

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30TH JUNE, 2002

(With comparatives for the six months ended 30th June, 2001 and as of 31st December, 2001)  
(Amounts in thousands of Renminbi ("RMB"), unless otherwise stated)

### 1. Accounting policies and basis of preparation

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

The principal accounting policies adopted in preparing the interim financial statements of the Group are the same as those adopted in the preparation of the annual financial statements as of and for the year ended 31st December, 2001.

The basis of accounting differs from that used in the preparation of the Group's statutory accounts which are prepared in accordance with Accounting Standards for Enterprises and the Accounting Regulations of the People's Republic of China (the "PRC") for Business Enterprises ("Statutory Accounts"). The adjustments made to conform the Statutory Accounts of the Group to IFRS are shown in Note 13.

Cost that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

These interim financial statements should be read in conjunction with the 2001 annual financial statements.

### 2. Principles and basis of consolidation

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

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

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

As of 30th June, 2002, the condensed consolidated financial statements of the Group included the financial statements of the Company and the following subsidiaries:

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Anhui 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
Anhui Ningguo Cement Plant 安徽省寧國水泥廠	PRC 21st January, 1985	100% (directly held)	RMB 649,347,000	Manufacture and sale of clinker and cement products

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Ningbo Conch 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
Anhui Hailuo Cement Product Co., Ltd. ("Hailuo Plant") 安徽海螺水泥有限公司	PRC 23rd June, 1994	75% (directly held)	US\$ 29,980,000	Manufacture and sale of clinker and cement products
Anhui Tongling Conch 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 Conch Mingzhu Cement Co., Ltd. ("Mingzhu Cement") 上海海螺明珠水泥有限責任公司	PRC 3rd April, 1995	63.4% (directly held)	RMB 13,710,000	Manufacture and sale of clinker and cement products
Anhui Conch 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
Ningbo Conch Free-trade Zone Trading Co., Ltd. 寧波保稅區海螺貿易公司	PRC 9th July, 1998	100% (indirectly held)	RMB 1,000,000	Trading and sale of clinker and cement products
Wuxi Conch Cement Sales Co., Ltd. 無錫市海螺水泥銷售有限公司	PRC 30th July, 1998	60.5% (directly held)	RMB 600,000	Sale of clinker and cement products
Anhui Changfeng Conch 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 Conch 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
Shanghai Conch 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 Conch Cement Co., Ltd. 南京海螺水泥有限公司	PRC 20th November, 1998	99.75% (directly held) 0.25% (indirectly held)	RMB 15,000,000	Manufacture and sale of clinker and cement products

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Nantong Conch 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 Conch 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 Conch 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 Conch 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 Conch 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 Conch Cement Co., Ltd. 安徽縱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
Anhui Chizhou Conch Cement Co., Ltd. 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 Conch 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 Conch 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 Conch 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

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
Fenxi Conch Cement Co., Ltd. 分宜海螺水泥有限公司	PRC 20th August, 2001	51% (directly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products
Shangyu Conch Cement Co., Ltd. 上虞海螺水泥有限公司	PRC 14th November, 2001	90% (directly held) 10% (indirectly held)	RMB 16,000,000	Manufacture and sale of clinker and cement products
Jiande Conch Cement Co., Ltd. 建德海螺水泥有限公司	PRC 28th November, 2001	90% (directly held) 10% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products
Nanchang Conch Cement Co., Ltd. * 南昌海螺水泥有限公司	PRC 18th January, 2002	90% (directly held) 10% (indirectly held)	RMB 20,000,000	Manufacture and sale of clinker and cement products
Jiangxi Lushan Conch Cement Co., Ltd. * 江西廬山海螺水泥有限公司	PRC 1st February, 2002	98.7% (directly held) 1.3% (indirectly held)	RMB 31,420,000	Manufacture and sale of clinker and cement products
Taizhou Yangwan Conch Cement Co., Ltd. * 泰州楊灣海螺水泥有限公司	PRC 20th June, 2002	95% (directly held) 5% (indirectly held)	RMB 50,000,000	Manufacture and sale of clinker and cement products

\* Newly set-up subsidiaries in January to June 2002.

### 3. Profit before taxation and minority interests

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

	For the six months ended 30th June, 2002	
	(Unaudited) RMB'000	2001 (restated, Note 16) (Unaudited) RMB'000
Interest expenses on borrowings	61,524	54,108
Less: Amounts capitalised in construction-in-progress	(4,907)	(1,409)
Finance cost	56,617	52,699
Amortisation of leasehold land	4,097	2,978
Depreciation of property, plant and equipment	120,660	103,828
Amortisation of intangible assets	4,835	5,209

#### 4. Taxation

Individual companies within the Group are generally subject to Enterprise Income Tax ("EIT") at 33 per cent on taxable income determined according to the PRC tax laws except Hailuo Plant, which is a sino-foreign equity joint venture and entitled to full exemption from EIT for the first two years and 50 per cent reduction for the next three years commencing from the first profitable year of operation after offsetting all tax losses carried from previous years (at most five years) ("Tax Holidays"). 1999 was the last year of this subsidiary in the Tax Holidays, the applicable EIT rate is 15 per cent. In 2000, this subsidiary was recognised as advanced technology enterprise with foreign investment. Hence according to the tax regulations, Hailuo Plant was granted 50 per cent reduction for another three years after the Tax Holidays expired. Therefore the applicable EIT rate in 2002 remains at 15 per cent (2001: 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. Pursuant to Cai Shui [2000] No.99 issued in October 2000, the above preferential tax treatment expired on 31st December, 2001. Effective from 1st January, 2002, the applicable tax rate of the Company is 33 per cent (2001: 15 per cent).

During the interim reporting period, income tax expense in the condensed consolidated income statement comprised:

	<b>For the six months ended 30th June,</b>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
Income tax expense		
– current	<b>75,122</b>	39,715
– refund	–	(19,270)
	<b>75,122</b>	20,445

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

As of 30th June, 2002, there was no material unprovided deferred tax.

#### 5. Dividends

During this interim reporting period, the shareholder's meeting approved the dividend appropriation for 2001 of approximately RMB49,174,000 (RMB0.05 per share) (corresponding period of 2001: RMB29,504,400 (RMB0.03 per share)), which has been paid-off as of 30th June, 2002.

The directors do not recommend any interim dividend for the six months ended 30th June, 2002 (corresponding period of 2001: nil).

#### 6. Earnings per share

The calculation of basic earnings per share was based on the unaudited consolidated net profit of approximately RMB103,480,000 for the six months ended 30th June, 2002 (corresponding period of 2001: approximately RMB93,084,000) divided by the weighted average number of 1,158,065,635 ordinary shares (corresponding period of 2001: 983,480,000 shares) in issue during the period.

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

## 7. Share Capital

Pursuant to the approval document [2002] 60 issued by China Securities Regulatory Commission dated 21st January, 2002, the Company issued 200 million domestic investment ordinary shares ("A shares") at the price of RMB4.1 each (with a par value of RMB1 per share), which were listed on the Shanghai Stock Exchange on 7th February, 2002.

The details of share capital are as follows:

	Number of shares ('000)		Amount (RMB'000)	
	As of 30th June, 2002 (Unaudited)	As of 31st December, 2001 (Audited)	As of 30th June, 2002 (Unaudited)	As of 31st December, 2001 (Audited)
Registered, issued and fully paid				
– State-owned shares with a par value or RMB1 each	622,480	622,480	622,480	622,480
– A shares with a par value of RMB1 each	200,000	–	200,000	–
– Overseas public shares with a par value of RMB1 each ("H shares")	361,000	361,000	361,000	361,000
	<b>1,183,480</b>	983,480	<b>1,183,480</b>	983,480

State-owned shares, A shares and H shares rank pari passu in all respects, except that state-owned shares and A shares are owned by PRC nationals and legal persons, while H shares are owned and traded by overseas investors; and dividends on state-owned shares and A shares are payable in RMB, while dividends on H shares are payable in Hong Kong dollars.

## 8. Reserves

### (a) Capital reserve

	As of 30th June, 2002 (Unaudited) RMB'000	As of 31st December, 2001 (Audited) RMB'000
Share premium (i)	1,204,286	597,796
Surplus arising from related party transaction	25,289	25,289
	<b>1,229,575</b>	623,085

#### (i) Share premium

The share premium represented net assets acquired from Anhui Conch Holdings Company Limited in excess of par value of state-owned shares issued and proceeds from the issue of A shares and H shares in excess of their par value, net of expenses relating to the listing of the shares such as underwriting commissions, organisation expenses, fees for professional advisors and promotional expenses.

**(b) Statutory Common Reserve Funds**

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

**(c) Statutory Common Welfare Funds**

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

**(d) Unappropriated profit**

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 profits determined in accordance with (i) PRC accounting standards and regulations, and (ii) IFRS or Hong Kong Statements of Standard Accounting Practice.

There is no appropriation of net profit to SCR and SCW during the six months ended 30th June, 2002 (corresponding period of 2001: nil).

**9. Trade receivables**

	<b>As of 30th June, 2002 (Unaudited) RMB'000</b>	As of 31st December, 2001 (Audited) RMB'000
Accounts receivable	76,035	70,604
Bank acceptance notes receivable	142,137	103,960
Less: Provision for bad and doubtful debts	(6,201)	(8,453)
	<b>211,971</b>	166,111

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

Ageing analysis of accounts receivable was as follows:

	<b>As of 30th June, 2002 (Unaudited) RMB'000</b>	As of 31st December, 2001 (Audited) RMB'000
Ageing		
– not exceeding one year	65,554	57,209
– more than one year but not exceeding two years	1,155	–
– more than two years but not exceeding three years	528	4,459
– more than three years	8,798	8,936
	<b>76,035</b>	70,604

**10. Trade payables**

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

**11. Supplementary information to condensed consolidated cash flow statement****(a) Disposal of equity investment in a subsidiary**

As of 30th June, 2002, the Company disposed 59.5 per cent equity interest in Jieyang Conch Cement Co., Ltd. The fair value of related assets and liabilities transferred, as well as the net cash flow were as follows:

	<b>(Unaudited)</b> <b>RMB'000</b>
Leasehold land	2,847
Property, plant and equipment	2,461
Prepayments and other receivables	27
Trade receivables	75
Other payables and accruals	(3,034)
Trade payables	(460)
Minority interests (Note 11(b))	(766)
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Net assets	1,150
Less: 0.5 per cent equity interest retained	(10)
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59.5 per cent equity interest transferred	1,140
Add: Gain on disposal of equity investment in the subsidiary	645
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Total consideration	1,785
Less: Amount satisfied by receivables from the succeeding shareholders	(1,785)
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Net cash flow from disposal of equity investment in the subsidiary	-
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## (b) Analysis of changes in financing activities during the six months ended 30th June, 2002:

	For the six months ended 30th June, 2002				2001
	Share capital and reserves	Bank borrowings	Minority interests	Total	Total (restated, Note 16)
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Beginning of period	2,084,446	2,416,758	800,305	5,301,509	3,999,828
Financing activities involving cash flows:					
Issue of ordinary shares less expenses	809,847	-	-	809,847	-
Net cash inflow from financing of bank borrowings	-	259,128	-	259,128	163,622
Payment of dividends	(49,174)	-	-	(49,174)	(29,504)
Payment of dividends to minority interests	-	-	(25,776)	(25,776)	-
	760,673	259,128	(25,776)	994,025	134,118
Non-financing or non-cash activities:					
Increase in payables of share offer expenses	(3,357)	-	-	(3,357)	-
Profit for the period	103,480	-	-	103,480	93,084
Profit attributable to minority interests	-	-	41,876	41,876	20,811
Additions of minority interests from acquisition of subsidiaries	-	-	-	-	310,518
Additions of borrowings from acquisition of subsidiaries	-	-	-	-	200,000
Decrease of minority interests from disposal of a subsidiary (Note 11(a))	-	-	(766)	(766)	-
Others	-	-	-	-	(46)
	100,123	-	41,110	141,233	624,367
End of period	2,945,242	2,675,886*	815,639	6,436,767	4,758,313

\* As of 30th June, 2002, borrowings of the Group bore annual interest ranging from 2.28 per cent to 9.53 per cent. Approximately RMB1,738,190,000 and RMB213,473,000 of the borrowings were guaranteed by Anhui Conch Holdings Company Limited ("Holdings") and a third party respectively. Approximately RMB130,000,000 of the borrowings were guaranteed by the Group's machinery and equipment with an aggregate net book value of approximately RMB113,445,000. The remaining borrowings of approximately RMB594,223,000 were drawn down under credit.

## 12. Related party transaction

- (a) Apart from the transactions disclosed in 11(b), details of transactions between the Group and Holdings were as follows:

	For the six months ended 30th June,	
	2002	2001
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Trademark licence fees paid to Holdings	757	757
Clay evacuate fees paid to Holdings	150	120
Composite services fees paid to Holdings	1,776	2,149

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

	For the six months ended 30th June,	
	2002	2001
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Purchase of cement packaging materials	43,621	34,592
Purchase of construction services	6,710	–
Purchase of transportation services	2,060	2,696

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

	For the six months ended 30th June,	
	2002	2001
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales of cement products		
– Anhui King Bridge Cement Co., Ltd.	3,120	7,055

## (d) Due from/to related parties

<i>Name of related party</i>	<i>Nature of relationship</i>	
Anhui Conch Construction Material Co., Ltd. ("Conch Construction Material")	Subsidiary of Holdings	
Anhui Conch Construction and Installation Co., Ltd ("Conch Construction and Installation")	Subsidiary of Holdings	
Anhui Ningchong Packaging Material Bags Co., Ltd. ("Ningchong Packaging")	Subsidiary of Holdings	
Wuhu Conch Plastic Products Co., Ltd. ("Wuhu Plastic")	Subsidiary of Holdings	
Shanghai Lingqiao Enterprise Development Co., Ltd. ("Shanghai Liangqiao")	Minority shareholder of Mingzhu Cement	
Shandong Nanhua Co., Ltd. ("Shandong Nanhua")	Minority shareholder of Mingzhu Cement	
	<b>As of 30th June, 2002 (Unaudited) RMB'000</b>	As of 31st December, 2001 (Audited) RMB'000
Due from related parties		
Conch Construction Material	<b>345</b>	398
Conch Construction and Installation	<b>2,705</b>	9,160
Other related parties	<b>3,197</b>	3,027
	<b>6,247</b>	12,585
Due to related parties		
Ningchong Packaging	<b>7,695</b>	1,549
Wuhu Plastic	<b>2,331</b>	5,613
Other related parties	<b>6,744</b>	2,739
	<b>16,770</b>	9,901
Long-term payables to related parties		
Shanghai Lingqiao	<b>1,196</b>	1,196
Shandong Nanhua	<b>8,794</b>	8,794
	<b>9,990</b>	9,990

**13. Impact of IFRS adjustment on net profit and net assets**

	Net profit for the six months ended 30th June,		Net assets as of	
	2002	2001 (restated, Note 16)	30th June, 2002	31st December, 2001
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Audited) RMB'000
As reported in the Group's statutory accounts	101,561	91,118	3,118,575	2,210,524
Impact of adjustment:				
– dividends proposed in subsequent period	–	–	–	49,174
– reversal of revaluation surplus of leasehold land	1,919	1,966	(173,333)	(175,252)
As restated in the Group's IFRS financial statements	103,480	93,084	2,945,242	2,084,446

**14. Commitments****a) Capital commitments**

Capital commitments relating to purchases of machinery and equipment for production purposes as of 30th June, 2002 were as follows:

	As of 30th June, 2002 (Unaudited) RMB'000
Contracted but not provided for	975,347
Authorised but not contracted for	768,384
	<b>1,743,731</b>

**(b) License agreement**

As of 30th June, 2002, the Company is committed to pay trademark license fee to Holdings at RMB1,513,000 per annum. The license agreement does not indicate the expiration date.

**15. Contingent liabilities**

As of 30th June, 2002, undue bank acceptances that have been endorsed or discounted amounted to approximately RMB126,519,134.

**16. Comparative figures**

In accordance with IFRS 40 "Investment Property" effective from 1st January, 2001, valuation of leasehold interest in land is no longer permitted. Therefore, the Group stated 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 condensed consolidated financial statements for the six months ended 30th June, 2001 have been restated to conform to the new policy.