

(I) PRINCIPAL ACTIVITIES

As the largest cement clinker provider in China, the Group has all along adhered to the development of its core businesses, namely, the production and sale of various types of high-grade cement, and the production and sale of various clinkers as commodities required for the production of various types high-grade cement. The cement produced by the Company under the "Hailuo" brand is used extensively in the construction works of roads, bridges, houses and various types of landmark construction work, while the clinker of commodities is mainly sold to various cement milling stations.

(II) INVESTMENT DURING THE REPORTING PERIOD**1. Investment projects financed by proceeds from the A Share offer**

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, such proceeds had been fully utilised. The details of investment projects during the reporting period are as follows:

Rank	Project name	Proposed amount of injection	Amount of investment injected	Progress of the project	Revenue realised (Net profit)	(RMB'million)
						Met schedule and achieved expected revenue
1.	Phase 2 of the expansion project of the cement clinker production line of Tongling Hailuo Cement Co., Ltd.	624	624	Operation commenced	91.8	Yes

2. Investment Projects financed by proceeds from the H Share Offer

On 5 November, 2003, the Company raised net proceeds of RMB617,620,000 (after deducting issuing expenses) from the offer of 72.2 million H Shares, of which RMB586,680,000 will be applied for the investment and development of its core cement business, while RMB30,940,000 will be used for the Company's working capital. The particulars are as follows:

Rank	Project name	Proposed amount of injection	Actual amount of Capital contributed	Progress of project	(RMB'million)
1.	Phase 2 of a project with an annual capacity of 1.5 million tonnes of Huaining Hailuo Cement Co. Ltd.	300	36	Under construction	

(II) INVESTMENT DURING THE REPORTING PERIOD (Continued)

2. Investment Projects financed by proceeds from the H Share Offer (Continued)

(RMB'million)

Rank	Project name	Proposed amount of injection	Actual amount of capital contributed	Progress of project
2.	A project with an annual capacity of 1.5 million tonnes of Hunan Shuangfeng	136.68	–	Under construction
3.	Cement grinding station with an annual capacity of 3.2 million tonnes of Wujiang Hailuo Cement Company Limited	50	50	Preparation for construction
4.	Cement grinding station with an annual capacity of 3.2 million tonnes of Haimen Hailuo Cement Company Limited	50	50	Preparation for construction
5.	Cement grinding station with an annual capacity of 3.2 million tonnes of Jiangmen Hailuo Cement Company Limited	50	50	Preparation for construction
	Total	586.68	186	

3. Major projects which were not financed by proceeds from share offer

(RMB'million)

Rank	Project name	Progress of the project	Investment in the project
1.	Clinker production line with an annual production capacity of 750,000 tonnes of Fenyi Hailuo Cement Co. Ltd.	Operation commenced	76.06
2.	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 Jiande Hailuo Cement Co. Ltd.	Operation commenced	189.48

(II) INVESTMENT DURING THE REPORTING PERIOD (Continued)

3. Major projects which were not financed by proceeds from share offer (Continued)

(RMB'million)

Rank	Project name	Progress of the project	Investment in the project
3.	Construction project of clinker production line with an annual production capacity of 1.5 million tonnes of Ningguo Cement Plant	Operation commenced	81.75
4.	Clinker production line with an annual production capacity of 1.5 million tonnes of Digang Hailuo Cement Co., Ltd.	Operation commenced	148.73
5.	Clinker production line with an annual production capacity of 2.5 million tonnes of Chizhou Hailuo Cement Co., Ltd.	Operation commenced	343.31
6.	Clinker production line with an annual production capacity of 3.0 million tonnes of Zongyang Hailuo Cement Co., Ltd.	Under construction	231.08
7.	Two clinker production lines with an annual production capacity of 3.0 million tonnes each of Tongling Hailuo Cement Co., Ltd.	Under construction	766.82
8.	Two clinker production lines with an annual production capacity of 1.5 million tonnes each and their accessory cement grinding systems of China Cement Plant Co., Ltd.	Under construction	278.69
9.	Clinker production line with an annual production capacity of 1.5 million tonnes and its accessory grinding system of Huaining Hailuo Cement Co., Ltd.	Under construction	346.98

(II) INVESTMENT DURING THE REPORTING PERIOD *(Continued)*

3. Major projects which were not financed by proceeds from share offer *(Continued)*

			(RMB'million)
Rank	Project name	Progress of the project	Investment in the project
10.	Cement grinding production line with an annual production capacity of 1.5 million tonnes of Wenzhou Hailuo Cement Co., Ltd.	Construction completed Operation not yet commenced	24.14
11.	Expansion project of cement grinding production line with an annual production capacity of 1.1 million tonnes of Shangyu Hailuo Cement Co., Ltd.	Operation commenced	43.96
12.	Cement grinding production line with an annual production capacity of 1.5 million tonnes of Nanchang Hailuo Cement Co., Ltd.	Operation commenced	55.80
13.	Cement grinding production line with an annual production capacity of 1.1 million tonnes of Lushan Hailuo Cement Co., Ltd.	Operation commenced	65.39



Wanzhou Hailuo

(II) INVESTMENT DURING THE REPORTING PERIOD (Continued)

3. Major projects which were not financed by proceeds from share offer (Continued)

(RMB'million)

Rank	Project name	Progress of the project	Investment in the project
14.	Cement grinding production line with an annual production capacity of 3 million tonnes of Taizhou Yangwan Hailuo Cement Co., Ltd.	Operation commenced	154.77
15.	Expansion project of cement grinding production line with an annual production capacity of 1.5 million tonnes of Ningbo Hailuo Cement Co., Ltd.	Operation commenced	70.77
16.	Expansion project of phase 3 technological enhancement of cement grinding production line with an annual production capacity of 1.6 million tonnes of Zhangjiagang Hailuo Cement Co., Ltd.	Under construction	68.01
17.	Expansion project of phase 3 technological enhancement of grinding production line with an annual production capacity of 1.1 million tonnes of Nanjing Hailuo Cement Co., Ltd.	Under construction	52.26
18.	Cement grinding production line with an annual production capacity of 1.5 million tonnes of Huaian Hailuo Cement Co., Ltd.	Under construction	46.85
19.	Cement grinding production line with an annual production capacity of 1.65 million tonnes of Taizhou Hailuo Cement Co., Ltd.	Under construction	10.09

4. Establishment of companies

(1) Fuyang Hailuo Cement Co. Ltd.

Fuyang Hailuo Cement Co. Ltd. was jointly established by the Company and its subsidiary, Anhui Hailuo Machinery & Electric Co. Ltd., on 8 January, 2003, with a registered capital of RMB20 million, of which RMB18 million was contributed by the Company representing 90% of the registered capital.

(II) INVESTMENT DURING THE REPORTING PERIOD *(Continued)*

4. Establishment of companies *(Continued)*

(2) *Anhui Hailuo Cement Company Limited Nanjing Branch*

Nanjing Branch was established by the Company on 14 January, 2003. Its scope of operation was the sale of cement and auxiliary materials. Its principal facility is a cement transit warehouse transferred to it by Nanjing Construction Materials Corporation because of the debts owed to it. The establishment of the Company can help the Company further enlarge its market share in Nanjing.

(3) *Huaian Hailuo Cement Company Limited*

Huaian Hailuo Cement Company Limited was jointly established by the Company and its subsidiary, Anhui Hailuo Machinery & Electric Co. Ltd., on 15 January, 2003, with a registered capital of RMB20 million, of which RMB18 million was contributed by the Company, representing 90% of the registered capital.

(4) *Taicang Hailuo Cement Company Limited*

Taicang Hailuo Cement Company Limited was jointly established by the Company and its subsidiary, Anhui Digang Hailuo Cement Co., Ltd., on 8 July, 2003, with a registered capital of RMB20 million, of which RMB18 million was contributed by the Company, representing 90% of the registered capital. Taicang Hailuo is located at Taicang City, Jiangsu Province.

(5) *Taizhou Hailuo Cement Company Limited*

Taizhou Hailuo Cement Company Limited was jointly established by the Company and its subsidiary, Anhui Digang Hailuo Cement Co., Ltd., on 6 August, 2003, with a registered capital of RMB20 million, of which RMB18 million was contributed by the Company, representing 90% of the registered capital. Taizhou Hailuo is located at Taizhou City, Zhejiang Province.

(6) *Haimen Hailuo Cement Company Limited*

Haimen Hailuo Cement Company Limited was jointly established by the Company and its subsidiary, Anhui Ningguo Cement Plant, on 11 December, 2003, with a registered capital of RMB50 million, of which RMB45 million was contributed by the Company, representing 90% of the registered capital. Haimen Hailuo is located at Haimen City, Jiangsu Province.

(7) *Jiangmen Hailuo Cement Company Limited*

Jiangmen Hailuo Cement Company Limited was jointly established by the Company and its subsidiary, Anhui Ningguo Cement Plant, on 17 December, 2003, with a registered capital of RMB50 million, of which RMB45 million was contributed by the Company, representing 90% of the registered capital. Jiangmen Hailuo is located at Jiangmen City, Guangdong Province.

(III) MAJOR SUBSIDIARIES AND ASSOCIATES

As at 31 December, 2003, the Company held 34 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 registered capital over RMB100 million are as follows:

No.	Company name	Registered capital (RMB'million)	Total assets (RMB'million)	Net profit (RMB'million)
1.	Anhui Ningguo Cement Plant	649.35	1,363.87	307.09
2.	Anhui Hailuo Cement Product Co., Ltd.	256.14	448.46	49.34
3.	Anhui Tongling Hailuo Cement Co., Ltd.	565.00	2,493.59	183.58
4.	Anhui Digang Hailuo Cement Co., Ltd.	150.00	686.03	172.10
5.	Anhui Zongyang Hailuo Cement Co., Ltd.	300.00	1,262.07	168.47
6.	Anhui Chizhou Hailuo Cement Co., Ltd.	318.00	1,815.43	238.09
7.	Zhongguo Cement Plant Co., Ltd.	100.00	506.40	18.53
8.	Ningbo Hailuo Cement Co., Ltd.	171.00	560.03	15.62

The above companies are principally engaged in the production and sale of cement and (or) commodity clinker.

(IV) DAILY OPERATIONS OF THE BOARD OF DIRECTORS**Matters for approval by major resolutions of the board of the directors (“Board of Directors”) during the reporting period**

- On 23 February, 2003, the tenth meeting of the second session of the Board of Directors considered and passed the following resolutions: that the working report of the executive general manager, the budgetary plan for 2003, the project investment plan, the financial report for 2002 prepared in accordance with the IFRS and the PRC Accounting Standards, the connected transactions entered into in 2002, the report for 2002, the profit allocation proposal for 2002, the notice of 2002 general meeting and the re-appointment of the PRC and the international auditors of the Company.
- On 22 April, 2003, the Board of Directors approved the “First Quarterly Report for 2003” submitted by the Company.
- On 12 May, 2003, the Board of Directors approved the investment of Huaining Hailuo Cement Co., Ltd. in the construction of a new model dehydrating clinker production line with an annual capacity of 1.5 million tonnes and a cement grinding production line with an annual capacity of 1.1 million tonnes, at a total investment of no more than RMB500 million and a project construction period of 12 months.
- On 12 May, 2003, the Board of Directors approved the investment of Zhongguo Cement Plant Co., Ltd. in the construction of two new model dehydrating clinker production lines with an annual capacity of 1.5 million tonnes each, at a total investment of no more than RMB1 billion and the project construction period for each of the production line of no more than 12 months.

(IV) DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

Matters for approval by major resolutions of the board of the directors (“Board of Directors”) during the reporting period *(Continued)*

5. On 20 May, 2003, the Board of Directors approved the acceptance by the Company, for a consideration of RMB4.9 million, of the transfer of 49% of the equity interest in Anhui Hailuo Machinery & Electric Co., Ltd. held by Baimashan Cement Plant.
6. On 29 May, 2003, the Board of Directors approved the dissolution of the Baimashan Cement Plant and the establishment of Anhui Hailuo Cement Company Limited Baimashan Branch.
7. On 18 June, 2003, the Board of Directors approved the capital contribution made by the Company for the establishment of Taizhou Hailuo Cement Co., Ltd.
8. On 12 August, 2003, the eleventh meeting of the second session of the Board of Directors approved and adopted the unaudited combined results for the six months ended 30 June, 2003, approved the interim (half-yearly) report for 2003 and the summary of the interim (half-yearly) report for 2003, and decided that no interim dividend would be distributed for 2003.
9. On 6 October, 2003, the Board of Directors approved the acceptance by the Company, for a total consideration of RMB2 million, of the transfer of 10% in the 20% equity interest in Anhui Zhangfeng Hailuo Cement Co., Ltd. held by Anhui Zhangfeng County Cement Plant and that the other 10% shall be transferred to Ningguo Cement Plant.
10. On 8 October, 2003, the twelfth meeting of the second session of the Board of Directors approved the additional allocation by the Company of up to 72.2 million H Shares pursuant to the mandate granted at the general meeting held in 2002.
11. On 15 October, 2003, the Board of Directors approved the third quarterly report for 2003 submitted by the Company.
12. On 5 November, 2003, the Board of Directors approved the dissolution of Nanchang Construction Materials Co., Ltd.
13. On 10 November, 2003, the Board of Directors approved the joint capital contribution by the Company and Ningguo Cement Plant for the establishment of Haimen Hailuo Cement Co., Ltd.
14. On 9 December, 2003, the Board of Directors approved the joint capital contribution by the Company and Ningguo Cement Plant for the establishment of Jiangmen Hailuo Cement Co., Ltd.
15. On 18 December, 2003, the Board of Directors approved the joint capital contribution by the Company and Zhongguo Cement Plant Co., Ltd. for the establishment of Wujiang Hailuo Cement Co., Ltd.
16. On 21 December, 2003, the Board of Directors approved the modification of the registered capital of the Company from the original RMB1,183,480,000 to RMB1,255,680,000 and the corresponding amendments to Articles 24 and 27.

(IV) DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)***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. In accordance with the dividend appropriation proposal passed at the 2002 general meeting, based on the total number of 1,183,480,000 shares as at the end of 2002, the Company distributed a cash dividend of RMB0.05 per share (inclusive of tax) to its shareholders. The total dividend payment was RMB59,174,000.
2. The Board of Directors resolved that no interim dividend would be distributed for 2003 in accordance with the authority granted at the 2002 general meeting of the Company.
3. In accordance with the approval granted at the 2002 general meeting of the Company, Tongling Hailuo Cement Co., Ltd. invested in the construction of two clinker production lines with a capacity of 10,000 tonnes per day each. The project is under construction and the progress is smooth.
4. In accordance with the mandate granted at the 2002 general meeting of the Company, on 5 November, 2003, the Company issued 72,200,000 H Shares of RMB1 each at an issuing price of HK\$8.20 per share and raised a total of HK\$592,040,000, or approximately RMB631,290,000. The net amount after deduction of issuing expenses was approximately RMB617,620,000. The raised funds have been imbursemented in full, and the Shares so issued were listed on the Hong Kong Stock Exchange for trading on 12 November, 2003.

(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 2003 were RMB739.566 million and RMB743.404 million respectively. The Board of Directors recommended to make appropriations in respect of the profit for the year ended 31 December, 2003 as follow:

- (1) 10% of profit after tax, based on the statutory accounts prepared in accordance with the PRC Accounting Standards, amounting to approximately RMB163.87 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 RMB155.10 million, is recommended to be transferred to the statutory public welfare fund pursuant to the articles of association of the Company;
- (3) based on 1,255,680,000 shares issued in total as at 31 December, 2003, a total of approximately RMB125.568 million is recommended to be appropriated for payment of final dividend of RMB0.10 per share (inclusive of tax);
- (4) the above profit appropriation proposal is subject to approval by shareholders in the 2003 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, 2003, sales to the Group’s five largest customers amounted to RMB284 million which accounted for 4.98% of the Group’s total sales. Sales to the largest customer accounted for 1.40% of its total sales. Purchases from the Group’s five largest suppliers amounted to RMB887 million, which accounted for 15.58% of the Group’s total purchases. Purchases from the largest customer accounted for 5.29% 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, 2003. 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, 2003, 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, 2003, the total assets of the Group determined in accordance with the IFRS was approximately RMB13,146.58 million, representing an increase of approximately RMB4,436.11 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, 2003, 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, 2003, 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 RMB18.20 million. Details are set out in Note 10(c) to the Financial Statements prepared in accordance with the IFRS.

(XII) TRANSACTIONS IN ITS SECURITIES

As at 31 December, 2003, the Group did not issue or grant any convertible securities, options, warrants or other similar rights. Besides, as at 31 December, 2003, the Group did not have any redeemable securities.

(XIII) OTHER EVENTS

- (1) For the year ended 31 December, 2003, the holders of the listed securities of the Company, according to its status under 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.

(XIV) SUBSEQUENT EVENTS

1. On 8 January, 2004, the Company and its subsidiary, Zhongguo Cement Plant Co., Ltd. jointly established Wujiang Hailuo Cement Co., Ltd., with a registered capital of RMB50 million, of which RMB45 million (representing 90%) was contributed by the Company; that company is located in Wujiang City, Jiangsu Province.
2. On 29 February, 2004, the Board of Directors approved for the investment by the Company, 寧波金港信託投資有限責任公司 and 上海愛建信託投資有限責任公司 in the joint construction of Shuangfeng Hailuo Cement Project. The Project is located in Shuangfeng County, in the mid-Hunan District, and it is planned to construct a new dehydrating clinker production line with a daily capacity of 5,000 tonnes and to reserve the room for a second dehydrating clinker production line with a daily capacity of 5,000 tonnes. Upon completion of its first phase, the project will have a capacity of 1.5 million tonnes of clinker and 1.1 million tonnes of quality high-grade cement. The projected total investment for the project is RMB500 million. The capital amount of the project is RMB268 million, of which the Company owns 51%.

(XV) EXPOSITION AND OPINION OF INDEPENDENT DIRECTORS ON THE GUARANTEE GIVEN BY THE COMPANIES TO OUTSIDERS

The Company strictly follows the Articles and the relevant requirements of Document No. Zheng Jian Fa 2003 (56) promulgated by the China Securities Regulatory Commission and entitled the "Circular on Several Questions on Regulation of Listed Companies, Their Funds Dealings with Affiliates, and the Security Provided by Listed Companies to Foreign Parties", so as to regulate and control the risks of the Company in its provision of security to foreign parties.

During the reporting period, the security given by the Company was security for the loans raised by its subsidiaries, and was given upon the approval of the Board of Directors. The Company did not provide any security for any controlling shareholders or any affiliate, legal person unit, or individual person who holds less than 50% of shareholding in the Company. The controlling shareholders or other relevant parties did not mandatorily ask for the Company to provide security for any other people.

(XVI) SPECIAL EXPOSITION BY CERTIFIED PUBLIC ACCOUNTANTS ON THE FUNDS OCCUPIED BY THE CONTROLLING SHAREHOLDERS AND OTHER CONNECTED PARTIES OF THE COMPANY

In accordance with the requirements of the "Circular on Several Questions on Regulations of Listed Companies, Their Funds Dealings with Affiliates, and the Security Provided by Listed Companies to Foreign Parties" promulgated by the China Securities Supervisory Committee and the State-owned Assets Supervision and Administration Committee of the State Council (Document Zheng Jian Fa [2003] No. 56), the Company's PRC accountant PricewaterhouseCoopers Zhong Tian Certified Public Accountants Company Limited, after making a special audit on any funds occupied by the controlling shareholders and other connected parties of the Company, issued an exposition on the special audit. In 2003, there was no occupation of the Company's fund by its controlling shareholders or connected parties other than those amounts arising from the ordinary course of business and pending settlement.