

1. Business environment

In the first half of 2003, the macroeconomic conditions of the PRC were in a healthy state, with substantial growth in imports and exports as well as in fixed asset investment. The country's GDP increased by 8.2%, while its fixed assets investment rose by 31.1%. Although the construction material sector index has substantially increased and the cement industry is enjoying a prosperous state in both production and distribution, the market competition is intensive and the imbalance in the cement industry structure continues.

2. Operation highlights

During the reporting period, the Group further expanded its capacity in cement and clinker production. Its production operations, business management and construction projects were coordinated and implemented in an orderly manner. Its marketing network was further improved. The Company secured a substantial growth in its market coverage and market share. Its operational income grew substantially and there was a steady growth in its operating results.

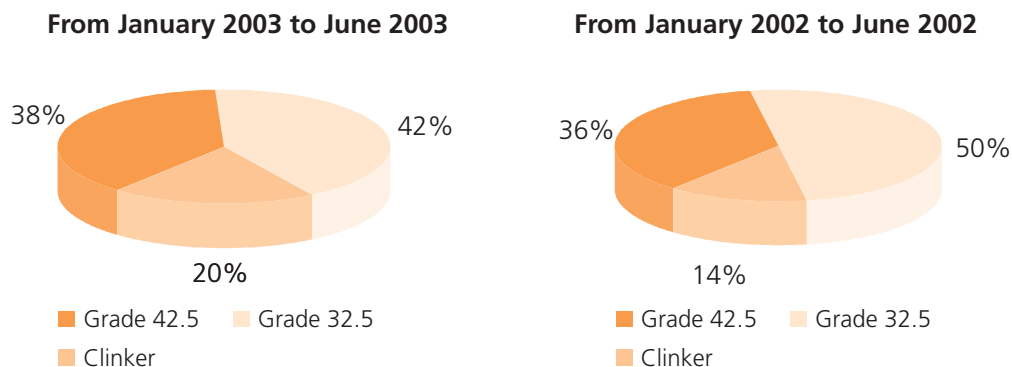
For the six months ended 30 June 2003, the Group's operating income amounted to RMB2,131.28 million as calculated in accordance with the PRC Accounting Standards, representing an increase of 70.85% as compared with the same period for last year; while the Group's operating income amounted to RMB2,116.99 million as calculated in accordance with the IFRS, representing an increase of 71.63% as compared with that of last year.

Breakdown of sales amount by products

(Amount: RMB'000)

Item	From January 2003 to June 2003		From January 2002 to June 2002	
	Amount	Percentage (%)	Amount	Percentage (%)
Cement				
Grade 42.5	913,786	42.87	519,595	41.65
Grade 32.5	867,011	40.68	588,708	47.19
Sub-total	1,780,797	83.55	1,108,303	88.84
Clinker	350,487	16.45	139,186	11.16
Total	2,131,284	100.00	1,247,489	100.00

Percentage of sales volume by product



Management Discussion and Analysis

Breakdown of sales of products by region

(Amount: RMB'000)

Region	From January 2003 to June 2003		From January 2002 to June 2002		Difference in Amount (%)
	Amount	Percentage (%)	Amount	Percentage (%)	
Jiangsu Province	692,429	32.49	286,960	23.00	141.30
Zhejiang Province	500,020	23.46	349,283	28.00	43.16
Anhui Province	313,533	14.71	278,926	22.36	12.41
Shanghai City	417,988	19.61	202,350	16.22	106.57
Jiangxi Province	116,756	5.48	58,599	4.70	99.25
Fujian Province	90,558	4.25	71,371	5.72	26.88
Total	2,131,284	100.00	1,247,489	100.00	70.85

In the first half year of 2003, the external market competition was intense and affected the market prices of the products in some regions. However, by proactively monitoring the market movement, actively modifying its sales strategy, enhancing sales in the slack seasons and optimizing its sales structure, the Group increased both its turnover volume and sales substantially and the gross profit rate of its various products rose readily.

Breakdown of gross profit by products in the first half in 2003 and comparison with the corresponding period

(Amount: RMB'000)

Product Item	Income from core business	Costs of core business	Gross profit margin for the reporting period (%)	Gross profit margin for the same period last year (%)	Increase/ Decrease of gross profit over the same period last year (%)
Grade 42.5 cement	913,786	555,542	39.20	38.61	1.53
Grade 32.5 cement	867,011	570,354	34.22	31.98	7.00
Clinker	350,487	217,659	37.90	36.64	3.44
Total	2,131,284	1,343,555	36.96	35.26	4.82

3. Operating results

The Group exerted strenuous efforts on enhancing the Company's profitability and corporate value in line with the accelerated growth in its size. During the reporting period, the Group's profits continued to grow substantially. In the first half of 2003, the Group's net profit after tax and minority interests amounted to RMB221.81 million as calculated in accordance with the PRC Accounting Standards, representing an increase of 118.40% as compared with the same period of last year; while the Group's net profit after tax and minority interests amounted to RMB223.73 million as calculated in accordance with the IFRS, representing an increase of 116.20% as compared with that of last year. The net profit calculated in accordance with the PRC Accounting Standards exceeded that calculated in accordance with IFRS by RMB1.92 million primarily because of the differences between these two accounting standards in the treatment of the revaluation surplus of its land interests upon the restructuring of the Company at its establishment.

An analysis of major changes to the Group's income statement prepared in accordance with the PRC Accounting Standards is set out as follows:

Major changes to the Group's income statement prepared in accordance with the PRC Accounting Standards

(Amount: RMB'000)

Item	Amount		Increase/ Decrease over the same period last year (%)
	From January 2003 to June 2003	From January 2002 to June 2002	
Income from principal operations	2,131,284	1,247,489	70.85
Profit from principal operations	773,435	425,847	81.62
Total profit	473,655	217,727	117.55
Net profit	221,808	101,561	118.40
Net cash flow from operating activities	897,300	289,618	209.82

- i) During the reporting period, the Group's profit from its principal operations amounted to RMB773.44 million, representing an increase of 81.62% as compared with the same period of last year, while the Group's total profit amounted to RMB473.66 million, representing an increase of 117.55% as compared with the same period of last year. The increase in the net profit is greater than the increase in the profit from the principal business is mainly due to the continuous enhancement of the production capacity of members of the Group, the substantial increase in the volume of production and sales, and the further decrease of the unit cost, thereby enhancing economy of scale.
- ii) During the reporting period, the Group's net cash inflow from operating activities amounted to RMB897.30 million, representing an increase of 209.82% as compared with that of the same period of last year; While the Company experienced an increase in its sales volume, it continued to implement in a stringent manner the settlement system of sales by cash on delivery. As a result, the Company managed to collect all of its sales proceeds and ensure sufficient working capital to meet its operation needs.

4. Financial position

During the reporting period, based on the PRC Accounting Standards, the Group's total assets amounted to RMB10.42 billion, its total liabilities to RMB6.076 billion and its net assets to RMB3.445 billion respectively; while the total assets, total liabilities and shareholder's equity of the Group as calculated in accordance with the IFRS were RMB10.234 billion, RMB6.076 billion and RMB3.275 billion respectively.

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

(Amount: RMB'000)

	30 June 2003	31 December 2002	% increase/ decrease over the end of last year
Fixed assets	8,290,640	6,939,550	19.47
Current and other assets	2,129,347	1,960,074	8.64
Total assets	10,419,987	8,899,624	17.08
Current liabilities	4,058,313	3,548,876	14.35
Non-current liabilities	2,017,823	1,323,979	52.41
Minority interest	899,066	806,103	11.53
Shareholder's equity	3,444,785	3,220,666	6.96
Total liabilities and equity	10,419,987	8,899,624	17.08

The gearing ratio calculated in accordance with the PRC Accounting Standards was 58.31%, which represented an increase of 3.56% as compared with that of 31 December 2002, while the ratio of total liabilities to shareholders' equity calculated in accordance with the IFRS was 1.85:1, which represented an increase of 20.92% as compared with that of last year. The main reason for the increase of the liabilities is the Group's rapid growth that led to further increases in the scale of credit facilities. However, the Group carefully reduced financial risks by assuring collection of its sales proceeds in full, by monitoring all key financial indicators in appropriate time and by allocating its capital and funds reasonably.

Liquidity and source of funds

As at 30 June 2003, in accordance with the PRC Accounting Standards, the Group's total current assets amounted to RMB1,594.49 million, while its total current liabilities amounted to RMB4,058.31 million. The current ratio is 0.39:1, which is derived from dividing current assets by current liabilities.

As at 30 June 2003, in accordance with the IFRS, the Group's total current assets amounted to RMB1,594.49 million, while its total current liabilities amounted to RMB4,058.32 million. The net current liabilities amounted to RMB2,463.83 million.

Maturity analysis of bank loans of the Group as at 30 June 2003 is as follows:

	As at 30 June 2003 (RMB'000)	As at 31 December 2002 (RMB'000)
- not exceeding one year	2,282,058	2,360,064
- more than one year but not exceeding two years	308,110	294,162
- more than two years but not exceeding five years	1,548,462	865,410
- more than five years	80,000	80,000
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Total	4,218,630	3,599,636

As at 30 June 2003, the Group's loans in foreign currency amounted to approximately US\$30.6182 million (equivalent to approximately RMB253.439 million), of which loans with maturity not exceeding one year were US\$16.6182 million. The Group will pay close attention to the changes in the foreign exchange market to assess its foreign exchange risks in a prudent manner.

As at 30 June 2003, the Group's machineries and equipment with a net book value of approximately RMB104.1729 million were pledged as security for short-term borrowings. (As at 31 December 2002, the Group's machineries and equipment with a net book value of approximately RMB108.809 million were pledged as security for short-term borrowings)

Capital commitments for acquisition of machinery and equipment for the purpose of production that should be performed, but not yet provided for in the accounts as at 30 June 2003 were as follows:

	As at 30 June 2003 (RMB'000)	As at 31 December 2002 (RMB'000)
- Authorised and contracted for	1,892,790	680,397
- Authorised but not contracted for	772,125	1,178,815
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Total	2,664,915	1,859,212

Management Discussion and Analysis

The Group experienced a decrease of net cash flow of RMB495.24 million in the first half of the year as compared with the same period of last year (as calculated in accordance with the PRC Accounting Standards), a summary of the relevant breakdown is set out as follows:

Item	From January to June in 2003 (RMB'000)	From January to June in 2002 (RMB'000)
Net cash flow from operating activities	897,300	289,618
Net cash flow from investment activities	-1,407,230	-822,724
Net cash flow from financial activities	413,770	932,189
Net increase in cash and cash equivalents	-96,160	399,083
Cash and cash equivalents at the beginning of the year	799,447	608,437
Cash and cash equivalents at the end of the reporting period	703,287	1,007,520

The Group currently has sufficient liquidity resources. As at 30 June 2003, cash on hand and bank deposits (as calculated in accordance with the PRC Accounting Standards) amounted to RMB753.61 million, which is sufficient for the Group to meet its normal business commitments and loan repayment. At the same time, the Group continues to pursue its prudent policy in financial management. Coupled with the adoption of a stringent settlement policy of sales, the Group assured a steady source of cash flows from its operating activities. During the reporting period, net cash flow from operating activities amounted to RMB897.3 million, representing an increase of RMB607.68 million as compared with that of last year.

Capital expenditure

During the reporting period, the aggregate of investment activities and capital expenditure of the Group amounted to RMB1.4 billion, which was mainly applied to the acquisition of immovable assets, plant and equipment and the expansion the Group's production capacity of clinker and cement grinding.

5. Investment made by the Group

i) Investment projects carried out during the reporting period and financed by the proceeds from issue of A Shares

The net proceeds raised by the Company by the issue on 24 January 2002 of amounted to RMB793,539,800 (after deducting listing expenses). The Company applied the net proceeds for the development of its core cement business as stipulated in its prospectus. As at the end of the reporting period, the Company applied a total of RMB646 million for investment projects, and the remaining balance of RMB147,539,800 will continually be invested to cement projects. The details of investment projects which were financed by the proceeds from the offer of A shares during the reporting period are as follows:

(Amount: RMB'000)

Project name	Proposed amount of injection	Amount of investment injected	Progress of the project	Revenue realized (net profit)	Does it meet the schedule and achieve the expected revenue?
Phase 2 of the expansion project of the cement clinker production line of Tongling Conch Cement Co., Ltd.	624,000	476,460	Operation commenced	29,970	Yes

ii) Progress of projects carried out during the reporting period and which were not financed by the proceeds raised from the issue of A shares

(Amount RMB'000)

No.	Project name	Progress of the project	Investment in the project
1	Clinker production line with an annual production capacity of 750,000 tonnes of Jiangxi Fengyi Conch Cement Co. Ltd.	Testing	128,630
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 Zhejiang Jiande Conch Cement Co. Ltd.	Trial production	369,710
3	Construction project of clinker production line with an annual production capacity of 1.5 million tonnes of Anhui Ningguo Cement Plant	Operation commenced	265,690

Management Discussion and Analysis

(Amount: RMB'000)

No.	Project name	Progress of the project	Investment in the project
4	Clinker production line with an annual production capacity of 1.5 million tonnes of Digang Conch Cement Co., Ltd.	Trial production	259,810
5	Clinker production lines with an annual production capacity of 2.5 million tonnes of Chizhou Conch Cement Co., Ltd.	Under construction	342,460
6	Clinker production line with an annual production capacity of 3.0 million tonnes of Zongyang Conch Cement Co., Ltd.	Under construction	342,830
7	Two clinker production lines with an annual production capacity of 3.0 million tonnes each of Tongling Conch Cement Co., Ltd.	Under construction	166,800
8	Clinker production line with an annual production capacity of 1.5 million tonnes and accompanied cement grinding production system of Huaining Conch Cement Co., Ltd.	Commencement of construction	131,240
9	Two clinker production lines with an annual production capacity of 1.5 million tonnes each and accompanied cement grinding production system of China Cement Plant Co., Ltd.	Commencement of construction	118,640
10	Cement grinding production line with an annual production capacity of 1.5 million tonnes of Wenzhou Conch Cement Co., Ltd.	Testing	124,340
11	Expansion project of cement grinding production line with an annual production capacity of 1.1 million tonnes of Shangyu Conch Cement Co., Ltd.	Under construction	43,780
12	Cement grinding production line with an annual production capacity of 1.5 million tonnes of Nanchang Conch Cement Co., Ltd.	Testing	101,030
13	Cement grinding production line with an annual production capacity of 1.1 million tonnes of Lushan Conch Cement Co., Ltd.	Under construction	41,220

(Amount: RMB'000)

No.	Project name	Progress of the project	Investment in the project
14	Two cement grinding production lines with an annual production capacity of 1.5 million tonnes each of Taizhou Yangwan Conch Cement Co., Ltd.	Under construction	152,790
15	Cement grinding production line with an annual production capacity of 1.5 million tonnes of Ningbo Conch Cement Co., Ltd.	Under construction	63,060
16	Phase 3 of the project (construction of a cement grinding production line with an annual production capacity of 1.6 million tonnes) of Zhangjiagang Conch Cement Co., Ltd.	Commencement of construction	30,750
17	Phase 3 of the technological upgrading project (construction of a cement grinding production line with an annual production capacity of 1.1 million tonnes) of Nanjing Conch Cement Co., Ltd.	Commencement of construction	10,930
18	Cement grinding production line with an annual production capacity of 1.65 million tonnes of Huai'an Conch Cement Co., Ltd.	Commencement of construction	9,650

6. Outlook for the second half of the year

As the Chinese economy is in a new stage of rising, the intrinsic power for economic growth is building up. It is believed that the growing trend of the national economy in the second half of the year will remain unchanged, and the investment in fixed assets will be further expanded and the market demand for quality cement will remain high. It is anticipated that the Group can sustain a high growth in production and sales and there will be substantial growth in the operating results in the second half of the year.

In the second half of the year, the Group will focus on its annual business target and take steps to improve the operational quality of its production and management system, and to ensure all its production facilities will be operated efficiently. The Group will also pay greater attention to the change in the market structure, devise its market strategies in advance, develop and consolidate the more favourable market, and keep on improving the effectiveness of the Group.

Meanwhile, the Company will further reform its incentive remuneration system and personnel management system, enhance the performance appraisal and examination of the task performance, and establish a scientific and effective performance appraisal system and remuneration allocation system.