets in Eastern China. All of the Company's clinker factories and grinding mills operated to full capacity, with good coordination in the production, maintenance, distribution and logistic functions, resulting in high operational efficiency. Meanwhile, the Company managed to adjust the prices of its products in a timely and decisive manner. In April and May, the selling price for the Ningbo market increased several times from RMB215 per tonne to RMB355 per tonne, effectively capturing market demand and boosting the Company's profitability. At the peak of the market demand, the Company bought 360,000 tonnes of clinker from other cement factories in China and overseas, thus meeting the demand of its clients and consolidating its market share.

In addition, starting from 1st April, 2001, the Group has implemented new cement standards in all its operations. It also took advantage of the country's restructuring of the cement industry to expedite the integration of its operations in the cement markets in Shanghai, Zhejiang and Jiangsu. This boosted the Company's competitive edge in the cement and commodity clinker markets in these regions. During the Reporting Period, the Company's sales volume in these regions amounted to 710,000 tonnes, 1,300,000 tonnes and 830,000 tonnes respectively, up 91.9%, 88.4% and 48.2% from the same period last year respectively.

During the Reporting Period, despite significant growth in its sales volume, the Company continued to sell its products on cash basis, thus maintaining 100% collection of sales proceeds, while operational quality was on steady improvement.

During the Reporting Period, the Company fully capitalized on its competitive edge in scale and brand awareness to achieve a leading position in the market. The Company's products continued to be used in major and leading-edge projects. Contracts were signed for a number of major projects, including the He-Xu Highway (Hefei to Xuzhou), Yong-Tai-Wen Highway (Ningbo to Wenzhou). Meanwhile, the Company made further advancement after developing the Nuclear Island Cement, supplying non-magnetic cement to the Lianyungang Nuclear Station and constructing the National Seismic Monitoring Network — in completing tests on magnetic suspension cement and applying it to the Shanghai Magnetic Suspension Train Project.

In the first half of 2001, the Company strengthened its efforts in human resource management by renewing staff contracts, re-engineering its corporate structure, further upgrading its workforce, and perfecting the motivation mechanism for internal competition.

Financial analysis

During the Reporting Period, the Group's net operational income was RMB899,640,000, up 51.1% from the same period of the previous year. RMB801,590,000 was derived from cement sales and RMB93,460,000 was from clinker sales, accounting for 89.1% and 10.2% of the total amount respectively. The ratio of clinker sales to total sales dropped by 15% from last year, mainly because of the fact that various grinding mills operated at full capacity after the improvement works done during the period. The result was a significant growth in inter company sales of clinker and reduced external sales for the first half of the year.

During the Reporting Period, the Group's gross operational profit was RMB333,957,000, a 55.03% increase over the same period last year. Gross profit margin was 36.85%, up 0.7% from the same period of the previous year (the first half of 2000: 36.18%). The increase can be attributed to the higher demand for cement driven by the turnaround in the macroeconomic environment in the first half of the year. The Company managed to make use of the opportunity to increase the price of its products to achieve an optimal balance between production and sales via an effective pricing policy. The composite average unit price for the first half of the year was up about RMB10 per tonne. Meanwhile, the full utilization of our production capacity in the first half of the year, coupled with a significant increase in production, succeeded in reducing operational costs and lowering unit fixed costs.

During the Reporting Period, the Group made a profit after taxation and minority interests of RMB91,118,000, an increase of 68.3% over the same period of the previous year. The momentum of steady growth, which started last year, was thus maintained. Net profit margin was 10.05%, up about 1% from the same period last year.

During the Reporting Period, Tongling Hailuo Cement Co., Ltd. and Ningbo Hailuo Cement Co., Ltd. made a huge breakthrough in their results, by turning their previous losses into profits. With profits of RMB11,880,000 and RMB6,390,000 respectively, they have become new profit centres for the Company.

Tongling Hailuo managed to achieve the good results by accumulating and recycling its net operational cash flow, coupled with the effective redeployment of the Group's internal funds to reduce the level of bank loans and improve its financial structure, thereby reducing its interest expenses. Meanwhile, it also took full advantage of the improved sales environment in the first half of the year to explore its potential and enhance the equipment operating rate. As a result, sales of Tongling Hailuo increased by 153,000 tonnes, or 21.45%, from the same period last year. Meanwhile, the Group is also actively forging ahead with the preliminary works of the Phase 2 Project of Tongling Hailuo Cement Co., Ltd., in a bid to further enhance the Company's operational results.

Ningbo Hailou has completed its Phase 2 Modification and Expansion Project. During the first half of 2001, sales of Ningbo Hailou experienced a substantial increase of 323,200 tonnes, or 81.5% from the same period of the previous year, effectively lowering unit fixed costs and expenditure. The result was an improvement in operational results.

As of 30th June, 2001, the Group's current assets amounted to RMB1,074,955,000, with the current ratio stood at 0.62:1. This reflects the Group had sufficient liquidity resources on hand. As of 30th June, 2001, cash on hand and bank deposits amounted to RMB622,643,000, which was sufficient for the Group to meet its normal business requirements and loan repayment. Meanwhile, the Group will continue to pursue a prudent policy in its financial management and maintain a cash-basis sales policy in order to strive for 100% collection of sales proceeds.

As of 30th June, 2001, the Group's total liabilities amounted to RMB2,701,444,000, with a gearing ratio of 1.27:1. The Company will continue to issue additional A shares in order to meet the demand for future expansion and to lower its gearing ratio for a better financial structure.

As of 30th June, 2001, the Group's bank loans expiration was analysed as follows:

	30th June, 2001	31st December, 2000
	Unaudited	Audited
	RMB'000	*RMB'000*
— due within one year	**1,128,965**	891,589
— due within one to two years	**271,471**	249,386
— due within two to five years	**626,906**	497,094
— due after five years	**52,148**	77,798
	2,079,490	1,715,867

As at 30th June, 2001, the Group's plant and machinery with an aggregated book value of approximately RMB122,718,000 have been pledged as collateral for short-term borrowings.

Capital commitments related to the plant and machinery for the purpose of production, but not provided for in the accounts as at 30th June, 2001 and 31st December, 2000. were set out in details in note 13 to the financial statements.

As at 30th June, 2001, the Group's foreign currency loan amounted to US$42,225,000, of which US$11,450,000 is due at the end of 2001. The Company will pay close attention to changes in the foreign exchange market to assess its foreign exchange risks in a prudent manner.

Major projects

During the Reporting Period, the Company expedited the modification and expansion of grinding mills in Fujian's Jianyang, Jiangsu's Taizhou, Zhangjiagang, Nantong, and Shanghai. It is also actively promoting the development of clinker production lines in Digang and Tongling. Moreover, the Company utilized its internal resources to set up subsidiaries in Zongyang and Chizhou, and made full advantage of the natural limestone resources and water transport infrastructure there to set up large-scale clinker production lines, in order to expand the Company's production capacity and to fulfill the planning objectives. Although the Group has numerous technical modification and expansion projects related to grinding mills and clinker factories and these projects entail onerous responsibilities, the staff are determined to work according to schedule, under the condition that the quality of work must be guaranteed. During the Reporting Period, all the projects progressed smoothly and achieved the preset objectives. The details are as follows:

(1) Technical modifications or new projects on the grinding production lines

1. Construction of the 300,000-tonne cement grinding production line in Jianyang Hailuo Cement Co., Ltd. in Fujian Province was completed in March 2001, and pilot production has begun.

2. The project to technically modify and enhance the productivity of the cement grinding mill production line of Taizhou Hailuo Cement Co., Ltd. to 300,000 tonnes of cement per year was started in May 2001. Trial production is expected later this year.

3. Work has completed on technically modifying the cement grinding mill production line of Shanghai Hailuo Cement Co., Ltd. to enable it to produce 500,000 tonnes of cement per year. The lathe has been renewed and the pier has been rebuilt. Preliminary works on all these projects have been completed and actual construction began in June 2001. Currently, civil works are being carried out, and upon completion of all the projects, an extra 1 million tonnes of cement can be ground, and the throughput and efficiency of the pier can be significantly enhanced.

4. All the preliminary works on technically modifying and expanding the cement grinding production line of Zhangjiagang Hailuo Cement Co., Ltd. have been completed, and civil works began in July 2001. Upon completion of these works, the productivity of the cement grinding mill can be stepped up by 1.5 million tonnes. After the technical modification and expansion of the grinding mill production line have been completed, an extra 400,000 tonnes of cement can be produced on the original production line.

5. Technical modification and expansion of the cement grinding production line of Nantong Hailuo Cement Co., Ltd., which can produce 500,000 tonnes of cement per year, commenced in April 2001. Trial production is expected to start within this year.

6. Construction of the cement grinding production line of Pangfou Hailuo Cement Co., Ltd., which can produce 550,000 tonnes of cement per year, commenced in May 2001. Trial production is expected to start within this year.

7. The design and preliminary works are underway on the construction of two cement grinding production lines in Wenzhou Hailuo Cement Co., Ltd., each with an annual production capacity of 750,000 tonnes. Actual construction of the first production line is expected to commence within 2001.

8. As for the technical modification and expansion of the cement grinding production line of Shanghai Hailuo Mingzhu Cement Co., Ltd., which can produce 550,000 tonnes a year, the Company is seeking approval from the relevant authorities.

(2) Construction of Clinker Production Line

1. The Group has used the Baimashan's backup, Digang Mine, to construct the first clinker production line with the capacity to produce 750,000 tonnes of clinker per year. The project is progressing well, and trial production was carried out in late June 2001. The construction of the second production line with the same capacity began in February 2001, and the progress is satisfactory.

2. Preliminary works have been completed on the expansion of the second clinker production line of Tongling Hailuo Cement Co., Ltd., with an annual capacity of 1.2 million tonnes of clinker. Construction started in May 2001, and civil works are underway.

3. Preliminary works have been completed on the construction of the first clinker production line of Anhui Zongyang Hailuo Cement Co., Ltd. with an annual capacity of 750,000 tonnes of clinker. Civil works are underway, and equipment installation is expected to be completed within this year.

4. Preliminary works have been completed on the construction of the clinker production line of Anhui Chizhou Hailuo Cement Co., Ltd. with an annual capacity of 1.5 million tonnes (5,000 tonnes per day). Actual construction began in July 2001.

PROSPECTS FOR THE SECOND HALF OF 2001

2001 is a critical year for the Group as far as the realization of its development plans is concerned. With the reinforced implementation of China's proactive fiscal policy, the growth in investment in local infrastructure, and the gradual recovery of the property markets in towns and cities, the demand for cement was on a steady increase in the first half of the year. Meanwhile, the enforcement of the new cement standards will favour the development of large cement enterprises. However, the structural problems of the cement industry, characterized by the over-supply of cement is expected to remain for some time.

Hence, the Company will continue to make steady progress in our various projects in accordance with market demand and the objectives set at the beginning of the year. In the latter half of the year, we will continue to work on the construction and management of technical modification as well as expansion works on the first national clinker production lines and grinding mills. At the same time, we will complete the preliminary works on a new clinker production line with a daily capacity of 8,000 tonnes, the first ever in China. Additional A shares will be issued and the incentive mechanism will be further perfected to ensure the materialization of the Company's strategic development plans.

All in all, the Company believes that in 2001, there will be more opportunities than challenges. The Company will devote our effort to overcome the difficulties, fight for more business opportunities, in order to strive for economies of scale and maximize wealth for the shareholders.

DISCLOSURE OF MATERIAL EVENTS

1. On 20th January, 2001, the Company decided to inject capital into Shanghai Hailuo Mingzhu Cement Co., Ltd. ("Mingzhu Cement") in conjunction with other shareholders of Mingzhu Cement — Shantong Nanhua Co., Ltd. and Shanghai Lingqiao Enterprises Development Co., Ltd. (both are independent third parties). After the capital injection, Mingzhu Cement's registered capital was increased to RMB13.71 million, of which 63.4% was held by the Company, and 30.8% and 5.8% by Shantong Nanhua Co., Ltd. and Shanghai Lingqiao Enterprises Development Co., Ltd. respectively. The necessary registration formalities have been completed.

2. The Company plans to undertake modification and expansion works on a grinding production line with an annual production capacity of 550,000 tonnes. On 9th February, 2001, the Company and its subsidiary Anhui Bangbu Baimashan Cement Factory jointly set up the Bangbu Hailuo Cement Co., Ltd., with a registered capital of RMB6 million, of which RMB5.8 million, or 96.7%, was contributed by the Company. Bangbu Hailuo Cement Co., Ltd. is situated in Pangfou city of Anhui Province, where there is an abundant supply of industrial wastes like slag and lemon waste. Bangbu Hailuo Cement Co., Ltd. is planning to set up another cement grinding production line with an annual production capacity of 550,000 tonnes, to capitalize on its rich supply of various raw materials, to reduce production costs, and to develop the cement markets in Bangbu and its neighbouring areas. The establishment of Bangbu Hailuo Cement Co., Ltd. has further perfected the Group's sales network.

3. On 16th March, 2001, the Company and its subsidiary Anhui Province Baimashan Cement Factory jointly set up the Wenzhou Hailuo Cement Co., Ltd., with its registered capital amounting to RMB50 million, of which RMB47.5 million, or 95%, was contributed by the Company. Wenzhou Hailuo Cement Co., Ltd. is situated in Yongjia County, Wenzhou Municipality, Zhejiang Province. In order to leverage on the local water transport system and an abundance supply of slag resources, Wenzhou Hailuo Cement Co., Ltd. plans to set up its second cement grinding mill production line with an annual production of 750,000 tonnes. The establishment of this grinding mill has helped enhance the brand awareness for the Company's products, thus increasing the market share of the Company's products in the Wenzhou cement market.

4. The fifth meeting of the second session of the Board of Directors of the Company was held on 10th June, 2001, where the proposed resignation of Mr. Zhang Xushang as non-executive director was approved with a vote of thanks to the contribution he made during his tenure. A non-executive director will be elected at the next general meeting of the Company.

5. On 21st June, 2001, the Board of Directors approved the injection of RMB153 million by the Company into Anhui Zongyang Hailuo Cement Co., Ltd. ("Zongyang Hailuo"). The registered capital of that company was RMB300 million, of which 51% was held by the Company. The remaining 49% was held by 38 natural persons (including Mr Li Leyi) and the staff of the Company.

Zongyang Hailuo is situated in the Zongyang County of Anhui Province on the southern bank of the Yangtze River, enjoying great convenience of water transport and an abundance of quality limestone mines. Zongyang Hailuo has a production line with a capacity of annual 200,000 tonnes a year and plans to fully capitalize on the existing favourable conditions to construct two more cement clinker production lines, each with an annual production capacity of 750,000 tonnes. Excess capacity has been provided for the addition of an additional production line with a daily production capacity of 5,000 tonnes. Part of the civil works on the first clinker production line has been completed, and the equipment is expected to be installed within the year.

6. On 21st June, 2001, the Board approved the injection of RMB162.18 million by the Company into Anhui Chizhou Hailuo Cement Co., Ltd. ("Chizhou Hailou"). The registered capital of that company is RMB318 million, of which 51% was held by the Company, while the remaining 49% was held by 30 natural persons (including Mr Yang Peilin) and the staff of the Company.

   Chizhou Hailuo is situated in the Tongshan Village, Guichi District, Chizhou Municipality. It enjoys a strategic geographical location, with a limestone mine 2.5 km away and a pier 2.6 km away, which is accessible from the Yangtze River. With a convenient water transport network, most of the clinker commodities and the necessary fuel (such as coal) are transported by water. The abundance of quality limestones and clay in the vicinity helps secure an adequate supply for production.

   Phase one construction plan of Chizhou Hailuo comprises the construction of two clinker production lines, each with an annual production capacity of 1.5 million tonnes. Following completion of the preliminary works on the construction of the first clinker production line, the core construction works already started in July 2001. Phase two of the construction plan comprises the construction of a clinker production line equipped with domestically-made facilities, with a daily production capacity of 8,000 tonnes (2.45 million tonnes a year). At present, this is China's largest model cement clinker production line equipped with domestically-made facilities. The project has been approved by the State Council, and preliminary works are in progress.

SHARE CAPITAL STRUCTURE

The share capital structure of the Company remained unchanged during the Reporting Period. As at 30th June, 2001, the share capital structure of the Company was as follows:

	Number of Shares	**Percentage to total issued share capital of the Company (%)**
A Shares	622,480,000	63.3
H Shares	361,000,000	36.7
Total Share Capital	983,480,000	100.0

MAJOR SHAREHOLDERS

As of 30th June, 2001, shareholders that held over 10% of the Company's total share capital were as follows:

	Number of Shares	Percentage to total issued share capital of the Company (%)
Anhui Conch Holdings Co., Ltd.	622,480,000	63.3
Central Registration Hong Kong Ltd.	359,093,999	36.5

DIRECTORS' AND SUPERVISORS' CONTRACTS, INTERESTS IN SHARE CAPITAL AND CONTRACTS

During the six months ended 30th June, 2001, none of the Directors, Supervisors or their respective associates held any beneficial interests in the share capital, debt securities or other securities of the Company or any of its associated corporations, nor have they been granted or exercised any rights to subscribe for the share capital or debt securities of the Company or any of its associated corporations which are required to be entered in the register established and maintained in accordance with Section 29 of the Securities (Disclosure of Interests) Ordinance.

During the Reporting Period, none of the Directors or Supervisors of the Company held any material interests in any contracts entered into by the Company or its subsidiaries.

CODE OF BEST PRACTICE FOR DIRECTORS

The Company is not aware of any non-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 for the six months ended 30th June, 2001.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30th June, 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company.

MATERIAL LITIGATION

None of the Directors, Supervisors or senior officers of the Company was involved in any material litigation during the six months ended 30th June, 2001.

TAXATION

For details of taxation, please refer to note 4 to the financial statements.

STAFF ACCOMMODATION

The Group does not own any quarters for staff accommodation nor operate any scheme for the provision of staff accommodation. The Group and its staff are required to make contributions to a statutory housing reserve fund at a prescribed percentage of the salaries of the staff. Apart from such contributions, the Group is under no liability for the provision of housing or housing benefit to its staff. For the six months ended 30th June, 2001, the housing reserve fund paid by the Group amounted to RMB1,600,600.

STAFF, REMUNERATION AND TRAINING

As of 30th June, 2001, the Group had a total of 5,800 employees. The aggregate remuneration, representing the total amount of salaries paid to the staff for the Reporting Period, was RMB34,452,000. Staff bonuses are normally paid at the end of the financial year, subject to the results of the Company.

During the Reporting Period, the Company strengthened its staff training through internal technology exchange and on-the-job training, in order to upgrade the technical know how and other skills of its employees.

By order of the Board
Guo Wensan
Chairman

Wuhu City, Anhui Province, the PRC
24th July, 2001