The following discussion and analysis on the Group's operating results and the financial positions should be read in conjunction with the Group's Financial Statements and the notes thereto. The Financial Statements and the notes thereto are set out on pages 51 to 112 of this report.

BUSINESS ENVIRONMENT

Despite the generally sluggish global economy, the PRC recorded a 7.3% increase in its GDP in 2001 and the national economy saw a trend of steady growth. In 2001, the State continued its proactive fiscal policies and started to implement the tenth "Five-year Plan" in full scale. Investment in fixed assets attained a two-digit increase, which effectively drove up the market demand for cement.

Measures for the structural reform of the cement industry and closing down of entities of poor performance continued in 2001. Approximately 1,900 small vertical cement kilns were closed down and excessive supply was controlled. Meanwhile, the Company also benefited from greater market opportunities in the light of rising demand for high-grade cement due to the implementation of new national standards for cement products, the consolidation and restructuring of the construction industry, the gradual standardization of project management and the accelerated institutionalization and regulation of the auction market.

OPERATING RESULTS

Significant increase in profit

(RMB'000)	**2001**	2000	Percentage Change (%)
Turnover, net	**2,043,989**	1,323,935	54.39%
Gross profit	**742,301**	484,489	53.21%
Net profit	**206,658**	117,611	75.71%
Gross profit margin	**36.32%**	36.59%	N/A
Net profit margin	**10.11%**	8.89%	N/A

Note: Net profit for the year 2000 is derived after retrospective adjustments made in accordance with the International Accounting Standards to those of the previous years, details of which are set out in Note 31 to the Financial Statements, as contained in this annual report.

During the report period, the net profit of the Group after tax and minority interests amounted to RMB206,660,000 (currency used in this annual report is Renminbi ("RMB") unless otherwise stated), representing an increase of 75.71% as compared with that of the previous year. The Group's net profit margin was 10.11%, representing an increase by 1.22%, in absolute terms, as compared with that of the previous year.

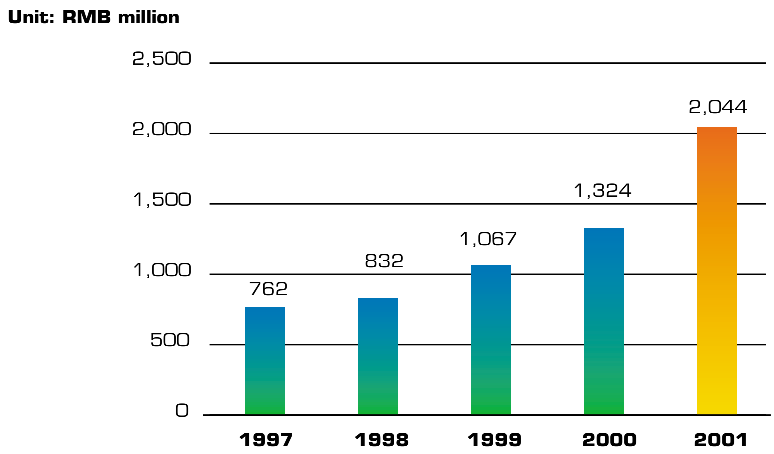
The significant increase in the profit of the Group is primarily attributable to the thorough implementation of the "T-type" development strategy. Through the operation mode of establishing clinker production bases and grinding mills, the Group was able to optimize its production capacity, resulting in a remarkable growth in production and sales. Average operating costs and related expenses were further reduced as well.

Tongling Hailuo and Ningbo Hailuo, both being subsidiaries of the Company, showed remarkable improvement in 2001 and enjoyed profit as compared with losses suffered in the previous years. Net profit of Tongling Hailuo and Ningbo Hailuo amounted to RMB20,940,000 and RMB11,380,000 respectively, making significant contribution to the profits of the Group. In addition, Digang Hailuo also carried out trial production during the year and started to yield profit, which is one of the major factors attributable to the improvement of the Group's profitability.

STEADY INCREASE IN SALES REVENUE

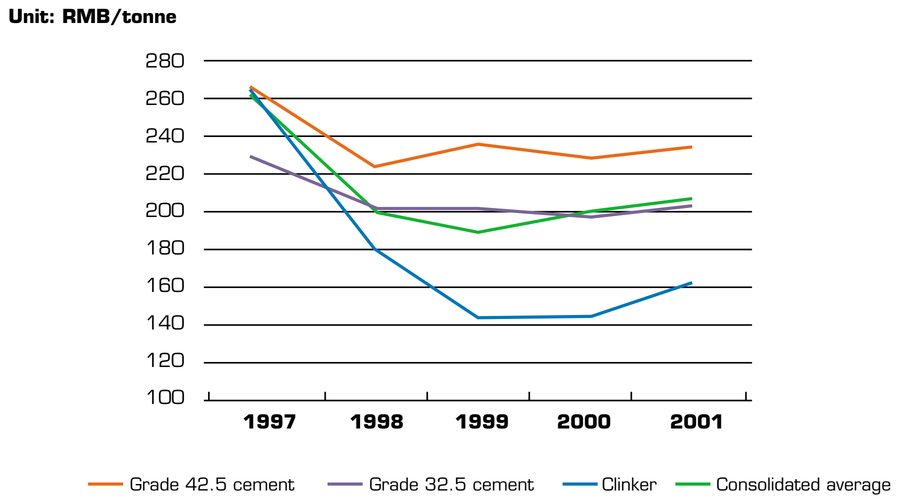
During the reported period, the Group's net turnover was RMB2,043,990,000 (2000: RMB1,323,935,000), representing an increase of 54.39% as compared with that of the previous year. RMB1,807,820,000 was derived from cement sales and RMB250,530,000 was derived from clinker sales, accounting for 87.83% and 12.17% of the total amount of turnover respectively.

Changes in Turnover



The significant increase in income is attributable to the drastic increase in the Group's production and sales volume, as well as the stable increase in the selling price. The consolidated average unit price increased by RMB6.63/tonnes during the year.

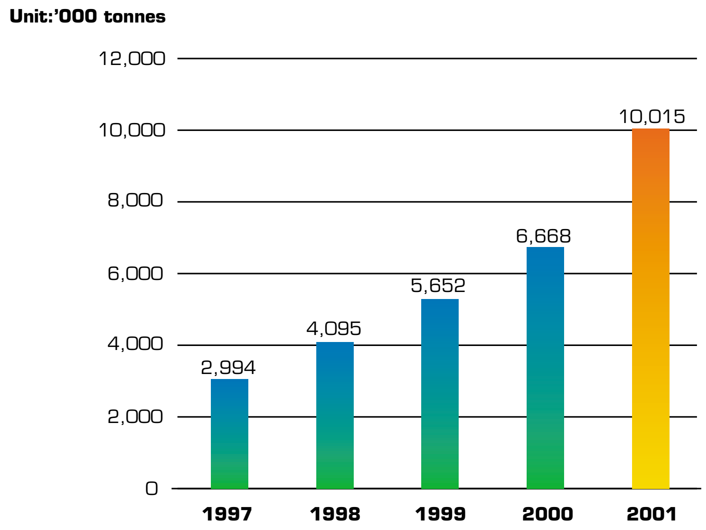
Unit price by product



RAPID GROWTH OF SALES

During the reported period, the Group recorded sales of cement and clinker of 10,010,000 tonnes (including inter-group sales: 13,377,300 tonnes), representing an increase of 50.19% as compared with that of the previous year. As a result, the Group was able to continue strengthening and enhancing its competitive edge as the largest cement manufacturer in the PRC. In particular, sales of cement amounted to 8,494,800 tonnes (2000: 5,095,000 tonnes), while sales of clinker were 1,520,000 tonnes (2000: 1,573,000 tonnes), representing an increase of 66.74% and a decrease of 3.4% respectively.

Changes in the sales volume of cement and clinker



The substantial growth in sales is attributable to the following factors:

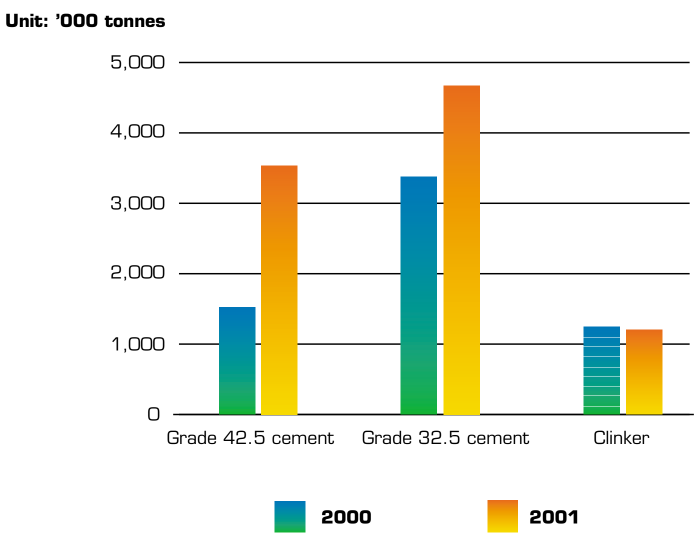
Firstly, the Company has been dedicated to the cement and commodity clinker businesses since its incorporation. During the year, it continued to pursue the "T-type" development strategy with the dual operation of clinker factories along the Yangtze River and grinding mills along the coastal areas, thereby enabling the prompt adjustment to its cement grinding capacity in response to the increase in its clinker production. In addition, the Company's grinding mill-based market expansion policy also led to the rapid expansion of its market reach. These efforts resulted in an increase in sales.

During the reported period, the aggregate sales of cement of all grinding mills amounted to 4,516,000 tonnes, accounting for 45.09% of the Group's total sales and representing an increase of 105.27% as compared with that of the previous year. 1,046,200 tonnes of clinker were procured in 2001 from domestic and overseas suppliers in order to meet the demand of the grinding mills effectively.

The annual clinker production capacity and annual cement production capacity of the Group reached 7,500,000 tonnes and over 9,000,000 tonnes respectively as at the end of 2001.

Secondly, in connection with the implementation of the new national standards for cement products during the year, the demand for high grade cement increased. The Group capitalized on the opportunity to expand its share in the high-grade cement market, thereby recording an increase of 111.1% for grade 42.5 cement as compared with that of the previous year. Accordingly, the percentage of grade 42.5 cement in the sales mix climbed up in absolute terms by 11.46%.

Sales volume by product



Sales by product (for the years ended 31st December)

Product	2001 Sales Volume ('000 tonnes)	2001 Sales Amount (RMB' million)	2001 Sales Contribution (%)	2000 Sales Volume ('000 tonnes)	2000 Sales Amount (RMB' million)	2000 Sales Contribution (%)
Cement						
Grade 42.5	**3,644**	**861**	**41.85**	1,726	403	30.39
Grade 32.5	**4,851**	**947**	**45.98**	3,368	678	51.10
Subtotal	**8,495**	**1,808**	**87.83**	5,095	1,081	81.49
Clinker	**1,520**	**250**	**12.17**	1,573	245	18.51
Total	**10,015**	**2,058**	**100.00**	6,668	1,326	100.00

Thirdly, the Company managed to reallocate its resources to different markets and enlarge its sales to such cement markets in which it enjoys comparative advantage. It also stepped up its efforts on market research to further expand its reach to markets with huge potential. The Group will improve its distribution network on an ongoing basis with a view to sustain its long-term growth.

In 2001, sales to the Zhejiang market increased substantially to 2,915,000 tonnes, and its proportion to total sales increased from 25% to 32.4%, making the province the Group's largest market. Such performance is primarily attributable to the higher sales following the completion of the phase two development project for Ningbo Hailuo, which comprised a production line with an annual cement grinding capacity of 750,000 tonnes. As a result, the market share of the Group in Zhejiang Province increased from 4.85% in 2000 to 8.93% in 2001. The Group also set up three new companies in Zhejiang, namely Wenzhou Hailuo, Shangyu Hailuo and Jiande Hailuo in 2001, which are expected to play an important role in expanding the market reach and enlarging the market share of the Group in the province.

In the Jiangsu market, Nantong Hailuo completed its technological upgrading and expansion projects, while Taizhou Hailuo started its trial production. In addition, other grinding mills also increased their efforts on market expansion. Accordingly, the Group accomplished a remarkable increase in the sales in the Jiangsu region, with its proportion to total sales increased by 3.9% to 19.4%. The Group's market share in Jiangsu Province also rose from 3.81% in 2000 to 6.57% in 2001. The Company will actively look for additional targets of acquisition to further enlarge its market share in this region.

In the Shanghai market, the Company acquired Shanghai Mingzhu Cement Factory, while Shanghai Hailuo completed its technological upgrading and expansion projects. Leveraging on the synergy effect of the sales offices, grinding mills and marketing teams in Shanghai, the Company successfully recorded a significant increase in the sales to this region, with its proportion to total sales increasing from 11.2% to 15.8%. The Company's market share in Shanghai also rose by 8.01%, in absolute terms, to 16.23% in 2001 as compared with that of 2000.

The Company, in its foundation market of Anhui recorded sales of 2,395,000 tonnes in 2001, Changfeng Hailou which is located in the northern Anhui, and the newly acquired Bangbu Hailuo are expected to provide essential support to the Company in expanding its market share in northern Anhui. In 2001, the Company's market share in Anhui rose to 12.27% from 11.6% in 2000.

Fenyi Hailuo, which was acquired in 2001, will provide crucial support to the Company in expanding its market share in Jiangxi. Currently, the Company intends to establish additional grinding mills in Nanchang and Jiujiang, so as to further step up its efforts in developing the Jiangxi market.

In Fujian Province, the Company's market share reached 5.32% in 2001, representing an increase of 2.55%, in absolute terms, as compared with 2.77% in 2000.

Sales by region (for the years ended 31st December)

Region	2001 Sales Volume ('000 tonnes)	2001 Sales Amount (RMB' million)	2001 Sales Contribution (%)	2000 Sales Volume ('000 tonnes)	2000 Sales Amount (RMB' million)	2000 Sales Contribution (%)
Shanghai City	1,446	325	15.8	761	148	11.2
Jiangsu Province	2,133	400	19.4	985	205	15.5
Zhejiang Province	2,915	668	32.4	1,648	331	25.0
Fujian Province	855	187	9.1	467	85	6.4
Jiangxi Province	271	61	3.0	519	103	7.7
Guangdong Province	—	—	—	29	5	0.3
Anhui Province	2,395	417	20.3	2,259	449	33.9
Total	10,015	2,058	100.00	6,668	1,326	100.00

Fourthly, the clinker factories focused their efforts during the reported period on refining their production operation and managing the overhauls and maintenance of production facilities in a scientific manner with a view to achieve maximum utilization of the core facilities effectively to ensure supply of clinker.

The average dry kiln utilization rate of the Company's clinker bases in Ningguo, Baimashan and Tongling reached 94% as of 31st December, 2001, while that of Tongling was even higher at 95.49%.

Baimashan Cement Plant

During the reported period, the Group produced 8,540,000 tonnes of cement (2000: 5,870,000 tonnes) and 6,810,000 tonnes of clinker (2000: 5,340,000 tonnes), representing an increase of 44.94% and 26.36% respectively as compared with that of the previous year.

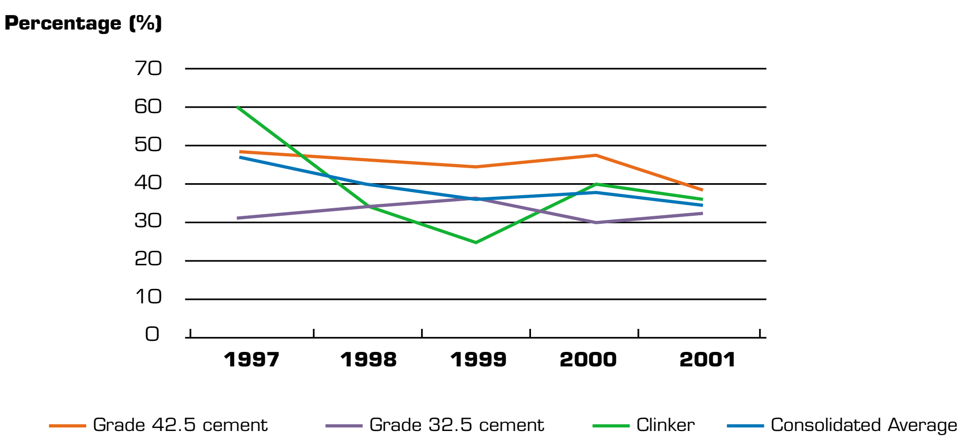
COSTS AND EXPENSES

During the reported period, the raw materials unit cost increased by RMB28.54 as compared with that of the previous year, mainly attributable to the higher procurement cost as a result of the purchase from third parties of 1,046,200 tonnes of clinker during the year. The increase in the price of coal fuel (hence higher energy and power cost) during the reported period was offset by the dilution effect of the additional cement sales stemmed from the increase in outsourced clinker. Unit energy and power cost was therefore RMB3.38 lower than that of the previous year. Owing mainly to the above reasons, the consolidated average cost increased by RMB11.04 per tonne during the reported period as compared with that of the previous year.

			Unit: RMB per tonne
	2001	2000	Changes
Raw materials	**47.78**	19.24	28.54
Energy and power	**54.76**	58.14	-3.38
Labour	**2.64**	2.28	0.36
Manufacturring overheads	**24.80**	39.28	-14.48
Consolidated average	**129.98**	118.94	11.04

Gross profit of the Group amounted to RMB742,300,000, representing an increase of 53.21% as compared with that of the previous year. Its gross profit margin was 36.32%, slightly lower than that of the previous year. This is primarily attributable to the rising price of coal fuel and the increase in outsourced clinker, leading to a greater increment in the average cost than in the average price.

Changes in the gross profit margin by product



Due to the expansion in sales volume and market region, the operating and administrative expenses has increased by RMB60,650,000 during the year to support the new administration units. However, the percentage of operating and administrative expenses in the net operation profit has decreased in absolute terms by 4.3% compared with that of the previous year.

During the reported period, operating and management cost of RMB116,680,000 was accrued, representing an increase of 18.54% as compared with that of the previous year. This is primarily attributable to the increase in project financing to meet the need from construction projects in the year. However, in comparing with its proportion in the operational income of the Group, the operating and management cost was indeed 1.72%, in absolute terms, lower than that of the previous year.

Expenses during the period

	Amount (Unit: RMB'000 dollars)		**Percentage to operating profit**	
	2001	2000	**2001**	2000
Administrative expenses	**139,256**	101,693	**6.81%**	7.68%
Operating expenses	**194,736**	171,647	**9.53%**	12.96%
Financial expenses	**116,684**	98,427	**5.71%**	7.43%

FINANCIAL POSITION

Structure of assets and liabilities

As at the end of the reported period, total assets of the Group increased by RMB1,551,140,000 to RMB5,886,330,000 as compared with that of the previous year, while total liabilities increased by RMB950,350,000 to RMB3,001,580,000 as compared with that of the previous year. The gearing ratio was 1.44:1, based on the percentage of total liabilities over shareholder funds. After the issue of A shares, future funding demand for development can be satisfied effectively and the structure of assets and liabilities will be improved.

(RMB '000)	**2001**	2000*	Change	Percentage change (%)
Fixed assets	**4,192,085**	3,147,090	1,044,995	33.21
Current and other assets	**1,694,245**	1,188,105	506,140	42.60
Total assets	**5,886,330**	4,335,195	1,551,135	35.78
Current liabilities	**1,893,577**	1,226,956	666,621	54.33
Non-current liabilities	**1,108,002**	824,278	283,724	34.42
Minority interest	**800,305**	401,958	398,347	99.10
Shareholders' equity	**2,084,446**	1,882,003	202,443	10.76
	5,886,330	4,335,195	1,551,135	35.78

* Restated, Note 31 as set out in the Financial Statements contained in this annual report

— The ratio of assets to liabilities was 50.99%, representing an increase by 3.68%, in absolute terms, from that of the previous year. The primary reason is that the Company undertook development plans, resulting in an increase in new infrastructure projects. The Company is able to manage its ratio of assets to liabilities by means of equity financing.

— As at 31 December 2001, the Group's endorsed or discounted undue bank acceptance notes receivable was approximately RMB56,986,200.

LIQUIDITY AND SOURCE OF FUNDS

As at 31st December, 2001, the Group's current assets amounted to RMB1,158,110,000 while its current liabilities totalled RMB1,893,580,000. The current ratio, based on the percentage of current assets over current liabilities was 0.61:1.

The maturity analysis of bank loans of the Group as at 31st December, 2001 is as follows:

	31st December, 2001 **RMB'000**	31st December, 2000 RMB'000
— not exceeding one year	**1,318,746**	891,589
— more than one year but not exceeding two years	**590,074**	249,386
— more than two years but not exceeding five years	**474,232**	497,094
— more than five years	**33,706**	77,798
Total	**2,416,758**	1,715,867

As at 31st December, 2001, the Group's foreign currency loans amounted to approximately US$38,675,000, equivalent to approximately RMB320,090,000. The Group will pay close attention to changes in the foreign exchange market to monitor its foreign exchange risks in a prudent manner. While such foreign currency loans are subject to floating rates of interest, the remaining loan balance of RMB2,096,670,000 is subject to fixed rates of interest.

As at 31st December, 2001, some of Group's plants and machineries with a net book value of approximately RMB118,081,000 (2000: RMB127,353,000) were pledged as collateral for short-term borrowings.

Capital commitments for acquisition of the plants and machineries for the purpose of production, but not provided for in the accounts as at 31st December, 2001 were as follows:

	31st December, 2001 **RMB'000**	31st December, 2000 RMB'000
Contracted but not provided for	**591,838**	150,221
Authorised but not contracted for	**402,184**	610,364
	994,022	760,585

The Group currently has sufficient liquidity resources on hand. As at 31st December, 2001, cash on hand and bank deposits amounted to RMB594,050,000, which is sufficient for the Group to meet its normal business requirement and loan repayment. Meanwhile, the Group will continue to pursue its prudent policy in financial management and will maintain a cash on delivery sales policy in order to strive for 100% collection of its sales proceeds. During the reported period, the accounts receivable of the Group decreased by RMB1,320,000.

The primary source of the Group's funds includes cash from operating activities, short and long term loans, as well as cash and cash equivalents. The Group's funds were mainly utilized on capital expenditure, repayment of short and long term loans, and operating expenses.

Net cash flow of the Group for 2001 increased by RMB231,380,000, as summarized below:

(RMB'000)	**2001**	2000
Net cash flow from operating activities	**801,105**	496,690
Interest paid, net	**(122,968)**	103,019
Income tax paid, net	**(65,125)**	(20,840)
Cash inflow from operating activities	**613,012**	372,831
Cash outflow from investing activities	**(930,169)**	(305,461)
Cash inflow from financing activities	**548,537**	(9,171)
Increase in cash and cash equivalents from change of consolidation scope	—	22,545
Increase in cash and cash equivalents	**231,380**	80,744
Cash and cash equivalents at the beginning of the year	**377,057**	296,313
Cash and cash equivalents at the end of the year	**608,437**	377,057

Net cash flow from operating activities was RMB613,010,000, representing an increase of RMB240,180,000 from that of the previous year. In particular, profit before tax was RMB320,470,000, depreciation of fixed assets was RMB223,470,000, amortization of intangible assets amounted to RMB9,550,000, and reduction in accounts receivable amounted to RMB22,120,000. The figures reflect the Group's success in minimizing capital risks and improving operation efficiency. During the reported period, debtor turnover was reduced to 33 days as compared with 55 days in 2000, while inventory turnover was 57 days as compared with 79 days in 2000. Such improvement was instrumental to the solvency and operation capacity of the Group.

CAPITAL EXPENDITURE

During the reported period, the investment and capital expenditure of the Group totalled RMB936,560,000, of which approximately RMB195,340,000 is attributable to the investment in subsidiaries. Capital expenditure for the acquisition of leasehold land, buildings, plant and machinery amounted to approximately RMB741,220,000.

As at 31st December, 2001, the Group's investment in associated companies amounted to RMB46,750,000. Details are set out in Note 7 to the Financial Statements as contained in this annual report.

It is estimated that the capital expenditure for the year 2002 will reach RMB2.4 billion, which is expected to be applied mostly for expanding the clinker production capacity and cement grinding capacity of the Group, including: (i) the expansion of the clinker production lines of such clinker bases covering Ningguo Cement Plant, Tongling Hailou, Digang Hailou, Chizhou Hailuo, Zongyang Hailou; and (ii) the technological upgrading and expansion of such grinding mills covering Zhangjiagang Hailou and Shanghai Hailou, and the construction of new cement grinding production lines of such grinding mills at Wenzhou Hailou, Jiande Hailou and Shangyu Hailou; and (iii) the acquisition or establishment of additional grinding mills.