As of 31st December, 2001 and 2000
(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 Anhui Ningguo Cement Plant and Anhui 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 registered office of the Company is 209 Beijing East Road, Wuhu City, Anhui Province, PRC. As of 31st December, 2001, the Group had approximately 5,900 employees.

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 Board, 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 adjustments made to conform the Statutory Accounts of the Group to IAS are shown in Note 27.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Basis of recognition and measurement

Effective from 1st January, 2001, the Group adopted IAS 39 "Financial Instruments — Recognition and Measurement" (Note 31). The financial effects of the adopting IAS 39 did not have a significant effect to the opening balances to these financial statements.

(c) 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(h) below.

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.

(d) Leasehold land

Leases of land acquired are classified as operating leases. The pre-paid lease payments are amortized over the lease period (thirty to fifty years) on a straight-line basis.

(e) 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.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment and depreciation (continued)

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. The expected useful lives are as follows:

Buildings	30 years
Machinery and plant equipment	15 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

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

(f) 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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) 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.

(h) 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.

(i) Short-term investments

Marketable securities acquired principally for the purpose of generating profit from short-term fluctuations in the price are classified as held-for-trading financial assets and included in current assets. They are carried at fair value. Changes in the fair value 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.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) 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 amortisation and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation 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 amortisation. Goodwill is amortized on a straight-line basis over its useful life of five to fifteen years. The amortisation period and the amortisation method are reviewed annually at each financial year-end.

(iii) Negative goodwill

Negative goodwill is recognised in the income statement as follows:

- to the extent that negative goodwill relates to expected future losses and expenses that are identified in the Company's plan for the acquisition and can be measured reliably, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised.
- the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life (ten years) of the identifiable acquired depreciable or amortizable assets.
- the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Inventories

Inventories are stated at the lower of cost and net realisable 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 realisable 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 realisable 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 realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Receivables

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

(m) Cash and cash equivalents

Cash represents cash on 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.

(n) 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.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Revenue recognition (continued)

(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.

(o) 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.

In addition, there is no change of accounting policies as the result of the effectiveness of revised IAS 12 "Income Taxes", which is also effective from 1st January, 2001 (Note 31).

(p) 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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Borrowings and borrowing costs

Borrowings are initially recognized at the proceeds received, net of transaction costs. They are subsequently carried at amortised costs using the effective interest rate method, the difference between net proceeds and redemption value being recognized in the net profit or loss for the period over the life of the borrowings.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers; levies by regulatory agencies and securities exchanges, and transfer taxes and duties. They do not include debt premium or discount, financing costs, or allocation of internal administrative or holding costs.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, amortisation 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. Capitalisation 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.

(r) 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, 2001.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, investments on marketable securities, trade and other receivable and payable, borrowings. The Group recognises a financial asset or financial liability on the balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

Financial assets are classified into four categories:

(i) loans and receivables originated by the enterprise and not held for trading;

(ii) held-to-maturity investments;

(iii) available-for-sale financial assets; and

(iv) financial assets held for trading.

After initial recognition of a financial asset or financial liability at cost, the Group measures each major category of the financial instruments at either the reliable fair value or amortized cost (by using the effective yield method) 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 trading financial assets/liabilities and 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.

The fair values of financial assets are determined as described in Note 2(u) below.

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.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(t) Financial risk factors and financial risk management

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

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

(i) Credit risks

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures.

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.

The Group has no significant concentration of credit risk with any single counterparty or group counterparties.

(ii) Liquidity risks

The group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed annual credit facilities from banks to meet its commitments over the next year in accordance with its strategic plan. Any excess cash is invested mostly in listed securities which are actively traded.

(iii) Interest rate risk

The interest rates and terms of repayments of short-term and long-term bank borrowings are disclosed in Note 14(a) and Note 14(b).

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(t) Financial risk factors and financial risk management (continued)

(iv) Foreign exchange risk

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

(u) 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 as follows:

(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, 2001, the carrying amount of borrowings approximates fair value based on current market interest rates for comparable instruments.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(v) 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.

Financial instruments are also reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognised in the income statement. Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognised to the extent it does not exceed what amortised cost would have been had the impairment not been recognised.

Impairment of a financial asset carried at amortised cost is measured using the financial instrument's original effective rate and not current market interest rates.

(w) 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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(x) Contingencies

Contingent liabilities are not recognised 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.

(y) 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.

(z) 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.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

3. LEASEHOLD LAND

	2001	2000
Cost		
Beginning of year	224,750	406,184
Deduction from change of accounting policy (Note 31)	—	(191,980)
Beginning of year as restated	224,750	214,204
Addition from acquisition of subsidiaries (Note 25(d))	152,129	—
Addition from change of consolidation scope (Note 25(f))	—	10,546
Purchases	27,284	—
End of year	404,163	224,750
Accumulated amortisation		
Beginning of year	16,356	20,609
Deduction from change of accounting policy (Note 31)	—	(8,956)
Beginning of year as restated	16,356	11,653
Addition from acquisition of subsidiaries (Note 25(d))	662	—
Addition from change of consolidation scope (Note 25(f))	—	2
Additions	5,956	4,701
End of year	22,974	16,356
Net book value		
End of year	381,189	208,394
Beginning of year as restated	208,394	202,551

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

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT

GROUP

Movements in property, plant and equipment were as follows:

	2001					
	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction-in-progress	Total
Cost						
Beginning of year	1,499,261	2,280,881	148,346	91,967	381,097	4,401,552
Addition from acquisition of subsidiaries (Note 25(d))	24,800	18,676	1,677	964	385,207	431,324
Purchases	48,032	35,060	3,184	16,872	763,157	866,305
Transfers	341,629	548,038	1,810	6,069	(897,546)	—
Disposals	(3,384)	(777)	(10)	(126)	—	(4,297)
End of year	1,910,338	2,881,878	155,007	115,746	631,915	5,694,884
Accumulated depreciation						
Beginning of year	277,726	819,092	107,425	50,219	—	1,254,462
Addition from acquisition of subsidiaries (Note 25(d))	3,192	1,781	371	155	—	5,499
Additions	63,059	142,429	22,564	17,379	—	245,431
Disposals	(1,861)	(677)	(7)	(48)	—	(2,593)
End of year	342,116	962,625	130,353	67,705	—	1,502,799
Net book value						
End of year	1,568,222	1,919,253	24,654	48,041	631,915	4,192,085
Beginning of year	1,221,535	1,461,789	40,921	41,748	381,097	3,147,090

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT (continued)

	2000					
	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction-in-progress	Total
Cost						
Beginning of year	1,451,251	2,198,874	139,938	80,854	78,728	3,949,645
Addition from change of consolidation scope (Note 25(f))	42,496	24,137	6,832	6,066	52,092	131,623
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	1,499,261	2,280,881	148,346	91,967	381,097	4,401,552
Accumulated depreciation						
Beginning of year	218,444	697,297	90,479	33,147	—	1,039,367
Addition from change of consolidation scope (Note 25(f))	10,992	5,804	887	518	—	18,201
Additions	48,562	116,408	16,118	16,622	—	197,710
Disposals	(272)	(417)	(59)	(68)	—	(816)
End of year	277,726	819,092	107,425	50,219	—	1,254,462
Net book value						
End of year	1,221,535	1,461,789	40,921	41,748	381,097	3,147,090
Beginning of year	1,232,807	1,501,577	49,459	47,707	78,728	2,910,278

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) As at 31st December, 2001, machinery and equipment with an aggregate net book value of approximately RMB118,081,000 (2000: approximately RMB127,353,000) have been pledged as collaterals for short-term borrowings (Note 14(a)).

(b) Construction-in-progress ("CIP")

	31st December, 2001	31st December, 2000
Cost of construction, plant and equipment and other direct costs	**628,047**	373,936
Borrowing costs capitalised — interest	**3,868**	7,161
	631,915	381,097
Average capitalisation rate	**5.93%**	6.83%

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

5. INTANGIBLE ASSETS

GROUP

Intangible assets comprised:

	2001			
	Goodwill	**Negative goodwill**	**Limestone mining licences**	**Total**
Cost				
Beginning of year	64,203	—	72,379	136,582
Additions from acquisition of subsidiaries (Note 25(d))	1,568	(2,779)	9,000	7,789
End of year	65,771	(2,779)	81,379	144,371
Accumulated amortisation				
Beginning of year	13,203	—	13,396	26,599
Charge for the year	6,034	(139)	3,686	9,581
End of year	19,237	(139)	17,082	36,180
Net book value				
End of year	46,534	(2,640)	64,297	108,191
Beginning of year	51,000	—	58,983	109,983

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

5. INTANGIBLE ASSETS (continued)

	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 amortisation			
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

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., Nantong Hailuo Cement Co., Ltd. and Shanghai Hailuo Mingzhu Cement Co., Ltd.) at the date of acquisition.

Negative goodwill arose from the excess of Company's equity interest in the fair value of the net identifiable assets of its subsidiaries (including Anhui Zongyang Hailuo Cement Co., Ltd. and Anhui Chizhou Hailuo Cement Co., Ltd.) over the acquisition cost 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.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

6. INVESTMENTS IN CONSOLIDATED SUBSIDIARIES

COMPANY

	31st December, 2001	31st December, 2000 (Restated, Note 31)
Unlisted investments, at cost	**2,316,500**	1,680,171
Share of post-acquisition profits less losses	**474,715**	347,589
Less: Dividends declared by subsidiaries	**—**	(140,000)
Amounts due from subsidiaries	**54,823**	239,170
Amounts due to subsidiaries	**(785,133)**	(187,120)
	2,060,905	1,939,810

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, 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 安徽省白馬山水泥廠	PRC 21st July, 1982	100% (directly held)	RMB 428,318,000	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. 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

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

6. 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. 安徽銅陵海螺水泥有限公司	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") 上海海螺明珠水泥有限責任公司	PRC 3rd April, 1995	63.40% (directly held)	RMB 13,710,000	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. 寧波保税區海螺貿易公司	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	60.50% (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. 張家港海螺水泥有限公司	PRC 30th September, 1998	98.71% (directly held)	RMB 35,000,000	Manufacture and sale of clinker and cement products

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

6. 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	75% (directly held)	RMB 60,000,000	Manufacture and sale of clinker and cement products
Nanjing Hailuo Cement Co., Ltd. 南京海螺水泥有限公司	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. 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. 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. 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. 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
Jianyang Hailuo Cement Co., Ltd. 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
Anhui Zongyang Hailuo Cement Co., Ltd. ("Zongyang Cement") 安徽樅陽海螺水泥股份有限公司*	PRC 19th June, 2000	51% (directly held)	RMB 300,000,000	Manufacture and sale of clinker and cement products

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

6. INVESTMENTS IN CONSOLIDATED SUBSIDIARIES (continued)

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Anhui Chizhou Hailuo Cement Co., Ltd. ("Chizhou Cement") 安徽池州海螺水泥股份有限公司*	PRC 2nd November, 2000	51% (directly held)	RMB 318,000,000	Manufacture and sale of clinker and cement products
Taizhou Hailuo Cement Co., Ltd. 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
Bangbu Hailuo Cement Co., Ltd. 蚌埠海螺水泥有限責任公司*	PRC 9th February, 2001	96.7% (directly held) 3.3% (indirectly held)	RMB 6,000,000	Manufacture and sale of clinker and cement products
Wenzhou Hailuo Cement Co., Ltd. 溫州海螺水泥有限公司*	PRC 16th March, 2001	95% (directly held) 5% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products
Fenyi Hailuo Cement Co., Ltd. ("Fenyi Cement") 分宜海螺水泥有限責任公司*	PRC 20th August, 2001	51% (directly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products
Shangyu Hailuo Cement Co., Ltd. ("Shangyu Cement") 上虞海螺水泥有限責任公司*	PRC 14th November, 2001	90% (directly held) 10% (indirectly held)	RMB 16,000,000	Manufacture and sale of clinker and cement products
Jiande Hailuo Cement Co., Ltd. ("Jiande Cement") 建德海螺水泥有限責任公司*	PRC 28th November, 2001	90% (directly held) 10% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products

* Newly set-up/acquired subsidiaries in 2001.

— United States Dollars referred to as "USD"

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

7. INVESTMENT IN AN ASSOCIATE

GROUP

	31st December, 2001	31st December, 2000
Unlisted investment, at cost	**49,671**	49,671
Share of post-acquisition profits less losses	**(3,711)**	(1,645)
Amount due from the associate	**793**	990
	46,753	49,016

COMPANY

	31st December, 2001	31st December, 2000
Unlisted investment, at cost	**49,671**	49,671
Share of post-acquisition profits less losses	**(3,711)**	(1,645)
	45,960	48,026

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.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

7. INVESTMENT IN AN ASSOCIATE (continued)

Details of the Company's associate, as at 31st December, 2001 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 59,610,000 shares of the Company's H shares as at 31st December, 2001.

8. SHORT-TERM INVESTMENTS

GROUP AND COMPANY

	31st December, 2001	31st December, 2000
Marketable securities		
— Listed, at the lower of cost and market value	**14,391**	12,610
Market value of marketable securities	**14,391**	13,779

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

9. INVENTORIES

GROUP

	31st December, 2001	31st December, 2000
Raw materials	**170,552**	109,713
Work-in-process	**13,000**	46,528
Finished goods	**33,725**	32,287
	217,277	188,528
Less: Provision for obsolescence	**(5,777)**	(3,639)
	211,500	184,889

10. PREPAYMENTS AND OTHER RECEIVABLES

GROUP

	31st December, 2001	31st December, 2000
Guarantee deposit (a)	**52,139**	—
Prepayment to suppliers	**27,423**	15,067
Tax refund receivable (Note 29(b))	**13,336**	—
Recoverable transportation costs	**5,112**	14,636
A share issuance fee (b)	**2,032**	—
Others	**44,782**	28,370
	144,824	58,073
Less: Provision for bad and doubtful debts	**(3,570)**	—
	141,254	58,073

(a) Guarantee deposits are deposits restricted for issuance of letters of credit and bank drafts with period over three months.

(b) A share issuance fee mainly includes professional fees incurred for the purpose of listing of the Company's domestically-listed RMB ordinary shares ("A share") on the PRC Stock Exchange, and will be net-off against the share premium from the issuance.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

11. TRADE RECEIVABLES

GROUP

	31st December, 2001	31st December, 2000
Accounts receivable	**70,604**	109,805
Bank acceptance notes receivable	**103,960**	86,881
Less: Provision for bad and doubtful debts	**(8,453)**	(29,256)
	166,111	167,430

COMPANY

	31st December, 2001	31st December, 2000
Accounts receivable	**31,938**	47,657
Bank acceptance notes receivable	**60,096**	54,852
Less: Provision for bad and doubtful debts	**(2,437)**	(6,439)
	89,597	96,070

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

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

11. TRADE RECEIVABLES (continued)

Ageing analysis of accounts receivable was as follows:

GROUP

	31st December, 2001	31st December, 2000
Ageing		
— not exceeding one year	**57,209**	31,209
— more than one year but not exceeding two years	**—**	6,802
— more than two years but not exceeding three years	**4,459**	24,670
— more than three years	**8,936**	47,124
	70,604	109,805

COMPANY

	31st December, 2001	31st December, 2000
Ageing		
— not exceeding one year	**25,670**	11,547
— more than one year but not exceeding two years	**—**	6,132
— more than two years but not exceeding three years	**—**	20,441
— more than three years	**6,268**	9,537
	31,938	47,657

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

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

12. OTHER PAYABLES AND ACCRUALS

GROUP

	31st December, 2001	31st December, 2000
Payables for construction-in-progress	**125,703**	6,325
Advances from customers	**58,846**	42,254
Deposits received for contract commitments	**25,178**	16,284
Accrued harbour expenses, loading expenses and freight fees	**19,595**	11,161
Accrued utility expenses	**19,538**	30,022
Accrued pension fund	**17,263**	18,548
Accrued staff welfare (accrued at 14% of total salaries)	**5,157**	3,073
Accrued staff salaries and bonuses	**3,255**	4,764
Deposits received for leasing van covers	**3,023**	2,377
Accrued interest expenses	**2,445**	1,635
Others	**52,622**	35,146
	332,625	171,589

COMPANY

	31st December, 2001	31st December, 2000
Advances from customers	**15,993**	15,083
Accrued harbour expenses, loading expenses and freight fees	**—**	688
Others	**5,266**	5,401
	21,259	21,172

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

13. TRADE PAYABLES

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

14. BORROWINGS

GROUP

(a) Short-term borrowings

	31st December, 2001		31st December, 2000	
	Interest rate per annum	**RMB'000**	Interest rate per annum	RMB'000
— Secured *	**5.58% - 5.94%**	**709,250**	5.85% - 6.39%	381,250
— Unsecured	**2.88% - 5.85%**	**318,170**	2.88% - 6.17%	130,240
		1,027,420		511,490

* As at 31st December, 2001, short-term borrowings amounting to approximately RMB569,250,000 are guaranteed by Holdings (Note 26(a)) (2000: approximately RMB271,250,000 were guaranteed by Holdings; approximate RMB30,000,000 (2000: nil) are guaranteed by Anhui Security Co., Ltd.; approximately RMB110,000,000 (2000: approximately RMB110,000,000) are mortgaged by machinery and equipment of the Group as security (Note 4(a)).

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

14. BORROWINGS (continued)

(b) Long-term borrowings

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

	31st December, 2001			31st December, 2000		
	Interest rate per annum	Foreign currency ('000)	RMB equivalent ('000)	Interest rate per annum	Foreign currency ('000)	RMB equivalent ('000)
Bank borrowings						
— Secured *	5.59%-6.63%	—	891,940	5.94%-6.66%	—	631,940
	6.38%-8.76%	USD34,610	286,454	7.71%-8.66%	USD42,626	352,747
— Unsecured	5.73%-6.03%	—	173,400	5.94%-6.21%	—	166,727
	9.53%	USD4,065	33,644	9.53%	USD4,865	40,264
Other borrowings **						
— Unsecured			3,900	4%	KD468	12,699
			1,389,338			1,204,377

— Kuwait Dinar referred to as "KD"

* As at 31st December, 2001, long-term borrowings amounting to approximately RMB856,940,000 (2000: approximately RMB581,940,000) are guaranteed by Holdings (Note 26(a)); approximately RMB35,000,000 (2000: approximately RMB50,000,000) are guaranteed by Ningbo Real Estate Co., Ltd.; approximately USD32,710,000, or approximately RMB equivalent 270,728,000 (2000: approximately USD37,526,000, or approximately RMB equivalent 310,533,000) are guaranteed by Anhui Finance Bureau and approximately USD1,900,000, or approximately RMB equivalent 15,726,000 (2000: approximately USD5,100,000, or approximately RMB equivalent 42,214,000) are guaranteed by Anhui Trust and Investment Corporation respectively.

** Other loans represented unsecured loans denominated in Kuwait Dinar were 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).

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

14. BORROWINGS (continued)

(b) Long-term borrowings (continued)

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

	31st December, 2001			31st December, 2000		
	Bank loans	Other loans	Total	Bank loans	Other loans	Total
Amount repayable within a period						
— not exceeding one year	287,426	3,900	291,326	367,400	12,699	380,099
— more than one year but not exceeding two years	590,074	—	590,074	249,386	—	249,386
— more than two years but not exceeding five years	474,232	—	474,232	497,094	—	497,094
— more than five years	33,706	—	33,706	77,798	—	77,798
	1,385,438	3,900	1,389,338	1,191,678	12,699	1,204,377
Less: current portion of long-term loans	(287,426)	(3,900)	(291,326)	(367,400)	(12,699)	(380,099)
	1,098,012	—	1,098,012	824,278	—	824,278

COMPANY

(a) Short-term borrowings

	31st December, 2001		31st December, 2000	
	Interest rate per annum	RMB'000	Interest rate per annum	RMB'000
— Secured	5.85%	142,000	5.85%-6.39%	162,000

As at 31st December, 2001 and 2000, all short-term borrowings are guaranteed by Holdings.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

14. BORROWINGS (continued)

(b) Long-term borrowings

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

	31st December, 2001			31st December, 2000		
	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%	—	248,000	5.94%	—	198,000

As at 31st December, 2001 and 2000, all long-term borrowings are guaranteed by Holdings.

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

	31st December, 2001			31st December, 2000		
	Bank loans	Other loans	Total	Bank loans	Other loans	Total
Amount repayable within a period						
— not exceeding one year	48,000	—	48,000	—	—	—
— more than one year but not exceeding two years	150,000	—	150,000	48,000	—	48,000
— more than two years but not exceeding five years	50,000	—	50,000	150,000	—	150,000
— more than five years	—	—	—	—	—	—
	248,000	—	248,000	198,000	—	198,000
Less: current portion of long-term loans	(48,000)	—	(48,000)	—	—	—
	200,000	—	200,000	198,000	—	198,000

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

15. LONG-TERM PAYABLES TO RELATED PARTIES

As at 31st December, 2001, long-term payables represents loan provided by minority shareholders of Mingzhu Cement to this subsidiary, as a kind of financial support. The payable is unsecured, non-interest bearing and without fixed repayment term (Note 26(d)).

16. 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, 2001		31st December, 2000	
	Number of shares	**Amount**	Number of shares	Amount
		RMB'000		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

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

17. RESERVES

(a) Capital surplus

	31st December, 2001	31st December, 2000 (Restated, Note 31)
Share premium (i)	**597,796**	597,796
Surplus arising from related party transaction (Note 25(g))	**25,289**	—
	623,085	597,796

(i) Share premium

As at 31st December, 2001 and 2000, 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.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

17. RESERVES (continued)

(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, 2001, the directors have recommended that 10 per cent. (2000: 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] 31 issued by Ministry of Finance 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.

Due to the different treatment on revaluation of leasehold land between PRC Accounting Standards and IAS (Note 27 and 31), as at 31st December, 2001, approximately RMB16.7 million included in unappropriated profit under IAS was not available for distribution to shareholders.

As at 31st December, 2001, the Group's profit available for distribution to shareholders after transfers to reserves amounted to approximately RMB210,740,000 (2000: approximately RMB126,731,000).

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

17. 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	202,726	206,658
Transfer to SSR	(44,606)	(44,606)
Transfer to SPWF	(44,606)	(44,606)
Dividends for 2000 (Note 23)	—	(29,504)
Distributable profit attributable to shareholders	113,514	87,942
Unappropriated profit, beginning of year	97,226	159,063
Total distributable profit	210,740	247,005
Dividends (Note 23)	(49,174)	—
Unappropriated profit, end of year	161,566	247,005

18. REVENUE, net

Revenue comprised:

	2001	2000
Gross sales (excluding VAT) less discounts and returns	**2,058,349**	1,333,856
Less: surtaxes	**(14,360)**	(9,921)
	2,043,989	1,323,935

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.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

19. 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:

	2001	2000
		(Restated, Note 31)
After crediting:		
Interest income — Bank deposits	**3,799**	2,250
VAT refund (Note 21(b)(iii))	**14,542**	10,234
Foreign exchange gain	**2,512**	44
After charging:		
Interest expenses		
— on bank loans repayable within five years	**124,665**	96,090
— on bank loans repayable more than five years	**2,913**	6,799
— on other loans repayable within five years	**—**	973
	127,578	103,862
Less: Amounts capitalised in construction-in-progress	**(10,894)**	(5,435)
Finance cost	**116,684**	98,427
Staff costs		
— salaries, bonus and wages	**81,655**	68,208
— provision for staff welfare fund	**11,971**	9,128
— contribution to pension scheme (Note 2(r))	**13,444**	17,001
Depreciation of property, plant and equipment	**223,469**	197,710
Amortisation of leasehold land	**5,956**	4,701
Amortisation of intangible assets (in "Administrative expense" item of the income statement)	**9,552**	9,339
Cost of inventories	**1,117,362**	914,896
Provision for bad and doubtful debts	**8,056**	3
Provision for inventory obsolescence	**2,138**	—
Auditor's remuneration	**1,961**	1,961

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

20. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENTS' EMOLUMENTS

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

	2001	2000
Fees for executive directors	—	—
Fees for non-executive directors	—	—
Fees for supervisors	—	—
Other emoluments for executive directors		
— Basic salaries and allowances	1,113	566
— Bonus	—	—
— Pension	212	107
Other emoluments for non-executive directors	—	—
Other emoluments for supervisors	683	335
	2,008	1,008

No directors or supervisors waived any emoluments during the years ended 31st December, 2001 and 2000.

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

	2001	2000
Basic salaries and allowances	1,113	578
Bonus	—	—
Pension	212	110
	1,325	688
Number of directors	5	4
Number of supervisors	—	1
	5	5

All of the five highest paid individuals were directors and supervisors of the Company, whose emoluments were included in Note 20 (a). The emoluments paid to each of the five highest paid individuals during the years ended 31st December, 2001 and 2000 were less than RMB1,060,000 (equivalent to 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.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

21. TAXATION

(a) Enterprise Income Tax (企業所得稅)

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

	2001	2000
Income tax expense		
— Current	**99,335**	36,006
— Financial refund	**(48,899)**	(17,624)
	50,436	18,382

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 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.

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, 2001, there was no material unprovided deferred tax.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

21. 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:

	2001		2000	
			(Restated, Note 31)	
Accounting profit before taxation and minority interests	**320,471**	**100%**	137,750	100%
Tax at the effective tax rate of 15% (2000: 15%)	**48,071**	**15%**	20,663	15%
Tax effect of expenses that are not deductible in determining taxable profit	**4,348**	**2%**	708	1%
Tax effect of income that are not taxable in determining taxable profit	**(1,983)**	**(1%)**	(2,989)	(2%)
Income tax expense	**50,436**	**16%**	18,382	14%

(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 were 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, 2001, the Group utilized approximately RMB1,211,000 of the deemed input VAT to offset output VAT (2000: approximately RMB3,094,000).

(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.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

22. NET PROFIT FOR THE YEAR

The consolidated net profit for the year ended 31st December, 2001 included a net loss approximately RMB17,545,000 (2000: net profit of approximately RMB3,524,000) 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.

23. DIVIDENDS

	2001	2000
Dividends declared before year end		
— Interim	—	—
— Final	—	—
	—	—
Dividends proposed after year end (Note 29)	**49,174**	29,504
	49,174	29,504

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 17(d)).

The dividends for 2001 of approximately RMB49,174,000 were proposed by the board of directors, and are subject to approval by shareholders' meeting.

24. 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 RMB206,658,000 (2000: approximately RMB113,772,000) divided by the weighted average number of 983,480,000 ordinary shares in issue during the year ended 31st December, 2001 (2000: 983,480,000 ordinary shares).

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

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

25. CASH GENERATED FROM OPERATIONS

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

	2001	2000
		(Restated, Note 31)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation and minority interests	**320,471**	137,750
Adjustments for		
Depreciation of plant, property and equipment	**223,469**	197,710
Net loss on disposals of plant, property and equipment	**180**	4,796
Amortisation of intangible assets	**9,552**	9,339
Amortisation of leasehold land	**5,956**	4,701
Gain on disposals of short-term investments	**(4,867)**	(15,000)
Share of profits less losses from investments under equity method	**2,066**	1,645
Provision for inventory obsolescence	**2,138**	—
Provision for bad and doubtful debts	**8,056**	3
Interest income	**(3,799)**	(2,250)
Interest expenses	**116,684**	98,427
Operating profit before working capital changes	**679,906**	437,121
(Increase) decrease in operating assets		
Inventories	**(12,580)**	9,184
Prepayments and other receivables	**105,772**	(7,014)
Due from Holdings	**6,218**	(25,132)
Due from an associate	**197**	(990)
Due from related parties	**(1,307)**	(2,515)
Trade receivables	**(34,371)**	73,081
Increase (decrease) in operating liabilities		
Other payables and accruals	**(19,837)**	19,005
Provision for taxes	**28,773**	10,150
Due to related parties	**(4,451)**	(17,198)
Trade payables	**52,785**	998
Cash generated from operations	**801,105**	496,690

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

25. CASH GENERATED FROM OPERATIONS (continued)

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

	31st December, 2001	31st December, 2000
Short-term investment (Note 8)	**14,391**	12,610
Cash on hand	**75**	80
Cash on bank		
— Current deposits	**593,971**	357,214
— Deposits in respect of letters of credit and bank drafts	**—**	7,153
	608,437	377,057

Current deposits are without fixed terms, deposits in respect of letters of credit and bank draft are with term 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

	2001	2000
Increase in property, plant, equipment and leasehold land	**893,589**	325,896
Less: Accumulated depreciation and amortisation of purchased equipment and leasehold land	**(21,989)**	—
Less: Capitalised interest	**(10,894)**	(5,435)
Less: Net increase of payables for CIP, equipment and leasehold land	**(119,486)**	—
Cash outflows for purchase of property, plant and equipment	**741,220**	320,461

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

25. CASH GENERATED FROM OPERATIONS (continued)

(d) Net cash outflow from acquisition of subsidiaries

(i) During the year ended 31st December, 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:

Leasehold land, net book value (Note 3)	151,467
Property, plant and equipment, net book value (Note 4)	425,825
Intangible assets, net book value (Note 5)	9,000
Inventories	16,170
Trade receivables	1,496
Other receivables and prepayments	201,156
Cash on hand and bank deposits	130,089
Short-term borrowings (Note 25(e))	(150,000)
Trade payables	(14,350)
Other payables and accruals	(60,527)
Provision for taxes	958
Long-term borrowing (Note 25(e))	(50,000)
Long-term payables	(24,126)
Minority interests	(310,518)
Net assets	326,640
Goodwill (Note 5)	(1,211)
Total consideration	325,429
Less: Cash on hand and bank deposits of the subsidiaries purchased	(130,089)
Net cash outflow	195,340

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

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

25. CASH GENERATED FROM OPERATIONS (continued)

(d) Net cash outflow from acquisition of subsidiaries (continued)

(ii) Summarised financial information of the above acquired subsidiaries at the reporting date was as follows:

	31st December, 2001
Balance sheet	
Current assets	183,505
Total assets	1,117,155
Current liabilities	382,195
Total liabilities	472,185

	2001
Income statement	
Revenue, net	91,834
Cost of sales	76,948
Net profit	3,030

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

25. CASH GENERATED FROM OPERATIONS (continued)

(e) Analysis of changes in financing activities during the years ended 31st December, 2001 and 2000

	2001			2000
	Short-term borrowings	**Long-term borrowings**	**Total**	Total
Beginning of year	**511,490**	**1,204,377**	**1,715,867**	1,789,368
Addition of loans from acquisition of subsidiaries (Note 25(d))	**150,000**	**50,000**	**200,000**	—
Addition of loans from change of consolidation scope (Note 25(f))	**—**	**—**	**—**	13,250
Loans borrowed	**926,420**	**405,767**	**1,332,187**	610,682
Repayments of loans	**(560,490)**	**(270,805)**	**(831,295)**	(697,433)
End of year	**1,027,420**	**1,389,338**	**2,416,758**	1,715,867

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

25. CASH GENERATED FROM OPERATIONS (continued)

(f) 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
Leasehold land, net book value (Note 3)	10,544
Property, plant and equipment, net book value (Note 4)	113,422
Short-term borrowings (Note 25(e))	(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 25(e))	(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

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

25. CASH GENERATED FROM OPERATIONS (continued)

(g) Net increase in cash and cash equivalents from transfer of trade receivables to the Holdings

The Group's certain trade receivables with gross balance and carrying amount of approximately RMB58 million and 33 million respectively were transferred to Holdings at the consideration equivalent to these trade receivables' gross balance. The excess of the transfer price over the carrying amount of these trade receivables resulted from such related party transaction was directly recorded in share premium. Detailed financial information was as follows:

Proceeds received from Holdings	57,988
Trade receivables	57,988
Less: Provision for bad and doubtful debts	(25,289)
Carrying amount of trade receivables	32,699
Addition of share premium	25,289

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

26. RELATED PARTY TRANSACTIONS

GROUP

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

	2001	2000
Trademark licence fees paid to Holdings (i)	**1,513**	1,513
Clay evacuate fees paid to Holdings (ii)	**295**	241
Composite services fees paid to Holdings (iii)	**3,668**	4,306
Transfer trade receivables to Holdings (Note 25(g))	**57,988**	—
Guarantee provided by Holdings (iv)	**1,426,190**	853,190

(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 14(a), (b)).

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

26. RELATED PARTY TRANSACTIONS (continued)

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

	2001	2000
Purchase of cement packaging materials from subsidiaries of Holdings	**71,509**	69,560
Purchase of construction and transportation services from subsidiaries of Holdings	**25,488**	836
Sales of cement products to an associate	**11,591**	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 26(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.

(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
Wuhu Hailuo Plastic Products Co., Ltd. ("Wuhu Plastic")	Subsidiary of Holdings

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

26. RELATED PARTY TRANSACTIONS (continued)

(d) Due from/to related parties (continued)

GROUP

	31st December, 2001	31st December, 2000
Due from related parties		
Hailuo Construction and Installation	**9,160**	3,973
Hailuo Construction Material	**398**	553
Other related companies	**3,027**	6,434
	12,585	10,960
Due to related parties		
Wuhu Plastic	**5,613**	—
Ningchong Packaging	**1,549**	11,911
Other related companies	**2,739**	2,441
	9,901	14,352
Long-term payable to related parties		
Shanghai Lingqiao Enterprise Development Co., Ltd.	**1,196**	—
Shandong Nanhua Co., Ltd.	**8,794**	—
	9,990	—

COMPANY

Due to related parties

	31st December, 2001	31st December, 2000
Ningchong Packaging	**1,730**	8,297
Other related companies	**838**	306
	2,568	8,603

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

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

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

	Net profit		Net assets	
	2001	2000	**31st December, 2001**	31st December, 2000
		(Restated, Note 31)		(Restated, Note 31)
As reported in the Group's statutory accounts	**202,726**	113,772	**2,210,524**	2,031,683
Impact of adjustment:				
— dividends proposed in subsequent period	**—**	—	**49,174**	29,504
— reversal of revaluation surplus of leasehold land	**3,932**	3,839	**(175,252)**	(179,184)
As restated in the Group's IAS financial statements	**206,658**	117,611	**2,084,446**	1,882,003

28. COMMITMENTS

(a) Capital commitments

Capital commitments relate to purchases of machinery and equipment for production purposes as at 31st December, 2001 not provided for in the accounts were as follow:

	31st December, 2001
Contracted but not provided for	**591,838**
Authorised but not contracted for	**402,184**
	994,022

28. COMMITMENTS (continued)

(b) License agreement

As mentioned in Note 26(a)(i), as at 31st December, 2001, 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.

29. SUBSEQUENT EVENTS

(a) Pursuant to the resolution made by the Board of Directors subsequent to 31st December, 2001, the Company will propose a final dividend of RMB0.05 per share for 2001 (2000: RMB0.03 per share).

(b) As at the issuance date of this report, EIT refund receivable amounting to RMB7.99 million has been received (Note 10).

30. SEGMENT REPORTING

The Group conducts its business within one business segment — the business of manufacturing and sales of cement products in the PRC. No segment income statement has been prepared by the Group during the year ended 31st December, 2001. The Group also operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

31. CHANGE IN ACCOUNTING POLICY

From 1st January, 2001, the Group is subject to newly effective IAS 39 "Financial Instruments — Recognition and Measurement" and revised IAS 12 "Income Taxes" (Note 2). There is no significant financial impact caused from adopting these standards on the opening balances of consolidated financial statements.

In addition, in accordance with newly effective IAS 40 "Investment Property", valuation of leasehold interest in land is no longer permitted. Therefore, the Group now state the leasehold land contributed by Holdings upon establishment of the Company at historical cost rather than revalued amount. This change in accounting policy has been accounted for retrospectively. The comparative consolidated financial statements have been restated to conform to the new policy. The effect of the change has been to increase net profit of the year ended 31st December, 2000 by approximately RMB3.8 million and decrease net assets, as well as net book value of leasehold land, as of 31st December, 2000 by approximately RMB179 million respectively.

As of 31st December, 2001 and 2000
(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

32. CONTINGENT LIABILITIES

As at 31st December, 2001, endorsed or discounted undue bank acceptance notes receivable was approximately RMB56,986,200.

33. COMPARATIVE FIGURES

Certain comparative's figures in the 2000 financial statements have been restated and reclassified to conform to the current year's presentation in accordance with newly promulgated IAS 40 "Investment Property" in 2001.

34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 19th January, 2002.