

Notes to Financial Statements

*For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi “RMB”)*

1. GENERAL INFORMATION OF THE COMPANY

Anhui Conch Cement Company Limited (the “Company”) was incorporated in the People’s Republic of China (the “PRC”) on 1 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, cement products and its related businesses.

In September 1997, as approved by Anhui Province Government Circular Wan Zhen Mi [1997] 128 and Former State Economic Structure Reform Committee Circular [1997]140, the Company acquired the operating assets of Ningguo Cement Plant and Baimashan Cement Plant, and the related cement manufacturing business of Anhui Conch Holdings Company Limited (“Holdings”) by issuance of 622,480,000 State-owned shares (“State-owned shares”) with a par value of RMB1.00 each of the Company to Holdings. In addition, as approved by State Securities Regulatory Committee Circular Zhen Wei Fa [1997]57, the Company subsequently issued 361,000,000 overseas listed foreign shares (“H Shares”) on 17 October 1997, which were listed on The Stock Exchange of Hong Kong Limited on 21 October 1997.

On 24 January 2002, the Company issued 200,000,000 domestic listed Renminbi denominated shares (“A Shares”), which were listed on Shanghai Stock Exchange on 7 February 2002.

2. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1. Basis of presentation of financial statements

The financial statements have been prepared in accordance with “Accounting Standards for Enterprises”, “Accounting Systems for Enterprises” and other relevant regulations issued by the Ministry of Finance of the People’s Republic of China.

Effective from 1 January 2002, the Group adopted the Accounting Standards for Enterprises on Inventory and Fixed Assets. The adoption of these standards has no financial effects on the opening balances of the 2002 financial statements.

2. Fiscal year

1 January to 31 December of each calendar year.

3. Reporting currency

Renminbi (“RMB”) is the reporting currency. The monetary amounts used in preparing these financial statements are in RMB.

2. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

4. Basis of preparation and basis of valuation

The accounting records are maintained on an accrual basis. Assets are recorded at original cost, except where there is impairment of an asset, a corresponding provision on impairment of asset is made.

5. Foreign currency translation

Foreign currency transactions are translated into Renminbi at the applicable foreign exchange rates quoted by the People's Bank of China prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the applicable foreign exchange rates quoted by the People's Bank of China. Exchange differences, other than those capitalised in relation to specific foreign currency borrowings during the period of construction-in-progress of fixed assets, are recognised in the year in which they arise.

6. Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and deposits held at call with banks. Cash equivalents represent short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk in change of value.

Fixed deposits with original maturities of over three months and restricted bank deposits are not included as cash and cash equivalents in the cash flow statement.

7. Short-term investments

Short-term investments are securities, bonds and fund investments that are readily realisable and held for less than one year. Short-term investments are stated at actual investment costs on acquisitions less cash dividends declared but unpaid or interests on bonds due but not received. Dividend and interest income received should be offset directly against investment costs, except for those already recorded as receivables. Short-term investments are stated at lower of cost and market value at the end of the year. Provision for impairment in short-term investments is made for any reduction of cost to market value.

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2. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

8. Receivables and provision for bad debts

Receivables are accounts receivable and other receivables that are stated at net amounts after provisions for bad debts.

The Group applies the provision method in assessing possible losses on bad debts.

The Group will make corresponding specific bad debt provisions in respect of accounts receivable showing signs of being uncollectible after taking into account actual circumstances and experiences. General bad debt provisions on the remaining accounts receivables are made based on ageing analysis and the following percentages:

Ageing	% of bad debt provision
Within 1 year	5%
1 to 2 years	20%
2 to 3 years	30%
3 to 4 years	50%
4 to 5 years	80%
Over 5 years	100%

Where there are clear evidences that the accounts receivable are uncollectible, such as the debtors are cancelled, liquidated, insolvent, they are recognised as bad debts and offset against the corresponding bad debt provisions made.

9. Inventories

Inventories comprise materials in transit, raw materials, work in progress and finished goods. Inventories are stated at cost of purchase. Raw materials and finished goods are determined on the weighted average basis. Cost of finished goods and work in progress comprise raw materials, direct labour and an appropriate proportion of all indirect production overheads based on normal production capacity.

Inventories are stated at the lower of cost and net realisable value. Provision for inventories is made in respect of the portion of cost in excess of net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses and the relevant amount of taxes.

2. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

10. Long-term equity investments

Long-term equity investments are equity investments to be held for more than one year.

Long-term equity investments are stated at actual considerations paid upon making investments. The Group's investment in an investee company is accounted for by the equity method where the Group holds 20% or more of its total voting capital, or, where it is less than 20%, the Group has significant influence over its financial and operating decisions. Where the Group's investment in an investee company is less than 20% of its total voting capital, or, where it is 20% or more but the Group has no significant influence over its financial and operating decisions, it is accounted for by the cost method.

Investments in investee companies, such as subsidiaries, joint ventures and associates are accounted for by the equity method. Subsidiaries are those entities in which the Group has a direct or indirect interest of more than 50% of the voting capital or otherwise and has power to govern the financial and operating policies and receive benefits from its operating activities. Joint ventures are investee companies in which the Company and its joint venture partners have joint control. Associates are investee companies in which the Company has significant influence.

Where a long-term equity investment is accounted for by the equity method, the difference between the Company's initial investment costs and its share of equity of the investee companies is treated as an equity investment shortfall. If the long-term equity investment shortfall is a debit, it will be amortised over a period of 5 years on a straight-line basis. Where the shortfall is a credit, it will be amortised over a period of 10 years.

11. Fixed asset valuation and depreciation

Fixed assets are buildings and equipment of higher unit value that are related to operation and held for the production or operation management of goods with useful life in excess of one year.

Fixed assets, acquired or newly constructed, are stated at cost. Where fixed assets have been revalued upon conversion of the Group, they are stated at the appraised values as confirmed by the state asset administration departments.

Depreciation of fixed assets is calculated using the straight-line method to write off the cost, less estimated residual value, of each asset over its expected useful life. Where a provision for impairment loss of a fixed asset has been made, the book value and the expected useful life of a fixed asset have to be recomputed to determine the rate and amount of depreciation.

Subsequent expenditures incurred on major renovations, expansions or improvements of fixed assets are capitalised whereas those incurred on repairs and maintenance of fixed assets are recognised as expenses in the period incurred.

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2. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

11. Fixed asset valuation and depreciation (Continued)

The expected useful lives, residual values and depreciation rates are as follows:

	Expected useful life	Estimated residual value	Annual depreciation rate
Buildings	30 years	5%	3.17%
Machinery and equipment	15 years	5%	6.33%
Transport vehicles	5 years	5%	19%
Office equipment	5 years	5%	19%

12. Construction-in-progress

Construction-in-progress represents capital assets under construction or installation, and is stated at cost. This includes cost of construction and other direct costs, machinery and equipment, installation costs, plus borrowing costs incurred on specific borrowings until the assets are ready for their intended uses. Construction-in-progress is transferred to fixed assets when completed and ready for its intended use.

13. Borrowing costs

Borrowing costs, such as interest, transaction costs and foreign exchange differences incurred in connection with specific borrowings for the acquisition or construction of a fixed asset are capitalised as costs of fixed asset when asset expenditures and borrowing costs are being incurred and acquisition and construction activities that are necessary to prepare the asset for its intended use are in progress. Borrowing costs are ceased to capitalise when the fixed asset being acquired or constructed is ready for its intended use condition. Borrowing costs incurred thereafter are recognised as expenses in the period in which they are incurred.

Each instalment of interest expenses of capitalised borrowing costs are capitalised based on current weight averages of cumulative borrowing costs of the fixed assets acquired or constructed and weight averages of interest rates of the specific borrowings but not to exceed the limits of the current instalment of actual interest expenses of the specific borrowings. Foreign exchange differences arising from foreign currency specific borrowings and borrowing costs arising from significant transaction costs of specific borrowings are recognised as capitalised amounts when they are incurred.

Borrowing costs incurred on other borrowings are recognised as financial expenses in the period in which they are incurred.

2. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)**14. Valuation and amortisation of intangible assets**

Intangible assets comprise land use rights, mining licences, electricity rights and communication rights.

Land use rights

Land use rights acquired or granted by way of land premium are stated at cost in accordance with the actual consideration and accounted for as intangible assets. Where land use rights have been revalued upon conversion of the Group, they are stated at the appraised values as confirmed by the state asset administration departments.

Commencing from 1 January 2001, the book value of land use rights of all self-construction projects will be transferred to cost of construction-in-progress which will all be re-transferred to fixed assets upon completion of construction.

Land use rights are amortised over 30–50 years on a straight-line basis.

Mining licences, electricity rights and communication rights

Where mining licences have been revalued upon conversion of the Group, they are stated at the appraised values as confirmed by the state asset administration departments. Mining licences, electricity rights and communication rights are stated at actual considerations paid. These intangible assets are amortised over the following periods on a straight-line basis:

Mining licences	20–30 years
Electricity rights	10 years
Communication rights	10 years

15. Long-term deferred expenditures

Long-term deferred expenditures comprise various expenditures incurred with an amortisation period of over 1 year (excluding 1 year).

Long-term deferred expenditures are amortised equally on a straight-line basis over its periods of benefits.

All expenditures incurred during the period of preparing for construction will be collated in long-term deferred expenditures. Commencing from the month when the enterprise is operational, it is then accounted for in the monthly results of production operation.

Where long-term deferred expenditures will not benefit the results of subsequent accounting period, unamortised balances of the project are charged to the profit of the current period.

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2. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

16. Impairment of assets

Other than the methods of provisions of impairment on short-term investments, accounts receivable and inventory mentioned in the relevant accounting policies above, the Company may review the impairment of an asset whenever events or circumstances indicate that the carrying value of an asset may exceed its recoverable amount. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount in the period in which it is incurred.

The recoverable amount of an asset is the higher of an asset's net selling price and value in use.

Net selling price is the amount obtainable from the sale of an asset after deducting disposal expenses in an arm's length transaction conducted willingly and that both parties to the transaction had acted knowledgeably. The value in use is the present value of the 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.

Reversal of an impairment loss of an asset, to the extent of the newly computed recoverable amount, recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased.

17. Employee social welfare protection

As stipulated by regulations, the Company participates in an employee social welfare protection system organised by government authorities. Such system includes retirement, medical and unemployment insurances, housing contributions and other social welfare protection system. Other than these, the Company has no other significant employee benefit commitment.

Pursuant to the relevant regulations, insurance premiums and contributions are to be made to labour and social welfare protection authorities based on a percentage of the total standard salary (or a basis set by the relevant department) but will not exceed a certain limit. The relevant expenses are accounted for as production costs or expenses in the period in which they are incurred.

2. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

17. Employee social welfare protection (Continued)

The principal rates of insurance premium and contributions in 2002 are as follows:

	Contribution rate
Retirement fund	15–22.5%
Medical insurance premium	0–12%
Unemployment insurance premium	0–2%
Housing contributions	5–10%
Employee welfare expenses	14%
Union dues	2%
Employee education expenses	1.5%

18. Revenue recognition

(i) *Sale of goods*

Revenue from sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer and the Group neither retains the management nor control over the goods sold. It is probable that the economic benefits associated with the transaction will flow to the Group, and the relevant amounts of revenue and cost can be measured reliably.

Cash discounts are recognised as financial expenses in the period in which they are incurred. Sales discounts are offset against revenue in the period in which they are incurred.

(ii) *Other revenue are recognised on the following basis:*

Interest income — recognised on a time proportion basis that takes into account the effective yield on the assets.

Subsidy income — recognised upon cash receipt.

19. Accounting treatment of income tax

The Group adopts the tax liability method in respect of its accounting treatment of enterprise income tax.

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2. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

20. Basis of preparation of consolidated financial statements

The consolidated financial statements of the Company and its subsidiaries are prepared in accordance with Cai Kuai Zi (1995) No.11 document “Provisional Regulations for Consolidated Financial Statements” and the relevant regulations issued by the Ministry of Finance.

Results of subsidiaries for the relevant periods are consolidated from the date on which effective control is transferred to the Company and are no longer consolidated from the date that control ceases. All significant intercompany balances, transactions and unrealised profits are eliminated on consolidation. In the consolidated financial statements, minority interests are the share of ownership equity of subsidiaries being consolidated that do not belong to the Group.

The accounting policies adopted by the subsidiaries consolidated are inconsistent with that of the Company. Any discrepancies with significant effects on the consolidated financial statements are adjusted in accordance with the Company’s accounting policies.

3. TAXATION

Major taxes applicable to the Group are set out below:

1. Enterprise income tax

Individual companies within the Group are generally subject to Enterprise Income Tax (“EIT”) at 33% on taxable income determined according to the PRC tax laws except Anhui Hailuo Cement Product Co., Ltd. (Hailuo Plant, which is a sino-foreign equity joint venture and entitled to full exemptions 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 Tax Holidays of Hailuo Plant, the applicable EIT rate was 15%. In 2000, Hailuo Plant was recognised as advanced technology enterprise with foreign investment, Hence, according to the tax regulations, Hailuo Plant was granted an extension of 50% reduction for another three years after the Tax Holidays expired. Therefore the applicable EIT rate in 2002 remains at 15%.

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

3. TAXATION (Continued)

1. Enterprise income tax (Continued)

As confirmed by Anhui Tax Bureau, the Company and its subsidiaries, Ningguo Cement Plant and Baimashan Cement Plant submitted their 2002 EIT filing on a combined basis, at the tax rate of 33%. However, pursuant to the relevant regulation in GuoShuiHan [2002]226, such filing procedure is subject to the approval of the State Administration of Taxation. The related application procedure is in progress. In the event that the approval cannot be obtained, the maximum exposure to the Company and the Group would be an increment of income tax expense by approximately RMB4,700,000, which has not been accounted for in the accompanying financial statements.

2. Value-Added Tax

The Group is subject to Value-Added Tax ("VAT") on its sales and purchases. VAT is levied at 17% on the invoiced value. According to the Provisional Regulations on VAT, input VAT paid on purchases of work-in-progress or raw materials can be used to offset against output VAT payable on sales.

3. Business tax and surcharges

Business tax and surcharges applicable to the Company and its subsidiaries are set out below:

- City Development Tax, levied at 1% to 7% of net VAT payable.
- Education surcharge, levied at 3% of net VAT payable.

4. Limestone resources tax

Limestone resources tax applicable to the Group is levied at the applicable tax rate (RMB2/tonne) on the actual number of tonnes of limestone mined.

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4. SUBSIDIARIES

Details of the Company's subsidiaries, save for Jieyang Hailuo Cement Co., Ltd. ("Jieyang Hailuo") which was mentioned in Note 4(b) below, as of 31 December 2002 were as follows:

Name of subsidiaries	Country and date of incorporation	Registered capital	Group's investment amount	Company's equity interests		Scope of operation
				Direct	Indirect	
Baimashan Cement Plant ("Baimashan Cement Plant") 安徽省白馬山水泥廠	PRC 21 July 1982	RMB428,317,628	RMB428,317,628	100%	—	Manufacture and sale of cement and cement products
Ningguo Cement Plant ("Ningguo Cement Plant") 安徽省寧國水泥廠	PRC 21 January 1985	RMB649,346,677	RMB649,346,677	100%	—	Manufacture and sale of cement and cement products
Ningbo Hailuo Cement Co., Ltd. ("Ningbo Hailuo") (a) 寧波海螺水泥有限公司	PRC 3 April 1993	RMB171,000,000	RMB138,331,796	75%	—	Manufacture and sale of cement and cement products
Anhui Hailuo Cement Co., Ltd. ("Hailuo Cement") 安徽海螺水泥有限公司	PRC 23 June 1994	USD29,980,000	USD22,485,000	75%	—	Manufacture and sale of cement and cement products
Shanghai Hailuo Mingzhu Cement Co., Ltd. ("Mingzhu Hailuo") (a) 上海海螺明珠水泥有限責任公司	PRC 3 April 1995	RMB13,710,000	RMB12,003,900	76.2%	—	Manufacture and sale of cement and cement products
Anhui Tongling Hailuo Cement Co., Ltd. ("Tongling Hailuo") 安徽銅陵海螺水泥有限公司	PRC 22 September 1995	RMB565,000,000	RMB434,754,506	68.14%	—	Manufacture and sale of cement and cement products
Anhui Hailuo Machinery & Electric Co., Ltd. ("Anhui Machinery") 安徽海螺機電設備有限公司	PRC 5 January 1998	RMB10,000,000	RMB10,000,000	—	100%	Provision of installation and repairing services of mechanical and electrical equipment

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4. SUBSIDIARIES (Continued)

Name of subsidiaries	Country and date of incorporation	Registered capital	Group's investment amount	Company's equity interests		Scope of operation
				Direct	Indirect	
Jieyang Hailuo (b) 揭陽海螺水泥有限公司	PRC 10 April 1998	RMB3,000,000	RMB9,578	0.5%	—	Manufacture and sale of cement and cement products
Ningbo Hailuo Free-trade Zone Trading Co., Ltd. (“Ningbo Trading”) 寧波保稅區海螺貿易公司	PRC 9 July 1998	RMB1,000,000	RMB1,000,000	—	100%	International and entrepot trading and cement product operation
Wuxi Hailuo Cement Sales Co., Ltd. (“Wuxi Sales”) 無錫市海螺水泥銷售有限公司	PRC 30 July 1998	RMB600,000	RMB363,000	60.50%	—	Sale and after-sale service of cement
Anhui Changfeng Hailuo Cement Co., Ltd. (“Changfeng Hailuo”) 安徽長豐海螺水泥有限公司	PRC 4 September 1998	RMB10,000,000	RMB8,000,000	80%	—	Manufacture and sale of cement and cement products
Zhangjiagang Hailuo Cement Co., Ltd. (“Zhangjiagang Hailuo”) 張家港海螺水泥有限公司	PRC 30 September 1998	RMB35,000,000	RMB35,000,000	98.71%	—	Manufacture, processing and sale of cement and construction materials
Shanghai Hailuo Cement Co., Ltd. (“Shanghai Hailuo”) 上海海螺水泥有限公司	PRC 13 November 1998	RMB60,000,000	RMB45,000,000	75%	—	Manufacture and sale of cement and cement products
Nanjing Hailuo Cement Co., Ltd. (“Nanjing Hailuo”) 南京海螺水泥有限公司	PRC 20 November 1998	RMB15,000,000	RMB15,000,000	99.75%	0.25%	Manufacture and sale of cement and cement products
Nantong Hailuo Cement Co., Ltd. (“Nantong Hailuo”) 南通海螺水泥有限公司	PRC 22 June 1999	RMB15,000,000	RMB15,000,000	99%	—	Manufacture and sale of cement and cement products

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4. SUBSIDIARIES (Continued)

Name of subsidiaries	Country and date of incorporation	Registered capital	Group's investment amount	Company's equity interests		Scope of operation
				Direct	Indirect	
Shanghai Hailuo Cement Sales Co., Ltd. ("Shanghai Sales") 上海海螺水泥銷售有限公司	PRC 2 November 1999	RMB5,000,000	RMB5,000,000	90%	10%	Sale and after-sale service of cement
Nanchang Hailuo Construction Materials Trading Co., Ltd. ("Nanchang Construction Materials") 南昌海螺建材貿易有限責任公司	PRC 28 January 2000	RMB1,000,000	RMB1,000,000	90%	10%	Warehousing and sale of cement and production and sale of other construction materials
Anhui Digang Hailuo Cement Co., Ltd. ("Digang Hailuo") 安徽荻港海螺水泥股份有限公司	PRC 28 April 2000	RMB150,000,000	RMB76,500,000	51%	—	Manufacture and sale of cement and cement products
Fujian Jianyang Hailuo Cement Co., Ltd. ("Jianyang Hailuo") 福建省建陽海螺水泥有限公司	PRC 9 June 2000	RMB14,000,000	RMB10,640,000	76%	—	Manufacture and sale of cement, cement products, new construction materials and chemical construction materials
Anhui Zongyang Hailuo Cement Co., Ltd. ("Zongyang Hailuo") 安徽樅陽海螺水泥股份有限公司	PRC 19 June 2000	RMB300,000,000	RMB153,000,000	51%	—	Manufacture, sale and related technical service of cement and clinker
Anhui Chizhou Hailuo Cement Co., Ltd. ("Chizhou Hailuo") 安徽池州海螺水泥股份有限公司	PRC 2 November 2000	RMB318,000,000	RMB162,180,000	51%	—	Manufacture and sale of cement, cement commodity, clinker and ancillary products

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4. SUBSIDIARIES (Continued)

Name of subsidiaries	Country and date of incorporation	Registered capital	Group's investment amount	Company's equity interests		Scope of operation
				Direct	Indirect	
Taizhou Hailuo Cement Co., Ltd. (“Taizhou Hailuo”) 泰州海螺水泥 有限責任公司	PRC 6 November 2000	RMB11,520,000	RMB10,800,000	93.75%	—	Manufacture and sale of cement, cement products, new construction materials and chemical construction materials
Bangbu Hailuo Cement Co., Ltd. (“Bangbu Hailuo”) 蚌埠海螺水泥 有限責任公司	PRC 9 February 2001	RMB6,000,000	RMB6,000,000	96.7%	3.3%	Manufacture and sale of cement and cement products
Wenzhou Hailuo Cement Co., Ltd. (“Wenzhou Hailuo”) 溫州海螺水泥有限公司	PRC 16 March 2001	RMB50,000,000	RMB50,000,000	95%	5%	Manufacture and sale of cement and cement products
Fenyi Hailuo Cement Co., Ltd. (“Fenyi Hailuo”) 分宜海螺水泥 有限責任公司	PRC 20 August 2001	RMB50,000,000	RMB25,500,000	51%	—	Manufacture and sale of cement and cement products
Shangyu Hailuo Cement Co., Ltd. (“Shangyu Hailuo”) 上虞海螺水泥 有限責任公司	PRC 14 November 2001	RMB16,000,000	RMB16,000,000	90%	10%	Manufacture and sale of cement, new construction materials and decoration materials
Jiande Hailuo Cement Co., Ltd. (“Jiande Hailuo”) 建德海螺水泥 有限責任公司	PRC 28 November 2001	RMB50,000,000	RMB50,000,000	90%	10%	Manufacture and sale of cement, clinker, cement products and related construction material products

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4. SUBSIDIARIES (Continued)

Name of subsidiaries	Country and date of incorporation	Registered capital	Group's investment amount	Company's equity interests		Scope of operation
				Direct	Indirect	
Jiangxi Lushan Hailuo Cement Co., Ltd. ("Lushan Hailuo") 江西廬山海螺水泥 有限責任公司	PRC 1 February 2002	RMB31,420,000	RMB31,420,000	98.7%	1.3%	Manufacture and sale of cement, new construction materials and building materials
Taizhou Yangwan Hailuo Cement Co., Ltd. 泰州楊灣海螺水泥 有限責任公司	PRC 20 June 2002	RMB50,000,000	RMB50,000,000	95%	5%	Manufacture and sale of cement, new construction materials and building materials
Nanchang Hailuo Cement Co., Ltd. ("Nanchang Hailuo") 南昌海螺水泥 有限責任公司	PRC 18 January 2002	RMB20,000,000	RMB20,000,000	90%	10%	Manufacture and sale of cement, new construction materials and building materials
Anhui Huaining Hailuo Cement Co., Ltd. 安徽懷寧海螺水泥 有限責任公司	PRC 24 October 2002	RMB50,000,000	RMB50,000,000	96%	4%	Manufacture and sale of cement and cement products
Zhongguo Cement Co., Ltd. ("Zhongguo Cement Co.") 中國水泥廠有限公司	PRC 9 October 2002	RMB100,000,000	RMB100,000,000	90%	10%	Manufacture and sale of cement, new construction materials and building materials

- (a) On 29 November 2002, the Company acquired an additional 12.8% equity interest in Mingzhou Hailuo for RMB1,754,900. The difference of RMB240,931 between the consideration and the share of net assets ascribed to that equity interest on the date of acquisition of Mingzhou Hailuo was stated as long-term equity investment difference (debit). On 30 November 2002, the Company acquired an additional 15% equity interest in Ningbo Hailuo for RMB25,906,500. The difference of RMB1,364,313 between the consideration and the share of net assets ascribed to that equity interest on the date of acquisition of Ningbo Hailuo was stated as long-term equity investment difference (credit). (Note 5.33(2)).
- (b) On 30 June 2002, the Company disposed of 59.5% of its 60% equity interest in Jieyang Hailuo to Swatou Longhu District Wenshan Development Co., Ltd. for a consideration of RMB1,785,000. The difference of RMB645,240 between the consideration and the share of net assets ascribed to that equity interest on the date of acquisition of Jieyang Hailuo was accounted for in the income statement (Note 5.30). From the effective date of share transfer, Jieyang Hailuo ceased to be a subsidiary and became another long-term equity investment of the Company which was then accounted for by the cost method. (Note 5.33(1)).

Notes to Financial Statements

*For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")*

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

1. Currency funds

	31 December 2002	31 December 2001
Cash	156,555	75,023
Bank deposits	783,878,570	571,730,854
Other currency funds (a)	25,700,502	74,379,613
	809,735,627	646,185,490

- (a) As at 31 December 2002, other currency funds include deposits in respect of bank drafts of RMB598,956 and letters of credits of RMB11,264,093, credit card deposits of RMB129,275 and investment deposits of RMB13,708,178.

Currency funds at the end of the year comprised balances of the following foreign currencies:

Name of foreign currency	Amount in foreign currency	Exchange rate	In RMB
USD	224,788	8.2773	1,860,638
HKD	3,333,374	1.063	3,543,376
JPY	690	0.0695	48
DNK	4,382,660	0.9333	4,090,337
			9,494,399

Cash in the cash flow statement include:

	31 December 2002	31 December 2001
Currency funds	809,735,627	646,185,490
Less: Restricted bank deposits — deposits for guarantees	(11,863,049)	(52,139,123)
	797,872,578	594,046,367

Notes to Financial Statements

For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Short-term investments

	31 December 2001	Increases during year	Transfers during year	31 December 2002
Investment amount — share investments	19,523,940			2,654,200
Less: provision on short-term investment	(5,132,899)	(1,000,586)	5,053,485	(1,080,000)
	14,391,041			1,574,200

Share investments are investments in shares of listed companies. Market value of those shares as at 31 December 2002 were the closing prices of the relevant shares on 31 December 2002 as published in the China Securities Journal.

3. Bills receivable

	31 December 2002	31 December 2001
Bank drafts	96,573,620	103,960,230

4. Accounts receivables and other receivables

(i) Accounts receivable

	31 December 2002	31 December 2001
Accounts receivable	85,046,290	70,604,427
Less: Provision for bad debts	(19,231,214)	(8,453,410)
	65,815,076	62,151,017

Notes to Financial Statements

*For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")*

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivables and other receivables (Continued)

(i) Accounts receivable (Continued)

Ageing analysis of accounts receivable and corresponding provisions for bad debts were as follows:

	31 December 2002			31 December 2001		
	Amount	%	Provisions for bad debts	Amount	%	Provisions for bad debts
Ageing —						
within 1 year	62,435,196	73.4%	3,121,759	57,209,428	81.0%	2,044,123
1–2 years	6,546,679	7.7%	1,352,042	—	—	—
2–3 years	3,326,636	3.9%	3,326,607	4,459,065	6.3%	2,176,260
3–4 years	5,489,828	6.5%	5,144,521	8,935,934	12.7%	4,233,027
4–5 years	7,247,951	8.5%	6,286,285	—	—	—
	85,046,290	100.0%	19,231,214	70,604,427	100.0%	8,453,410

As at 31 December 2002, the total amount of the five largest accounts receivable was RMB19,752,391, accounting for 23.2% of total accounts receivable of the Group.

As at 31 December 2002, the balance of accounts receivable of the Group does not contain significant amount of accounts receivable from a shareholder holding 5% or more (inclusive of 5%) of the voting shares of the Company.

(ii) Other receivables

	31 December 2002	31 December 2001
Other receivables	59,027,077	77,472,662
Less: Provision for bad debts	(11,516,229)	(3,568,945)
	47,510,848	73,903,717

Notes to Financial Statements

For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivables and other receivables (Continued)

(ii) Other receivables (Continued)

Ageing analysis of accounts receivable and corresponding provisions for bad debts were as follows:

	31 December 2002			31 December 2001		
	Amount	%	Provisions for bad debts	Amount	%	Provisions for bad debts
Ageing —						
within 1 year	34,311,130	58.1%	2,810,486	67,576,583	87.2%	939,543
1–2 years	15,569,741	26.4%	3,113,948	2,237,459	2.9%	447,492
2–3 years	2,014,830	3.4%	604,449	1,500,000	2.0%	—
3–4 years	2,392,514	4.1%	1,196,257	6,158,620	7.9%	2,181,910
4–5 years	4,738,862	8.0%	3,791,089	—	—	—
	59,027,077	100.0%	11,516,229	77,472,662	100.0%	3,568,945

As at 31 December 2002, the total amount of the five largest other receivables was RMB13,797,063, accounting for 23.4% of total other receivables of the Group.

As at 31 December 2002, the balance of other receivables of the Group includes amounts due from related parties of RMB6,194,087 (Note 7.5(6)).

As at 31 December 2002, the balance of other receivables of the Group does not contain significant amount of other receivables from a shareholder holding 5% or more (inclusive of 5%) of the voting shares of the Company.

5. Prepayments

	31 December 2002		31 December 2002	
	Amount	%	Amount	%
Ageing —				
within 1 year	85,252,112	98.6%	26,022,192	100.0%
1–2 years	1,230,414	1.4%	—	—
	86,482,526	100.0%	26,022,192	100.0%

Notes to Financial Statements

*For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")*

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Prepayments (Continued)

As at 31 December 2002, prepayments do not contain amounts prepaid to a shareholder holding 5% or more (inclusive of 5%) of the voting shares of the Company.

6. Inventories

	31 December 2001	Increases during year	Transfers during year	31 December 2002
At cost —				
Materials in transit	5,598,067			3,162,999
Raw materials	164,953,696			214,995,435
Work-in-process	13,000,052			26,077,819
Finished goods	33,725,034			76,232,997
	217,276,849			320,469,250
Provisions for inventory —				
Materials in transit	—	—	—	—
Raw materials	(5,777,389)	(10,768,885)	138,897	(16,407,377)
Work-in-process	—	—	—	—
Finished goods	—	—	—	—
	(5,777,389)	(10,768,885)	138,897	(16,407,377)
	211,499,460			304,061,873

Notes to Financial Statements

For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Deferred expenditures

	31 December 2001	Increases during year	Amortised during year	31 December 2002
Property protection	2,299,941	3,673,398	(3,269,011)	2,704,328
Steel balls	3,448,800	21,870,413	(19,057,389)	6,261,824
Fire resistant bricks	—	4,421,674	(3,123,112)	1,298,562
Grinders	—	2,432,673	(2,196,587)	236,086
Others	2,072,833	18,238,165	(19,315,515)	995,483
	7,821,574	50,636,323	(46,961,614)	11,496,283

8. Long-term equity investments

	1 January 2002	Increases during year	Decreases during year	31 December 2002
Long-term equity investments				
— Associates (1)	45,959,843	1,463,860	—	47,423,703
— Differences on consolidation (2)	2,382,524	(1,123,382)	(2,231,883)	(972,741)
— Others	—	9,578	—	9,578
	48,342,367	350,056	(2,231,883)	46,460,540
Less: Provisions for impairment of long-term equity investments	—	—	—	—
	48,342,367	350,056	(2,231,883)	46,460,540

As at 31 December 2002, there is no significant restriction over realisation of investments and repatriations of returns on long-term equity investments.

Notes to Financial Statements

For the year ended 31 December 2002

(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Fixed assets and accumulated depreciation

	Buildings	Machinery and equipment	Transport vehicles	Office equipment	Total
Cost					
1 January 2002	1,970,579,409	2,937,650,912	116,713,641	154,045,093	5,178,989,055
Additions	971,248,536	1,207,676,015	28,301,192	15,624,097	2,222,849,840
Disposals	(11,022,275)	(21,510,546)	(799,812)	(216,620)	(33,549,253)
Decrease upon disposal of a subsidiary's equity (Note 5.33(1))	(2,754,238)	—	—	—	(2,754,238)
31 December 2002	2,928,051,432	4,123,816,381	144,215,021	169,452,570	7,365,535,404
Accumulated depreciation					
1 January 2002	341,552,190	966,869,052	67,891,255	130,280,810	1,506,593,307
Provision	72,949,244	182,209,035	17,233,909	12,524,769	284,916,957
Disposals	(532,530)	(5,085,155)	(680,312)	(226,040)	(6,524,037)
Decrease upon disposal of a subsidiary's equity (Note 5.33(1))	(293,273)	—	—	—	(293,273)
31 December 2002	413,675,631	1,143,992,932	84,444,852	142,579,539	1,784,692,954
Provisions for impairment					
1 January 2002	—	—	—	—	—
Additions	—	—	—	—	—
Transfers	—	—	—	—	—
31 December 2002	—	—	—	—	—
Net book value					
31 December 2002	2,514,375,801	2,979,823,449	59,770,169	26,873,031	5,580,842,450
1 January 2002	1,629,027,219	1,970,781,860	48,822,386	23,764,283	3,672,395,748

As of 31 December 2002, machinery and equipment with an aggregate net book value of approximately RMB108,809,000 have been pledged as collaterals for short-term bank borrowings (Note 5.14).

As of 31 December 2002, the procedure of transferring titles to the buildings purchased as fixed assets from Nanjing Chemical Construction Industry (Group) Co., Ltd. during the year with an aggregate net book value of approximately RMB238,901,000 to the Group was still in progress.

Notes to Financial Statements

For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Construction-in-progress

Name of construction	Budget	1 January 2002	Additions during year	Transfers to fixed assets during year	Other deductions	31 December 2002	Source of funds	Completion as a % of budget
Baimashan mining reserve	49,800,000	3,265,921	5,930,516	(6,487,762)	—	2,708,675	A Shares proceeds	131%
Tongling Phase 2	937,260,000	113,865,881	157,088,353	(264,848,539)	—	6,105,695	A Shares proceeds	29%
Nantong technical upgrade	27,000,000	—	3,255,855	(3,255,855)	—	—	Working capital and bank loans	144%
Changfeng technical upgrade	18,000,000	—	1,096,010	(1,096,010)	—	—	Working capital and bank loans	97%
Nanjing technical upgrade	11,500,000	8,418,515	6,063,646	(14,482,161)	—	—	Working capital and bank loans	126%
Zongyang Phase 2	300,000,000	17,266,799	212,656,643	(229,923,442)	—	—	Working capital and bank loans	77%
Chizhou Phase 1	499,700,000	400,683,640	189,966,125	(590,649,765)	—	—	Working capital and bank loans	119%
Zhangjiagang Phase 1	80,000,000	63,157,130	58,452,282	(121,609,412)	—	—	A Shares proceeds	177%
Shanghai technical upgrade	60,000,000	36,292,961	16,640,351	(52,933,312)	—	—	A Shares proceeds	99%
Jiayang technical upgrade	18,000,000	—	6,739,764	(6,739,764)	—	—	Working capital and bank loans	121%
Jiande technical upgrade	75,000,000	16,936,830	39,268,060	(56,204,890)	—	—	Working capital and bank loans	75%
Jiande Phase 1	240,000,000	—	124,339,581	—	—	124,339,581	Working capital and bank loans	52%
Bangbu technical upgrade	32,000,000	15,007,156	14,158,047	(29,165,203)	—	—	Working capital and bank loans	91%
Wenzhou technical upgrade	120,000,000	17,344,063	87,104,266	—	—	104,448,329	Working capital and bank loans	87%
Ningguo Line 3	350,000,000	1,000,000	201,465,760	—	(1,045,899)	201,419,861	Working capital and bank loans	58%
Tongling Phase 3	1,090,000,000	—	76,192,324	—	—	76,192,324	Working capital and bank loans	7%
Ningbo Phase 3	93,000,000	—	33,486,608	—	—	33,486,608	Working capital and bank loans	36%
Digang Phase 2	280,000,000	—	136,834,541	—	—	136,834,541	Working capital and bank loans	49%
Zongyang Phase 3	600,000,000	—	223,098,113	—	—	223,098,113	Working capital and bank loans	37%
Zongyang technical upgrade	8,000,000	—	4,386,808	(4,357,840)	—	28,968	Working capital and bank loans	55%
Chizhou Phase 2	300,000,000	—	211,619,607	(211,619,607)	—	—	Working capital and bank loans	71%
Chizhou Phase 3	900,000,000	—	137,550,858	—	—	137,550,858	Working capital and bank loans	15%
Zhongguo Cement Plant Phase 1	265,000,000	—	12,376,814	—	—	12,376,814	Working capital and bank loans	5%
Taizhou Yangwan technical upgrade	180,000,000	—	84,475,766	—	—	84,475,766	Working capital and bank loans	47%
Huaining Phase 1	280,000,000	—	15,445,754	—	—	15,445,754	Working capital and bank loans	6%
Nanchang technical upgrade	110,000,000	—	43,325,677	—	—	43,325,677	Working capital and bank loans	39%
Lushan technical upgrade	74,000,000	—	8,259,462	(2,000,000)	—	6,259,462	Working capital and bank loans	11%
Mingzhou technical upgrade	32,000,000	2,667,062	31,820,092	(32,644,765)	—	1,842,389	Working capital and bank loans	108%
Fenyi technical upgrade	42,000,000	2,036,852	14,402,607	(16,439,459)	—	—	Working capital and bank loans	39%
Fenyi Phase 1	120,000,000	—	51,357,500	—	—	51,357,500	Working capital and bank loans	43%
Import of clinker equipment	250,000,000	—	59,551,710	—	—	59,551,710	Working capital and bank loans	—
Others	—	12,715,570	47,845,221	(22,644,667)	(57,350)	37,858,774	Working capital and bank loans	—
	710,658,380	2,316,254,721	(1,667,102,453)	(1,103,249)	1,358,707,399			
Less: Provision for impairment of work-in-progress	—	—	—	—	—			
	710,658,380	2,316,254,721	(1,667,102,453)	(1,103,249)	1,358,707,399			
Included: borrowing costs capitalised	5,188,812	28,095,975	(26,436,970)	—	6,847,817			

As at 31 December 2002, the amount of borrowing costs capitalised in construction-in-progress amounted to RMB6,847,817, with an annual average capitalisation rate of 4.52%.

Notes to Financial Statements

For the year ended 31 December 2002

(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Intangible assets

	1 January 2002		1 January 2002	Additions during year	Transfers during year	Amortisation during year	31 December 2002	Unamortised term
	Cost	Accumulated amortisation						
Land use rights	451,596,371	(38,821,273)	412,775,098	—	(2,846,730)	(9,250,882)	400,677,486	27–45 years
Mining licences	81,379,234	(17,081,909)	64,297,325	2,400	—	(3,919,088)	60,380,637	14–28 years
Electricity rights	10,800,000	(4,650,000)	6,150,000	—	—	(1,080,000)	5,070,000	5 years
Communication rights	1,296,000	(556,200)	739,800	—	—	(129,599)	610,201	5 years
	<u>545,071,605</u>	<u>(61,109,382)</u>	483,962,223	2,400	(2,846,730)	(14,379,569)	466,738,324	
Less: Provisions for impairment of intangible assets			—	—	—	—	—	
			483,962,223	2,400	(2,846,730)	(14,379,569)	466,738,324	

Other than the intangible assets with a net book value of RMB207,248,384 of Ningguo Cement Plant and Baimashan Cement Plant which were injected by Holdings at the establishment of the Company, other intangible assets of the Group were acquired at the time of acquisitions or mergers with subsidiaries.

12. Long-term deferred expenditures

	1 January 2002		1 January 2002	Additions during year	Amortisation during year	31 December 2002	Unamortised term
	Cost	Accumulated amortisation					
Bulk vehicle hire	2,345,625	(2,120,733)	224,892	—	(224,892)	—	—
Employee resettlement expenses	4,899,826	(784,000)	4,115,826	—	(4,115,826)	—	—
Others	6,054,545	(3,667,520)	2,387,025	155,583	(917,444)	1,625,164	2 years
	<u>13,299,996</u>	<u>(6,572,253)</u>	6,727,743	155,583	(5,258,162)	1,625,164	

13. Other long-term assets

Other long-term assets represent amounts of RMB15,000,000 and RMB7,000,000 respectively advanced by the Finance Bureau of Tongling City and Zongyang County respectively of Anhui Province as preliminary preparation expenses required for construction. These advances have been fully repaid subsequent to completion of the preliminary preparation work.

Notes to Financial Statements

*For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")*

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Short-term loans

	31 December 2002	31 December 2001
Secured loans (a)	70,000,000	110,000,000
Guaranteed loans (b)	1,457,144,000	599,250,000
Credit loans	323,309,434	318,170,000
	1,850,453,434	1,027,420,000

(a) As at 31 December 2002, secured loans are secured by machinery and equipment with net book values of approximately RMB108,809,000 (Note 5.9).

(b) As at 31 December 2002, guaranteed loans are guaranteed by Holdings (Note 7.5).

15. Bills payable

	31 December 2002	31 December 2001
Bank drafts	66,978,956	91,560,000

Bills payable, which are due within one year, are not held by any shareholder holding 5% or more (inclusive of 5%) of the voting shares of the Company.

16. Accounts payable, advances from customers and other payables

(1) *Accounts payable and advances from customers*

As at 31 December 2002, accounts payable and advances from customers of the Group do not contain significant payables and advances by any shareholder holding 5% or more (inclusive of 5%) of the voting shares of the Company.

Notes to Financial Statements

For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Other payables

Analysis of balances of other payables is as follows:

Ageing	31 December 2002	
	Amount	%
within 1 year	129,957,833	91.8%
1-2 years	17,390,685	3.4%
2-3 years	1,264,930	0.2%
over 3 years	23,573,199	4.6%
	172,186,647	100.0%

Significant amounts of other payables with an ageing over 3 years include:

- RMB3,444,782 payable to Anhui Province Investment Company for the amounts advanced to Tongling Hailuo by Anhui Province Investment Company prior to the acquisition of Tongling Hailuo by the Company.
- Directors' and supervisors' remuneration of RMB1,001,720 and employee unemployment insurance premium of RMB1,349,822 which were accrued in the previous year but not yet paid.
- Technical upgrade construction fees of Zhongguo Cement Plant of RMB16,250,662 which were outstanding as the warranty period has not yet expired.

Notes to Financial Statements

*For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")*

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Other payables (Continued)

A breakdown of the balances of other payables is as follows:

	31 December 2002
Construction warranty payable	68,848,181
Retirement insurance premium payable	17,312,235
Transportation expenses payable	10,268,051
Land requisition expenses payable	6,280,000
Harbour construction fees payable	4,725,454
Loans from Anhui Province Investment Company payable	3,444,782
Deposits for van covers payable	2,174,549
Listing fees in respect of issuance of A Shares payable	1,325,418
Directors' and supervisors' remuneration payable	1,001,720
Others	56,806,257
Total	172,186,647

As at 31 December 2002, other payables include amounts due to Holdings of RMB1,284,377 (Note 7.5(6)). Save for this, there is no significant amount due to any shareholder holding 5% or more (inclusive of 5%) of the voting shares of the Company.

17. Dividends payable

	31 December 2002	31 December 2001
Dividends on State-owned shares (Note 5.26)	31,124,000	31,124,000
Dividends on H Shares (Note 5.26)	18,050,000	18,050,000
Dividends on A Shares (Note 5.26)	10,000,000	—
Dividends due to minority shareholders of subsidiaries (a)	42,873,900	—
Total	102,047,900	49,174,000

- (a) Pursuant to the respective board resolutions of 10 January 2003 of Zongyang Hailuo, Digang Hailuo and Tongling Hailuo, cash dividends of RMB28,110,000 (including dividends of minority shareholders of RMB13,773,900), RMB30,000,000 (including dividends of minority shareholders of RMB14,700,000) and RMB45,200,000 (including dividends of minority shareholders of RMB14,400,000) respectively were paid by the companies.

Notes to Financial Statements

For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Dividends payable (Continued)

Pursuant to their respective board resolutions of 13 January 2003, cash dividends of RMB250,000,000 and RMB160,000,000 were paid by Ningguo Plant and Baimashan Plant respectively.

18. Taxes payable

	31 December 2002	31 December 2001
EIT payable (prepaid)	48,851,559	(6,081,601)
VAT payable	30,567,964	16,775,579
Limestone resources tax payable	7,552,717	6,526,097
City development tax payable	1,663,430	1,868,538
Real estate tax payable	1,261,981	617,015
Land use tax payable	606,946	850,700
Others	100,714	522,596
Total	90,605,311	21,078,924

19. Accrued expenses

	31 December 2002	31 December 2001
Accrued electricity	46,906,732	19,538,393
Accrued year-end bonuses	5,048,833	2,253,745
Accrued Interest	1,958,548	2,445,238
Accrued loading and unloading expenses	1,099,465	2,733,334
Accrued freight charges	1,359,975	534,972
Accrued audit fees and annual listing fees	1,339,579	726,510
Others	7,321,339	4,681,131
Total	65,034,471	32,913,323

Notes to Financial Statements

*For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")*

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Long-term liabilities due with one year

	31 December 2002	31 December 2001
Long-term loans due within one year (Note 5.21)	509,610,956	291,325,589
Long-term payables due within one year		
— Employment retirement and laid-off expenses (Note 5.22)	11,752,986	—
	521,363,942	291,325,589

21. Long-term loans

Type of loan	Interest rate per annum	Currency	31 December 2002		Guarantee or security
			Foreign currency	RMB equivalent	
Guaranteed loans — bank loans	4.49%–5.94%	RMB		1,002,286,199	Guaranteed by Holdings
	2.98%	USD	14,000,000	116,051,600	Guaranteed by Holdings
Guaranteed loans — State debts turned loans	at prevailing fixed deposit interest rate	+0.3% RMB		80,000,000	Guaranteed by Holdings
Credit loans — bank loans	2.01%–6.03%	RMB		550,844,757	
				1,749,182,556	
Less: Portion due within one year					
Guaranteed loan — bank loans	5.18%–5.94%	RMB		(382,286,199)	
Credit loans — bank loans	5.49%–5.94%	RMB		(127,324,757)	
				(509,610,956)	
Long-term loans, excluding portion due within one year				1,239,571,600	

Notes to Financial Statements

For the year ended 31 December 2002

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5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Long-term payables

	31 December 2002	31 December 2001
Loans from minority shareholders (a)	7,755,000	9,990,228
Employee retirement and laid-off expenses (b)(c)	88,405,231	—
Less: Employee retirement and laid-off expenses due within one year (Note 5.20)	(11,752,986)	—
	84,407,245	9,990,228

- (a) Long-term payable represents loan provided by minority shareholders of Mingzhu Hailuo to this subsidiary, as a kind of financial support to the manufacture and operation of the subsidiary. The long-term payable is unsecured, without guarantee, non-interest bearing without fixed repayment term.
- (b) Pursuant to the purchase agreement entered into between Nanjing Chemical Construction Industry (Group) Co., Ltd. and the Company in relation to the acquisition of certain operating assets and liabilities of one of the former's cement plants, Zhongguo Cement Company shall assume obligations in paying for employee retirement and laid-off expenses of the plant amounting to RMB82,270,900. As of 31 December 2002, the remaining balance of the payable amounted to approximately RMB82,170,836. which is non-interest bearing and repayable within 10 years.
- (c) Pursuant to the purchase agreement entered into between the Plant Administration Bureau of Logistics Division of Nanjing Military Region and the Company in relation to the acquisition of certain operating assets and liabilities of one of the former's cement plants, Nanjing Hailuo shall pay for employee retirement and laid-off expenses of the plant amounting to RMB10,775,000. As of 31 December 2002, the remaining balance of the payable amounted to approximately RMB6,234,395. which is non-interest bearing with no fixed repayment term.

Notes to Financial Statements

For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Share capital

	1 January 2002	Movements in 2002					Sub-total	31 December 2002
		New issue	Rights issue	Bonus issue	Conversion of reserves	Others		
Uncirculated shares								
Promoters	622,480,000	—	—	—	—	—	—	622,480,000
Including:								
State-owned shares	622,480,000	—	—	—	—	—	—	622,480,000
Domestic legal person shares	—	—	—	—	—	—	—	—
Foreign legal person shares	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
Legal person subscription shares	—	—	—	—	—	—	—	—
Internal employee shares	—	—	—	—	—	—	—	—
Preference shares or others	—	—	—	—	—	—	—	—
Including: conversion shares	—	—	—	—	—	—	—	—
Total uncirculated shares	622,480,000	—	—	—	—	—	—	622,480,000
Listed circulated shares								
Domestic listed RMB denominated ordinary shares	—	200,000,000	—	—	—	—	200,000,000	200,000,000
Domestic listed foreign shares	—	—	—	—	—	—	—	—
Overseas listed foreign shares	361,000,000	—	—	—	—	—	—	361,000,000
Others	—	—	—	—	—	—	—	—
Total listed and circulated shares	361,000,000	200,000,000	—	—	—	—	—	561,000,000
Total share capital	983,480,000	200,000,000	—	—	—	—	200,000,000	1,183,480,000

Pursuant to the "Notice regarding the approval of new issue of shares by Anhui Hailuo Cement Company Limited" Fa Xing Zi [2001] No.60 issued by the China Securities Regulatory Commission on 29 August 2001, the Company issued 200,000,000 A shares with a par value of RMB1.00 each on 24 January 2002 at an issue price of RMB4.10 per share.

Notes to Financial Statements

For the year ended 31 December 2002

(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Share capital (Continued)

As at 31 January 2002, the Company received new proceeds raised of RMB820,000,000 from shareholders of domestic listed RMB denominated ordinary shares. After deducting issuing expenses, such as underwriting fees and issuance expenses of RMB26,460,198, net proceeds raised by the Company were RMB793,539,802, of which share capital was RMB200,000,000 and capital reserve was RMB593,539,802 (Note 5.24). The injection of share capital has been verified by Arthur Andersen Hua Qiang Certified Public Accountants in its capital verification report of 31 January 2002.

24. Capital reserve

	1 January 2002	Increases	Decreases	31 December 2002
Share premium (a)	809,240,153	602,216,706	—	1,411,456,859
Provisions for equity investments (b)	—	3,340,720	—	3,340,720
Price differences of connected transactions	25,289,000	—	—	25,289,000
Other capital reserves	73,470	—	—	73,470
	834,602,623	605,557,426	—	1,440,160,049

(a) Increases in share premium in the year represent net proceeds received after deducting issuing expenses from the issuance of A Shares in excess of its par value of RMB593,539,802 (Note 5.23) and net interest received after deducting income tax payable on the application monies for A Shares amounting to RMB8,676,904.

(b) Increases in provisions for equity investments in the year represent the additions of capital reserves picked up by the Company from subsidiaries according to the investment ratio of equity method of accounting as a result of waivers of advances and donations received.

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Surplus reserve

	Statutory surplus reserve (a)	Statutory public welfare reserve (b)	Discretionary surplus reserve (c)	Total
1 January 2002	115,437,630	115,437,630	—	230,875,260
Increases during year (Note 5.26)	61,567,912	59,662,037	—	121,229,949
Decreases during year	—	—	—	—
31 December 2002	177,005,542	175,099,667	—	352,105,209

(a) *Statutory Surplus Reserve*

In accordance with the Company Law and the Company's articles of association, the Company and its subsidiaries shall transfer 10% of their annual statutory net profit prepared in accordance with the PRC Accounting Standards (after offsetting any prior years' losses) to the statutory surplus reserve account respectively. When the balance of such reserve fund reaches 50% of each entity's share capital, any further transfer is optional.

Statutory surplus reserve can be utilised to offset prior years' losses or to increase capital after receiving approvals from relevant departments. Other than offsetting prior years' losses, statutory surplus reserve can also be utilised to increase share capital, such statutory surplus reserve after transfers must be maintained at a minimum of 25% of share capital of each company.

(b) *Statutory Public Welfare Reserve*

In accordance with the Company Law and the Company's articles of association, the Company and its subsidiaries shall transfer 5% to 10% of their annual statutory net profit prepared in accordance with the PRC Accounting Standards (after offsetting any prior years' losses) to a statutory public welfare fund to be utilised for employees' common welfare only and not for appropriation by shareholders. At the time of actual applications, the statutory public welfare reserve is transferred into the discretionary surplus reserve. The amounts so paid shall be counted as assets or expenses of each company.

The board of directors of the Company recommended that 10% and 5% to 10% of statutory net profit of each company be transferred to the statutory surplus reserve and statutory public welfare reserve respectively for 2002. Such profit appropriation proposal is subject to the approval by shareholders in general meeting.

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For the year ended 31 December 2002

(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Surplus reserve (Continued)

- (c) Transfers to discretionary reserve must be proposed by the board of directors and approved by shareholders in general meeting. Discretionary reserve can be utilised to offset prior years' losses or increase share capital after receiving relevant approvals.

26. Unappropriated profit

Balance as at 1 January 2002	161,566,266
Add: Net profit for the year	263,758,426
Less: Transfer to statutory surplus reserve (Note 5.25)	(61,567,912)
Transfer to statutory public welfare reserve (Note 5.25)	(59,662,037)
Appropriations for dividend	(59,174,000)
<u>Balance as at 31 December 2002</u>	<u>244,920,743</u>

According to the Company's Articles of Association, the base for the distribution of dividend will be determined on the lower of unappropriated profit in the statutory accounts prepared in accordance with PRC Accounting Standards and the financial statements prepared in accordance with IFRS. As of 31 December 2002, the Group's profit available for appropriations by shareholders amounted to approximately RMB304,094,743.

The board of directors' meeting held on 6 March 2003 recommended a dividend for 2002 of RMB0.05 per share, aggregating RMB59,174,000. Such appropriation proposal is subject to approval by shareholders in general meeting.

27. Income from and costs of principal operations

Type of products	2002		2001	
	Income from principal operations	Costs of principal operations	Income from principal operations	Costs of principal operations
Cement and cement products				
— domestic sales	2,999,775,744	1,961,170,514	2,058,348,827	1,306,913,463

Notes to Financial Statements

*For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")*

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Income from and costs of principal operations (Continued)

The five largest customers of income from principal operations in 2002 are as follows:

	Amount of Income from principal operations	As a % of income from principal operations
Fuzhou Development Zone Rong Sheng Trading Co., Ltd.	28,829,118	1.0%
Fujian Ningde Zhengfeng Industrial Co., Ltd.	25,652,587	0.9%
Three Tigers Concrete Group Co., Ltd.	24,776,854	0.8%
Taizhou Meibiao Cement Co. Ltd.	24,173,491	0.8%
Zhejiang Zhijiang Cement Co. Ltd.	23,956,668	0.8%
	127,388,718	4.3%

28. Tax and surcharge of principal operations

	2002	2001
City Development Tax and Education Surcharge	19,344,748	14,360,349

29. Finance expenses

	2002	2001
Interest expenses	110,816,037	116,684,062
Less: Interest income	(6,412,746)	(3,799,376)
Foreign exchange gain	(9,774,025)	(2,512,483)
Others	865,722	540,011
	95,494,988	110,912,214

Notes to Financial Statements

For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Investment income

	2002	2001
(Loss) gain on stock investments	(1,214,205)	4,867,101
Gain (loss) on investments in associates	1,463,860	(2,066,284)
Amortisation of differences in equity investments	(2,231,883)	(2,334,188)
Gain on disposals of equity interests (Note 4)	645,240	—
	(1,336,988)	466,629

There is no significant restriction on repatriations of investment income.

31. Subsidy income

	2002 RMB'000	2001 RMB'000
Refund of turnover tax for repayment of foreign currency borrowings (a)	6,816,000	—
VAT refund for PC 42.5 Cement (b)	25,065,237	14,541,833
Financial interest subsidy (c)	4,732,409	6,749,701
Three supporting grants from local government (d)	6,470,412	2,900,000
	43,084,058	24,191,534

- (a) Pursuant to Cai Qi [2002] No. 368 issued by State Administration of Taxation and Ministry of Finance, the Company is entitled to refunds of turnover taxes for partial repayment of foreign currency borrowings due to resumption of part of the tax refund policy by local finance departments to offset loans contracted before 31 December 1994.
- (b) Pursuant to the "three waste" resources composite usage preference policy adopted by the State, the Company is entitled to refunds of VAT on sales of PC 42.5 Cement.
- (c) Financial interest subsidies are interest expense subsidies given by local governments as an encouragement to investments by enterprises and for their technical innovation and improvement projects.
- (d) The three support grants are financial subsidies given by local government for development of enterprises.

5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Income tax

Pursuant to the approval issued by the branch tax office of Anhui Local Tax Bureau (ZhiDiShuiZheng [2003] No.3), the investment in domestic equipment of the integrated technical upgrade project with a daily production of 5,000 tonnes of Ningguo Cement Plant and of the technical upgrade of cement grinders and mixers project of Baimashan Cement Plant, both of which are subsidiaries of the Company, are entitled to offset against RMB1,072,000 of EIT in 2002.

Pursuant to the approval issued by the branch tax office of Anhui Local Tax Bureau (ZhiDiShuiZheng [2003] No.1), the investment in domestic equipment of the technical upgrade project of the cement clinker production line with a daily production of 2,000 tonnes of Digang Hailuo, a subsidiary of the Company, is entitled to offset against RMB6,635,599 of EIT in 2002.

Pursuant to the approval issued by the branch tax office of Anhui Local Tax Bureau (ZhiDiShuiZheng [2003] No.2), the investment in domestic equipment of the ball grinder production technical upgrade project of Changfeng Hailuo, a subsidiary of the Company, is entitled to offset against RMB456,215 of EIT in 2002.

Pursuant to the approval issued by the State Administration of Taxation of Ningbo (YongGuoShuiHan [2002] No.15), the investment in domestic equipment of the technical upgrade project of Ningbo Hailuo, a subsidiary of the Company, is entitled to offset against RMB4,680,981 of EIT in 2002.

Notes to Financial Statements

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5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Supplementary information of cash flow statement

(1) *Cash received from disposal of a subsidiary's equity interest*

On 30 June 2002, the Company disposed of its 59.5% equity interest in Jieyang Hailuo (Note 4). The accounting treatment for the remaining 0.5% equity interest in Jieyang Hailuo held by the Company subsequent to the disposal was changed to the cost method and excluded from its consolidation as from the effective date of disposal. The terms of the disposal were as follows:

	2002
Disposal consideration	1,785,000
Part of disposal consideration satisfied in cash	1,785,000
Decrease in cash upon disposal of subsidiary	214
Decrease in non-cash assets upon disposal of subsidiary:	
— Bills receivable	74,799
— Other receivables	27,342
— Fixed assets, at cost (Note 5.9)	2,754,238
Less: accumulated depreciation (Note 5.9)	(293,273)
— Intangible assets, at net book value (Note 5.11)	2,846,730
Decreases in liabilities upon disposal of subsidiary:	
— Accounts payable	460,274
— Other payables	2,492,738
— Accrued expenses	541,475

Notes to Financial Statements

For the year ended 31 December 2002
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5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Supplementary information of cash flow statement (Continued)

(2) *Cash paid for acquisition of minority interests*

In 2002, the Company acquired an additional 12.8% equity interest in Mingzhu Hailuo (effective 29 November 2002) and an additional 15% equity interest in Ningbo Hailuo (effective 30 November 2002) respectively. The related net cash outflows were as follows:

	2002
Mingzhu Hailuo — net assets ascribed to minority shareholders on date of acquisition	1,513,969
— Difference in equity investment (Note 5.8)	240,931
	1,754,900
Ningbo Hailuo — net assets ascribed to minority shareholders on date of acquisition	27,270,813
— Difference in equity investment (Note 5.8)	(1,364,313)
	25,906,500
<u>Acquisition prices/Net cash outflows</u>	27,661,400

Notes to Financial Statements

For the year ended 31 December 2002
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5. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Supplementary information of cash flow statement (Continued)

(3) *Major investment activities involving non-cash items*

In 2002, the Company acquired some of the operating assets of a cement plant of Nanjing Chemical Construction Industry (Group) Co., Ltd. by means of assumption of liabilities. The assets acquired and liabilities assumed were as follows:

	2002
Assets:	
Bills receivable	4,998,587
Accounts receivable	36,557,939
Less: Provision for bad debts	(17,540,764)
Prepayments	1,886,876
Inventory	24,758,366
Less: Provision for inventory	(5,768,885)
Fixed assets and construction-in-progress	438,612,933
Total assets	483,505,052
Liabilities:	
Short-term loans	85,292,500
Bills payable	2,664,224
Accounts payable	31,134,087
Other current liabilities	33,649,321
Long-term loans	247,861,987
Long-term payables	82,902,933
Total liabilities	483,505,052

Notes to Financial Statements

*For the year ended 31 December 2002
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6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF THE COMPANY

1. Accounts receivable and other receivables

(1) Accounts receivable

	31 December 2002	31 December 2001
Accounts receivable	42,370,674	31,938,187
Less: Provision for bad debts	(4,636,045)	(2,436,879)
	37,734,629	29,501,308

Ageing analysis of accounts receivable and corresponding provisions for bad debts were as follows:

	31 December 2002			31 December 2001		
	Amount	%	Provisions for bad debts	Amount	%	Provisions for bad debts
Ageing —						
within 1 year	36,049,819	85.1%	805,388	25,669,856	80.4%	711,058
1–2 years	52,524	0.1%	10,505	—	—	—
2–3 years	—	—	—	—	—	—
3–4 years	—	—	—	—	—	—
4–5 years	6,268,331	14.8%	3,820,152	6,268,331	19.6%	1,725,821
	42,370,674	100.0%	4,636,045	31,938,187	100.0%	2,436,879

As at 31 December 2002, the total amount of the five largest accounts receivable was RMB17,014,391, accounting for 40.2% of total accounts receivable of the Company.

As at 31 December 2002, the balance of accounts receivable of the Company does not contain significant amount of accounts receivable from any shareholder holding 5% or more (inclusive of 5%) of the voting shares of the Company.

Notes to Financial Statements

For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF THE COMPANY (Continued)

1. Accounts receivable and other receivables (Continued)

(2) Other receivables

	31 December 2002	31 December 2001
Other receivables	454,104,010	72,502,884
Less: Provision for bad debts	(1,809,608)	(572,435)
	452,294,402	71,930,449

Ageing analysis of accounts receivable and corresponding provisions for bad debts were as follows:

	31 December 2002			31 December 2001		
	Amount	%	Provision for bad debts	Amount	%	Provision for bad debts
Ageing —						
within 1 year	449,715,672	99%	115,304	66,936,874	92.3%	205,060
1–2 years	78,778	—	15,756	1,836,875	2.5%	367,375
2–3 years	1,648,875	0.4%	—	1,500,000	2.1%	—
3–4 years	1,500,000	0.3%	750,000	2,229,135	3.1%	—
4–5 years	1,160,685	0.3%	928,548	—	—	—
	454,104,010	100.0%	1,809,608	72,502,884	100.0%	572,435

As at 31 December 2002, other than amounts due from subsidiaries of RMB445,275,238 and amounts due from related companies of RMB204,472, the total amount of the five largest other receivables was RMB6,996,302, accounting for 1.5% of total other receivables of the Company.

As at 31 December 2002, the balance of other receivables of the Company does not contain significant amount of other receivables from a shareholder holding 5% or more (inclusive of 5%) of the voting shares of the Company.

Notes to Financial Statements

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6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF THE COMPANY (Continued)

2. Long-term equity investments

	1 January 2002	Increases during year	Re-classified	Decreases during year	31 December 2002
Long-term equity investments					
— Subsidiaries (a)	2,964,084,654	622,035,054	(9,578)	(524,035,391)	3,062,074,739
— Associates (Note 5.8)	45,959,843	1,463,860	—	—	47,423,703
— Differences in long-term equity investments (Note 5.8)	2,382,524	(1,123,382)	—	(2,231,883)	(972,741)
— Others	—	—	9,578	—	9,578
	3,012,427,021	622,375,532	—	(526,267,274)	3,108,535,279
Less: Provisions for impairment of long-term equity investments	—	—	—	—	—
	3,012,427,021	622,375,532	—	(526,267,274)	3,108,535,279

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6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF THE COMPANY (Continued)

2. Long-term equity investments (Continued)

(a) Subsidiaries

Name of investee company	2002								
	Cost of investment			Movements in accumulated equity				Total	
	At beginning of year	Increases		At beginning of year	Increases		Re-classified	At beginning of year	At end of year
		(decreases) during year	At end of year		(decreases) during year	At end of year			
Baimanshan Cement Plant	428,317,628	—	428,317,628	141,199,538	(82,124,257)	—	59,075,281	569,517,166	487,392,909
Ningguo Cement Plant	649,346,677	—	649,346,677	242,340,906	(136,474,582)	—	105,866,324	891,687,583	755,213,001
Ningbo Hailuo	102,600,000	27,270,813	129,870,813	(4,889,525)	9,339,784	—	4,450,259	97,710,475	134,321,072
Hailuo Plant	206,542,241	—	206,542,241	40,342,376	18,312,619	—	58,654,995	246,884,617	265,197,236
Mingzhu Hailuo	8,681,000	1,513,969	10,194,969	(1,496,880)	(257,326)	—	(1,754,206)	7,184,120	8,440,763
Tongling Hailuo	434,382,119	—	434,382,119	7,661,371	10,527,834	—	18,189,205	442,043,490	452,571,324
Jieyang Hailuo	1,800,000	(1,800,000)	—	(580,088)	589,666	(9,578)	—	1,219,912	—
Wuxi Sales	363,000	—	363,000	(66,998)	277,374	—	210,376	296,002	573,376
Changfeng Hailuo	8,000,000	—	8,000,000	(736,802)	1,557,853	—	821,051	7,263,198	8,821,051
Zhangjiagang Hailuo	34,550,000	—	34,550,000	3,305,576	6,980,581	—	10,286,157	37,855,576	44,836,157
Shanghai Hailuo	45,000,000	—	45,000,000	671,104	(746,070)	—	(74,966)	45,671,104	44,925,034
Nanjing Hailuo	4,962,500	10,000,000	14,962,500	(276,045)	(6,583,236)	—	(6,859,281)	4,686,455	8,103,219
Nantong Hailuo	14,850,000	—	14,850,000	28,783	8,932,427	—	8,961,210	14,878,783	23,811,210
Shanghai Sales	4,500,000	—	4,500,000	752,219	3,768,870	—	4,521,089	5,252,219	9,021,089
Nanchang Construction									
Materials	900,000	—	900,000	(125,455)	51,430	—	(74,025)	774,545	825,975
Digang Hailuo	76,500,000	—	76,500,000	39,454,188	(19,241,355)	—	20,212,833	115,954,188	96,712,833
Jiayang Hailuo	10,640,000	—	10,640,000	(2,818,566)	(3,702,844)	—	(6,521,410)	7,821,434	4,118,590
Zongyang Hailuo	153,625,989	—	153,625,989	2,494,981	4,728,202	—	7,223,183	156,120,970	160,849,172
Chizhou Hailuo	164,332,905	—	164,332,905	—	13,567,786	—	13,567,786	164,332,905	177,900,691
Taizhou Hailuo	10,800,000	—	10,800,000	(2,154,610)	1,644,236	—	(510,374)	8,645,390	10,289,626
Bengbu Hailuo	5,800,000	—	5,800,000	—	(3,597,216)	—	(3,597,216)	5,800,000	2,202,784
Wenzhou Hailuo	47,500,000	—	47,500,000	—	—	—	—	47,500,000	47,500,000
Fenyi Hailuo	25,500,000	—	25,500,000	84,522	(940,122)	—	(855,600)	25,584,522	24,644,400
Shangyu Hailuo	14,400,000	—	14,400,000	—	(144,351)	—	(144,351)	14,400,000	14,255,649
Jiande Hailuo	45,000,000	—	45,000,000	—	(1,477,781)	—	(1,477,781)	45,000,000	43,522,219
Zhongguo Cement Co.	—	90,000,000	90,000,000	—	324,829	—	324,829	—	90,324,829
Lushan Hailuo	—	31,000,000	31,000,000	—	1,200,530	—	1,200,530	—	32,200,530
Yangwan Hailuo	—	47,500,000	47,500,000	—	—	—	—	—	47,500,000
Nanchang Hailuo	—	18,000,000	18,000,000	—	—	—	—	—	18,000,000
Huaining Hailuo	—	48,000,000	48,000,000	—	—	—	—	—	48,000,000
Total	2,498,894,059	271,484,782	2,770,378,841	465,190,595	(173,485,119)	(9,578)	291,695,898	2,964,084,654	3,062,074,739

Notes to Financial Statements

*For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")*

6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF THE COMPANY (Continued)

3. Income from and costs of principal operations

Type of products	2002		2001	
	Income from principal operations	Costs of principal operations	Income from principal operations	Costs of principal operations
Cement and cement products				
— domestic sales	685,424,539	660,209,357	649,682,600	621,502,334

4. Investment income

	2002	2001
(Loss) gain on stock investments	(1,214,205)	4,867,101
Gain (loss) on investments in associates	1,463,860	(2,066,284)
Investment income from subsidiaries	345,409,552	265,526,335
Amortisation of differences in equity investments	(2,231,883)	(2,334,188)
Gain on disposals of equity interests (Note 4)	645,240	—
	344,072,564	265,992,964

There is no significant restriction on repatriations of investment income.

Notes to Financial Statements

For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

7. RELATIONSHIPS BETWEEN RELATED PARTIES AND THEIR TRANSACTIONS

Other than the subsidiaries and the associates set out in Notes 4 and 5.8 respectively, the related parties of the Company also include:

1. Related party having a control relationship

Name of company	Place of registration	Principal operations	Relationship with the Company	Economic nature or type	Legal representative
Anhui Conch Holdings Company Limited ("Holdings")	Wuhu City, Anhui Province	Asset management, investment, financing and properties transactions, development and technical service of construction materials, chemical industrial products	Parent of the Company	State-owned	Guo Wensan

2. Registered capital of related party having a control relationship and its changes

	1 January 2002	Increase during year	Decrease during year	31 December 2002
Holdings	800,000,000	—	—	800,000,000

3. Shares held by related party having a control relationship and its changes

	1 January 2002		Increase during year		Decrease during year		31 December 2002	
	Amount	%	Amount	%	Amount	%	Amount	%
Holdings	622,480,000	63.3%	—	—	—	(10.7%)	622,480,000	52.6%

7. RELATIONSHIPS BETWEEN RELATED PARTIES AND THEIR TRANSACTIONS (Continued)

4. Nature of related parties not having a control relationship

Name of related party	Nature of relationship
Anhui Hailuo Construction and Installation Co., Ltd.	Subsidiary of Holdings
Wuhu Conch Profiles and Science Co., Ltd.	Subsidiary of Holdings
Anhui Ningchang Packaging Material Bags Co., Ltd.	Subsidiary of Holdings
Baimashan Labouring and Service Co., Ltd.	Subsidiary of Holdings
Baimashan Transportation Co., Ltd.	Subsidiary of Holdings
Anhui Conch Industry Co., Ltd.	Subsidiary of Holdings
Anhui Ningguo Hailuo Transportation Co., Ltd.	Subsidiary of Holdings
Wuhu Hailuo Plastic Products Co., Ltd.	Subsidiary of Holdings
Ningguo Hailuo Hotel	Unit of Holdings

5. Connected transactions

(1) Pricing policy

The pricing basis of the transactions between the Company and the related party is determined by market prices.

(2) Purchases of goods

	2002	2001
— Anhui Ningchang Packaging Material Bags Co., Ltd.	60,716,069	63,244,475
— Wuhu Hailuo Plastic Products Co., Ltd.	10,918,235	6,681,524
— Wuhu Conch Profiles and Science Co., Ltd.	1,906,297	10,719,134
— Anhui Conch Industry Co., Ltd.	1,347,060	1,582,612
— Baimashan Labouring and Service Co., Ltd.	1,259,272	—
	76,146,933	82,227,745

Notes to Financial Statements

For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

7. RELATIONSHIPS BETWEEN RELATED PARTIES AND THEIR TRANSACTIONS (Continued)

5. Connected transactions (Continued)

(3) Sales of products

	2002	2001
— King Bridge Cement	3,117,924	11,591,099
— Wuhu Conch Profiles and Science Co., Ltd.	2,285,844	—
— Anhui Hailuo Construction and Installation Co., Ltd.	1,290,221	—
	6,693,989	11,591,099

(4) Services rendered

	2002	2001
— Anhui Hailuo Construction and Installation Co., Ltd.	16,366,509	11,584,523
— Baimashan Transportation Co., Ltd.	4,672,017	11,240,618
— Anhui Ningguo Hailuo Transportation Co., Ltd.	—	2,663,213
	21,038,526	25,488,354

(5) Transactions with Holdings

	2002	2001
Trademark licence fees paid	1,513,500	1,513,500
Composite services fees paid	2,313,548	3,668,213
Clay evacuation fees paid	—	294,609
Accounts receivable disposed	—	57,987,767
Loan guarantees provided to the Group (Note 5.14,21)	2,655,481,799	1,426,190,000

Notes to Financial Statements

For the year ended 31 December 2002
(Unless otherwise stated, the currency denomination is in Renminbi "RMB")

9. COMMITMENTS

1. Capital commitments

At the balance sheet, capital commitments contracted but not provided for in the financial statements were as follows:

	2002	2001
Buildings, machinery and equipment		
— Authorised and contracted for	680,397	591,838
— Authorised but not contracted for	1,178,815	402,184
	1,859,212	994,022

2. License agreement

As of 31 December 2002, the Company is committed to pay trademark licence fee to Holdings at RMB1,513,000 per annum. The licence agreement did not indicate the expiration date.