

(I) PRINCIPAL ACTIVITIES

The Group is principally engaged in the production and sales of various types of high-grade cement and the production of commodity clinker required for the production of high-grade cement. The cement products are mainly used in construction projects of roads, bridges and housing development, while its commodity clinker is mainly sold to cement grinding mills.

(II) INVESTMENT DURING THE REPORTING PERIOD

1. Investment projects financed by proceeds from the A Share offer during the reporting period

On 24 January, 2002, the Company raised net proceeds of RMB793,539,800 (after deducting issuing expenses) from the offer of 200 million A Shares. The Company applied the net proceeds for the development of its core cement business as stipulated in the prospectus. As at the end of the reporting period, the Company applied a total of RMB440,490,000 to investment projects, while the remaining balance of RMB353,059,800 is planned to be invested in the cement-related projects. The details of investment projects are as follows:

No.	Project name	Proposed amount of injection (RMB million)	Amount of investment injected (RMB million)	Progress of the project	Revenue realised (Net profit) (in RMB million)	Does it meet the schedule and achieve the expected revenue?
1.	Utilisation of the mineral reserves of Baimashan Cement Plant for the expansion of the clinker production line with an annual production capacity of 750,000 tonnes of Digang Hailuo Cement Co., Ltd.	56.13	56.13	Operation commenced	34.07	Yes
2.	Technological upgrading of the cement grinding production line with an annual production capacity of 500,000 tonnes, replacement of grinding machines and pier renovation project of Shanghai Hailuo Cement Co., Ltd.	58.00	58.00	Operation commenced	1.08	Yes

Rank	Project name	Proposed amount of injection (in RMB million)	Capital contributed (in RMB million)	Progress of the project	Actual revenue realised (in RMB million)	Does it meet the schedule and achieve the expected revenue?
3.	Technological upgrading and expansion project of the cement grinding production line with an annual production capacity of 400,000 tonnes of Zhangjiagang Hailuo Cement Co., Ltd.	42.465	42.465	Operation commenced	3.12	Yes
4.	Technological upgrading project of the cement grinding production line with an annual production capacity of 300,000 tonnes of Taizhou Hailuo Cement Co., Ltd.	12.94	12.94	Operation commenced	1.04	Yes
5.	Phase 2 of the expansion project of the cement clinker production line, with an annual production capacity of 1.2 million tonnes of Tongling Hailuo Cement Co., Ltd.	624.00	270.95	Trial production	—	Yes

2. Progress of projects which were not financed by proceeds from the A Share offer during the reporting period

No.	Project name	Progress of the project	Investment in the project RMB million
1.	Phase 1 project (construction of 2 clinker production lines with an annual production capacity of 1.5 million tonnes each) of Chizhou Hailuo Cement Co., Ltd.	Trial production	802.27
2.	Clinker production line with an annual production capacity of 750,000 tonnes of Jiangxi Fengyi Hailuo Cement Co. Ltd.	Under construction	51.36

Rank	Project name	Progress of the project	Investment in the project RMB million
3.	Clinker production line with an annual production capacity of 1.5 million tonnes and cement grinding station with an annual production capacity of 1 million tonnes of Zhejiang Jiande Hailuo Cement Co. Ltd.	Under construction	180.54
4.	Construction project of clinker production line with an annual production capacity of 1.5 million tonnes of Anhui Ningguo Cement Plant	Testing	202.47
5.	Clinker production line with an annual production capacity of 1.5 million tonnes of Digang Hailuo Cement Co., Ltd.	Under construction	136.83
6.	Clinker production line with an annual production capacity of 1.5 million tonnes of Zongyang Hailuo Cement Co., Ltd.	Trial production	229.92
7.	Clinker production line with an annual production capacity of 2.5 million tonnes of Chizhou Hailuo Cement Co., Ltd.	Commencement of construction	137.55
8.	Clinker production line with an annual production capacity of 3.0 million tonnes of Zongyang Hailuo Cement Co., Ltd.	Under construction	223.10
9.	Two clinker production lines with an annual production capacity of 3.0 million tonnes each of Tongling Hailuo Cement Co., Ltd.	Preliminary preparation	76.19
10.	Cement grinding production line with an annual production capacity of 550,000 tonnes of Bangbu Hailuo Cement Co., Ltd.	Trial production	29.17
11.	Cement grinding production line with an annual production capacity of 300,000 tonnes of Nanjing Hailuo Cement Co., Ltd.	Trial production	14.48

Rank	Project name	Progress of the project	Investment in the project RMB million
12.	Expansion project of cement grinding production line with an annual production capacity of 300,000 tonnes of Changfeng Hailuo Cement Co., Ltd.	Trial production	17.50
13.	Cement grinding production line with an annual production capacity of 1.5 million tonnes of Wenzhou Hailuo Cement Co., Ltd.	Under construction	104.45
14.	Technological upgrading and expansion of cement grinding production line with an annual production capacity of 550,000 tonnes of Shanghai Hailuo Mingzhu Cement Co., Ltd.	Trial production	34.49
15.	Expansion project of cement grinding production line with an annual production capacity of 1.1 million tonnes of Shangyu Hailuo Cement Co., Ltd.	Under construction	5.45
16.	Cement grinding production line with an annual production capacity of 1.5 million tonnes of Nanchang Hailuo Cement Co., Ltd.	Under construction	43.33
17.	Cement grinding production line with an annual production capacity of 1.1 million tonnes of Lushan Hailuo Cement Co., Ltd.	Under construction	8.26
18.	Two cement grinding production lines with an annual production capacity of 1.5 million tonnes each of Taizhou Yangwan Hailuo Cement Co., Ltd.	Under construction	84.48
19.	Cement grinding production line with an annual production capacity of 1.5 million tonnes of Ningbo Hailuo Cement Co., Ltd.	Under construction	33.49

3. Establishment of companies

- (1) The Company and its subsidiary, Anhui Ningguo Cement Plant jointly established Nanchang Hailuo Cement Co., Ltd. (“Nanchang Hailuo”) on 18 January, 2002, with a registered capital of RMB20 million, of which RMB18 million (representing 90%) was contributed by the Company. Nanchang Hailuo is situated in Xiangtang Economic and Technology Development Zone of Nanchang City in Jiangxi Province, which is 12 kilometres from Nanchang City.
- (2) The Company and its subsidiary Anhui Baimashan Cement Plant jointly established Jiangxi Lushan Hailuo Cement Co., Ltd. (“Lushan Hailuo”) on 1 February, 2002, with a registered capital of RMB31.42 million, of which RMB31 million (representing 98.7%) was contributed by the Company. Lushan Hailuo is situated in Jiujiang City of Jiangxi Province. The region is rich in the supply of mix materials.
- (3) The Company and its subsidiary Anhui Tongling Hailuo Cement Co., Ltd. (“Tongling Hailuo”) jointly established Taizhou Yangwan Hailuo Cement Co., Ltd. on 20 June, 2002, with a registered capital of RMB50 million, of which RMB47.5 million (representing 95%) was contributed by the Company. The company is situated in the Economic Development Zone of Bingjiang Industrial Park of Taizhou City, Jiangsu Province.
- (4) The Company and its subsidiary Anhui Ningguo Cement Plant jointly established Zhongguo Cement Plant Co., Ltd. on 9 October, 2002, with a registered capital of RMB100 million, of which RMB90 million (representing 90%) was contributed by the Company. The registered address of the company is No. 185 Long Tan Shui Ni Lu, Qi Xia Qu, Nanjing City.
- (5) The Company and its subsidiary Anhui Ningguo Cement Plant jointly established Anhui Huai Ning Hailuo Cement Co., Ltd., with a registered capital of RMB50 million, of which RMB48 million (representing 96%) was contributed by the Company. The registered address of the company is Shijing Xiang, Huai Ning County, Anhui Province.

(III) MAJOR SUBSIDIARIES AND ASSOCIATES

As at 31 December 2002, the Company held 30 subsidiaries (the “subsidiaries”) and 1 associate (“associated company”). Please refer to Notes 12 and 13 to the Financial Statements of this report prepared in accordance with IFRS for details. Details of major subsidiaries with share capital over RMB100 million are as follows:

No.	Company name	Principal operating businesses	Registered capital (RMB million)	Total assets (RMB million)	Net profit (RMB million)
1.	Anhui Ningguo Cement Plant	Manufacture and sale of cement and cement products	649.34	1,188.35	110.76
2.	Anhui Hailuo Cement Product Co., Ltd.	Manufacture and sale of cement and cement products	256.14	362.74	24.42
3.	Anhui Baimashan Cement Plant	Manufacture and sale of cement and cement products	428.32	1,009.75	77.88
4.	Anhui Tongling Hailuo Cement Co., Ltd.	Manufacture and sale of cement and cement products	565.00	1,618.34	55.94
5.	Anhui Digang Hailuo Cement Co., Ltd.	Manufacture and sale of cement and clinker	150.00	347.70	68.13
6.	Anhui Zongyang Hailuo Cement Co., Ltd.	Manufacture and sale of cement, clinker and the related technical services	300.00	968.16	64.38
7.	Anhui Chizhou Hailuo Cement Co., Ltd.	Manufacture and sale of cement, clinker and the ancillary products	318.00	1,107.98	26.60
8.	Zhongguo Cement Plant Co., Ltd.	Manufacture and sale of cement, new construction materials and building materials	100.00	412.13	0.32
9.	Ningbo Hailuo Cement Co., Ltd.	Manufacture and sale of cement and cement products	171.00	476.83	17.76

(IV) DAILY OPERATIONS OF THE BOARD OF DIRECTORS

Resolutions of the board of the directors (“Board of Directors”) of the Company during the reporting period

1. On 9 January 2002, the Board of Directors approved the joint establishment of Nanchang Hailuo Cement Co., Ltd. by the Company and Ningguo Cement Plant.
2. On 19 January, 2002, the sixth meeting of the second session of the Board of Directors was convened in the conference room of the Company and the following resolutions were considered and passed: that the working report of the executive general manager, the financial budgetary plan for 2002, the audited financial report for 2001, the profit appropriation proposal for 2001, the annual report and results announcement for 2001, the notice of 2001 general meeting, the re-appointment of the PRC and the international auditors of the Company, the appointment of an independent non-executive director of the Company and the amendments to the relevant provisions of the articles of associations of the Company be adopted.
3. On 22 January 2002, the Board of Directors approved the joint establishment of Jiangxi Lushan Hailuo Cement Co., Ltd. by the Company and Baimashan Cement Plant.
4. On 21 February, 2002, the Board of Directors approved the increase of the registered capital of the Company from RMB983,480,000 to RMB1,183,480,000 and the amendments to articles 24 and 27 of the articles of association of the Company.
5. On 15 April 2002, the seventh meeting of the second session of the Board of Directors was convened in the conference room of the Company, during which the first quarterly report of 2002 of the Company was considered and passed, and the resolution in respect of the Company’s transfer of 59.5% equity interest out of its 60% shareholdings in Jieyang Hailuo Cement Co., Ltd. to the initial joint-venture partner, Shantou City Longhu District Huanshan Development Co., Ltd. was passed.
6. On 18 April 2002, the Board of Directors approved the borrowing of a loan of RMB100 million from the Bank of China (Wuhu branch) by the Company as working capital for its manufacturing operations.
7. On 10 June 2002, the Board of Directors approved the joint establishment of Taizhou Yangwan Hailuo Cement Co., Ltd. by the Company and Anhui Tongling Hailuo Cement Co., Ltd.
8. On 17 June 2002, the Board of Directors approved an application for a loan facility of RMB900 million from the Bank of China (Wuhu branch) by the Company.

9. On 30 June 2002, a meeting of the Board of Directors was convened in the Company's conference room during which the progress of self review on the formation of a modern corporate system by the Company was reported and the "Self Review Report of the Formation of a Modern Corporate System" for the Company was also duly passed.
10. On 28 August 2002, the Board of Directors convened a telephone conference during which the resolutions relating to the joint establishment of Zhongguo Cement Plant Co., Ltd., by the Company and Anhui Tongling Hailuo Cement Co., Ltd. and the acquisition of the relevant assets of Zhongguo Cement Plant were duly passed.
11. On 9 October 2002, the Board of Directors approved the investment of Zongyang Hailou Cement Co., Ltd. in the construction of a large-scale dry process clinker production line with a daily production capacity of 8,000 tonnes with its internal resources and bank borrowings.
12. On 9 October 2002, the Board of Directors passed the resolution relating to the capital contribution by Tongling Hailou in Zhongguo Cement Plant be transferred to Ningguo Cement Plant, a wholly-owned subsidiary of the Company.
13. On 18 October 2002, the ninth meeting of the second session of the Board of Directors was convened in the Company's conference room during which the third quarterly report of the Company for 2002 was considered and passed.
14. On 30 October 2002, the Board of Directors approved the acquisition of 12.8% equity interest in Shanghai Hailuo Mingzhu Cement Co., Ltd. held by Shangdong Nanhua Co., Ltd. by the Company.
15. On 1 November 2002, the Board of Directors approved the joint establishment of Anhui Huai Ning Hailuo Cement Co., Ltd. by the Company and Anhui Ningguo Cement Plant.
16. On 5 November 2002, the Board of Directors approved the set up of the Nanjing branch of Anhui Hailuo Cement Co., Ltd.
17. On 13 November 2002, the Board of Directors approved the acquisition of 15% equity interest in Ningbo Hailuo Cement Co., Ltd. held by Guotou Chuangxing Assets Management Company by the Company.
18. On 19 November 2002, the Board of Directors approved the investment in constructing two large-scale dry process clinker production lines with a daily production capacity of 10,000 tonnes each by Tongling Hailuo.
19. On 23 December, 2002, the Board of Directors approved the joint establishment of Huaian Hailuo Cement Co., Ltd. by the Company and Anhui Hailuo Machinery & Electric Co., Ltd.
20. On 23 December, 2002, the Board of Directors approved the joint establishment of Fuyang Hailuo Cement Co., Ltd. by the Company and Anhui Hailuo Machinery & Electric Co., Ltd.

Execution of resolutions passed at the general meetings by the Board of Directors

During the reporting period, the Board of Directors executed the resolutions passed at the general meetings in a prudent manner as follows:

1. The second special general meeting of 2000 of the Company held on 28 November 2000 approved the issue of up to 200 million RMB denominated ordinary A Shares and the Board of Directors was authorised to execute and deal with all matters relating to the A Share issue.

On 24 January 2002, the Company issued a total of 200 million RMB denominated ordinary A Shares in accordance with the above authority at an issue price of RMB4.10 each and all proceeds were received accordingly.

2. In accordance with the dividend appropriation proposal passed at the 2001 general meeting of the Company, based on the total number of 983,480,000 shares as at the end of 2001, cash dividend of RMB0.05 per share was declared to be paid to all shareholders. The total dividend payment was RMB49,174,000, which has been paid by the Company on 10 May 2002 to holders of shares whose names appeared on the register of members of the Company on 25 March 2002.
3. The Board of Directors resolved that no interim dividend would be distributed for 2002 in accordance with the authority granted at the 2001 general meeting of the Company.

(V) PROFIT APPROPRIATION PROPOSAL

According to the financial information prepared in accordance with the PRC Accounting Standards and the IFRS respectively, profit after tax and minority interests of the Group for 2002 were RMB263.758 million and RMB267.596 million respectively. The Board of Directors recommended to make appropriations in respect of the profit for the year ended 31 December 2002 as follow:

- (1) 10% of profit after tax, based on the statutory accounts prepared in accordance with the PRC Accounting Standards, amounting to approximately RMB61.568 million is recommended to be transferred to the statutory surplus reserve fund pursuant to the articles of association of the Company;
- (2) 5 to 10% of profit after tax, based on the statutory accounts prepared in accordance with the PRC Accounting Standards, amounting to approximately RMB59.662 million, is recommended to be transferred to the statutory public welfare fund pursuant to the articles of association of the Company;
- (3) based on 1,183.48 million shares issued in total as at 31 December, 2002, a total of approximately RMB59.174 million is recommended to be appropriated for payment of final dividend of RMB0.05 per share;

- (4) the above profit appropriation proposal is subject to approval by shareholders in the 2002 Annual General Meeting.

(VI) TAXATION

Details of taxation are set out in Note 5 to the Financial Statements prepared in accordance with the IFRS, and Note 3 “Taxation” and Note 32 to the Financial Statements prepared in accordance with the PRC Accounting Standards.

(VII) MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2002, sales to the Group’s five largest customers amounted to RMB127.388 million which accounted for 4.30% of the Group’s total sales. Sales to the largest customer accounted for 1.0% of its total sales. Purchases from the Group’s five largest suppliers amounted to RMB651.9658 million, which accounted for 30.54% of the Group’s total purchases. Purchases from the largest customer accounted for 10.98% of its total purchases.

Save as disclosed above, none of the directors, supervisors, or their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the Company or, as far as the Board of Directors is aware, any shareholder holding 5% or more equity interests in the Company had any interests in the five largest customers or suppliers of the Company for the year ended 31 December 2002. All payments for the principal raw materials and energy consumed by the Group were made in RMB.

(VIII) LEASEHOLD LAND, BUILDING, PLANT AND EQUIPMENT

Details of movements in leasehold land, building, plant and equipment of the Company during the year ended 31 December 2002 are set out in Notes 9 and 10 to the Financial Statements prepared in accordance with the IFRS.

(IX) TOTAL ASSETS

As at 31 December 2002, the total assets of the Group determined in accordance with the IFRS was approximately RMB8,710.47 million, representing an increase of approximately RMB2,824.14 million over the previous year.

(X) RESERVES

Details of movements in various reserves of the Company and the Group during the year ended 31 December 2002 are set out in Note 24 to the Financial Statements prepared in accordance with the IFRS.

(XI) DEPOSITS, LOANS AND CAPITALISATION OF INTEREST

Details of the deposits and loans of the Company as at 31 December 2002 are set out in Note 21 to the Financial Statements prepared in accordance with the IFRS. The deposits and loans of the Company are placed with creditworthy commercial banks. The Group did not have any trust deposit nor any fixed deposits that could not be withdrawn after the fixed period. Interest capitalised under work-in-progress during the year was approximately RMB6.8478 million. Details are set out in Note 10(c) to the Financial Statements prepared in accordance with the IFRS.

(XII) TRANSACTIONS IN ITS SECURITIES OR SECURITIES OF ITS SUBSIDIARIES

As at 31 December 2002, the Group did not issue or grant any convertible securities, options, warrants or other similar rights. Besides, as at 31 December 2002, the Group did not have any redeemable securities.

(XIII) BASIC MEDICAL INSURANCE SCHEME FOR STAFF

The Group contributed a total of RMB1,869,500 to a basic medical insurance scheme for its existing and retired employees. Based on the preliminary estimate, it is expected that no material effect will be made on the Group's consolidated profit and loss account as well as the consolidated balance sheet if all subsidiaries of the Group should join similar kinds of medical insurance scheme in future.

(XIV) OTHER EVENTS

- (1) For the year ended 31 December, 2002, the holders of the listed securities of the Company, according to the laws of the PRC, were not entitled to any relief from taxation by virtue of their holding of such securities.
- (2) As the currency operating activities of the Group is limited, there is no large exposure to fluctuations in exchange rates and any related hedging.

(XV) SUBSEQUENT EVENTS

1. On 8 January 2003, the Company and its subsidiary, Anhui Hailuo Machinery & Electric Co., Ltd. jointly established Huaian Hailuo Cement Co., Ltd., with a registered capital of RMB20 million, of which RMB18 million (representing 90%) was contributed by the Company.
2. On 14 January 2003, the Nanjing branch of Anhui Hailuo Cement Co., Ltd. was established by the Company. The company is principally engaged in the sales of cement and ancillary materials.
3. On 15 January 2003, the Company and its subsidiary, Anhui Hailuo Machinery & Electric Co., Ltd. jointly established Fuyang Hailuo Cement Co., Ltd., with a registered capital of RMB20 million, of which RMB18 million (representing 90%) was contributed by the Company.