Management Discussion and Analysis

Macro Economic Environment

Being benefited from the combined effect of the State's proactive fiscal policy, positive monetary policy and the increased domestic demand arising from increasing investment, plus appropriate adjustments and reforms in the State's income allocation system, the macro economic environment of the PRC turned around in 2000. The GDP for the year exceeded US$1,000 billion for the first time, with an expected growth of approximately 8.2%, which is 1.1% more than the previous year and represents a rebound after seven years of decline.

However, the growth of the macro economic environment is not steady as the growing demand and investment appeared not to be too strong and deflation has not been eliminated fundamentally.

Business Environment

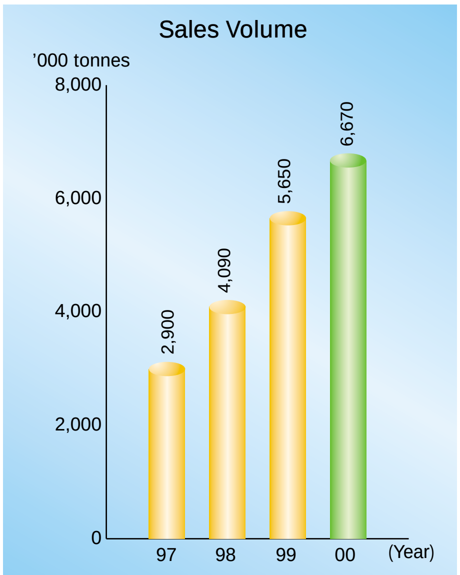
The aforesaid economic growth of the PRC boosted market demand and benefited the cement industry. In addition, with the continued implementation of the industry policy to control overall production and optimize industrial structure, small cement plants with a total production capacity of 70 million tonnes were shut down by the end of 2000. The cement market integration was accelerated, which had positive impact on the development of large cement enterprises.

In 2001, the State's proactive fiscal policy will be continued to secure economic growth. Meanwhile, further optimization measures for the cement industry will be carried out to close down 1,900 small cement kilns with a total production capacity of 50 million tonnes. It is also expected that as a result of the economic growth, investment in infrastructure and construction projects in urban and rural area will increase substantially and the real estate industry will become a focus of private investment, which will further enhance the development of the cement industry.

Operating Results

Growth of Sales

During the reported period, the Group produced 5.87 million tonnes of cement and 5.34 million tonnes of clinker, representing a growth of about 37.36% and 14.44% as compared with last year respectively. Production of clinker amounted to 4.68 million tonnes for the year while production utilization rate reached 114%. Sales of cement and clinker in terms of volume amounted to 6.67 million tonnes, of which sales of cement amounted 5.095 million tonnes while sales of clinker amounted to 1.573 million tonnes, representing an increase of 36.3% and a decrease of 17.8% respectively (Figure 1).

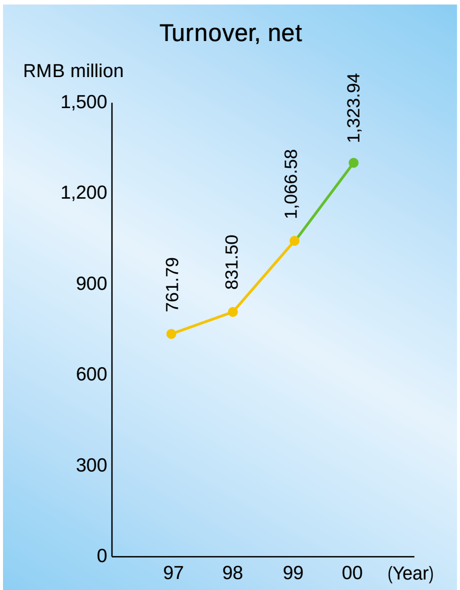


(Figure 1)

The continued growth in production and sales were attributable to the implementation of appropriate market strategy during the unfavourable market conditions in the past two years and the grinding mill-based market expansion policy. With effective market establishment and further increase of the market share, the Group attained balance between production and sales and fully utilized its production capacity. During the reported period, by way of capacity expansion and technological innovation of the grinding mills in Ningbo and Nantong, the establishment and development of market continued to be strengthed. As a result, the Group's grinding capacity was increased by 1.05 million tonnes. By the end of 2000, cement production capacity of the Group reached 8.15 million tonnes.

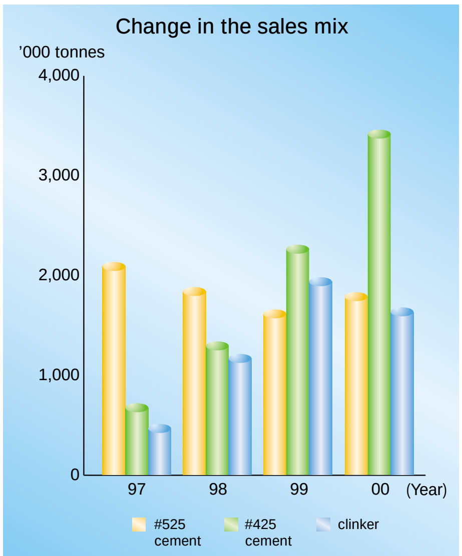
The Group's net income from operating activities for the reported period was RMB1,323.94 million, representing an increase by 24.1% as compared to the previous year (Figure 2). RMB1,080.69 million, or 81.5% of the net income was attributable to sales of cement, while RMB245.54 million, or 18.5%, was attributable to sales of clinker.

Since the incorporation of the Company in 1997, the Group has been capitalizing on and capturing the prime opportunity of market integration to expand its operations rapidly which resulted in continuous growth in both sales and operating income. Accumulated growth in sales volume amounted to 123% which represented an average growth rate of 30.8% per annum, while that for operating income was 74% with an average of 18.5%.



(Figure 2)

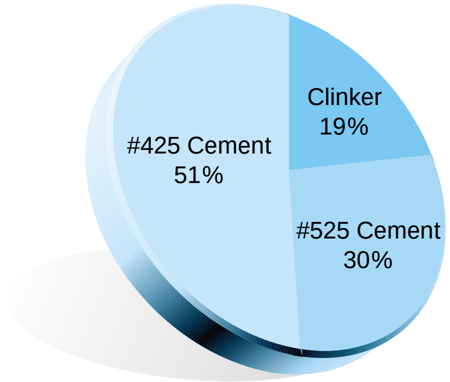
In view of changes of the macro economic environment and the market conditions, the Group adjusted its product mix in a timely manner. Apart from taking steps to ensure the steady growth in the sales of high-grade cement such as #525 grade cement, the Group also capitalised on the marketing functions of its established grinding mills and increased the proportion of sales of #425 grade cement in response to the increasing market demand arising from agricultural and irrigation construction projects, urban real estate development and infrastructure construction in China. During the reported period, Shanghai Hailuo, Nantong Hailuo and Zhangjiagang Hailuo commenced operations and achieved to a satisfactory extent the object of establishing new market. As a result, sales of cement increased with a growth rate of 12% and 53% for #525 cement and #425 cement respectively, while the sales of clinker declined by 17.8% (Figure 3). Compared among themselves, sales proportion of #525 cement decreased by 1.4%, while that of clinker dropped by 10.2% and the proportion of #425 cement climbed by 11.6%.



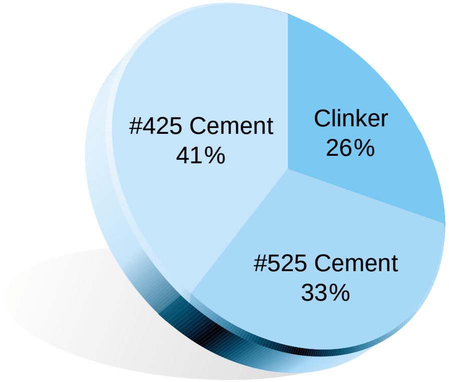
(Figure 3)

The Group did not export any product during the reported period. This is mainly due to the declining prices in unfavourable markets of South-east Asia and its neighbourhood, which was yet to recover from the impact of the Asian financial crisis. The Group will closely monitor changes in the international cement market.

Sales by product in 2000



Sales by product in 1999



Market Expansion

During the year, the Group strengthened its efforts to pursue a continuous expansion of market share by promoting direct sales of Ningguo Plant, Baima Shan Plant and Tongling Hailuo and increasing turnover of its sales outlets and capitalized on the marketing of its established grinding mills. Sales attributable to Anhui and Zhejiang markets increased by 24.1% and 18.6% respectively as compared with last year, accounting for 33.8% and 25% of total sales of the Group. The Group will continue to secure the leading sales of these two markets. In that year, the Group, through the establishment of grinding mills in Nantong and Zhangjiagang, increased its sales volume in the Jiangsu area by 27.1%, which also represented an increase by 4% in the proportion of such sales to the Group's total sales. For the past two consecutive years (i.e. 1998 and 1999), sales attributable to Shanghai continued to decrease in the proportion of the Group's total sales. During the reported period, due to a rise in the sales volume of Shanghai Hailuo grinding mill, the sales volume attributable to Shanghai increased by 51.1% and the proportion of the sales attributable to Shanghai to the Group's total sales was increased to 11% (in 2000) from 8.5% (in 1999).

By the end of the year, a production line with annual production capacity of 750,000 tonnes was completed for Ningbo Hailuo Cement Co., Ltd. ("Ningbo Hailuo"), which increased Ningbo Hailuo's aggregate grinding capacity to 1.5 million tonnes. On the other hand, Nantong Hailuo Cement Co., Ltd. ("Nantong Hailuo") increased its grinding capacity by 300,000 TPA through capacity expansion and technological innovation measures and its aggregate grinding capacity reached 600,000 TPA. During the year, Nanchang Hailuo Construction Materials Trading Company Limited was established in Nanchang, Jiangxi Province, for the construction of a 80,000 tonnes transit facility. Fujian Jianyang Conch Cement Co. Ltd. was established in Jianyang, Fujian Province, for the construction of a grinding facility with an annual production capacity of 300,000 tonnes. In addition, Taizhou Hailuo Cement Co., Ltd. was established in Taizhou, Jiangsu Province, for the construction of a grinding facility with an annual production capacity of 300,000 tonnes. The Group also strengthened the resale business and market development of Shanghai Hailuo Cement Sales Co., Ltd. By way of the construction of the above grinding and transit facilities, the Group's ability to continue to expand its market share will be enhanced. In order to further strengthen its market network, the Group will formulate a plan of identifying suitable locations and to build or modify grinding mills, along the main railways of Anhui and Zhejiang.

In addition, the Group will also pay close attention to the progress of development of the Mid-West Regions of the PRC and will conduct necessary market survey for the area.

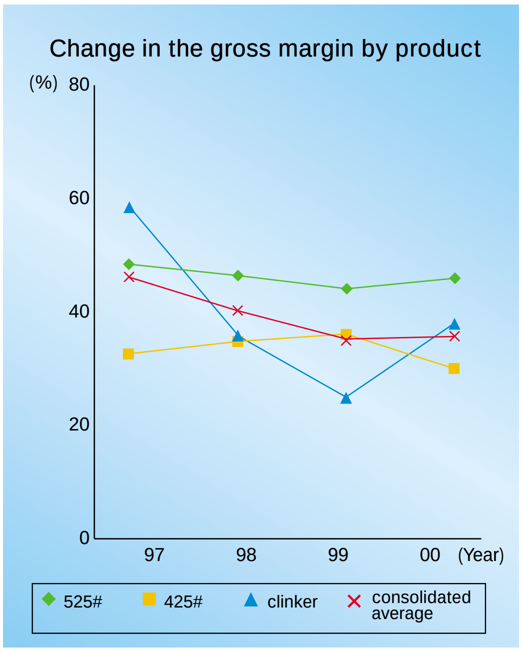
Performance

(RMB'000)	**2000**	1999	Percentage Change (%)
Turnover, Net	**1,323,935**	1,066,584	24
Gross Profit	**484,489**	378,579	28
Net Profit	**113,772**	58,588	94
Gross Profit Margin	**36.6%**	35.5%	N/A
Net Profit Margin	**8.6%**	5.5%	N/A

Improved Gross Profit

Gross profit of the Group amounted to RMB484.49 million, representing an increase of 28% as compared to the previous year. Gross profit margin was 36.6%, representing an increase of 1.1% as compared to the previous year.

Since the gross profit margin of cement products remained roughly the same, growth in the gross profit margin is primarily attributable to growth in the gross profit margin of clinker products.

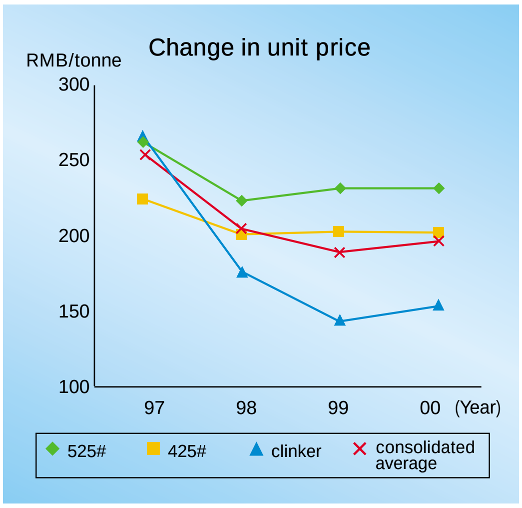


Profit Growth

Net profit of the Group after tax and minority interests increased by 94% to RMB113.77 million, representing the first significant improvement since the listing of the Company. Net profit margin was 8.6%, surged approximately 3% as compared to the previous year.

The reasons for the remarkable performance of the Group included the steadily increasing product price with a rise in consolidated unit price by RMB9 per tonne resulting from the improvement in the macro economic environment and the business condition, bringing expansion opportunities to the Group. The more fundamental reason for the Group's substantial profit growth, was however, the successful implementation of its operating strategy to set up clinker production plant in areas with limestone reserves and grinding mills in areas without limestone reserves. The strategy enabled realisation of its marketing functions, optimal utilisation of productivity and continued sales growth, which reduced and diluted operating costs and related expenditures.

Remarkable improvement was recorded during the reported period for Tongling Hailuo and Ningbo Hailuo, which had brought material adverse effect to the Group's operation results in 1999. Tongling Hailuo and Ningbo Hailuo are two important strategic investment of the Group. The losses attributable to Tongling Hailuo and Ningbo Hailuo were reduced by 94.3% and 71.6% respectively, which contributed much to the Group's remarkable improvement in its results.



Reduction in Costs and Expenses

With budgetary control system in respect of cost and expenditure and the cost control responsibility system being in place, the expenditure for organisation of production and administration of the Group were effectively reduced for the reported period. Besides, optimal utilisation of production capacity, enhancement of labour productivity, increased production efficiency, and the unit labour cost and unit production cost were reduced by RMB0.38 per tonne and RMB2.82 per tonne respectively. Taking no account of the increase in costs brought by the grinding mills which commenced production in this year, the consolidated cost for the year was down RMB2.78 per tonne.

(RMB per tonne)	**2000**	1999	Changes
Raw Materials	**19.24**	17.40	1.84
Energy and Power	**58.14**	59.55	-1.41
Labour	**2.28**	2.67	0.39
Manufacture	**39.28**	42.10	-2.82

During the year, the operating and management cost increased by RMB 36.59 million as compared with the previous year. This is primarily attributable to the addition of operating units to cater for expanded sales and market coverage. However, the proportion of operating and management cost to the Group's net sales was reduced by 1.61% as compared to the previous year.

Financial Position

Optimal Structure of Assets and Liabilities

As at the closing date of the reported year, total assets of the Group increased by RMB209.804 million to RMB4,514.38 million, while total liabilities decreased by RMB2.376 million to RMB2,051.235 million. Aggregate shareholders' equity was RMB2,061.187 million, up RMB113.772 million as compared to last year.

The ratio of assets to liabilities was 45.43%, representing a drop of 2.28% as compared to that in the previous year, which represented improvement in the Group's structure of assets and liabilities.

(RMB'000)	**2000**	1999	Percentage Change (%)
Fixed Assets	**3,534,669**	3,295,853	7.25
Current and other Assets	**979,711**	1,008,723	-2.88
Total Assets	**4,514,380**	4,304,576	4.87
Current Liabilities	**1,226,957**	1,267,806	-3.22
Non-current Liabilities	**824,278**	785,805	4.90
Minority Interest	**401,958**	303,550	32.40
Shareholder's Equity	**2,061,187**	1,947,415	5.84
	4,514,380	4,304,576	4.87

Increased Cash Flow

Net cash flow of the Group for 2000 rose by RMB80.744 million, as summarised below:

(RMB'000)	**2000**	1999
Net Cash Flow from Operating Activities	**511,690**	272,690
Interest Paid, Net	**-103,019**	-107,189
Income Tax Paid, Net	**-20,840**	-6,919
Cash Inflow from Operating Activities	**387,831**	158,582
Cash Outflow from Investing Activities	**-320,461**	-153,675
Cash Outflow/Inflow from Financing Activities	**-9,171**	41,831
Increase in Cash and Cash Equivalents, Net	**80,744**	46,738
Cash and Cash Equivalents at the beginning of the year	**296,313**	249,575
Cash and Cash Equivalents at the end of the year	**377,057**	296,313

Net cash flow from operating activities was RMB387.83 million, representing an increase of RMB229.25 million from last year. Profit before tax was 133.911 million, depreciation on fixed assets was RMB206.25 million, amortisation of intangible assets amounted to RMB9.34 million, and reduction in accounts receivable amounted to RMB39.038 million. The figures reflect the Group's success in minimizing capital risks and improving operation efficiency. During the reported period, debtor turnover has been reduced to 55 days, 25 days less than that of 1999, while inventory turnover was shortened to 79 days, 16 days less than that of 1999. The improvement in the aforesaid performances will be very beneficial to the solvency and operation capability of the Group.

Major investing activities and capital expenditures of the Group during 2000 were as follows:

		RMB
— Principal investing activities		22.44 million
Including:	Nanchang Hailuo Construction Materials Trading Company Limited	1 million
	Fujian Jianyang Cement Co., Ltd.	10.64 million
	Taizhou Hailuo Cement Co., Ltd.	10.80 million
— Investment in Construction Projects		282.18 million
Including:	Project in Digang	99.39 million
	Inbound Transportation Pier	55.21 million
	Baimashan Mine Reserve	54.07 million
	Phase Two Project in Ningbo	29.93 million
	Others	43.58 million

As at 31st December, 2000, the Group's net investment in associated companies was RMB49.02 million. Please refer to note 6 to the financial statements for details.