BUSINESS ENVIRONMENT

In 2003, under the PRC government's continued efforts in stimulating domestic demand and its proactive fiscal policies, the Chinese economy sustained rapid growth with enhanced economical structure, effectiveness and quality. The rapid growth in fixed assets investment and the surging domestic demand brought an 8.5% growth in GDP.

Driven by the increase in fixed assets investment, the cement industry in China achieved good performance in 2003. The economic benefits were raised significantly and the effectiveness of structural realignments became visible. In the first three quarters of 2003, the production and sales of cement products were basically in equilibrium and the overall product price was stable. However, the lower production volume in spring and summer due to the outbreak of Severe Acute Respiratory Syndrome ("SARS") and the restriction on electricity supply respectively as the demand is much larger than the supply led to an insufficient supply of cement products, resulting in the substantial increase in cement prices in rapidly developing areas like the Eastern China regions.

Jiande Hailuo

OPERATION STRATEGY AND RESULTS

In recent years, the Company has been implementing and perfecting the "T" shape development strategy by building clinker production plants along the banks of the Yangtze River where the rich limestone resources lie, while at the same time setting up silo terminals and sales network in the regions downstream of the Yangtze River and in the nearby coastal areas where limestone is scarce but market is brisk. Leveraging the benefits of the "Golden Waterway" – the convenient navigation channels of Yangtze River, the Group was able to achieve great success by dominating the market with lower production and transportation costs.

Currently, the Group has 11 clinker production plants and 21 cement grinding mills spreading all over Eastern China. All of the Group's clinker production facilities are located in close proximity to the mines enjoying abundant supply of quality limestone. The 12 deep-water docks owned by the Company, together with the easily accessible state railways and highways, allow the Group to enjoy a smooth transportation and logistics system. The average production capacity of the Group's grinding mills is approximately 1.8 million tonnes whereas the production capabilities of the plants in Ningbo, Zhangjiagang, Yangwan of Taizhou reach 3 million tonnes. Together, they provide strong support to the Group's competitiveness in the export and international markets. Relying on its economies of scale, market advantages and superior management, the Group's competitiveness keeps growing and enjoys steady growth in its operations.

Ningbo Hailuo Dock

During the reporting period, the Group successfully grasped favorable opportunities in the market with its sound production operating plans and financial budget. As a result, the Group enjoyed continuous and rapid growth in its productivity, sales and efficiency, realizing the simultaneous growth in both scale and efficiency.

In 2003, the revenue generated from the core business of the Group (the Company and its subsidiaries) amounted to RMB5,695.032 million as calculated in accordance with the PRC Accounting Standards, representing an increase of 89.6% compared with the previous year. The Group's net profit after tax and minority interests amounted to RMB739.566 million, translating an increase of 180.4% as compared with that of the previous year. Net profit per share was RMB0.59. The net sales income calculated in accordance with the IAS was RMB5,653.986 million, an increase of 89.7% as compared to that of last year, while the Group's net profit after tax and minority interests was RMB743.404 million, or a rise of 177.8% to that of previous year. Net profit per share was RMB0.62.

OPERATING CONDITIONS OF PRINCIPAL BUSINESS

An overview of production and sales

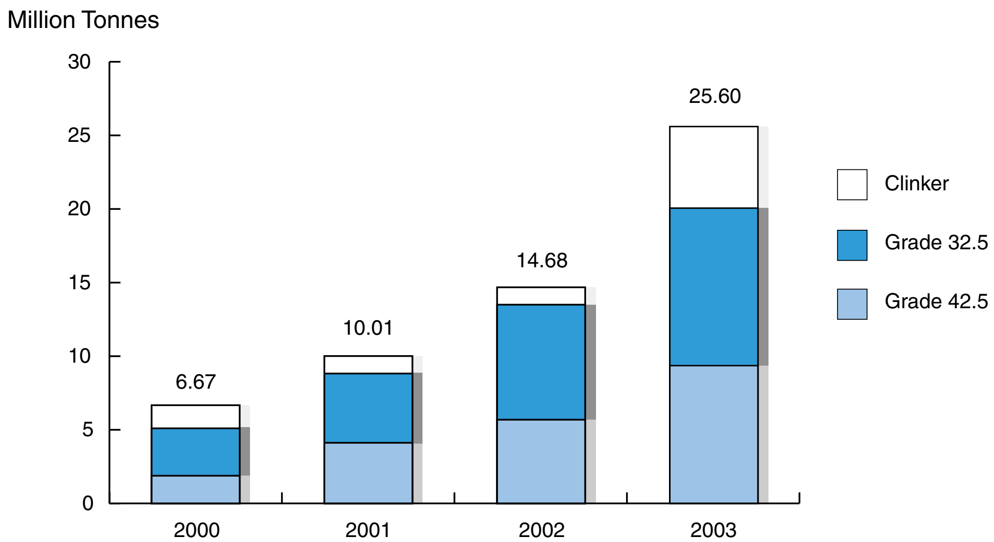
In 2003, the Group continued to follow the development strategy of expanding the scale of its core businesses of cement and clinker. The construction of five clinker production lines, namely an 8000 tonnes per day, three 5000 tonnes per day and one 2500 tonnes per day were completed and will operate in the year. As at the end of 2003, the cement productivity and clinker productivity of the Group reached 30 million tonnes and 23 million tonnes respectively.

Huaining Hailuo under construction

2003 continued to be a year of rapid development for the Group. While expanding at high speed, the Company also focused on technology innovation. The ability of the Company in handling large-scale clinker production facilities was greatly enhanced with a daily productivity of over 5,000 tonnes. The production line in Chizhou Conch, which was commissioned during the year, had already reached the designed production capacity with a daily productivity of 8,000 tonnes. In addition, Ningguo Cement Plant, which was put into operation in the beginning of the year and carries a daily production capacity of 5,000 tonnes of clinkers, maintained smooth operation with an annual productivity of 1.706 million tonnes.

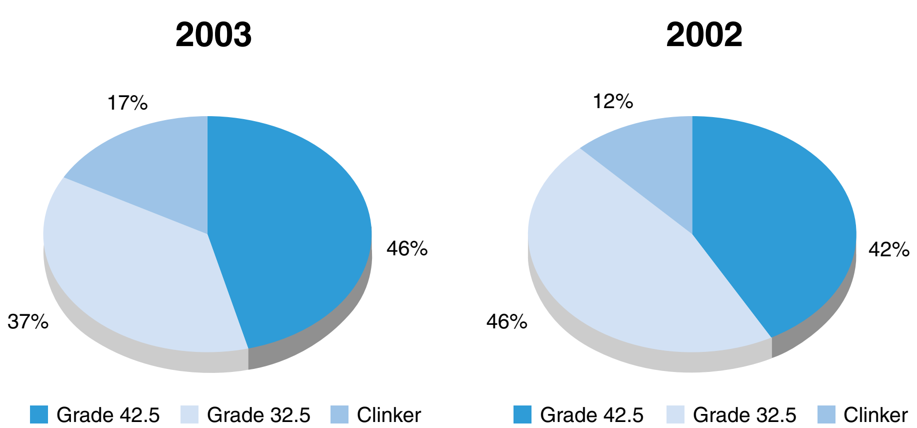
In 2003, the Group continued the integration of regional markets and the perfection of its marketing network. Apart from striving to raise its sales volumes, the Company also emphasised the alignment of its marketing strategy, so as to achieve more accurate market forecasts and to improve its sales and marketing quality. During the year, the Group recorded a net sales volume 25.6 million tonnes, representing a growth of 74.38%.

Production Volume 2000 – 2003



During the reporting period, contribution in turnover from grade 32.5 cement products decreased while that from grade 42.5 cement products and commodity clinker increased, indicating a growing demand for high-grade cement products and an improving product mix in terms of quality.

Percentage of sales by products



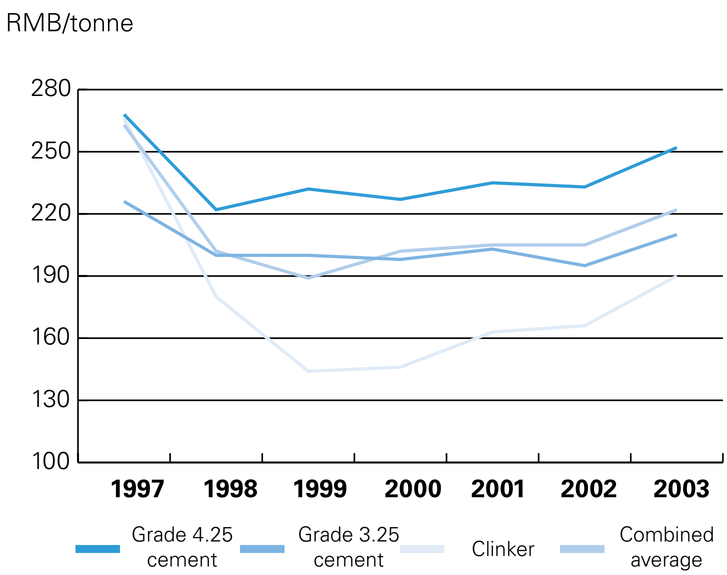
The Group's market share in different regions grew in accordance with its expanding scale. During the year, the Group recorded a year-on-year growth of 115.16% in turnover in the Shanghai market alone, further consolidating its leading position in the industry. To alleviate the shortage in supply of cement products during specific periods, the Company imported 610,000 tonnes of clinker leveraging the advantages its holding company enjoys in the international market. At the same time, the Group actively explored the international market, recaptured the export of cement and clinker products, and had exported 230,000 tonnes of clinker in total.

Sales by Region

Region	2003 Amount (RMB'million)	2003 Percentage (%)	2002 Amount (RMB'million)	2002 Percentage (%)	Increase (%)
Shanghai City	**1,050**	**18.4**	488	16.3	115.16
Jiangsu Province	**1,694**	**29.7**	851	28.4	99.06
Zhejiang Province	**1,378**	**24.2**	735	24.5	87.48
Fujian Province	**185**	**3.3**	122	4.1	51.64
Jiangxi Province	**377**	**6.6**	170	5.7	121.76
Anhui Province	**972**	**17.1**	633	21.0	53.55
Export	**39**	**0.7**	–	–	–
Total	**5,695**	**100.00**	3,000	100.0	89.83

In the first half of 2003, infrastructure projects slowed down because of the SARS outbreak and had once projected a cloudy outlook to the cement industry. Just when the infrastructure sector began to pick up again in the third quarter, cement production in the regions in Eastern China including Zhejiang and Jiangsu were hindered by the undersupply of resources such as electricity, coal and oil as well as the overloaded transportation system. As a result, factories were operated under capacity, leading to an insufficient supply of cement in the market. Starting from September, the Group continually raised the selling price of its cement products and therefore achieved higher operating efficiency. During the period, the composite price of the Group's products increased by 10% as compared to the same period in the previous year.

Changes in cement and clinker prices between 1997-2003



Cost and expenses analysis

	2003 RMB/tonne	2002 RMB/tonne	Change (%)
Raw materials	**29.20**	34.01	-14.1
Energy and power	**69.36**	64.11	8.2
Labour cost	**3.22**	2.88	11.8
Manufacturing overheads	**17.55**	21.09	-16.8
Others	**9.8**	11.51	-14.9
Combined costs	**129.13**	133.60	-3.3

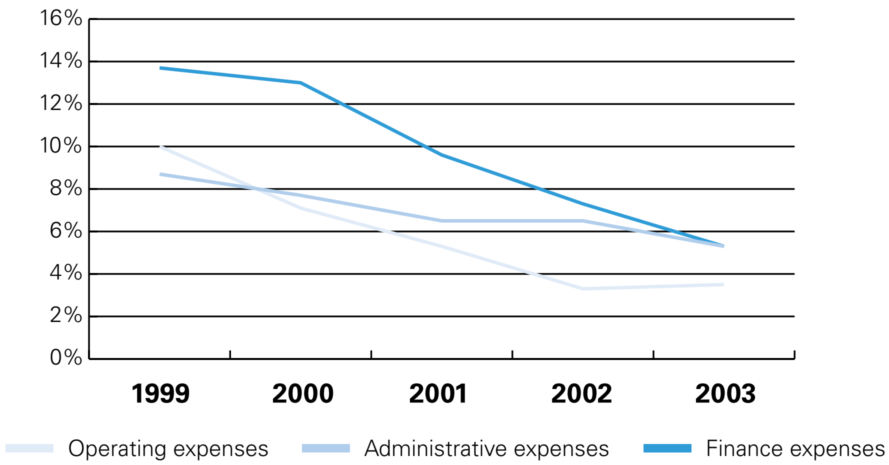
In view of the cost analysis, the cost of energy and power rose by 8.2% as compared to the same period in last year, mainly attributable to the increase in prices of coal and electricity. During the year, the price of coal increased by approximately 10%, while the cost of electricity rose by RMB0.08 per unit. Nevertheless, the Company managed to decrease its composite cost mainly due to a combination of factors including the commission of new investment projects, the increase in turnover contribution from clinker and the reduction in outsourcing clinker.

Changes in assets and liabilities items (prepared in accordance with the PRC Accounting Standards)

	Amount (RMB'000)		**Percentage of operating income**		**Change**
Expenses for the period	**2003**	2002	**2003**	2002	(%)
Administrative expenses	**298,848**	190,970	**5.25**	6.37	-17.58
Operating expenses	**303,202**	216,923	**5.32**	7.23	-26.42
Finance expenses	**188,234**	95,495	**3.31**	3.18	4.09

With the expansion of the scale in sales and distribution, the weight of the Group's major expenses against its revenue has been decreasing in recent years. In year 2003, except that the ratio of financial expenditure to revenue rose slightly by 0.13% due to the accelerated pace of projects and enlarged loan facility, the ratio of the administrative and operating expenses to the operating income continued to dilute.

Cost to sales revenue ratios from 1999-2003



Profits analysis

In 2003, the Group's revenue from the core businesses as calculated in accordance with the PRC Accounting Standards amounted to RMB5,695.032 million, representing an increase of 89.9% as compared to the previous year, and the net profit amounted to RMB739.566 million, representing an increase of 180.4% as compared to the previous year. Net profit calculated in accordance with the IAS amounted to RMB5,653.986 million, representing an increase of 89.7% as compared with that of last year. Profit after tax and minority interests amounted to RMB743.404 million, representing an increase of 177.8% as compared with that of to last year.

During the reporting period, the growth in net profit outpaced that of sales revenue, mainly attributable to the Group's strengthened efforts in budget management and cost control. In addition, the Group obtained a subsidy income of RMB93.71 million making further contribution to the profits.

Changes to major items in the Group's income statement prepared in accordance with the PRC Accounting Standards

Item	2003 RMB'000	2002 RMB'000	Change in %
Income from principal operations	**5,695,032**	2,999,776	89.9
Profit from principal operations	**2,348,281**	1,019,260	130.4
Total profit	**1,649,166**	543,729	203.3
Net profit	**739,566**	263,758	180.4

Changes to major items in the Group's income statement prepared in accordance with the International Accounting Standards

Item	2003 RMB'000	2002 RMB'000	Change in %
Income from principal operations	**5,653,986**	2,980,431	89.7
Profit from principal operations	**2,353,507**	1,024,485	129.7
Total profit	**1,654,669**	549,231	201.3
Net profit	**743,404**	267,595	177.8

During the reporting period, the Group recorded a gross profit margin of 41.97%, representing an increase of 7.35% over the previous year. The improvement was mainly the result of higher growth in product prices than that of production costs.

2003 Gross profit by products and comparison

Product item	Income form principal operations (RMB'000)	Costs of principal operations (RMB'000)	Gross profit margin (%)	Changes in income from principal operations over previous year (%)	Changes in costs of principal operations over previous year (%)	Increase/ decrease of gross profit margin over previous year (%)
Grade 42.5 cement	2,567	1,410	45.07	103.91	76.69	8.31
Grade 32.5 cement	2,134	1,350	36.74	54.19	43.46	4.73
Clinker	994	545	45.17	181.59	145.50	7.96
Total	5,695	3,305	41.97	89.85	68.56	7.35

FINANCIAL POSITION

Assets-liabilities structure

In 2003, the Group continued to optimise the financial management structure by implementing the financial system strictly, improving the management flows, minimising the operating risks, and constantly enhancing the financial management standards. Although the scale of credit facilities had increased for the year, the financial structure is maintained at a healthy status. The gearing ratio calculated in accordance with the PRC Accounting Standards was 57%, representing an increase of 2% compared with that of last year, while the net gearing rate was 0.65 as calculated in accordance with IFRS, representing a decrease of 0.25 compared with that of last year. The Group's strict implementation of the cash-on-delivery sales policy, coupled with the successful placing of 72.2 million H shares during the year, further strengthened the Group's short-term repayment ability.

During the reporting period, the Group's total assets and total liabilities calculated in accordance with the PRC Accounting Standards were RMB13.333 billion and RMB7.629 billion respectively, with net assets at RMB4.584 billion.

Changes in assets and liabilities items
(Prepared in accordance with the PRC Accounting Standards)

	2003 RMB'000	2002 RMB'000	Changes RMB'000	Percentage (%)
Fixed assets	**9,627,089**	6,939,550	2,687,539	38.73
Current and other assets	**3,706,281**	1,960,074	1,746,207	89.09
Total assets	**13,333,370**	8,899,624	4,433,746	49.82
Current liabilities	**4,954,645**	3,446,828	1,507,817	43.75
Non-current liabilities	**2,674,887**	1,323,979	1,350,908	102.30
Minority interests	**1,120,112**	848,977	271,135	31.94
Shareholders' equity	**4,583,726**	3,279,840	1,303,886	39.75
Total liabilities and equity	**13,333,370**	8,899,624	4,433,746	49.82

Liquidity and source of funds

As at 31 December, 2003, in accordance with the PRC Accounting Standards, the Group's total current assets amounted to RMB3,195.6 million while its current liabilities totaled RMB4,954.65 million. The current ratio, based on current assets over current liabilities was 0.65:1.

Maturity analysis of bank loans of the Group as at 31 December, 2003 was as follows:

Maturity Analysis

	As at 31 December 2003 RMB'000	As at 31 December 2002 RMB'000
Not exceeding one year	**2,526,721**	2,360,064
More than one year but not exceeding two years	**619,702**	294,162
More than two years but not exceeding five years	**1,898,760**	865,410
More than five years	**80,000**	80,000
Total	**5,125,183**	3,599,636

As at 31 December, 2003, the Group's loans in foreign currency amounted to approximately US$42.612 million (equivalent to approximately RMB353.66 million), of which loans with maturity not exceeding one year were US$28.612 million. The Group will pay close attention to changes in the foreign currency market to monitor its foreign exchange risks in a prudent manner and take relevant measures in response to risks from changes in the foreign currency market.

As at 31 December, 2003, the short-term borrowings were guaranteed by the machinery and equipment of Ningbo Hailuo Cement Co. Ltd., a subsidiary of the Group with a net book value of approximately RMB99.536 million (2002: RMB108.809 million).

The Group currently has sufficient liquidity resources on hand. As at 31 December, 2003, cash on hand and bank deposits (as calculated in accordance with the PRC Accounting Standards) amounted to RMB2,251.85 million, which is sufficient for the Group to meet its normal business commitments and loan repayments. The financial structure will continue to be maintained in a stable condition.

Net cash flows as calculated in accordance with the PRC Accounting Standards

	2003 **RMB'000**	2002 RMB'000
Net cash flows from operating activities	**2,490,246**	908,137
Net cash flows from investing activities	**(2,807,296)**	(2,144,530)
Net cash flows from financing activities	**1,766,207**	1,427,403
Net increase in cash and cash equivalents	**1,449,157**	191,010
Cash and cash equivalents at the beginning of the year	**799,447**	608,437
Cash and cash equivalents at the end of the year	**2,248,604**	799,447

While having expanded substantially in scale, the Group continued to focus on minimising capital risks. The Group ensured a steady source of cash inflow from its operating activities through stringent control over cost settlement by cash. During the period, net cash flows from operating activities amounted to RMB2,490.25 million, representing an increase of RMB1,582.11 million over last year; net cash and cash equivalent amounted to 2,248.6 million, representing an increase of RMB1,449.16 million over the last year.

Capital expenditure

During the period, the aggregate expenses of investment activities and capital expenditure of the Group amounted to RMB2,817.43 million, of which approximately RMB2,812.96 million was attributable to capital expenditure for the acquisition of buildings, plant and equipment.

Capital commitments for acquisition of machinery and equipment for the purpose of production, but not provided for in the accounts as at 31 December, 2003 were as follows:

	31 December **2003** **RMB'000**	31 December 2002 RMB'000
Authorised and contracted for	**381,185**	680,397
Authorised but not contracted for	**973,517**	1,178,815
Total	**1,354,702**	1,859,212

As at 31 December, 2003, the Group's investment in associated companies amounted to RMB50.8 million.

It is estimated that the capital expenditure for 2004 will be approximately RMB2.7 billion, which is expected to be spent mostly on expanding the clinker and cement grinding production capacity of the Group.

PROSPECTS FOR 2004

It is expected that 2004 will be another year of rapid and healthy growth for the PRC economy. The State will continue to implement proactive fiscal and monetary policies with a view to boost up the domestic demands. The rapid development of new dry processed cement in the PRC will further expedite the structural realignment process of the cement industry. While the demand for cement will continue to grow steadily, market competition will remain intense. Moreover, the tight supply of resources such as coal and electricity, as well as the tension in the railway transport capability will all impose a great impact to the production and operation of the cement industry. In addition, an opinion document recently issued by the State Council (Guo Ban Fa [2003] No.103) with the aim to avoid blind investment in cement industry will also have impact on the construction progress of the new investment projects of the cement industry.

The Group will positively meet the challenges, grasp the opportunities and continue to focus on the Eastern China market, and strive to expand its market share.

In 2004, the Company will continue the construction and operation of large-scale clinker production lines in Tongling Hailuo, Zongyang Hailuo, Huaining Hailuo and the China Cement Plant, each with daily production capacity over 5,000 tonnes. The Company will also speed up the construction of cement grinding stations at Haimen, Wujiang, Yancheng in Jiangsu Province and Taizhou in Zhejiang Province. In addition, the Company will actively advance the construction progress of the grinding mills at Fuyang and Maanshan within Anhui Province, and gradually expand the production scale of the Changfeng grinding mill. The Group will consolidate the market in the northern Anhui Province when the time is suitable so as to enhance the market share there.

While striving to consolidate its the market in the Eastern China, the Group will proceed to strategic planning for the market in the southern region. The Company plans to construct a clinker production plant with an annual production capacity of 1.5 million tonnes at Shuangfeng in Hunan Province. A large-scale grinding mill with annual production capacity of 3 million tonnes will also be constructed at Jiangmen in the Guangdong Province so as to secure the Company's market share in the "Pearl River Delta" area.

In 2004, the Company will take steps to centralise the arrangement and allocation of resources on purchasing so as to maximize the benefits from bulk purchase. To further lower the purchasing cost, the Company will further enhance its combined management mode for central and local sourcing.

Meanwhile, by passing the production costs appraising system with focus on controllable costs, the Group will be able to reduce and improve various consumption indexes and lessen the adverse effects incurred by rising prices of raw materials and fuels; to perfect the financial management, production management, marketing management; to establish performance appraisal system for middle and senior management, profession technical key personnel; to improve various management indexes; and to raise management standards and improve operating quality.

In 2004, the Group will also strive to proceed on with its environmental protection projects with the aim to realise corporate development harmoniously with community considerations.

Zongyang Hailuo