

1. Formula related to the calculation of weighted average capital cost of company---WACC

(1)Calculate WACC

$$WACC = K_e \times \frac{E}{E+D} + K_d \times \frac{D}{E+D}$$

Where: K_e --- cost of equity
 K_d --- cost of Long-term debt
 E ---- Equity
 D ----Long-term Debt

(2).Calculate K_e

--- Dividend model

$$K_e = \frac{d_1}{P_0} + g$$

Where: d_1 ----dividend to be paid in one year
 g ----average rate of growth in dividends
 P_0 ---- current ex div market price of the share

(3).Calculation of g

$$g = (g_1 + g_2 + g_3 + \dots + g_n) / n$$

2. Dividend paid in 2002, 2003, 2004, 2005

Dividend Paid Each Year

Year	2002	2003	2004	2005
dividend (yuan per share)	0.05	0.1	0.13	0.07

Source: http://cn.finance.yahoo.com/fin/finance_cngegu0710_more_fhsg.html?s=600585.ss

$$g_1 = (0.1 - 0.05) / 0.05 = 100\%$$

$$g_2 = (0.13 - 0.1) / 0.1 = 30\%$$

$$g_3 = (0.07 - 0.13) / 0.13 = -46.15\%$$

$$g = (g_1 + g_2 + g_3) / 3 = (100\% + 30 - 46.15) / 3 = 27.9\%$$

3. Debt and Equity in 2005 (data source: 2005 Financial statement of ACCCL)

---Amount of Debt and equity

Long-term Debt=RMB 4,990,774,182 yuan

Equity=RMB 5,711,434,357 yuan

Cost of long-term debt(Kd) of Conch Group Limited =5.41%

(Data source: 2005 Financial statement of ACCCL)

----Proportion of Long term debt and equity

Proportion of long-term debt

$$=4,990,774,182 / (4,990,774,182 + 5,711,434,357)$$

$$=47\%$$

$$\text{Proportion of equity} = 1 - 47\% = 53\%$$

4. Calculate Ke

Market share price (P_0) at the date of 31st of December 2005)

= RMB 8.32 yuan

(Source: <http://cn.finance.yahoo.com/q/hp?s=600585.SS&c=2005&a=10&b=8&f=2005&d=11&e=31&g=d>)

$$K_e = \frac{d_1}{P_0} + g = \frac{d_0(1+g)}{P_0} + g$$

$$= \frac{0.07 \times 1.279}{8.32} + 0.279 = 28.9\%$$

5. Calculation of WACC

$$WACC(2005) = 28.9\% \times 53\% + 5.41\% \times 47\%$$

$$= 15.32\% + 2.54\% = 17.86\%$$